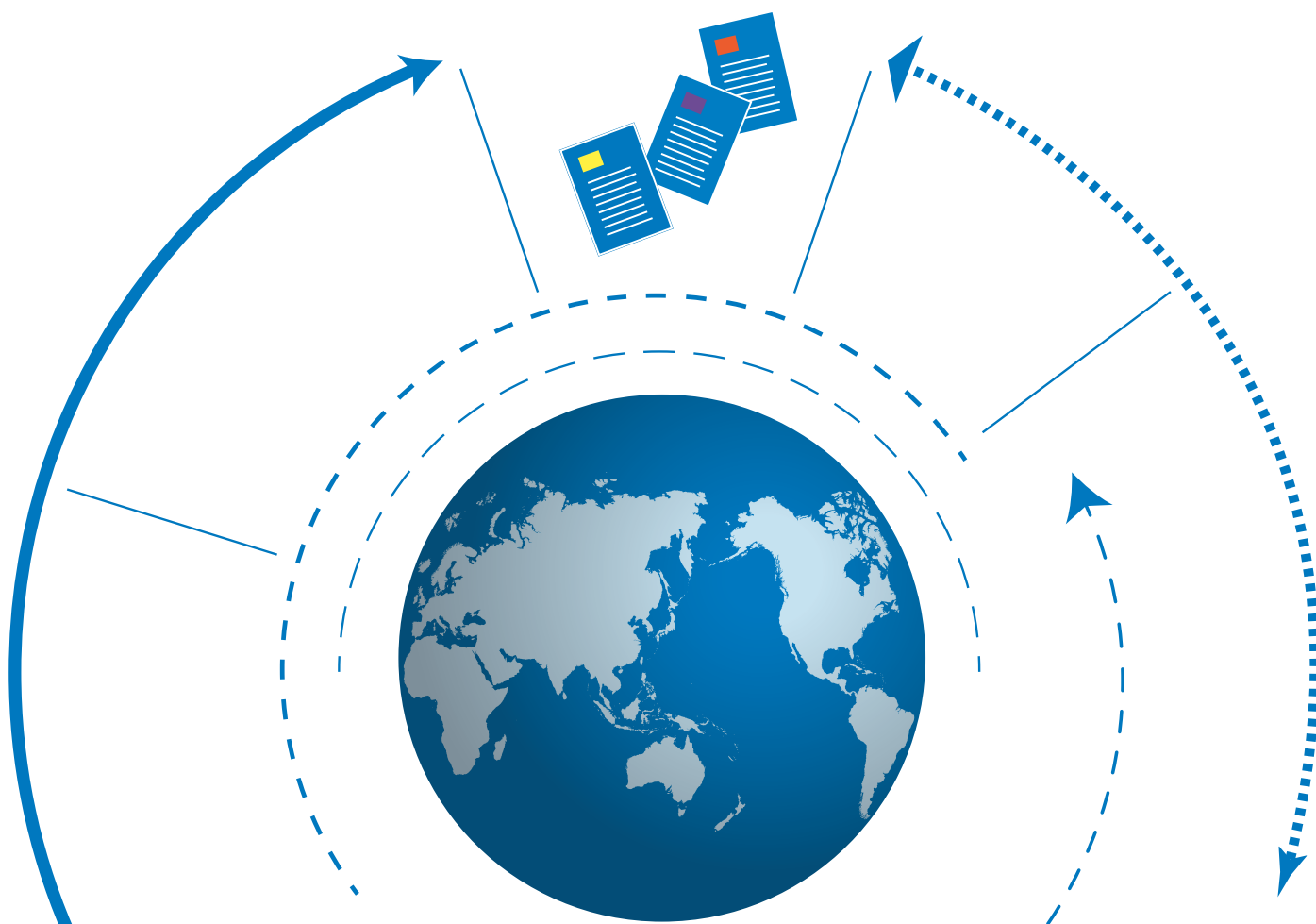


Research area: Inclusive societies



Financing the extension of social insurance to informal economy workers: The role of remittances

Alexandre Kolev and Justina La



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Preface

Informal employment, defined through the lack of employment-based social protection, constitutes the bulk of employment in developing countries, and entails a level of vulnerability to poverty and other risks that are borne by all those who are dependent on informal work income. Risk management strategies, such as migration can play a part in minimising the potential risks of unprotected and precarious informal work. Due to the size of the informal economy, households that include informal workers are also likely to have an emigrant worker who sends back cash or in-kind remittances to support their household of origin. Considering that remittances act as a form of informal insurance, the very receipt of remittances may be a sign that recipient households have a demand for social protection. Among relatively well-off recipient households, moreover, this demand may be financially solvent and channelled towards formal contributory schemes. An important question, therefore, is to what extent and under which conditions households that include informal workers receiving remittances and not qualifying for social assistance may be willing and able to channel some of these resources to enrol in formal social insurance schemes.

The aim of this paper is to explore the potential of remittances as a source of innovative financing to extend social protection to workers in the informal economy. The focus is on those informal workers from recipient households that may not qualify for social assistance but that could use part of the remittances that they receive to enrol in contributory schemes if these were adapted to their needs. It begins with an overview of the role of remittances, followed by an in-depth analysis of the contribution of remittances to the households of informal workers. The last section argues that part of a mutually beneficial solution to (i) the exclusion of informal workers from social protection programmes, and (ii) the need to finance the extension of national social insurance schemes for these workers, may lie in the development of informality-robust social insurance schemes targeting middle-class informal workers who receive remittances.

This paper was produced with financial support from the Agence Française de Développement and as part of the work of the OECD Development Centre on social protection. We hope that it will enrich evidence-based knowledge as part of the body of work on financing the extension of social protection to informal economy workers.

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Abstract

Informal employment, defined through the lack of employment-based social protection, constitutes the bulk of employment in developing countries, and entails a level of vulnerability to poverty and other risks that are borne by all who are dependent on informal work income. Results from the Key Indicators of Informality based on Individuals and their Households database (KIbIH) show that a disproportionately large number of middle-class informal economy workers receive remittances. Such results confirm that risk management strategies, such as migration, play a part in minimising the potential risks of informal work for middle-class informal households who may not be eligible to social assistance. They further suggest that middle-class informal workers may have a solvent demand for social insurance so that, if informality-robust social insurance schemes were made available to them, remittances could potentially be channelled to finance the extension of social insurance to the informal economy.

JEL classification: E26, F22, F24, G52, H55, I38

Keywords: informal workers, middle-class workers, remittances, migrant workers, migration, development, savings, risk-pooling, poverty, social insurance, social protection

Résumé

L'emploi informel, défini par l'absence de protection sociale basée sur l'emploi, constitue la majeure partie de l'emploi dans les pays en développement, et entraîne un niveau de vulnérabilité à la pauvreté et à d'autres risques qui sont supportés par tous ceux qui dépendent des revenus du travail informel. Les résultats de la base de données des Indicateurs clés de l'informalité en fonction des individus et leurs ménages (KIbIH) montrent qu'un nombre disproportionné de travailleurs de l'économie informelle de la classe moyenne reçoivent des transferts de fonds. Ces résultats confirment que les stratégies de gestion des risques, telles que la migration, jouent un rôle dans la minimisation des risques potentiels du travail informel pour les ménages informels de la classe moyenne qui peuvent ne pas être éligibles à l'aide sociale. Ils suggèrent en outre que les travailleurs informels de classe moyenne peuvent avoir une demande solvable d'assurance sociale, de sorte que, si des régimes d'assurance sociale respectueux de l'informalité leur étaient accessibles, les transferts de fonds pourraient potentiellement être canalisés pour financer l'extension de l'assurance sociale à l'économie informelle.

Classification JEL : E26, F22, F24, G52, H55, I38

Mots clés : travailleurs informels, travailleurs de la classe moyenne, transferts de fonds, travailleurs émigrés, migration, développement, épargne, mutualisation des risques, pauvreté, assurance sociale, protection sociale

1. Introduction

Informal workers rank among the most vulnerable groups in developing countries in terms of their access to social protection. Employment in the informal economy entails a number of risks that are borne individually and passed on to other family members: by definition, informal workers do not have access to employment-based social protection and are not protected by labour laws and regulations.

Unfortunately, informal employment constitutes the bulk of employment in developing countries and entails a level of vulnerability to poverty and other risks that are borne by all who are dependent on informal work income. The dependents of informal workers assume additional risk. The transmission of vulnerability to the families and household members of informal workers can occur in a number of ways.

Risk management strategies, such as migration can play a part in minimising the potential risks of unprotected and precarious informal work. Due to the size of the informal economy, households that shelter informal workers are also likely to have an emigrant worker who sends back cash or in-kind remittances to support their household of origin.

Remittances, in particular, are a potentially interesting source of finance due to their relatively stable flows, and their counter-cyclical nature with respect to the original location of the migrant (Frankel, 2010^[1]). Such financial flows can, in an enabling environment, be channelled to help stabilise economic activity during brief recessions and mitigate income shocks (OECD, 2017^[2]; OECD, 2016^[3]). Yet, the stability and counter-cyclical nature of remittances can be endangered by global crises, as observed during the COVID-19 pandemic (J. Abel and Gietel-Basten, 2020^[4]; Bisong, Ahairwe and Njoroge, 2020^[5]).

This objective of this paper is to explore the potential of remittances as a source of innovative financing, which might allow for the extension of social protection to workers in the informal economy, specifically social insurance programmes. Informal workers, and more specifically **middle-class informal workers**, are an important subject of study due to their unique vulnerability to shocks. On the one hand, they typically lack social insurance protection on the basis of their informal employment status. On the other hand, they are disqualified from receiving social assistance if their income is above the means-test threshold for such programmes. For these middle-class informal workers, who have enough income to be placed above the national poverty line, but yet have no social protection against shocks to their income, putting in place some form of basic social protection is an urgent question, as has been observed during the COVID-19 crisis (FAO, 2020^[6]; ILO, 2020^[7]).

While a handful of governments have managed to extend social insurance to informal workers through innovative schemes, e.g. free extension of social insurance schemes to informal workers in Latin American countries, these solutions may not be sustainable on a wider basis. Fiscal space constraints are typically the predominant concern when deciding how and where to expand coverage of social protection programmes, and the primary interest of this study is to explore the potential of remittances to be used by middle-class informal workers to enrol in voluntary contributory social insurance schemes without soliciting public resources. Focusing on social insurance for middle-class informal workers who receive remittances is of particular interest because we assume that they can afford social insurance contributions as opposed to households that are currently covered by social assistance and that are too resource-poor to afford diverting their remittance income towards social protection contributions.

Considering that remittances act as a form of informal insurance (Beuermann, Ruprah and Sierra, 2016^[8]; Geng et al., 2018^[9]), the very receipt of remittances may be a sign that recipient households have a demand for social protection. Among relatively well-off recipient households, moreover, this demand may be financially solvent and channelled towards formal contributory schemes. In the case of Colombia, for instance, recent evidence shows that remittances are an important source of income that increases enrolment in contributory social insurance schemes among informal workers (Cuadros-Meñaca, 2020^[10]). An important question, therefore, is to what extent and under which conditions informal workers who receive remittances and who do not qualify for social assistance may be willing and able to channel some of their resources to enrol in formal social insurance schemes.

This preliminary study aims to describe the potential for social insurance programmes to be financed by middle-class informal workers through private resources without necessitating public resources. The focus is on those informal workers from recipient households who do not qualify for typical social assistance through means-testing, but who may in theory be able to use a part of any existing remittance income to enrol in contributory schemes adapted to their needs. It begins with an overview of the role of remittances, followed by a brief portrait of the contribution of remittances to the households of informal workers. The last section argues that part of a mutually beneficial solution to (i) the exclusion of non-poor informal workers from social insurance programmes, and (ii) the need to finance the extension of national social insurance schemes for these workers, may lie in the development of informality-robust social insurance schemes targeting middle-class informal economy workers who receive remittances.

2. Data and methodology

2.1. Data

This paper uses the OECD **Key Indicators of Informality based on Individuals and their Households (KIIBIH)** database, which is a compilation and harmonisation of comprehensive informality, economic welfare, and social protection indicators derived from household survey data (OECD, 2021^[11]). The KIIBIH database covers four major regions: (i) North and sub-Saharan Africa, (ii) South-East Asia, (iii) Eastern Europe and Central Asia, and (iv) Latin America and the Caribbean.

The OECD KIIBIH database is a rich source of data for analysis due to its harmonised indicators on household income, household consumption, poverty, employment, education and health. This paper considers only the countries for which information on remittances is available in household surveys and the period before the COVID-19 crisis. Table 1 lists the countries and the household surveys in the sample extracted from the OECD KIIBIH database for this analysis.

Table 1. Study sample countries

List of KIIBIH countries with survey questionnaires that mention remittances

Region	Country	Year	Data
Africa	Gambia	2015	Integrated Household Survey
	Liberia	2016	Household Income and Expenditure Survey
	Malawi	2016	Integrated Household Survey
	Namibia	2015	Namibia Household Income and Expenditure Survey
	Niger	2014	Enquête National sur les Conditions de Vie des Ménages et Agriculture
	South Africa	2014	National Income Dynamics Survey
	Tanzania	2014	National Panel Survey
	Zambia	2015	Living Conditions Monitoring Survey
Eastern Europe and Central Asia	Albania	2012	Living Standards Measurement Survey
	Armenia	2016	Living Standards Measurement Survey
Asia	Thailand	2017	Socio-Economic Survey
	Viet Nam	2016	Viet Nam Household Living Standards Survey
Latin America and Caribbean	Costa Rica	2016	Encuesta Nacional de Hogares
	El Salvador	2015	Encuesta de Hogares de Propósitos Múltiples
	Honduras	2014	Encuesta Permanente de Hogares de Propósitos Múltiples
	Mexico	2018	Encuesta Nacional de Ingresos y Gastos de los Hogares
	Peru	2016	Encuesta Nacional de Hogares sobre Condiciones de Vida y Pobreza

2.2. Indicators and operational definitions

For the purposes of this study, we limited the sample size to countries and households where appropriate data were available. The following indicators were defined and created to assess whether the sample countries were suitable for inclusion in the study sample.

Remittances, as considered here, regroup private monetary or in-kind transfers to households from members (household and family) living outside of the household, regardless of provenance. This paper examines three types of migration, where data are available: **domestic**, or internal migration; **regional** migration, and **international** migration. Domestic migration refers to the movement of household members within national borders, and can take the form of movement from rural areas to the country's capital or other urban centres (rural-urban), or from one rural area to another (rural-rural), usually for agricultural work. Regional migration refers to emigration to neighbouring countries, and usually does not exceed geopolitical regional¹ or continental boundaries. International migration captures emigration beyond regional boundaries.

Vulnerable households are defined as households that are vulnerable to poverty through a lack of social protection coverage. **Food secure households** are households that spend less than half of total (household) expenditure on food items, and are not considered poor according to the national monetary poverty definition.

Poverty status is calculated according to the national definition using per capita consumption where available, and per capita income otherwise. National poverty lines have been compiled for the countries where information is publicly available.

A worker is considered **informally employed**² when he/she has declared engaging in at least one hour of work over the past 7 days, for which he/she is not entitled to any employment and social security benefits (i.e. paid vacation, paid sick leave, retirement pension, or health insurance). Employers and own-account workers are considered to be working informally if they have not declared their economic activity for tax and bookkeeping purposes. Contributing workers are always considered to be informally employed. Furthermore, **households** are classified according to the **collective degree of informality** of its workers. For example, if a household has workers who are all employed in the informal economy, it is referred to as an "informal household"; if all workers in a household are formally employed it is referred to as a "formal household"; if a household has one or more workers employed in the informal economy and other members employed in the formal economy, it is called a "mixed household".

¹ Regions are defined following the United Nations' Regional Groups.

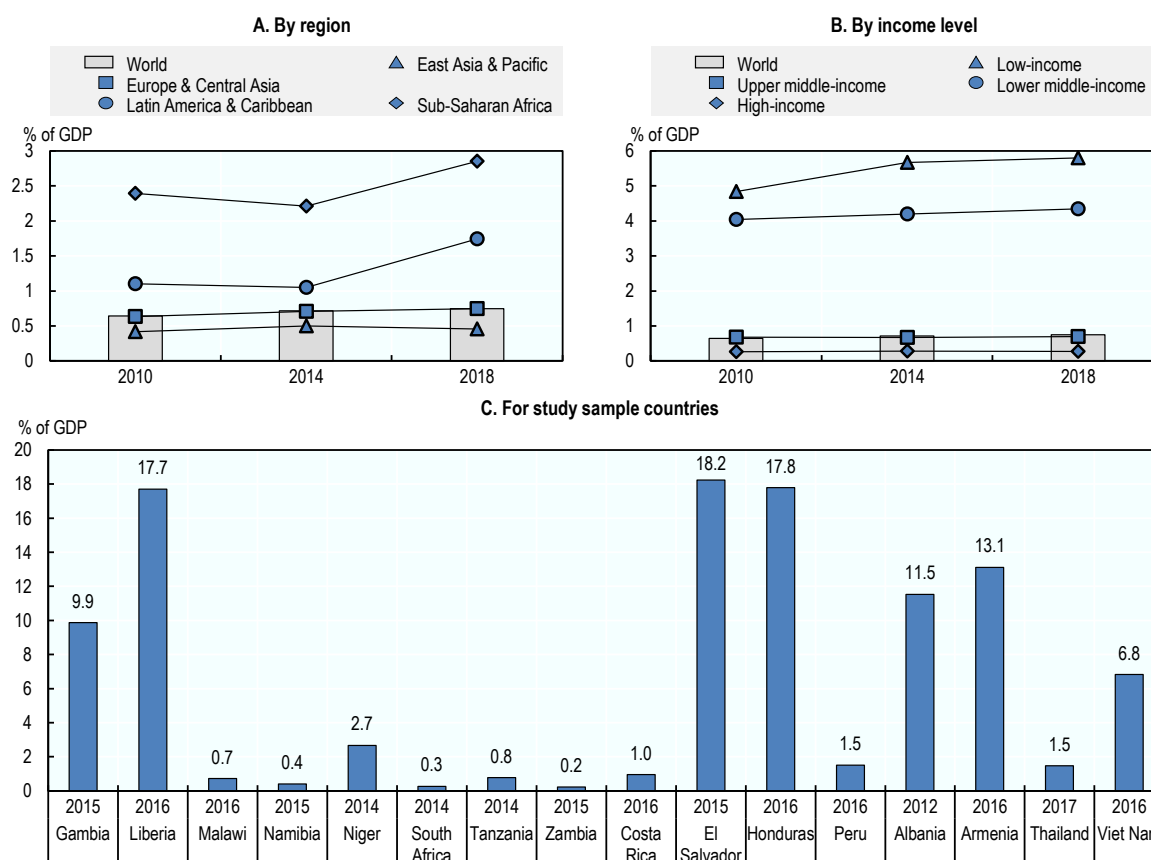
² This paper uses the current ILO definition of informal employment. See Annex A for more information.

3. The role of remittances in developing countries

3.1. Remittances are a source of positive stimulus for many developing economies

Remittances to developing countries can contribute to stimulating economic growth and savings. Over time, remittances have become an important source of development finance, enabling increased consumption and savings for households that would otherwise be at risk of poverty, if not impoverished. Between 2010 and 2018, a period after the Global Financial Crisis and before the COVID-19 crisis, remittance inflows were more significant for lower-income countries. While on average remittances grew globally from 0.64% in 2010 to 0.74% of GDP in 2018, they constituted between nearly 2% to 3% of regional GDP in Latin America and the Caribbean, and sub-Saharan Africa (Figure 1).

Figure 1. Remittance inflows have increasingly become an important percentage of GDP



Source: World Bank (2020_[12]), World Development Indicators, accessed 11 February 2020.

3.2. Migration and remittances can reduce household vulnerability, but are mainly accessible to non-poor households

Migration and remittances have long played a part in the risk management strategies of vulnerable households. Remittances from migrant workers allow households to diversify their income sources in case of impoverishing internal and external macro-economic shocks (Todaro, 1969^[13]; Harris and Todaro, 1970^[14]; Balli and Rana, 2015^[15]; OECD, 2017^[2]). In the absence of robust social protection systems, remittances play an important role in consumption smoothing, especially during spells of un- and under-employment (Yang and Choi, 2007^[16]; Jimenez-Soto and Brown, 2012^[17]; Brown, Connell and Jimenez-Soto, 2014^[18]; Beuermann, Ruprah and Sierra, 2014^[19]). Furthermore, in conflict-affected and fragile states, remittances can buffer against the negative economic effects of political instability (Kapur, 2004^[20]).

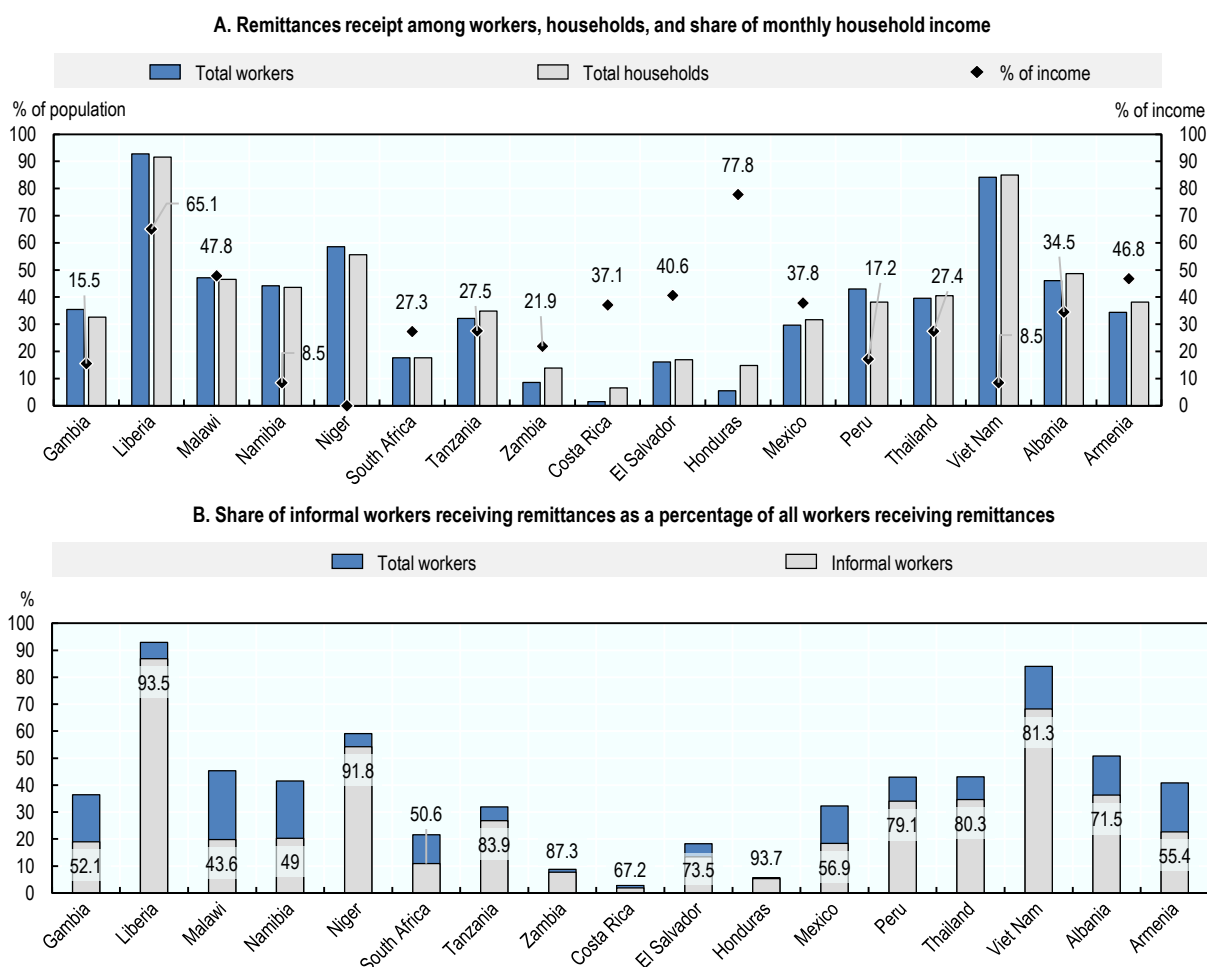
Remittances have been found to have positive aggregate effects on development, reducing vulnerability at the micro- and macro-level. Prior studies have estimated that remittances are effective in minimising large fluctuations in household income by 5% on average (Balli and Rana, 2015^[15]). Migration and remittances have also been found to reduce income poverty in developing countries: for example, Adams and Page (2005^[21]) estimated that a 10% increase in the share of international migration led to 2.1% decline in extreme poverty in 71 developing countries (Int. USD 1 per day).

Emigrant workers from developing countries are, however, more likely to come from middle- and upper-class households than from impoverished households. For many of the poor, the economic and social costs associated with migration are high, and render its benefits beyond reach (Murrugarra, Larrison and Sasin, 2010^[22]; Waddington and Sabates-Wheeler, 2003^[23]). Economic costs, which can include passport fees, travel fare, etc., and social resources, such as language acquisition or presence of extended social networks are often better affordable for those belonging to non-poor families. While the pro-poor effects of remittances are mixed, more poor households are theoretically entitled to other forms of social protection (mainly means-tested social assistance in the form of cash and in-kind transfers, subsidies, and more).

3.3. Remittances are largely sent to workers and households that are mainly dependent upon the informal economy

In developing countries, a high proportion of informal economy workers receive remittances from family members who have migrated, either domestically, regionally, or internationally. While almost one-third of all workers across this sample (37.4%) have received some remittances in the past 12 months, 71.2% of these workers are employed in the informal economy, where, by definition, they do not have access to standard workers' benefits and protection programmes, such as paid sick leave, retirement pensions, health insurance, or work-injury compensation schemes (Figure 2, panels A and B). For these workers, remittances can substitute traditional risk mitigation schemes, i.e. they provide an (informal) social security net.

Figure 2. Remittances play an important role in the lives of many households in developing countries, especially informal workers



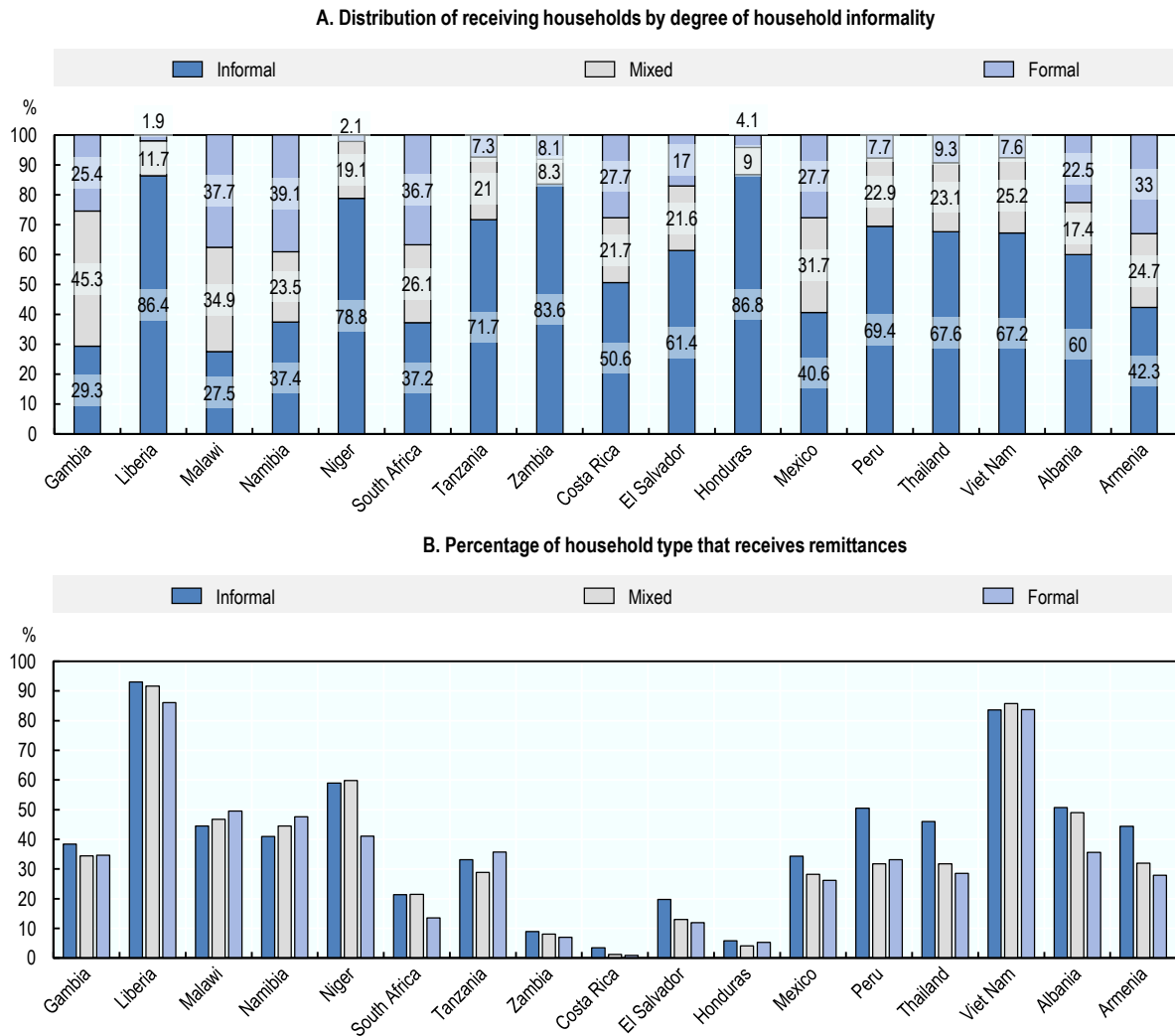
Note: Percentages in panel A refer to remittances as a share of total household income. Percentages in panel B refer to the share of informal workers in all workers who received remittances in the past year. Some data not available for Niger.

Source: Authors' calculations based on the OECD (2021^[11]), *Key Indicators of Informality based on Individuals and their Households (KIIBIH)* database.

The importance of remittances is higher for households that exclusively contain workers employed within the informal economy. Informal workers are at higher risk of poverty, have higher occupational risks, and lower job satisfaction among other indicators of decent work (OECD/ILO, 2019^[24]). When entire households are composed of workers who face high exposure to such risks without the benefits of social security schemes, the vulnerability status of these workers and their dependents is higher compared to those living in households where workers and their dependents are covered by formal social protections.

Informal households in particular, are more likely (than formal or mixed households) to receive remittances: 58.7% of all households that receive remittances are informal households, compared to 22.8% of mixed and 18.5% of formal households (Figure 3 panel A). While this is primarily due to a vast majority of informal workers in the sample, informal households still have a higher probability of receiving remittances than their mixed or formal counterparts: 39.8% of all informal households receive remittances, compared to 36.0% of all mixed households and 33.4% of all formal households (Figure 3 panel B).

Figure 3. Informal households comprise the major share of all households receiving remittances

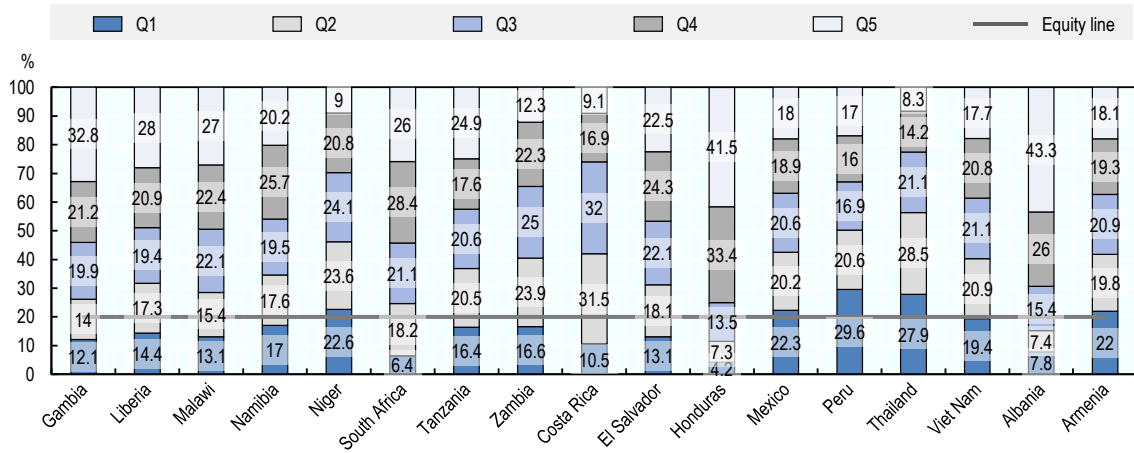


Source: Authors' calculations based on the OECD (2021^[11]), *Key Indicators of Informality based on Individuals and their Households (KIIBIH)* database.

Richer informal workers are more likely to receive remittances than poorer informal workers. On average, 16.2% of informal workers who received remittances are in Quintile 1, as opposed to 20.9% in Quintile 3 and 22.1% in Quintile 5 (Figure 4). Figure 4 displays the distribution of remittances to informal workers by quintile, and finds three patterns in the probability of receiving remittances by quintile: the most common is a high concentration of receiving households between Quintiles 2, 3 and 4.

Figure 4. Remittances to informal workers are largely collected by richer workers than their poorer counterparts

Distribution of remittances to informal workers by quintile



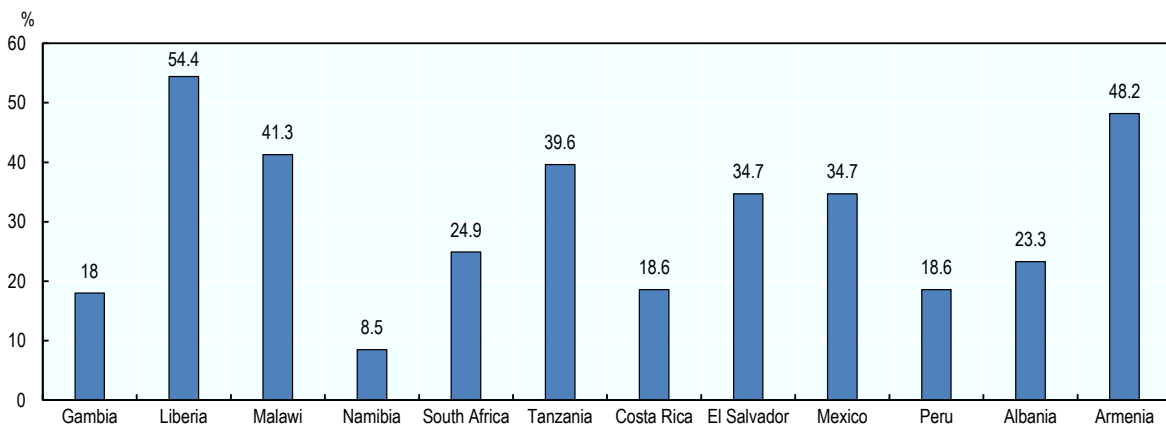
Source: Authors' calculations based on the OECD (2021_[11]), *Key Indicators of Informality based on Individuals and their Households (KIIBIH)* database.

3.4. Remittance income constitutes a sizeable portion of household consumption and income

In the latest years available, remittances have constituted an important share of household consumption and income. On average, the average monthly remittance received represented 30.4% of total monthly household income (Figure 5). During the current COVID-19 crisis, the global amount of remittances sent is estimated to have fallen by 20%,³ with implications on the spending power of households and their level of vulnerability (Sayeh and Chami, June 2020_[25]).

Figure 5. Remittances relative to household income vary in average importance by country

Monthly remittance values as a percentage of total household income



Source: Authors' calculations based on the OECD (2021_[11]), *Key Indicators of Informality based on Individuals and their Households (KIIBIH)* database.

³ This number was estimated by the IMF in June 2020 (Sayeh and Chami, June 2020_[25]).

4. The role of remittances in extending social insurance: The case of middle-class informal workers

4.1. Not all informal workers are exposed to the same level of risk: Middle-class informal workers are not poor but vulnerable to poverty

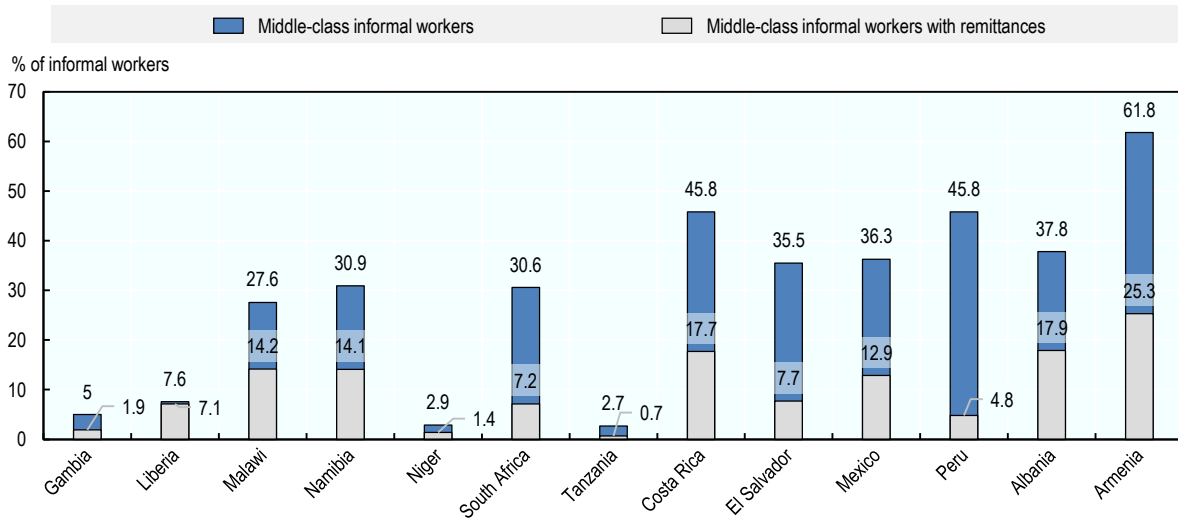
Informal workers are most vulnerable to shocks, given the precarity of their access to social protection. By comparison, formal workers are covered by national and private social protection schemes by virtue of their employment. Arguably, middle-class informal workers (Q2:4, vary by country) face different risks than their counterparts at either end of the distribution (poorest and richest), as the poorest informal workers can usually qualify for social assistance programmes, and the richest informal workers are usually able to save income or invest in other risk management schemes.

Middle-class informal workers belong to households where the share of monthly food consumption in total household consumption is equal to 50% or less. In addition, household members are neither classified as poor according to the national poverty definition, nor do they consume/ expend more than twice the national poverty line. This is a measure of a household's capacity to consume non-essential goods and services without jeopardising their household welfare.

Middle-class informal workers represent 28.5% of all informal workers and 42.2% of these middle-class informal workers receive a significant amount of remittances (Figure 6).

Figure 6. A significant proportion of middle-class informal workers receive remittances

Percentage of informal workers who are middle-class and receive remittances

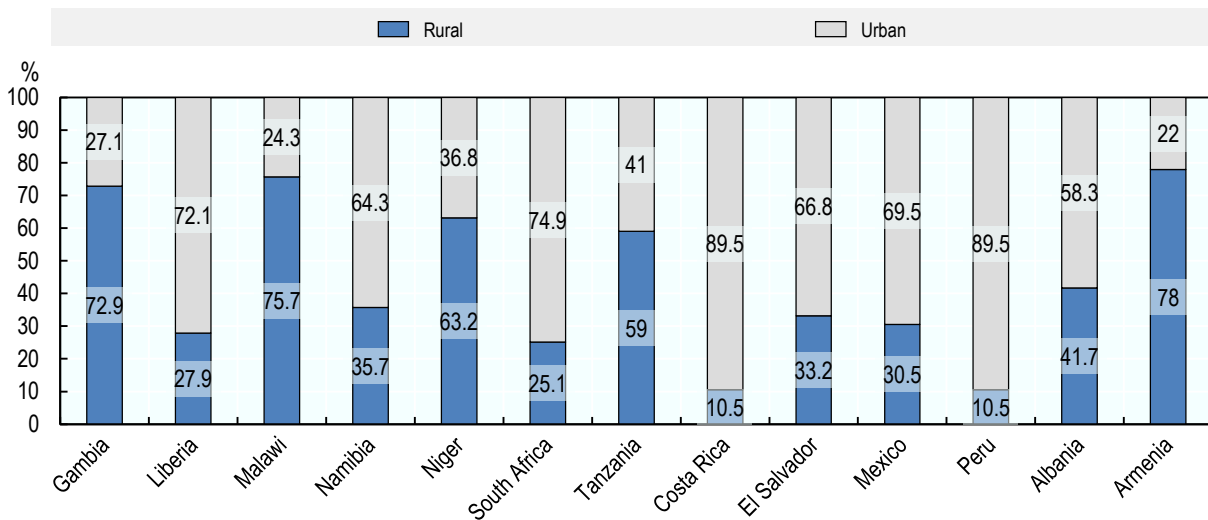


Source: Authors' calculations based on the OECD (2021^[11]), *Key Indicators of Informality based on Individuals and their Households (KIIBIH)* database.

Middle-class informal workers are more likely to reside in urban centres than rural areas. About 56.6% of all middle-class informal workers lived in urban areas, with 45.1% of these workers reporting remittance receipt (Figure 7). Of the 43.4% of middle-class workers living in rural areas, 43.2% reported receiving remittances.

Figure 7. Middle-class informal workers are more likely to reside in urban centres than rural areas

Distribution of middle-class informal workers by location

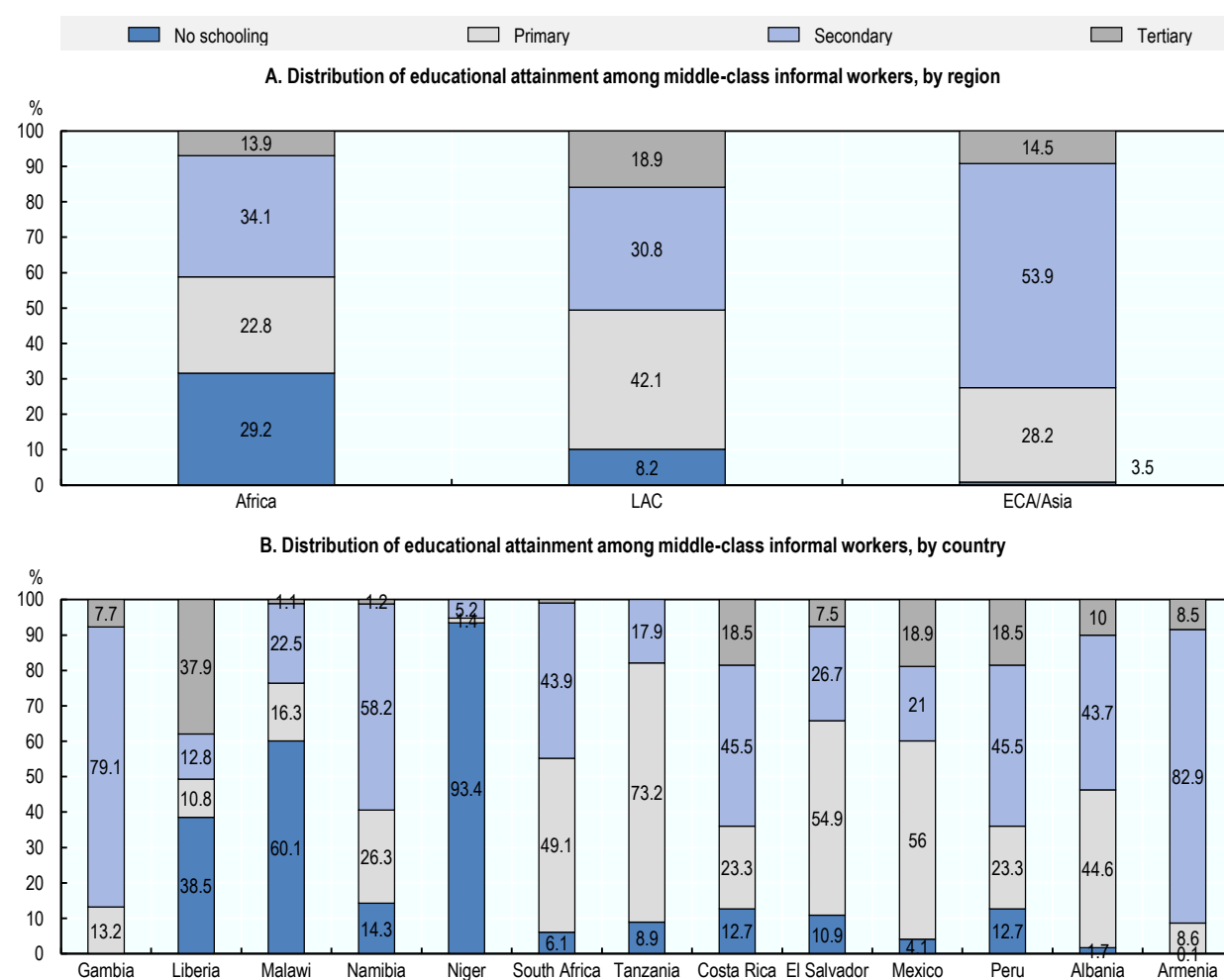


Source: Authors' calculations based on the OECD (2021^[11]), *Key Indicators of Informality based on Individuals and their Households (KIIBIH)* database.

The level of education of middle-class informal workers differs by region. Middle-class informal workers in Eastern Europe and Asia typically attain secondary school education, with 82.1% reporting a minimum of secondary-level schooling, followed by 28.2% having attained primary-level education, and 0.9% having attained tertiary education (Figure 8 panel A). In Latin America and the Caribbean, middle-class informal workers are also likely to have received some education, mainly at the primary school level (42.1%), (Figure 8 panel A). Middle-class informal workers in the sample's African countries were almost equally likely to have no formal education or education to the secondary diploma, with around 29.2% of middle-class informal workers having no formal education and 34.1% of middle-class informal workers having attained a secondary diploma (Figure 8 panel A).

Across the global sample, 38.8% of middle-class informal workers have a secondary-level education, followed by 30.8% at the primary-level, 20.3% with no education, and 10.1% with tertiary education (Figure 8 panel B). Of these workers, those who have received no education are most likely to receive remittances, with 44.8% of middle-class informal workers who received no education reporting remittance receipt, followed by 41.6% of secondary-school-educated middle-class informal workers, followed by 41.4% who were primary school educated, and lastly 39.0% of middle-class workers who received tertiary-level education.

Figure 8. Educational attainment among middle-class informal workers varies by region

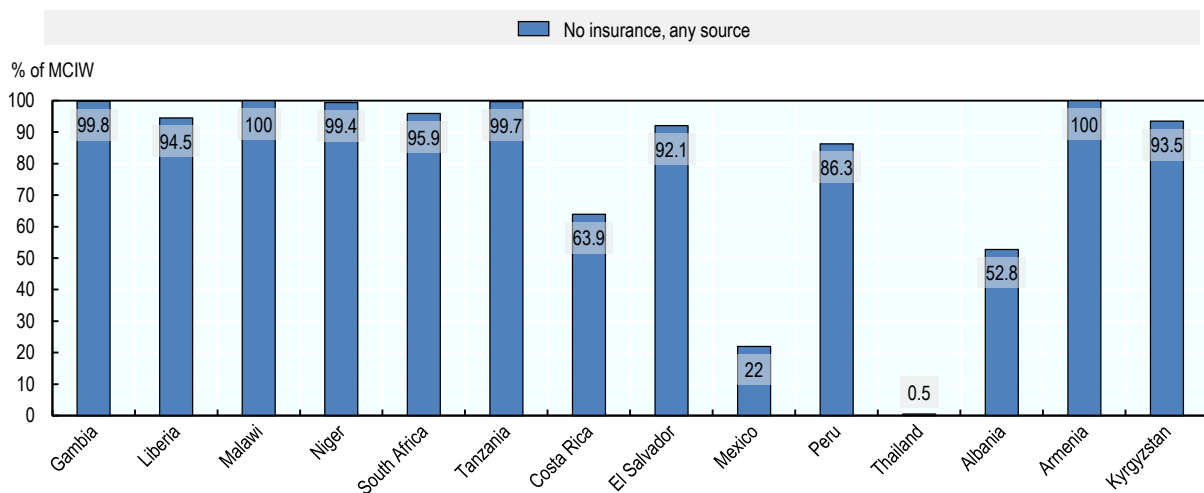


Source: Authors' calculations based on the OECD (2021^[11]), *Key Indicators of Informality based on Individuals and their Households (KIIBIH)* database.

Middle-class informal workers are also more likely not to benefit from universal social protection, for example, health coverage. A majority of middle-class informal workers do not currently benefit from any health insurance or healthcare schemes (neither employment-based nor universal). 78.6% of middle-class informal workers are neither covered by employment-based health insurance nor a government subsidised healthcare scheme (Figure 9). Evidence suggests that remittance income can act as informal insurance during negative health shocks (Beuermann, Ruprah and Sierra, 2014^[19]), allowing recipient patients to seek and finance the care they need, which can be critical for the overwhelming share of informal middle-class workers who do not currently receive assistance with health costs through insurance or subsidisation.

Figure 9. Most middle-class informal workers are not covered by any type of health insurance

Percentage of middle-class informal workers who receive no assistance to cover health-care costs



Note: Health insurance refers to both employment-based insurance or government subsidies/subsidised care. Availability of information on health insurance or subsidised health care varies by country.

Source: Authors' calculations based on the OECD (2021^[11]), *Key Indicators of Informality based on Individuals and their Households (KIIBIH)* database.

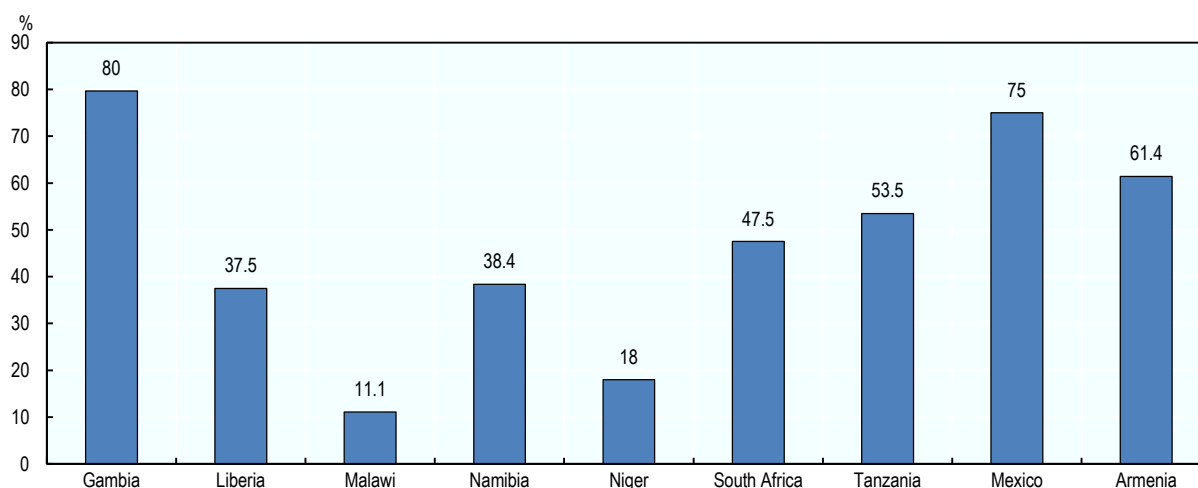
4.2. Middle-class informal workers could redirect a portion of remittance income to finance their own participation in formal social insurance schemes if these were available and attractive for them

Middle-class informal workers could cover their basic needs and more with the help of remittance income. Prior evidence shows that remittances act as informal social insurance that can foster enrolment in formal contributory schemes (Beuermann, Ruprah and Sierra, 2014^[19]; Geng et al., 2018^[9]; Cuadros-Meñaca, 2020^[10]). On average, the amount of monthly remittances to middle-class households with informal workers is equal to about 58.9% of the national household poverty line (Figure 10).⁴ Middle-class informal workers who receive remittances may thus appear as a group likely to have a solvent demand for social insurance. This suggests that if formal social insurance schemes were available and attractive for informal economy workers, a number of middle-class informal workers could potentially redirect a portion of their resources to enrol in formal contributory schemes while simultaneously retaining enough income to meet their needs.

⁴ As the national poverty line is frequently expressed as a per capita measure, the consistency of the units (household/individual) is included in our calculations.

Figure 10. Remittances constitute an important share of non-essential spending for middle-class informal workers

Monthly remittances as a share of the national poverty line for middle-income households including informal workers



Source: Authors' calculations based on the OECD (2021^[11]), *Key Indicators of Informality based on Individuals and their Households (KIIBIH)* database.

New trends show that making formal social insurance schemes available and attractive for informal economy workers is complex but possible (OECD/ILO, 2019^[24]). In several countries, a wide range of instruments have been used to encourage formalisation and ease eligibility criteria for contributory social insurance such as health, pensions, or unemployment. These include: reductions of employers' contributions for smaller firms; simplified special regimes for categories of workers; tax deductions to encourage the payment of contributions; tax breaks for firms that formalise their business; simplified tax schemes that combine pension and tax elements; procedures to simplify the registration of workers and employers; and the development of voluntary plans managed by the public or private sector.

A crucial step in the extension of contributory social insurance to the informal economy has been the provision of social and labour rights to domestic workers through a mix of enforcement and simplification measures, as done in Argentina, Brazil, Ecuador, Uruguay, and South Africa; the inclusion of self-employed workers in social security schemes through simplified registration and single tax schemes, as in Argentina and Uruguay; and the development of voluntary plans adapted to the needs of informal workers and managed by the public or private sector, as in Ghana and Kenya. Another promising development in Ghana, Rwanda, and the Philippines has been the establishment of national health insurance with a view on providing universal access to health through more flexible contribution payments.

The importance of identifying innovative financing solutions for the extension of social insurance to the informal economy is also underlined by the impact of the COVID-19 crisis. While governments have expanded their social assistance programmes to provide emergency funds meeting the imminent needs of those affected by the crisis, the cost of financing these emergency relief programmes is neither sustainable in the long term, nor feasible for many developing countries with already extremely limited fiscal space (Hausmann et al., 2020^[26]; Hevia and Neumeyer, 2020^[27]). From a public spending perspective, social insurance *a priori* has an advantage over tax-funded measures in that it is usually financed by funds raised through employee and employer contributions. In practice, however, the extension of contributory schemes has often relied on tax revenues due to the difficulty of collecting adequate contributions (OECD/ILO, 2019^[24]). This underlines the need to ensure greater employer contributions in the overall financing responsibility, especially in the sub-contracting industry and the gig

economy. It also demonstrates the importance of targeting middle-class informal workers whose remittances could be redirected towards contributory schemes.

Making formal social insurance schemes available and attractive for middle-class informal economy workers who receive remittances may also require greater engagement with migrant communities. Remittances constitute a significant proportion of income for middle-class informal workers and migrants who send remittances to help their relatives are the ones that could be primarily interested in seeing how their financial support might become more effective, and whether formal social insurance schemes could be adapted to fit the needs of their household. Ultimately, and depending on their perceptions about the adequacy of formal social insurance schemes, they may also be willing to allocate part of their remittances directly into formal social insurance funds to enrol their household members.

4.3. Conclusion

This paper has sought to explore the potential of remittances as a source of innovative financing to extend social insurance to middle-class workers in the informal economy. It is based on the OECD Key Indicators of Informality based on Individuals and their Households (KIbIH) database, which is a compilation and harmonisation of indicators on informality, economic welfare, and social protection derived from household survey data.

The results show that a disproportionately large number of middle-class informal economy workers received remittances during the period following the Global Financial Crisis and before the COVID-19 crisis, for which data are available. This suggests that remittances may play a role in minimising the potential risks of informality for middle-class informal workers who may not be eligible for social assistance. The findings also indicate that remittances were an important source of income for middle-class informal workers and could enable them to afford contributory schemes. Finally, they suggest that if informality-robust social insurance schemes were made more widely available and attractive to informal economy workers, the scope to channel remittances into social security funds to finance the extension of social protection in the informal economy may be particularly important among middle-class informal economy workers.

In conclusion, the paper indicates that the development of informality-robust social insurance schemes targeting middle-class informal workers who receive remittances could enable the extension of social protection coverage to informal workers, with remittances as a source of financing. To that end, fostering a dialogue between informal economy associations, diasporas and migrant communities, and social security agencies could be critical. As middle-class informal workers who receive remittances are likely to have a solvent demand for formal social insurance, such a dialogue could help better identify the social insurance needs of informal economy workers who do not qualify for social assistance and the conditions under which they would be ready to redirect part of their remittances to enrol in contributory schemes.

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Annex A. Statistical definition of informality

This paper uses the current ILO and ICLS definition of informal employment. International standards distinguish between employment in the informal sector and informal employment. Employment in the informal sector is an enterprise-based concept and it is defined in terms of the characteristics of the place of work of the worker. By contrast, informal employment is a job-based concept and it is defined in terms of the employment relationship and protections associated with the job of the worker.

Employment in the informal sector

According to the international standards adopted by the 15th ICLS, the informal sector consists of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. The informal sector is a subset of unincorporated enterprises not constituted as separate legal entities independently of their owners. They are owned by individual household members or several members of the same or different households. Typically, they are operating at a low level of organisation, on a small scale and with little or no division between labour and capital as factors of production.

To facilitate international comparability, notably in the context of the Sustainable Development Goals (SDGs), and overcome previous limitations associated with the use of different measures by countries, the ILO recently applied a similar set of criteria, when processing micro-data, to determine informal employment and employment in the informal sector as a person's main job.

The translation of the international definition of the informal criteria was translated into a set of common criteria applied to micro datasets from national labour force surveys or similar household surveys.

Table A A.1. Operational criteria to define the informal sector and employment in the informal sector (in informal sector economic units)

1. Institutional sector	The "institutional sector" (government, public enterprises, non-governmental organisations (NGOs); private sector; households) is meant to separate persons working in government, public and private corporations, non-governmental and international organisations, and other institutions clearly recognised as belonging to the formal sector. It also serves to identify persons working in private households producing wholly for own final use.
2. Final destination of production	The purpose of the second mandatory criterion about the "destination of production" is to exclude from the scope of informal sector persons working in a farm or private business (unincorporated enterprise) where the main intended destination of the production is wholly for own final use.
3. Registration of the economic unit	Registration of the economic unit under national legislation ("in the process of registration" is considered as not registered). This includes registration with social security authorities, sales or income tax authorities and should be at national level. It identifies enterprises that are similar to corporations (quasi-corporations) and therefore outside the scope of the informal sector. The appropriate forms of registration relevant to the concept of informal sector should be examined in the national context.
4. Bookkeeping	This criterion assesses whether the economic unit maintains a set of accounts required by law (e.g. balance sheets) or keeps some official accounts. The purpose of the information on bookkeeping practices of the farm or private unincorporated enterprise is to identify whether the economic unit is constituted as a separate legal entity independent of its owner(s).

*An alternative approach was applied in case both criteria 3 and 4 were missing (no question, no answer or don't know).
Criteria 1 is mandatory.*

5. Contribution of employer (and employee) to social security	Contribution of employer (and employee) to social security or alternatively declaration of labour income (e.g. does the employer contribute to social security or declare labour income in order to pay income tax?) If the employer contributes to social security on behalf of the employee, then the economic unit is part of the formal sector, otherwise assessment of the combination of the size and location of the activity.
6. Size of the economic unit 7. Location of workplace	All private economic units that have five or fewer workers, or are located in non-fixed visible premises (e.g. in the owners' dwelling, in the street, in construction sites, in agricultural plots, that are itinerant, etc.) are considered as informal.

Informal employment

Employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (advance notice of dismissal, severance pay, paid annual or sick leave, etc.). The underpinning reasons may be the non-declaration of the jobs or the employees; casual jobs or jobs of a short duration; jobs with hours of work or wages below a specified threshold (e.g. for social security contributions); or lack of application of law and regulation in practice.

In the case of own-account workers and employers, the informal employment status of the job is determined by the informal sector nature of the enterprise. Employers (with hired workers) and own-account workers (without hired workers) are considered to be informal when their economic units belong to the informal sector.

All contributing family workers are classified as having informal employment, irrespective of whether they work in formal or informal sector enterprises.

Table A A.2. Operational criteria to define informal employment

1. Status in employment	<p>a) If the person is reported as a contributing family worker, no further questions are required and the person is classified as having an informal job.</p> <p>b) If the person is recorded as an employer, or own-account worker, or member of a producer's co-operative, no additional questions are required and the formal or informal nature of the job is determined according to the formal or informal nature of the person's economic unit. Employers, own-account workers and members of producers' co-operatives with enterprises in the formal sector are classified as having a formal job. Similarly, employers, own-account workers and members of producers' co-operatives with enterprises in the informal sector are classified as having an informal job. If the enterprise is a household enterprise or a private business producing wholly for own or family use, the owner is also classified as having an informal job.</p> <p>c) The statistical treatment of "employees" and "not stated" is different and depends on the criteria of social security contributions by the employer or alternatively to entitlements to paid annual leave and paid sick leave.</p>
Assessment of informal employment for employees	
2. Employer's social security contribution on behalf of employee	<p>Contributions to a social security (ideally for pension) scheme by the employer is the option most commonly used in countries and the one applied in the operational definition.</p> <p>In case of contributions to social security, the employee is considered as being in formal employment.</p> <p>If no contributions to social security, the employee is considered as being in informal employment.</p> <p>If don't know or no answer, then go to the next two criteria</p>
Entitlement to and benefit from: 3. paid annual leave and 4. paid sick leave	<p>Paid annual leave refers to paid vacation time, home leave, leave for national holidays, bereavement leave, or other casual leave. In some cases, the employee may receive paid compensation for some types of unused leave that has been accumulated. Such compensation is also included.</p> <p>Paid sick leave refers to entitlement to be paid by the employer during days that the employee is absent from work due to own illness or injury.</p> <p>In case of no answer concerning the contribution to social security, employees are considered in formal employment if they are entitled and effectively benefit from paid annual leave and paid sick leave.</p>

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