

Global Learning Exchange on Understanding Complexity in the Informal Economy

Collective research questions

This document presents the key learnings and emerging research questions from the Global Learning Exchange on Understanding Complexity in the Informal Economy, convened by WIEGO together with the IMF, World Bank, Inter-American Development Bank (IDB), Asian Development Bank (ADB), OECD, ILO, and Sida.¹ The exchange was designed as a collaborative process aimed at building common understanding across institutions and co-developing a shared set of research priorities on informality amid global economic and environmental challenges. Through thematic sessions on Taxation, Social Protection and Productivity, participants engaged in open dialogue to identify evidence gaps and refine questions that could guide future inquiry. The process aimed at laying the groundwork for collaborative research that deepens understanding of the informal economy and strengthens the evidence base for inclusive employment policies.

Taxation

The informal economy is heterogeneous within segments, across sectors, and regions, which leads to **different contributory capacities that should be considered when designing tax strategies**. An important question is how the features and objectives of tax design differ or should differ between the Latin America and Caribbean contexts compared with those in Africa and Asia. Equally, there is a need to understand how the objectives of tax design should vary when **distinguishing between workers and firms in the informal economy**. Another key area of inquiry concerns the degree to which **different mechanisms, in design and implementation, drive gender-unequal outcomes**, and how tax regimes can be made more gender-just.

Tax burdens, benefits and compliance

Understanding the tax burden in the informal economy relative to the services received requires distinguishing between different actors. The **benefits of tax registration for firms must be evaluated using country-specific data and may not apply uniformly across all types of firms**. Larger informal firms, which share characteristics with formal ones, tend to benefit the most from registration, whereas for workers the advantages of tax registration are less evident. This raises several questions, including whether and how the benefits of tax registration materialize for workers in informal employment, especially those at the lower end of the earnings distribution. There is also a need to investigate these hypothesized benefits across different segments of the informal economy, including from a gender perspective.

¹ See "Engaging the Research Community to Explore Economic Orthodoxies" in [WIEGO's 2024-2025 Annual Report](#).

The field of taxation and informality is still dominated by the assumption that compliance is a firm-level decision driven by a cost-benefit analysis. Yet, there is insufficient evidence on how compliance actually functions in practice. Moreover, compliance differs for men and women in the informal economy, and overlooking these differences may result in regressive tax systems. Key questions include **what factors influence tax payment within different segments of the informal economy**, whether tax compliance is voluntary in certain sectors or income brackets, what constitutes an “enabling environment” for workers, and what defines the actual capacity to comply.

Alignment of national and sub-national taxation

With regard to direct taxation, there is increasing evidence of how workers in informal employment engage with tax systems through various payments, most of which are levied at the local (city or municipal) level and often not classified as taxes. **Understanding how workers interact with both local and national tax authorities, and what benefits can be delivered at each level, is a prerequisite for sound tax design.** This raises questions about **how national-level tax design can take into account the level and distribution of local taxes**, how practical the OECD recommendation of “streamlining” national and sub-national tax regimes might be, and how such integration could be achieved.

Indirect tax burdens

There is also a need to develop **methods to measure the structure and burden of indirect taxes in the informal economy** and to determine whether VAT is regressive, progressive, or distributionally neutral within this context, as well as to explore ways it could be made more progressive for workers in informal employment. A new argument suggests that such taxes may be less regressive for workers in informal employment because they often purchase goods outside formal markets. This assumption, however, requires empirical testing: to what extent are goods sold in the informal sector actually sourced outside formal markets, and how often do informal traders pay input VAT through formal supply chains? Where informal traders do purchase inputs in formal markets, it is crucial to understand whether they pass these taxes on to consumers or absorb them through reduced profits. If the informal and formal markets are more interconnected than assumed, this could alter the perceived progressivity of consumption taxes and raise questions about whether, as economies formalize, such taxes become increasingly regressive.

Role of taxation in formalization

Once it is acknowledged that, for a significant segment of the informal workforce, taxation is not primarily about raising revenue, other factors come into play—such as aiding formalization, building tax morale and improving governance. These effects are often assumed to follow naturally from taxation, but they depend heavily on specific features and contexts. This leads to questions about **what aspects of formalization can meaningfully be achieved through taxation** and, when discussing broader goals such as the social contract, trust and accountability, in what order these elements can realistically be built. Another important consideration is how the social contract is affected when tax collectors and service providers are different actors, and what obligations local governments and national revenue authorities have to their respective tax bases. Linked to this is the question of how tax can be more effectively connected to service provision and improved governance outcomes.

Design of presumptive tax regimes

The rationale behind presumptive tax regimes is to establish simplified tax systems for small and medium enterprises, encouraging formalization and compliance by reducing reporting requirements. The benefits of registering under such regimes include greater formalization, business growth, access to formal banking systems, and eligibility for public procurement. Participants emphasized the importance of **assessing and testing the presumed benefits of presumptive tax regimes using country-specific data to understand their applicability to different types of firms and workers in the informal economy, and to analyze the differentiated gender impacts**. Questions include the impact of presumptive regimes on enterprise growth, transitions to the corporate tax system, the formalization of workers, and equity outcomes, including gender equity, as well as how these impacts vary across contexts and between different sectors of informal work. Additionally, it is important to consider how tax exemptions, such as thresholds, can be used to ensure that those at the bottom of the earnings distribution are not overburdened, and how fair earnings thresholds can be established in the absence of bookkeeping.

Social Protection

Affordability of social security contributions

A key area of inquiry regarding the financing of social protection in contexts of high informality concerns **how to determine the affordability of social security contributions and contributory capacity among workers in informal employment**, and whether a reliable evidence base exists to guide such assessments. Closely related is the challenge of **identifying appropriate levels of social security subsidies** for different groups, balancing the need to make contributions affordable for low-income and self-employed workers while maintaining incentives to contribute and ensuring long-term financial and fiscal sustainability. Understanding the relationship between the **immediate costs of including workers in informal employment in contributory schemes and the short-, medium-, and long-term benefits for workers and societies remains essential**.

Employers' compliance and payment of social security contributions

The discussions emphasized the challenge of **ensuring greater compliance and social security contributions from employers in the informal sector**. This requires identifying informal employers, assessing their differing contributory capacities (potentially based on enterprise size) and designing mechanisms that facilitate and support their gradual transition to formality.

Alternative forms of financing

Given the persistent social protection financing gaps, an emerging question is how to **identify and assess alternative forms of financing beyond traditional earnings-based contributions and general taxation**. As labour markets diversify and digitalization expands, new types of financial flows, such as digital transactions, transfers, and platform-based payments, could potentially serve as bases for social insurance contributions. Exploring these alternatives requires understanding what financial flows might be suitable for such levies, how they could be identified and administered, and what their distributional impacts might be across different groups of workers and enterprises.

Beyond social security contributions and general taxation, a **wider set of financing instruments** should also be considered. These include taxes on financial transactions, debt swaps and wealth taxes, among others, which could create fiscal space for social protection. However, their effectiveness and fairness depend on careful assessment of how the costs and benefits would be distributed and whether such mechanisms can be implemented equitably in economies with large informal sectors.

There are **valuable lessons from existing examples where contributions to social protection are not tied strictly to formal employment relationships but rather to broader forms of economic dependency**. Cases such as India's welfare boards for informal and gig workers and social insurance schemes for artists in Germany and France offer insights into alternative ways of organizing collective financing responsibilities. Learning from such pilots can help inform how these or similar principles might be integrated into mainstream national schemes, ensuring they promote fairness, inclusivity and sustainability.

Understanding attractiveness of benefits

A major issue is how to **design effective incentives for self-employed workers to join social insurance schemes**. Evidence is needed on which benefit packages are most successful in encouraging enrolment, and how design considerations differ between mandatory and voluntary systems. Some may value benefits that go beyond traditional social insurance contingencies and important research questions include identifying which “non-traditional” benefits are most relevant, their role in improving scheme attractiveness, and the evidence supporting their inclusion. Further exploration is required into the relative **effectiveness of financial incentives**, such as government co-payments or varying levels of generosity, and **benefit-related incentives**, such as the provision of short-term or more generous benefits. Equally, questions remain about workers’ ability to understand and choose between different contribution and benefit options. Do multiple choices empower workers to select appropriate packages, or do they create confusion and lead to low levels of protection by defaulting to cheaper options?

Voluntary and mandatory coverage

The **evidence base on voluntary and mandatory schemes achieving significant coverage** of workers in informal employment is still limited. Learning from examples where voluntary schemes have succeeded or failed to extend coverage could offer practical lessons on good design and implementation. Similarly, understanding what enables mandatory schemes to reach informal self-employed and wage workers, and what role enforcement can play in high-informality settings, remains a priority. Identifying good practices and considerations for these different approaches is critical to designing more effective systems.

Access and administrative barriers

Addressing administrative barriers is essential. Simplifying registration and contribution processes, reducing bureaucracy, and leveraging digital systems to improve access are recurring themes. Particular challenges exist for self-employed workers, for whom traditional payroll-based mechanisms may not apply. It is worth **exploring how “aggregation points”, such as cooperatives or tax interactions, can be leveraged to ease access**.

Trust and involvement of workers organizations

Research is needed on **how to build trust among workers in social insurance schemes and the institutions that administer them**. Evidence suggests that short-term benefits may help strengthen trust, as can inclusive forms of social dialogue that give workers in informal employment a voice in scheme design and implementation. It is also worth exploring how a more active role of workers organizations in the design, implementation and governance may enhance trust.

Cost-benefit ratios of extending coverage

While there is extensive research on non-contributory social protection and in particular cash transfers, evidence gaps remain regarding their specific impacts on workers in

informal employment. For instance, there is a need to better understand the **cost-benefit ratios of extending non-contributory social protection to workers in informal employment**, as well as the costs of inaction.

Major knowledge gaps persist concerning social insurance and workers in informal employment. More evidence is needed on the **economic impacts of social insurance for workers, firms, and broader economies**, alongside assessments of the cost-benefit ratios and the potential consequences of not extending coverage. Beyond monetary outcomes, there is growing interest in **understanding the non-monetary effects of social insurance – such as improvements in health, wellbeing and the “benefit of being insured”**. Developing robust ways to measure these less tangible impacts remains a research priority.

Role of social protection in formalization

Another critical question concerns the role of social protection in supporting formalization. Research is needed to determine **whether, and through what mechanisms, social protection facilitates the transition to formal employment**. This includes exploring whether social protection helps address the root causes of informality, such as intergenerational transmission of disadvantage and limited access to opportunities that build human capabilities.

Finally, **understanding how social security subsidies influence enrolment, labour supply decisions and the financing and sustainability of schemes** will be vital to assessing their effectiveness.

Productivity

Positive externalities

A key area of inquiry concerns how to better **understand and measure productivity among workers in informal employment, particularly by capturing the positive externalities they generate for society**. Workers in informal employment often contribute essential services, such as waste collection in urban environments and the provision of care, which produce substantial public and social value but are not reflected in conventional productivity or earnings measures. Developing methods to include these externalities in productivity assessments would offer a more accurate and equitable picture of their economic contribution. In the case of care work, there is also a need to account for the quality as well as the quantity of labour output, ensuring that measurement approaches recognize the multidimensional nature of such work and its broader societal benefits.

Working environments

Evidence consistently indicates a productivity gap between the formal and informal sectors, though the size and nature of this gap vary significantly across countries. These differences likely stem from divergent working conditions, employment statuses, and sectoral characteristics that shape productivity outcomes. Advancing understanding of how these factors interact will require attention to the specific constraints faced by informal enterprises and workers in different contexts. Addressing data gaps on working conditions (such as workplace safety, time-related underemployment, and constraints on working more hours) is essential. By analyzing data from labour force surveys that include information on such factors, researchers can begin to **identify associations between working environments, constraints, and labour productivity among own-account and other workers in informal employment**.

Market structures and supply chain dynamics

Understanding how **market structures and supply chain dynamics shape productivity outcomes** in the informal economy is an emerging research priority. Productivity outcomes are heavily influenced by supply chain dynamics, which determine how value is distributed across different actors and who ultimately benefits from workers' efforts. Yet, data on these working relationships are scarce. Strengthening evidence in this area will require **linking household and microeconomic data with firm-level information, enabling researchers to trace how workers in informal employment and small enterprises fit within broader market systems**. Alongside this, there is a need to **generate and analyze data on infrastructure and market access**, both of which significantly affect working conditions, productivity and potential for growth. Measuring labour productivity over time is also critical to assessing whether changes in productivity are reflected in workers' earnings, and, if not, why. The absence of a positive relationship may point to limited bargaining power among workers, who often lack the ability to negotiate improved working conditions or higher pay despite greater output or efficiency.

Improving how sub-contracting arrangements and the expansion of micro-enterprises are captured in surveys is also essential, as supply chains become increasingly complex. Existing data sources, such as the World Bank Informal Sector Enterprise Surveys, could offer valuable insights into patterns of labour productivity, as well as market barriers and constraints to growth among small and medium enterprises – though these surveys do not yet capture own-account workers. Additional evidence on access to resources, capital and markets would help deepen understanding of productivity dynamics. This may involve combining quantitative and qualitative methods and drawing on data such as the World Bank LSMS+, which includes detailed modules on individuals' control over earnings, ownership of assets, and access to economic resources – variables that can shed light on the relationship between market power, access and productivity.

Data gaps

A persistent challenge in understanding productivity in the informal economy lies in the **limited availability of reliable data on own-account workers**. Informal-enterprise surveys, such as the World Bank Informal Sector Enterprise Surveys, provide valuable insights into operating costs, revenues, and productivity indicators among small and medium-sized enterprises. However, these surveys generally exclude own-account workers, who make up a substantial share of the informal workforce. By contrast, labour force surveys and other micro-level employment modules (often collected as part of multi-topic socioeconomic surveys) do capture detailed information on own-account workers, including hours worked. Yet, earnings data for these workers are often missing or underreported, as many surveys collect income data only for employees. To close these gaps, there is a **need to explore new sampling and data collection strategies that can better capture earnings and costs among own-account workers**.

Complementing these efforts, **time-use data play a crucial role in understanding productivity, particularly for women who often combine paid work with unpaid domestic and care responsibilities**. Evidence from recent World Bank time-use surveys in low- and middle-income countries shows that individuals – especially women – frequently multitask, performing paid, unpaid and domestic activities simultaneously. This complexity complicates productivity measurement, including for contributing family workers. The data also reveal **the substantial amount of time low-income respondents spend on transport and commuting, often combining work-related travel with other household tasks**, which must be considered when estimating labour productivity. In countries where time-use data have been collected alongside standard labour force modules, such as Cambodia and others where the ILO is supporting integration of time-use modules, interesting differences emerge in the estimation of total working hours. When multitasked activities, transport and unpaid care work are factored in, the picture of labour engagement, especially among own-account workers and those in family enterprises, changes significantly. These differences have important implications for understanding gender disparities in productivity, as women's total work time is often undercounted in traditional labour statistics.