



# **INFORMALITY AND THE POTENTIAL FOR SOUTH-SOUTH COOPERATION BETWEEN BRICS**

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## Preface

### *Informality and the potential for south-south cooperation between BRICS*

The BRICS are a driving force in the global economy, and the global labour market, representing almost 44 per cent of the world's labour force. Overall, the BRICS countries (that is Brazil, Russia, India, China and South Africa) have seen a significant move away from vulnerable employment towards wage employment of 6.6 percentage points, well in excess of the world average excluding BRICS of 1.6 percentage point (BRICS brief series 2016).

Informal employment is most prevalent in India, in variety of sectors more so in form of street vendors, home –based and sub-contracted workers in the supply chain, as well as other forms of self-employment. In China, informal employment is concentrated among rural migrants and workers retrenched by the erstwhile state and collective enterprises, largely in construction, small workshops, domestic work and self-employment. In Brazil, it is based largely in low –skilled intensive sectors such as agriculture, construction, hotels and restaurant, domestic work and wholesale and retail trade. It is seen that salaried workers are higher in Russia, followed by China. India has only 18 percent of salaried workers among the BRICS countries. On the other hand, the share of self-employed workers is the highest in India followed by Brazil and South Africa.

At the other end of the spectrum, the informal economy is seeing an influx of high –skilled qualified youths, mostly women, engaged as workers in the rapidly growing platform economy, but without proper labour contracts and social protection coverage. Inadequate capacity and coverage of state labour inspections apart from the emerging model of production as a result of globalization are also known to have contributed to gradual informalisation of the formal economy in the BRICS countries.

This publication aims to promote South-South cooperation between the BRICS countries on the transition to formality from informality. Through country-specific coordinated actions and capacity building to implement the ILO Recommendation No. 204, transition to the formal economy is a major policy goal identified by BRICS countries in successive BRICS summits. It, therefore, makes a series of recommendations for BRICS governments for the Delhi Summit (2021) and beyond.



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## Executive Summary

This paper aims to promote South-South cooperation between the BRICS countries on the transition to formality from informality. Through country-specific coordinated actions and capacity building to implement the ILO Recommendation No. 204, transition to the formal economy is a major policy goal identified by BRICS countries in successive BRICS summits. It, therefore, makes a series of recommendations for BRICS governments for the Delhi Summit (2021) and beyond.

BRICS countries have highly varying levels of per capita income in PPP terms: in 2019, Russia had the highest level of per capita GDP (\$29181 in current prices); followed by China (\$16829), Brazil (\$15300), South Africa (\$13 054) and India (\$6996).

Accordingly, the levels of informality in their economies also vary very significantly. However, globally, there is no strong relationship between the level of GDP and the share of the informal workforce in total employment. However, in the medium to long run, there is an obvious relationship between the level of GDP and informality in the workforce. Therefore, growth with formal job creation has to be one strategy that all BRICS economies should follow if the pace of formal employment creation is to exceed the number of entrants into the labour force.

Here, we must keep in mind that Russia became an aging society a few decades ago, China too became an aging society roughly around 2015. Moreover, for South Africa and Brazil, their demographic dividends are recently over. India's golden opportunity is still there for another 15 years, but not more. For every country in the world beyond its demographic dividend, GDP growth rates will be much lower in the future. Hence, they cannot rely upon just economic growth to promote formalization, given that they have a large accumulated mass of informal workers. Many other strategies will need to be adopted.

Every BRICS country faces the challenge of meeting the requirements of social insurance and health requirements for its aging population. Once the demographic dividend is over, this challenge will become more difficult, as the combined challenge of financing both rising health care and old-age pensions may overwhelm the budget at a time when the GDP growth rate is likely to be much slower. Hence, this challenge has to be met now. However, every BRICS country still has sizable shares of its population that are informal. India's challenge is that a much higher share of the workforce is currently still informal – in terms of total size, much larger than any other BRICS.

All BRICS countries will need to take cognizance of what emerges from the theoretical literature (and the empirical evidence of the BRICS themselves): that the pace of growth will matter for formality. Still, the growth pattern in the current development phase is more relevant to ensure more formal employment is created and that informal employment growth is stemmed.

The output structures of the BRICS economies also have implications for informality. The output structure has changed significantly in all BRICS when compared to previous decades. The declining share of

agriculture in GDP has been a common trend over the years. In 1992 only India and China had a share of agriculture in GDP that is greater than 20%, while in the remaining three BRICS, it was already well below 10%. A high share of agriculture in *output* also correlates to a high share of employment in agriculture, which in turn means a high share of informality in the workforce.

Another determinant of informality is globalization. Globalization can result in faster economic growth and more jobs, but it could also lead to increasing informal employment. This is because globalization has increased competition, which has led to firms increasing reliance upon lower-cost informal workers in developing countries. This is one way in which globalization can generate informal employment.

ILO Recommendation No. 204 (2015) suggests a policy framework with three major objectives for the transition to formality:

1. Formal business and employment generation.
2. Policies to facilitate the transition from the informal to the formal economy.
3. Policies for preventing the “informalization” of formal jobs.

In recent decades, institutions have been recognized as critical to successful growth and development. Moreover, institutions are important as determinants of the extent of the informality of enterprises and workers. In this context, ILO Recommendation 204, with its six dimensions of actions, has been used (in this paper) to examine the prospects for a transition to formality. The six points under Article 25 of R204 are:

1. Business entry reforms.
2. Simplified tax and contributions assessment and payment regimes.
3. Access to public procurement.
4. Access to inclusive financial services.
5. Access to entrepreneurship training, skills development, and tailored business development services.
6. Access to social security coverage.

These are recognized as potential triggers in the transition to the formality of informal units. Finally, in each action dimension to promote formality, case studies of good practices from each of the BRICS are discussed.

Particular attention is paid in the paper to Social insurance to promote the formality of workers. What emerges from the analysis is that social insurance, which is the defining feature of informality in the

workforce, is not available to most of the workforce in Brazil, India, and China. Over 20% of the Russian workforce and one-thirds of the South African workforce are still informal. What also emerges is that the social security system as it exists is currently quite fragmentary in the BRICS, and its coverage is patchy in the best of cases.

It is also worth highlighting that some BRICS countries have progressed in expanding coverage of social protection, particularly for specific target groups, due to the effective implementation of inclusive social insurance policies. For instance:

- a) Child and family benefits based on non-contributory schemes have reached near-universal coverage in Brazil and Russia, reaching a large part of the population in South Africa.
- b) Four out of the five BRICS countries have found ways to provide employment injury protection to a large share of workers, including a portion of the informal workers in the informal sector.
- c) In Russia and Brazil, persons with severe disabilities have universal access to social protection.
- d) Very significant progress has been made in South Africa in respect of maternity coverage.
- e) China has achieved universal pension coverage. Brazil has achieved close to universal coverage for pensions (ILO World Social Protection Report 2017-2019).
- f) The inclusion of self-employed workers in existing social security schemes is successful in Brazil. They have included the self-employed in their general social protection schemes. Such an approach has the advantage of allowing workers to remain in the same scheme, regardless of their employment status. It provides adequate coverage when workers change their employment status or combine (part-time) paid employment and self-employment.
- g) In its new Social Security Code 2020 (passed by the national parliament), India has included 'gig and platform workers' for inclusion in social security schemes.
- h) To include self-employed workers in the social security legislation, the Government of Brazil created a new legal category of self-employed micro-entrepreneur, the Micro-Empendedor Individual (MEI). It facilitated the extension process through the Plan Simples.

These achievements demonstrate the capacity of inclusive social protection systems to reach also the informal sector, even in economies of the South that face the challenges of a dual labour market. Moreover, they can provide a basis for South-South Cooperation through peer-learning and knowledge-sharing initiatives to transition to formality among BRICS countries. However, we also know that the effect of the COVID-19 pandemic will be fiscal limitations, and there is a risk that achievements could be rolled back. Hence, the paper makes a series of recommendations.

*Recommendation 1. Arriving at a consensus that informality is a serious enough issue to deserve greater attention.* The first step toward achieving such a goal of transition from informal to a formal economy would be to agree among themselves (at the Delhi BRICS Summit in 2021) on the great damage that informality does to their economies and citizens. Several distinct arguments can be put forward and agreed upon by the BRICS government. The Theory of Change (developed by ILO) on the transition to formality is a helpful tool to consider by the BRICS countries. Solving a problem begins with the recognition of how the problem affects our citizens. *Informality is a source of and a symptom of poverty, poor productivity and inefficiency in the economy, and severe public finance constraints.* Hence, it is a constraint upon both economic growth and human development.

*Recommendation 2.* BRICS countries can agree on *undertaking an assessment and diagnostics of informality in their country and agree to set up a technical group for mutual learning and support* in this regard. In addition, BRICS governments could commit at the Summit in Delhi in 2021 that, given how the issue of informal workers has come to the fore during the COVID-19 pandemic, to undertake to commit to undertaking a review of what actions each government could take to encourage the formalization of informal units in the economy rapidly.

*Recommendation 3. BRICS country leaders* should consider agreeing to “review and enforce national laws and regulations or other measures to ensure appropriate coverage and protection of all categories of workers and economic units.” Such a decision would set the tone at both a national level as well as at an international level and demonstrate the seriousness of governments to move forward together on this extremely important matter, on which depends the achievement of several SDG goals, as well as the reduction of poverty, to which all BRICS governments are already committed.

ILO could undertake to work with BRICS governments to study the national laws and regulations prevailing in each country. ILO could prepare a project or programme in this regard, the results of which could be brought to the agenda of a BRICS Summit two years from 2021.

*Recommendation 4.* BRICS country leaders could also consider adopting an “integrated policy framework to facilitate the transition to the formal economy is included in national development strategies or plans.” This integrated policy framework could address the following three goals: (a) the promotion of strategies for poverty eradication and inclusive growth, with the generation of decent jobs in the formal economy; (b) the establishment of an appropriate legislative and regulatory framework for promoting the transition of informal workers and informal sector units to formality.

Drawing upon lessons arrived at this, and other studies, the agreement among the BRICS could be that those BRICS that don't currently have National Employment Policies will formulate them to include goals of formalization of units and workers. Those BRICS that do have NEPs may consider incorporating in their goals of formalization.

Suppose BRICS country governments were to agree to engage in the diagnostic work and cost mentioned above. In that case, it could be the basis of a concrete BRICS project or programme, with ILO providing technical support. That would enable show-casing the achievements/good practices in increasing coverage

of social protection in BRICS countries. Again, incorporating successful practices from the South would be a key outcome.

*BRICS countries took valiant actions to respond to the economic effects of the Covid-19 pandemic. Still, the fragmentary nature of each country's social insurance system systems had left many informal workers, already vulnerable before the crisis, now even more vulnerable since they lost incomes and work. The effects of the pandemic have been particularly brutal in Brazil, India, and South Africa. Without social insurance, informal workers are more likely than before to have fallen into poverty. Thus, there is a case for each BRICS country to work together to expand their social insurance systems as their economies recover.*

*Recommendation 5:* There is a case for BRICS countries to undertake a systematic review in their own country in respect of Covid related measures, and how well they supported informal enterprises and workers, and also for ILO to support such actions across the globe systematically. We presented a series of good practices in respect of R 204 for each of the BRICS. These and others could be considered carefully for adoption by other BRICS countries.

*Recommendation 6:* Clearly, there is a case for ILO to prepare a project or programme (perhaps with funding from BRICS countries together) to support such activities in each of the BRICS countries. The close collaboration between India, Brazil, and South Africa (IBSA) and the ILO in promoting the Decent Work Agenda has shown positive results that can be scaled up through greater cooperation in the broader framework of BRICS. The latter could include agreeing to joint positions on different items during the ILO Governing Body.

## Informality and the Potential for South-South Cooperation between BRICS

This paper aims to promote South-South cooperation between the BRICS countries on the transition to formality from informality. Through country-specific coordinated actions and capacity building to implement the ILO Recommendation No. 204, transition to the formal economy is a major policy goal identified by BRICS countries in successive BRICS summits. For example, it led to adopting the declaration on 'Employment generation, social protection for all and transition from informality to formality in the second BRICS Labour and Employment Ministerial meeting held at New Delhi, India in 2016. In 2019, this commitment was again reiterated in the joint statement by BRICS labour and employment ministers 2019 in Brazil, which called for immediate attention to address the challenges brought by informal employment and new forms of employment in the advent of future work drivers. In a similar vein, the declaration of the 8th BRICS trade union forum held in Brazil in 2019 underscored informal employment as one of the most significant challenges dominating BRICS countries. Furthermore, it specifically mentioned women's vulnerability trapped in low-paid and poor-quality jobs in the informal economy. Under the 2021 Indian presidency of the BRICS, strengthening the transition from the informal to the formal economy should remain a key priority area in national policies, especially under the adverse COVID-19 Crisis.

Against this background, BRICS countries have an opportunity to make use of the South-South Cooperation framework and, through their research network and technical institutes to build a comparative background paper for the knowledge-sharing forum to address relevant issues and effective measures implemented in BRICS countries to tackle the challenge of transition to formality. Therefore the ILO proposes to create a knowledge-sharing initiative that could identify key challenges that countries face in the transition to formalisation and facilitate the exchange of information and good practice among BRICS and the ILO<sup>1</sup>. As BRICS countries are also important partners for developing countries in capacity development and interregional cooperation, this initiative is also strongly linked to the ILO's support of South-South and Triangular Cooperation (SSTC).

South-South and Triangular Cooperation (SSTC) is a collaboration between equals based on principles of horizontality. It promotes mutual exchanges between countries of the Global South for development solutions, and it involves a multiple stakeholder approach. ILO has particularly been promoting South-South Cooperation and could take this initiative further, with the support of BRICS member governments. In the end, this paper makes some recommendations in this regard.

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<sup>1</sup> In Latin America and the Caribbean, the ILO had the FORLAC program of this nature within LAC countries (see <https://www.ilo.org/americas/temas/econom%C3%ADa-informal/lang-es/index.htm> for details). Similarly, there is also work under the African Union Commission (AUC) to operationalize the AUC/ILO Joint programme on Decent Work for the Transformation of the Informal Economy in Africa. A study was commissioned under this programme to determine the level of organization among informal economy actors and the ongoing development of an Online Dashboard as a part of the Monitoring and Evaluation Framework for the joint programme. The online platform will be launched during the African Union STC meeting in April 2021

The thrust of this paper is as follows. Although BRICS countries have widely varying levels of GDP as well as informality in the workforce and of enterprises, there are important developments that have taken place in each country that offer lessons on triggering formality in other countries (which are specified at the end of the paper). Since the ILO Recommendation 204 (2015) (henceforth R 204) is not only about informality in the workforce but the informality of enterprises, the paper also examines good practices in respect of R 204 that have been adopted in the BRICS. It also argues that while GDP growth is important, it cannot be relied upon to trigger the formality of enterprises or of workers (the two types of informality that need monitoring, following the agreements reached by the international community in the SDGs). In fact, SDG 8.3 refers explicitly to the “formalization of micro, small and medium enterprises”<sup>2</sup>.

While growth matters, what matters more for formality is the growth pattern than the pace of growth. However, even formality-inducing pace or patterns of growth might be necessary, but not sufficient. Institutions matter in each country if formality is to be encouraged – which is why ILO Recommendation 204 (of 2014) of Member States of ILO is critical<sup>3</sup>. The paper discusses how certain institutions recommended by the ILO Recommendation 204 have fared in BRICS countries (though there is still a scarcity of internationally and nationally available evidence on this subject).<sup>4</sup> The paper not only profiles informality in each BRICS country but also profiles the workforce’s social security arrangements, formal and informal. Many BRICS countries have made significant progress in advancing social security in their respective countries, and lessons are drawn. Finally, the paper argues that while each country has made an effort to mitigate the impacts of the COVID-19 pandemic on the economy, and some efforts were also made to protect informal workers, much remains to be done.

This paper is organized as follows. In section 1, we examine the relationship between GDP growth and informality (as opposed to the level of GDP and informality in a cross-sectional analysis at a given point of time). Finding that relationship not very robust, we suggest an alternative hypothesis. In section 2, we present profiles of the informality of individual BRICS countries. Tables 1-10 enable us to carry out a comparative analysis of informality in the BRICS countries. In Section 3, we discuss the gender dimensions of informality in the BRICS. Finally, in section 4, we examine the limited evidence that emerges for the BRICS on implementing actions relevant to realizing ILO Recommendation 204. One of these actions is to ensure social insurance for informal workers.

In section 5, we focus on the main defining feature of the informality of the workforce: the availability or lack of social insurance. This section examines the nature of social insurance available in BRICS countries,

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<sup>2</sup> The international community at the International Conferences of Labour Statistics (starting with 1993, then 2003) had agreed on definitions for these two forms of informality that are used throughout this paper

<sup>3</sup> R 204 includes a paragraph (36) on monitoring that covers informal economic units (enterprises) and informal employment

<sup>4</sup> ILO has in 2020 surveyed with Member governments of ILO to assess what progress has been made in implementing the R204

drawing upon comparable data across the five countries. Given that ILO Recommendation 204 (of 2014) has proposed social insurance measures to provide social security to informal workers, this section is especially important.<sup>5</sup>In section 6, we turn to the effect of the COVID-19 pandemic on the BRICS economies and briefly examine the impact on their informal sectors and informal workers. The final section draws upon the preceding analysis to offer lessons for BRICS countries to learn from each other, especially but not only to cope with the effects of the pandemic.

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<sup>5</sup> To be exact, according to R204, while government should take into account the needs of workers when building and maintaining the social protection floor, access to social insurance is conditional to transition to formality. For the ILO constituents, access to labour and social protection benefits, except for FPRW, OSH, and Basic SS guarantees (floor), should not reach informal economy workers if they stay informal.

### **The relationship of GDP growth with informality**

The industrialized countries of the world, which are almost all high-income countries (HICs by the World Bank classification), have deficient levels of informality in their workforce (ILO, 2018). Countries with high GDP per capita (above US\$20,000 per year) have low informality rates (most of them less than 40 percent), whereas countries with low GDP per capita (less than US\$5,000 per year) tend to have high informality rates (more than 70 per cent) (ILO, 2020). There is a close relationship between the level of per capita GDP and the incidence of informality. These relationships can be established based on cross-section data at one point in time, which suggests that over the long run, convergence in levels of per capita income should lead to an increase in the formal share in employment. Nevertheless, there is nothing inevitable about that eventuality. Moreover, below the HIC category of countries, there is enormous variation in the incidence of informality among Middle-Income Countries, whether they are Low (LMICs) or Upper-Middle Income (UMICs)<sup>6</sup>.

BRICS countries have highly varying levels of per capita income (see Table 1) in PPP terms in 2019: in 2019, Russia had the highest level of per capita GDP (\$29181 in current prices); China (\$16829), Brazil (\$15300), South Africa (\$13 054) and India (\$ 6996). Accordingly, the levels of informality in their economies also vary very significantly. However, there is no strong relationship between GDP and the share of the informal workforce in total employment. In South Africa, informality is 35%, and in Russia, it is 21.2%, although Russia's per capita income (in PPP terms) is more than double that of South Africa<sup>7</sup>. Here we already indicate that there is nothing inevitable about having a relatively high income and low informality<sup>8</sup>.

Brazil has had a higher per capita income than China over 20 years (1992, 2012) (see Table 1). Although China's per capita income exceeded that of Brazil between 2012 and 2019, the level of informality in China is higher at 54.4% than in Brazil (47.9%). At 88% informality in its workforce, India has the lowest per capita

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<sup>6</sup> The World Bank's categories are based on market exchange rates (rather than PPP). Russia is a HIC, China, Brazil, and South Africa are UMICs, while India is an LMIC.

<sup>7</sup> In this paper, the ILO factsheets for each country have been used. However, one should note that the assessment of informal employment is not straightforward, neither from the LFS 2019 nor from the Russia Longitudinal Monitoring Survey of HSE 2014). It is not easy to assess informal employment in the country based on existing data.

<sup>8</sup> The assessment of informal employment is not straightforward. However, the difficulty in assessing informal employment in any country based on existing data is a subject outside the scope of the paper

**Table1 : BRICS: GDP Level and per Capita GDP in PPP<sup>9</sup>**

|             |   | <b>Brazil</b> | <b>Russia</b> | <b>India</b> | <b>China</b> | <b>South Africa</b> |
|-------------|---|---------------|---------------|--------------|--------------|---------------------|
| <b>1992</b> | GDP (in PPP terms \$ current prices , in billion) | 1,066.75      | 1,019.33      | 1,182.80     | 1,471.84     | 242.02              |
|             | GDP per capita (in PPP terms, \$ current prices)  | 6915.3        | 6862.5        | 1300.8       | 1263.4       | 6258.2              |
| <b>2012</b> | GDP (in PPP terms \$ current prices , in billion) | 2,998.53      | 3,480.29      | 6,153.15     | 15,124.53    | 637.03              |
|             | GDP per capita (in PPP terms, \$ current prices)  | 15,046.30     | 24,303.50     | 4,861.10     | 11,197.60    | 12,057.30           |
| <b>2019</b> | GDP (in PPP terms \$ current prices , in billion) | 3,229.05      | 4,433.09      | 9,560.21     | 23,523.35    | 763.25              |
|             | GDP per capita (in PPP terms, \$ current prices)  | 15,300.00     | 29,181.40     | 6,996.60     | 16,829.90    | 13,034.20           |

GDP (see Table 1), although it has the world's third-highest GDP overall (in PPP terms), after the USA and China.

It is clear that the only Low-Middle Income Country (LMIC) in the country, India (GDP per capita approx. \$ 7000 in PPP terms), has the highest share of employment that is informal (88%, see Table 4). The remaining four BRICS countries are in the range of 21 to 54% share of informal workers in total employment.

<sup>9</sup>Source: [https://data.worldbank.org/indicator/NY.GDP.MKTP.PP.CD?end=1992&locations=IN-CN-ZA-BR-RU&name\\_desc=false&start=1960&view=chart](https://data.worldbank.org/indicator/NY.GDP.MKTP.PP.CD?end=1992&locations=IN-CN-ZA-BR-RU&name_desc=false&start=1960&view=chart)

[https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?end=1992&locations=IN-CN-ZA-BR-RU&name\\_desc=false&start=1960&view=chart](https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?end=1992&locations=IN-CN-ZA-BR-RU&name_desc=false&start=1960&view=chart)

**Table 2. BRICS economic structure (As % of GDP)**

|             |               | <b>Brazil</b> | <b>Russia</b> | <b>India</b> | <b>China</b> | <b>South Africa</b> |
|-------------|---------------|---------------|---------------|--------------|--------------|---------------------|
| <b>1992</b> | Agriculture   | 7.7           | n/a           | 28.7         | 21.8         | 3.8                 |
|             | Industry      | 38.7          | n/a           | 25.8         | 43.5         | 36.4                |
|             | Manufacturing | 24.7          | n/a           | 15.4         | 32.7         | 21.9                |
|             | Services      | 53.6          | n/a           | 45.5         | 34.2         | 5.8                 |
| <b>2012</b> | Agriculture   | 5.2           | 4.4           | 17.5         | 10.1         | 2.6                 |
|             | Industry      | 26.3          | 32.6          | 26.2         | 45.3         | 28.4                |
|             | Manufacturing | 13.3          | 19.2          | 14.1         | n/a          | 12.4                |
|             | Services      | 68.5          | 63.2          | 56.3         | 44.6         | 69                  |
| <b>2019</b> | Agriculture   | 4.4           | 3.4           | 16.0         | 7.1          | 1.9                 |
|             | Industry      | 17.9          | 32.2          | 24.8         | 39.0         | 26.0                |
|             | Manufacturing | 9.0           | 13.0          | 14.0         | 27.0         | 12.0                |
|             | Services      | 63.3          | 54.0          | 49.4         | 53.9         | 61.2                |

**Table 4: Share and composition of informal employment, total (%)**

|                     | Formal employment | Informal employment |                    |                  |               | Informal sector units (%) | Informal sector units, excluding agriculture (%) |
|---------------------|-------------------|---------------------|--------------------|------------------|---------------|---------------------------|--|
|                     |                   | Total               | In informal sector | In formal sector | In households |                           |  |
| <b>Brazil</b>       | 52.1              | 47.9                | 31.5               | 12.2             | 4.2           | 69.1                      | 67.7   |
| <b>Russia</b>       | 78.8              | 21.2                | 19.0               | 2.1              | 0.1           | 97.9                      | 97.1   |
| <b>India</b>        | 11.9              | 88.1                | 77.7               | 8.0              | 2.3           | 93.7                      | 85.2   |
| <b>China*</b>       | 45.6              | 54.4                | 48.3               | 6.1              | 0             | 74.7                      | 73.7   |
| <b>South Africa</b> | 64.9              | 35.1                | 22.6               | 4.6              | 7.9           | 79.2                      | 79.3   |

Note: \* 2014 Data

Source:

ILO, 2020, Informality | Country factsheet, Overview of the informal economy in Brazil (PNADC, 2019)

ILO, 2020, Informality | Country factsheet, Overview of the informal economy in Russian Federation (Labour force survey, 2019)

ILO, 2020, Informality | Country factsheet, Overview of the informal economy in India (Periodic Labour Force Survey, 2019)

ILO, 2020, Informality | Country factsheet, Overview of the informal economy in China (China Household Income Project, 2014)

ILO, 2020, Informality | Country factsheet, Overview of the informal economy in South Africa (QLFS, 2019)

## Economic structure of the BRICS countries and informality

The theoretical literature on dual labour markets and the literature associated with the emergence/persistence of dualism strongly suggest that there is little or no relationship between GDP growth and informality. The theoretical literature regarding dual labour markets begins almost at the same time as development economics as a discipline. The two seminal contributions to the theory of dual labour markets, one by Arthur Lewis (1954) and the other by Harris-Todaro (1970), explaining informality, continue to have contemporary relevance. What is important is that even they do not argue that the pace of growth matters to the emergence and persistence of informality. In both their models, although one is based on classical political economy (Lewis), and the second one more on neo-classical foundations (Harris-Todaro), what matters for our purposes is that their models strongly suggest that it is the pattern of growth that is central for the emergence and persistence of informality. This is also what emerges from this analysis.

In an ideal world in the Lewis dual economy model, there occurs a shift of unskilled workers from the subsistence sector characterized by unlimited supplies of labour to the capitalist sector. Thus, according to Lewis, the agriculture sector is the repository of disguised unemployment, but this phenomenon is not restricted to rural areas. In the model, the limitations of capital and natural resources limit the absorptive capacity of the capitalist sector. This is why there is the emergence of disguised unemployment even in urban areas. So, in other words, not only does informality characterize the subsistence agricultural sector in Lewis's model, but it begins to show up even in urban areas in the form of casual jobs - all examples of urban self-employed and, of course, wage employment in the form of domestic service.

The output structures of the BRICS economies have significantly changed compared to the previous decades (see Table 2). The declining share of agriculture in GDP has been a common trend over the years<sup>10</sup>. In 1992 only India and China had a share of agriculture in GDP greater than 20%, while in the remaining three BRICS, it was already well below 10%. A high share of agriculture in *output* also correlates to a high employment share (see Table 3). While it is true that a fall in the share of agriculture in GDP is consistent across all BRICS, there is little evidence a low share of agriculture to GDP necessarily contributes to much lower levels of informality; the relationship is there, but it is extremely weak. Although it is true that India, which still has 16% of GDP coming from agriculture (and 42% of its workforce is in agriculture), has the highest share of the workforce that is informal, the remaining BRICS that have equally low contributions of agriculture to GDP have quite varying levels of informality in the economy, regardless of whether agriculture is included or excluded (Table 4). Structural transformation is a condition that can contribute to lower informality since agriculture normally has the highest share of informal units and workers of all economic sectors. Thus a lower share of employment in agriculture is likely to contribute to a lower share of informality.

One may also wonder if there is a strong relationship between the share of informal units in the economy and the incidence of informality in the workforce. Table 4 presents data for the BRICS on this relationship. Informal sector units, excluding agriculture (last column), are very high in all BRICS economies; yet, the share of informal workers varies significantly among them. For example, India, which has the highest incidence of informality among the five, has 85% of its units are informal sector units. But even Russia, with the lowest share of agriculture in employment and the highest per capita income, has a very high share of informal units.

Agri-business plays a central role in Brazil's economic development, engaging 35 per cent of its workforce and contributing almost 42 per cent of its exports. Brazilian agriculture has undergone dramatic changes in the past few decades. From a net importer of food grains until the 1970s, Brazil has emerged as the major net exporter of food products. A similar trend is witnessed in the case of India, where the Green Revolution and developments in biotechnology have helped the country become self-reliant in food production. With increasing global demand for food and the scarcity of arable land globally, agronomic conditions will enable

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<sup>10</sup><http://repositorio.ipea.gov.br/bitstream/11058/5255/1/Towards%20a%20long-term%20strategy%20for%20BRICS.pdf>

Brazil to continue its growth and become a larger supplier of agricultural commodities to nations around the world.

In China, especially since 1991, with the introduction of the socialist market economy system, many changes in urban areas were ushered in. As a result, the share of the primary industry rapidly declined, while that of secondary and tertiary industries increased. In Russia, measures have been introduced to implement the National Project in Agro-industrial Complex. Among the BRICS countries, South Africa has the smallest share of agriculture in GDP, at around 3 per cent, and its services sector accounts for more than 60 per cent of total GDP.

Similarly, to agriculture, industry – especially manufacturing – has been losing share in BRICS nations' GDP over time. This is true for all five countries, except the share of industry (not so manufacturing) in China and India. China is the only BRICS economy where industrial output continues to dominate GDP – at around 45.3 per cent in 2012 (43.5 per cent in 1992). Another common trend is the rising share of services in GDP. This sector now accounts for over half of GDP in all BRICS countries except China, where it grew from 34.8 per cent in 1992 to 44.6 per cent in 2012. This is a productive structure similar to that of developed economies. The basic difference is that the service sector comprises sophisticated, high-technology activities and those that come close to underemployment. In emerging economies, the latter tends to be predominant. In these countries, the services sector (except for current services like financial intermediation and communications, etc.) consists of low productivity, informal activities.

It is well known that the productivity of units/workers is higher in industry and services than in agriculture. This characterization of productivity based on differentials by economic sectors may be complemented by a characterization based on firm size, which is particularly relevant for explaining the functioning of developing economies because it allows the analysis to include the coexistence of firms with very different sizes. Within each sector, large firms are the leaders of modernization, technological improvements, and so on, but small firms with lower productivity usually provide the most employment. The latter also show evidence of greater informality. Chacaltana and Bonnet (forthcoming) attempt to formally analyse the relationship between informality and the sectoral composition of GDP, using an econometric approach to show that the pattern of growth is non-neutral for the reduction of informality, in particular for formal job creation.

We don't have time-series data for the incidence of informality in the BRICS countries. This is a problem for almost all countries across the globe. Until 2008, ILO had managed to put together data for 40 countries on informality harmonized. Although countries have been conducting labour force surveys for decades, there had been no consistent data across countries that enabled analysts to compare informality between countries. The first edition of ILO's *Men and Women in the Informal Economy* was published in 2000 (with data on 28 countries); the second in 2008 with 40 country data. The third edition in 2018, published in pursuance of ILO Recommendation 204 (which discusses mechanisms to promote formality), covers 100 countries. The lack of time series data for most countries makes it difficult to make any claims about time trends of informality by country, let alone relate to GDP growth trends.

However, what is clear from the above analysis of both growth of GDP and the economic structure of the BRICS, that there is limited evidence for a robust relationship between any of these variables on the one hand, and the incidence of informality in these countries. On the other hand, however, it is possible to explore individual economic and labour market-related policies that might have 'caused' or led to the persistence of informality. We turn to these issues next, especially but not only in the context of BRICS – if we are discovering trends and patterns.

### **Further on theories explaining informality and its extent**

In the development economics literature, theories that explain the extent of informal employment consist of two different types: the first tend to link the pace and the pattern of GDP growth, and the second group focuses on institutional factors. In the current analysis of BRICS countries, we will also focus on these two sets of factors, hence the policy implications from these sets of explanations for each country and potential BRICS collaboration on policies for informality reduction.

We have already seen little evidence that *growth of GDP per capita* and *incidence of informality* are *causally connected*. For example, Jutting and de Laiglesia (2009) and Kucera (2009) present data by region over three decades from 1975 to 2007, which shows practically no relationship between GDP growth and informal employment for any of the major regions of the world: Latin America, south and East Asia, and sub-Saharan Africa and North Africa. This is not entirely surprising because the theoretical literature on dual labour markets and the literature associated with the emergence/persistence of dualism strongly suggest that there is little or no relationship between growth and informality.

*What emerges from the theoretical literature (and the empirical evidence of the BRICS themselves) is that the pace of growth matters less. In contrast, the growth pattern is more relevant, which the BRICS countries could keep in mind.*

The first formal model of informality in development economics is by Harris and Todaro (1970). Harris and Todaro (1970) diverge from the usual full employment, flexible wage-price models of neoclassical economic analysis by formulating a two-sector model of rural-urban migration, which recognizes the possibility of a politically determined minimum urban wage, which is much higher than agricultural earnings. What distinguishes this model they argue, is that migration proceeds in response to rural-urban differences in expected earnings, with the urban employment rate acting as an equilibrium force on such migration.

For Harris and Todaro, it was politically determined high minimum wage that leads to continual rural-urban migration, despite substantial open urban unemployment. They state that an optimal policy would consist of a package that would include partial wage subsidies for private-sector employment or direct government employment and measures to restrict free migration from rural to urban areas without total wage flexibility. The reasons for high urban wages may be due to, they suggest, unionized labour, or government policy that wants to showcase urban wages in manufacturing with the sector offering regular employment pension and health benefits. Moreover, Harris and Todaro offer these policies as possible solutions to the problem of urban informal employment. We know that historical research efforts to control physical migration from rural areas were adopted in Tanzania in the 1980s and then in South Africa during apartheid. The classic

case is that of China's hukou system. From a policy perspective, it is notable that the implication of the Harris Todaro model would focus on rural development, as it can reduce urban informal employment and reduce poverty.

It would be useful to dwell a little on the contemporary relevance of these models developed in 1954 (Lewis) and 1970 (Harris-Todaro), respectively, since they offer some policy suggestions that the government may be well advised to keep in mind. First, however, theoretical models need to be examined in light of the historical experience of economic development. The experience of the East Asian miracle economies is relevant for all regions. This is because of the number of formal jobs created in what were the newly industrialized countries that were at the head of the flying geese modelling, IE, Japan, Korea, and Taiwan in that order. The number of jobs formal jobs they created offset mainly the number of rural or urban migrants. The Lewis model provides a practical conceptual framework for addressing or understanding formal and informal employment dynamics in the East Asian region in this sense.

On another issue, Lewis tended to focus on the demand side for labour but less on the supply of labour, specifically the quality of labour as shown in the level of educational attainment of a potential worker. Lewis believed that if human capital is not available for development, the capitalists or the government will soon provide the facilities for training more skilled people. Here it is critical to keep in mind that the East Asian miracle economies and even their Southeast Asian neighbours who followed the "miracle" economies in a flying geese pattern were characterized by significant investment in education early in the development process. This is important because increasing educational attainment can affect the demand side for labor and attract foreign direct investment in an Open Economic context. This is of particular relevance for highlighting the contrasting experience of South Asian economies, especially India, which failed to attract FDI for nearly half a century (in contrast to another BRICS country, China), not only because it remained for four decades a relatively closed economy, but also because it failed to invest in school education for young entrants into the labour force.

Another dimension of the pattern of growth relates to the dualism within the informal sector. In other words, there is often the presence of a lower-tier and an upper tier, the latter consisting of voluntary, informal employment. In 1990 Maloney developed the idea of dualism within the urban informal sector. Similarly, Fields (2000) found that many informal workers previously worked in formal employment<sup>11</sup>. Based on his research in urban Costa Rica and Malaysia, he suggested that upper-tier informal employment is voluntary, further showing that many informal sector workers are in that sector voluntarily given the constrained choices available to them. This literature on the emergence of voluntary, informal employment is derived

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<sup>11</sup> Victor Tokman (former director of the ILO for Latin America) contributed significantly to this literature. In particular, he wrote on the interrelations of the formal and informal sectors and their relation with the business cycle, see [https://repositorio.cepal.org/bitstream/handle/11362/12219/05099134I\\_en.pdf?sequence=1&isAllowed=y](https://repositorio.cepal.org/bitstream/handle/11362/12219/05099134I_en.pdf?sequence=1&isAllowed=y). The long tradition of ILO contributions to this discussion can be found here, at least until 2000, as a predecessor of R204 [https://www.ilo.org/employment/Whatwedo/Publications/WCMS\\_142295/lang--en/index.htm](https://www.ilo.org/employment/Whatwedo/Publications/WCMS_142295/lang--en/index.htm)

from the experience in Latin America, especially Argentina, Brazil, and particularly Mexico. One could suggest a generally positive relationship between the ratio of voluntary to involuntary informal employment and the level of GDP. In other words, the lower the per capita income of a country, the lower the share of voluntary, informal employment<sup>12</sup>.

Similarly, drawing upon evidence from Asian countries, the Philippines and Thailand, Ranis and Stewart (1999) developed a formal model of traditional or stagnant versus modernizing or dynamic components of the informal sector and estimated these components' size. These components seem to be overlapping with Fields' upper tier and easy entry informal employment. Ranis and Stewart (1999) also emphasize possible production linkages between the modernizing component of the informal sector and the formal sector, and GDP growth may lead to an increase in the size of the formal sector, which depending upon institutional factors, could or may not lead to a rise in the informal sector. We learn from Ranis and Stewart that economic growth can impact the composition of informal employment in the sense that it can affect the relative size and share of traditional and modern employment. It also suggests that informal employment can continue but could rise with economic growth if there are production linkages between formal and informal Enterprises, as they are increasing in a world comprised of global production networks and global value chains.

The above analysis has implications for the rise and persistence of informality in the BRICS. Thus both in East and Southeast Asia and Latin America, globalization has increased the production linkages between formal and informal Enterprises<sup>13</sup>. One can legitimately argue that these processes have been in place in China, Brazil, and South Africa. These processes happen through the instrument of subcontracting between such enterprises in global supply chains, which could extend from the home-based work to the contractor, who could be both informal or a formal exporting firm in the developing country, all the way to a multinational corporation headquartered in an advanced industrialized country. This is not surprising as the objective of such subcontracting arrangements is to avail of the competitive advantage derived from lower wages, which is an integral part of the labour-intensive export-oriented industries in both these regions. In both these sectors would be characterized by production by household and predominantly female labour power.

Globalisation can result in faster economic growth and more jobs, but it could increase informal employment (Carr and Chen 2001). Thus, globalization has increased competition, which has led to firms increasing reliance upon lower-cost informal workers in developing countries. This is one way in which globalisation can generate informal employment. A second way globalisation can result in increased informal employment is (while contributing to growth through greater foreign direct investment) because short-term capital inflows could turn into outflows, causing disruptions domestically. While Brazil, South Africa, and Russia have been subject to such forces, capital invested in China has been more stable – except that

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<sup>12</sup> In any case, the duality between voluntary and involuntary within the informal sector is a complex one. ILO tends to assume that institutions are efficient, accountable, and fair. Nevertheless, this is far from being the case, notably in low-income countries.

<sup>13</sup> More research evidence on this issue would be useful, and more research could be produced in the BRICS countries in this regard

since the Covid-19 pandemic, there has been a flight of companies from China as well. Despite being a fairly open economy, India is more immune to changes since its production network is less a part of global production networks than is the case in East and Southeast Asia.

Therefore, one can see from this preceding analysis that the relationship between economic growth and the extent of informality in an economy is rather complex. In other words, economic growth can increase in absolute terms of formal employment. Still, at the same time, it can also increase informal employment, especially in an Open Economy. In other words, one should not look for any strong relationship between economic growth and consistent rise in formal employment.

### **The demographic dividend and growth in the BRICS: Implications for informality**

The demographic dividend is that period in the life of a nation when the share of the dependent population (under 15 and over 65 years old) is falling, and the share of the working-age population is rising. This is called a dividend because, with a rising share of producing population and the falling share of dependents who are seen as mainly a consuming population, there is both a rising number of workers and a rising possibility of higher savings. This period can be a dividend if workers can get higher productivity jobs in industry and services. This creates the possibility of higher productivity sector-based employment, higher earnings, and hence savings. This raises the savings rate to GDP ratio, which becomes the basis of a higher investment to GDP ratio. The latter, in turn, raises the growth rate of the economy. There is nothing inevitable about this phenomenon because if appropriate policies are not in place to generate productive jobs, especially formal jobs, this dividend could also become a liability.

The important point is that this period comes but once and could last up to 40-60 years in the demographic transition. Once gone, it rarely returns. The country, after passing beyond its demographic dividend phase, becomes an aging society. Most of Europe is aging and has been so for several decades. Russia, one of the BRICS, is also an aging society, and for many decades. China is also past its dividend since about 2015. India's dividend began around 1980 and is closing most by 2040, more likely slightly earlier by 2036 (Mehrotra, 2016). India faces, among the BRICS, the most serious challenge since it has the lowest per capita income of any of the BRICS, with the highest level of informality in the workforce, and its window of opportunity is closing fast. As we discuss below, South Africa and Brazil are almost at the end of their demographic dividend period. These demographic realities also create challenges for Russia, China, South Africa, and Brazil (though one must note that China has ridden the wave of its dividend very successfully and ensured rapid growth over 40 years).

We discuss South Africa and Brazil briefly, in turn:

## South Africa

StatsSouth Africa (2016) compared the working-age ratio (share of working-age to total population) in six East Asian countries (China, South Korea, Singapore, Thailand, Malaysia, Indonesia) and South Africa. In 1960 the ratios ranged from 51% (Malaysia) to 56% (China and Indonesia). The six countries all had working-age ratios between 50% and 60% in 1960, as did South Africa (55%). By 2015 the East Asian range was 67% (Indonesia) to 73% (China and South Korea). South Africa increased from 55% to 65% by 2015.

Similarly, they compare the long-term increase in working-age ratios in six Latin American countries (Brazil, Chile, Colombia, Peru, Ecuador, Venezuela) and South Africa. The range in 1960 was 50% (Colombia) to 56% (Chile), i.e., similar to the 1960 range in East Asia. All six Latin American countries experienced a demographic transition, though generally not as marked as the East Asian countries, with the Latin American range reaching 64% (Ecuador) to 69% (Brazil) by 2015. The increase in the working-age ratio was generally higher in the East Asian economies, but the Latin American economies did not lag by much. However, the two regions had vastly different experiences in terms of economic growth between 1960 and 2015. This is what we meant by the paramount importance of following appropriate policies to generate jobs, especially formal jobs; the contrast between the Latin American and East Asian regions is stark.

Ahmed et al. (2016: 7) say that 'famously, demographic transition in East Asia has been credited with facilitating the region's rapid income growth since the 1960s.' However, growth rates in Latin America were much lower, suggesting that a transition to a higher working-age ratio is not a sufficient condition to produce high economic growth. 'A comparison between Asia and Latin America suggests that economic outcomes can differ significantly for broadly similar [demographic] transitions. Asia's more favorable outcomes have been attributed to a stronger focus on human (education and health) and physical capital' (Drummond et al. 2014: 5).

However, these are not the main differences. For most Latin American economies, their dividend began around 1970. Nevertheless, through the 1980s and 1990s, the macro-economic policies adopted in much of Latin America, after its foreign debt crisis broke in the early 1980s, neoliberal policies were pushed by multilateral agencies, which caused growth to collapse, poverty to increase, and inequality (already high) to climb. This was not the case in East Asia, which adopted its planned development strategy, export-oriented manufacturing growth, which generated jobs in the formal (though also in the informal sector). As a result, although the East Asian countries had started at much lower levels of per capita income (than Latin America) when their dividends began at roughly the same time, informality became entrenched in Latin America, while in shrank in East Asia, at least relatively. In fact, in a two-decade period of slow GDP growth, as populations rose, per capita income barely rose at all over the last quarter of the 20th century in Latin America.

In other words, what we are arguing, as we have also done above, that growth matters, but the pattern of growth matters even more. The growth pattern may itself determine the sustainability of growth: the more inclusive the growth (with investments in human capital and job-creating growth), the more sustained and higher the GDP growth. South Africa's per capita growth rate from 1961 to 2015 averaged just 1%, which

was well below the East Asian growth rates and below five of the six Latin American growth rates (Brazil, Chile, Colombia, Ecuador, Peru, Venezuela). For instance, GDP per capita, average annual growth (%), over 1961–2015 is well exemplified by the two BRICS countries in East Asia and Latin America: China 6.9 and Brazil 2.3 (and Brazil was a star performer in Latin America). The National Planning Commission's assessment of South Africa's poor economic growth (2012: 110) is that the country 'is in a low growth, middle-income trap. There are four key features of this trap that serve to reinforce each other. These are:

- Low levels of competition for goods and services
- Large numbers of work seekers who cannot enter the labour market
- Low savings
- A poor skills profile.'

This statement from the Government of South Africa's National Planning Commission is a manifestation of the difference in growth patterns.

The National Development Plan of South Africa noted the need for higher rates of investment. To achieve the high rates of economic growth targeted in the National Development Plan, the NDP indicated that savings and fixed investment (gross fixed capital formation) should increase to 25% and 30% of GDP, respectively. However, in 2016 the savings ratio was just 16% and the investment ratio 20%. The pattern of growth point is further developed in the following passage from the NDP (NPC: 110): 'The fragility of South Africa's economy lies in the distorted pattern of ownership and economic exclusion created by apartheid policies. The effects of decades of racial exclusion are still evident in both employment levels and income differentials. The fault lines of these differentials are principally racially defined and include skill levels, gender, and location. Consequently, South Africa has developed into one of the unequal societies in the world, with very high levels of poverty, carrying all the attendant risks. In addition, the country has failed to reap a demographic dividend by harnessing the potential of a proportionately large cohort of working-age youth.' Thus, informality is symbiotic to the inequality in South Africa, as in Brazil (or China or India).

## **Brazil**

In Brazil, the window of opportunities created by a demographic dividend has been open since the 1970s. Till a few years ago, it was expected to close in 2023. From then on, the population of working age would grow slower than children and older people, and, therefore, there would be fewer workers who could support a growing number of dependent people. In 2017 the Brazilian Institute of Geography and Statistics revised its population projections. The conclusion from the new estimates is that the demographic bonus will not end in 2023 but by 2018.

A study published in 2013 by IBRE/FGV had revealed that between 1972 and 1982, demography accounted for half of the economic growth, contributing 3% of average growth of 6% per year. Between 2002 and 2012, that contribution had decreased to 1.5% of a total increase in the GDP of 3.6% per year. The expectation for the period between 2012 and 2022, calculated before the recession (of 2008), which lowered the GDP, was of a contribution of only 1.1% per year. This already created a massive problem for

Brazil's social security fund because of the higher and rising share of the aging population. The 2008 global economic crisis anticipated some of the problems of the end of this dividend. For instance, the financing gap in the social security system would grow anyway as the number of workers diminishes while the number of people retiring increases (Jasper, 2017). But since the global recession affected formal jobs and the amount of contributions directed to social security, the deficit reached a level only expected in the next decade. These are the direct and manifest consequences of the trajectory of formal and informal jobs.

“Brazil is still young and poor but spends on pensions and welfare like an old rich country. In 2017, the same year in which the workforce reached its peak number, the country recorded the highest deficit in the history of its social security system – R\$ 269 billion, when the total sum spent by the Brazilian Social Security Institute is added to the amount spent with the country's civil servants” (*sic*) (Jasper, 2017). The amount in taxpayer's money used to cover this gap is higher than everything the federal government spent that year on the ministries of Education, Health and Social Development, and on Brazil's growth acceleration program (or PAC, a total sum of R\$ 194 billion).

Every BRICS country risks facing similar crises with meeting the requirements of its aging populations in terms of social insurance (see section 7 for an extended discussion) and health requirements for its aging population once the demographic dividend is over. As we noted above, the dividend is already over for Russia, China, and now recently in South Africa and Brazil. India's golden opportunity is still there for another 15 years, but not more. But India also faces the challenge of a much higher workforce that is currently informal – in terms of absolute size, much larger than any of the other BRICS. So we now turn to profiles of informality in the BRICS.

### Profiles of Informality in the BRICS: By Type of Employment, Age, Location and Education

In this section we present profiles of informality of each BRICS country, based on Tables 5 to 16.

**Table 5: Informal employment depending on employment status (%)**

|                     | Total (reference) | Contributing family | Own-account workers | Employers | Employees |
|---------------------|-------------------|---------------------|---------------------|-----------|-----------|
| <b>Brazil</b>       | 47.9              | 100                 | 79.7                | 18.8      | 35.8      |
| <b>Russia</b>       | 21.2              | 100                 | 99.3                | 87.8      | 15.0      |
| <b>India</b>        | 88.1              | 100                 | 96.2                | 87.4      | 62.0      |
| <b>China*</b>       | 54.6              | 100                 | 78                  | 53.2      | 50.5      |
| <b>South Africa</b> | 35.1              | 100                 | 88.5                | 40.0      | 27.9      |

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Source:

ILO, 2020, Informality | Country factsheet, Overview of the informal economy in Brazil (PNADC, 2019)

ILO, 2020, Informality | Country factsheet, Overview of the informal economy in Russian Federation (Labour force survey, 2019)

ILO, 2020, Informality | Country factsheet, Overview of the informal economy in India (Periodic Labour Force Survey, 2019)

ILO, 2020, Informality | Country factsheet, Overview of the informal economy in China (China Household Income Project, 2014)

ILO, 2020, Informality | Country factsheet, Overview of the informal economy in South Africa (QLFS, 2019)

Note: \* 2014 Data

*Total(reference)= Total informal employment / Total formal employment + Total informal employment*

*Contributing family=informal Contributing family/Formal Contributing family+ informal Contributing family*

*Own-account workers= Informal own-account workers/ Formal own-account workers+ Informal own-account workers*

*Employers= Informal employers/ Formal employers+ Informal employers*

*Employees=Informal employees / Formal employees+ Informal employees*

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**Table 6: Distribution of informal employment by level of education (%)**

|                 |           | Brazil | Russia | India | China* | South Africa |
|-----------------|-----------|--------|--------|-------|--------|--------------|
| <b>Informal</b> | None      | 15     | 0      | 32    | 2      | 14           |
|                 | Primary   | 17     | 1      | 15    | 17     | 13           |
|                 | Secondary | 48     | 53     | 44    | 78     | 63           |
|                 | Tertiary  | 19     | 46     | 8     | 3      | 7            |
|                 | Other     | 1      | 0      | 0     | 0      | 3            |
|                 |           | None   | 6      | 0     | 10     | 0            |
| <b>Formal</b>   | Primary   | 10     | 0      | 6     | 4      | 5            |
|                 | Secondary | 57     | 47     | 41    | 75     | 62           |
|                 | Tertiary  | 27     | 52     | 43    | 21     | 26           |
|                 | Other     | 0      | 0      | 0     | 0      | 3            |
|                 |           | Other  | 0      | 0     | 0      | 0            |

Note: \* 2014 Data

Source:

ILO, 2020, Informality | Country factsheet, Overview of the informal economy in Brazil (PNADC, 2019)

ILO, 2020, Informality | Country factsheet, Overview of the informal economy in Russian Federation (Labour force survey, 2019)

ILO, 2020, Informality | Country factsheet, Overview of the informal economy in India (Periodic Labour Force Survey, 2019)

ILO, 2020, Informality | Country factsheet, Overview of the informal economy in China (China Household Income Project, 2014)

ILO, 2020, Informality | Country factsheet, Overview of the informal economy in South Africa (QLFS, 2019)

**Table 7: The rural urban dimensions of informality (share of informal employment (%))**

|                           | Including agriculture |       | Excluding agriculture |       |
|---------------------------|-----------------------|-------|-----------------------|-------|
|                           | Rural                 | Urban | Rural                 | Urban |
| <b>Brazil<sup>#</sup></b> | 38.2                  | 35.1  | 36.7                  | 35.1  |
| <b>Russia</b>             | 30.3                  | 18.6  | 25.0                  | 18.1  |
| <b>India</b>              | 93.4                  | 75.6  | 85.0                  | 74.3  |
| <b>China<sup>*</sup></b>  | 82                    | 36.2  | 81.4                  | 35.3  |
| <b>South Africa</b>       | 49.7                  | 30.5  | 52.5                  | 30.4  |

Note: \* 2014 Data; # 2018 data

Source:

*ILO, 2020, Informality | Country factsheet, Overview of the informal economy in Brazil (PNADC, 2018)*

*ILO, 2020, Informality | Country factsheet, Overview of the informal economy in Russian Federation (Labour force survey, 2019)*

*ILO, 2020, Informality | Country factsheet, Overview of the informal economy in India (Periodic Labour Force Survey, 2019)*

*ILO, 2020, Informality | Country factsheet, Overview of the informal economy in China (China Household Income Project, 2014)*

*ILO, 2020, Informality | Country factsheet, Overview of the informal economy in South Africa (QLFS, 2019)*

**Table 8: Distribution of informal & formal employment by enterprise size (%)**

|                     | Own-account |        | 2-9 persons     |                 | 10-49 persons  |                 | 50 persons over |        |
|---------------------|-------------|--------|-----------------|-----------------|----------------|-----------------|-----------------|--------|
|                     | Informal    | Formal | Informal        | Formal          | Informal       | Formal          | Informal        | Formal |
| <b>Brazil</b>       | 43          | 10     | 31              | 25              | 4              | 20              | 22              | 45     |
| <b>Russia*</b>      | 12          | 5      | 11              | 7               | 20             | 23              | 57              | 65     |
| <b>India</b>        | 76          | 19     | 17 <sup>#</sup> | 16 <sup>#</sup> | 7 <sup>@</sup> | 65 <sup>@</sup> | n/a             | n/a    |
| <b>China*</b>       | 19          | 6      | 28              | 9               | 23             | 13              | 30              | 72     |
| <b>South Africa</b> | 46          | 4      | 27              | 13              | 14             | 33              | 13              | 50     |

Note: \* 2014 data

<sup>#</sup>2-4 persons: 12%(informal),7%(formal),5-9 persons:3%(informal) ,9% (formal);

<sup>@</sup>10-19 persons: 2%(informal),12%(formal), ,19 persons over: 6%(informal),51%(formal);

Source:

*ILO, 2020, Informality | Country factsheet, Overview of the informal economy in Brazil (PNADC, 2019)*

*ILO, 2020, Informality | Country factsheet, Overview of the informal economy in Russian Federation (Labour force survey, 2014)*

*ILO, 2020, Informality | Country factsheet, Overview of the informal economy in India (Periodic Labour Force Survey, 2019)*

*ILO, 2020, Informality | Country factsheet, Overview of the informal economy in China (China Household Income Project, 2014)*

*ILO, 2020, Informality | Country factsheet, Overview of the informal economy in South Africa (QLFS, 2019)*

Table 9: The 10 sectors the most exposed to informality (%)

|                           | Brazil | Russia | India | China* | South Africa |
|---------------------------|--------|--------|-------|--------|--------------|
| Manufacturing             | -      | 15.7   | 77.0  | 53.2   | -            |
| Transport                 | 47.9   | 24.2   | 86.0  | 53.2   | -            |
| Art, recreation           | 52.3   | -      | 90.4  | 38.3   | 42.8         |
| Construction              | 68.0   | 33.6   | 90.9  | 81.6   | 53.6         |
| Real estate               |        | -      | 92.2  | 81.6   | -            |
| Accommodation & food      | 52.3   | 33.3   | 90.0  | 74.8   | 39.5         |
| Wholesale, retail traders | -      | 41.6   | 94.3  | 62.1   | 45.6         |
| Other serv.               | 60.4   | 55.0   | 96.1  | -      | -            |
| Domestic workers          | 61.5   | 90.5   | 97.9  | -      | 80.4         |
| Agriculture               | 76.9   | 50.4   | 99.7  | 81.6   | -            |
| Water supply              | 52.3   | -      | -     | -      | -            |
| Education                 | 57.0   | -      | -     | -      | 80.4         |
| Mining                    | -      | -      | -     | 40.2   | 52.7         |
| Finances and insurance    | -      | -      | -     | -      |              |
| Public Admin              | -      | -      | -     | -      | 54.1         |
| Health                    | -      | -      | -     | -      | 55.2         |
| Admin Support             | -      | 15.9   | -     | 61.6   | -            |
| Extraterritorial act.     | 36.0   | 17.5   | -     | -      | -            |

**Table 10: The sectoral dimension: The 10 sectors the most represented in the informal economy (%)**

|                                 | Brazil | Russia | India | China* | South Africa |
|---------------------------------|--------|--------|-------|--------|--------------|
| <b>Agriculture</b>              | 14.6   | 13.9   | 46.9  | 5.2    | 5.3          |
| <b>Construction</b>             | 10.2   | 10.9   | 12.6  | 17.6   | 12.5         |
| <b>Wholesale, retail trade</b>  | 14.2   | 30.5   | 11.9  | 13.8   | 22.2         |
| <b>Manufacturing</b>            | 6.7    | 10.6   | 10.6  | 20.5   | -            |
| <b>Transport</b>                | 5.2    | 10.0   | 5.0   | 6.6    | 3.8          |
| <b>Education</b>                | 8.3    | -      | 2.3   | -      | 18.1         |
| <b>Other serv.</b>              | 5.4    | 6.3    | 2.3   | -      | -            |
| <b>Accommodation &amp; food</b> | 6.4    | 4.1    | 1.9   | 7.6    | 6.9          |
| <b>Domestic workers</b>         | 8.7    | -      | 1.4   | -      | -            |
| <b>Admin. Support</b>           | -      | 1.9    |       | 15     | 5.1          |
| <b>Water supply</b>             | 53     | -      | -     | -      | -            |
| <b>Mining</b>                   | 2      | -      | -     | 1.5    | -            |
| <b>Health</b>                   | -      | -      | 0.9   | 1.5    | -            |
| <b>Public Admin.</b>            | 8.9    | 2.9    | -     | 3.5    | 8.2          |
| <b>Electricity</b>              | -      | -      | -     | -      | 6.4          |
| <b>Finances and Insurance</b>   | -      | -      | -     | -      | 6.6          |
| <b>Professionals</b>            | -      | 1.9    | -     | -      | -            |

Note: \* 2014 Data

Source:

*ILO, 2020, Informality | Country factsheet, Overview of the informal economy in Brazil (PNADC, 2019)*

*ILO, 2020, Informality | Country factsheet, Overview of the informal economy in Russian Federation (Labour force survey, 2019)*

*ILO, 2020, Informality | Country factsheet, Overview of the informal economy in India (Periodic Labour Force Survey, 2019)*

*ILO, 2020, Informality | Country factsheet, Overview of the informal economy in China (China Household Income Project, 2014)*

*ILO, 2020, Informality | Country factsheet, Overview of the informal economy in South Africa (QLFS, 2019)*

## South Africa (SA)

SA<sup>14</sup> is characterized by one of the highest shares of formal employment in total employment among all BRICS economies: 65%. <sup>15</sup>(Only Russia exceeds South Africa at 79% formal employment in the workforce.) Paradoxically, 79% of all units in SA are informal sector units: in other words, the remaining 21% of units are accounting for this high share of formal employment in the workforce. This suggests that most units in the formal sector are relatively large in scale and thus ensure this high share of formality in the economy. By contrast, 79% of informal units are very small in size and employ only 35% of the workforce. As elsewhere in the world, most informal employment is distributed between three locations: the informal sector, the formal sector, and households. Thus, 35% of the informal workforce's informal workforce is split as follows: 22.6% in the informal sector, 4.6% in the formal sector, and 7.9% in households.

Employment status is defined as belonging to one of the four categories: an employer, an employee; an own-account worker; or a contributing family worker. Of all contributing family workers in the informal workforce, 100% or all are working informally. However, of all informally working own-account workers in South Africa, 86.7% are informal (in other words, the remaining own-account workers, 13.3%, are in the formal sector). What is interesting is that almost 41% of employers in South Africa are informal employers. But only 26% of all employees in the economy are informally employed – which reflects the rather high share of the entire workforce that is formal (65%), as we noted above. In complete contrast to India, all informal workers in South Africa, around two-thirds are employees, and an additional quarter is own-account workers. In India, the own-account workers predominate among informal workers. As a result, own-account workers form the majority of informal workers in India.

When we examine the level of education of the workforce in informal employment in South Africa, it is notable that just over three out of five workers have secondary education. Barely 13% of the informal workforce in South Africa have primary education, while 7% of the informal workforce have acquired tertiary education. At the other extreme, 14% of the informal workforce has no education (while that share in the formal workforce is 4%). Not surprisingly, own-account workers have the highest share of those with only

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<sup>14</sup> South Africa created a National Economic Development and Labour Council (Nedlac), which is the vehicle by which Government, labour, business, and community organisations seek to cooperate, through problem-solving and negotiation, on economic, labour, and development issues and related challenges facing the country. The mining sector has seen significant achievements in this regard (**Hermanus et al., 2018**).

<sup>15</sup> This distribution ratio of 35-65% between informal and formal workers does not change in South Africa, regardless of whether the entire workforce is part of the denominator or excludes agriculture from the denominator. This suggests that formality/informality is not mainly or only found in agriculture; rather, it is evenly distributed across rural/urban and agriculture/non-agricultural sectors of the economy.

primary education or no education at all; almost all the own account workers have these extremely low levels of education. Informal employees tend to be younger. The likelihood of a worker becoming an employer increases after the age of 55, presumably as he acquires experience and decides to branch out on her own. Race is a determinant of the level of education and hence also corresponds to informality among the South African population.

Two-thirds of South Africa's population lives in urban areas – very different from the situation in China or especially India. There is also a rural-urban difference in the pattern of informality in South Africa. Of all formal workers, over four-fifths are urban, while the remainder is rural. That implies that there is an overwhelming predominance of formal workers in urban areas. But consistent with the high level of urbanization of the total population, two-thirds of the informal workforce is also in urban areas, with the remaining one-third being located in rural areas.

It is also important to profile the distribution of informal and formal employment by enterprise size. Thus of all informal employment in South Africa, 46% are own account (i.e., one person) units – the single largest category. The next largest category is enterprises that employ 2-9 workers, followed by those enterprises that employ 10-49 workers (which account for 14% of all informal employment). Thus, only 13% of informal employment is in enterprises that employ over 50 workers. However, as we noted earlier, larger enterprises dominate among those with formal employment. Thus, of all formal employment, 50% is in enterprises that employ 50+ workers – this is unusual by emerging market economy standards; in addition, another third of formal employment in South Africa is in enterprises where 10-49 persons work. Thus, the 2-9 workers' enterprises account for only 13% of all formal employment in South Africa (while the remaining units are own-account worker-run units).

Finally, which are the sectors where the informal economy in South Africa is most represented? The services are heavily over-represented in informality. The wholesale and retail (22%), education (18%) are the most heavily impacted by informality (40% of all informal employment). However, construction (12.5%) is also quite important, and the other non-services sector is agriculture (5.3%) – as a share of total informal employment. The rest of the sectors are again services: public administration (8.2%); accommodation and food (6.9%); finance and insurance (6.6%), electricity (6.4%), administrative support (5.1%), and transport (3.8%). These are the ten sectors that account for well over 90% of informal employment in South Africa.

Another dimension that must be noted is the ten sectors most exposed to informality, i.e., the share of informal employment in total employment in that sector. While it is understandable that 80.4% of domestic workers are informal. Domestic workers were included under the Unemployment Insurance Fund (UIF) in 2003. From 2003–08 the Fund registered more than 633,000 domestic workers. By 2008 over 324,000 temporarily unemployed workers had received social security payments, the vast majority being women. In 2010, 642,007 domestic employees were registered, compared to 7,109,462 commercial employees in the

formal sector. In 2010, the UIF had 7.8 million declared and effectively registered participants<sup>16</sup>. What is surprising is that the education sector is heavily informal (80.4%). Health is not so far behind (55.2%), and public administration close on its heels (54.1%). The remaining sectors are also characterized by a very share of informal employment within their sectoral workforce: construction (53.6%), mining (52.7%), wholesale and retail trade (45.6%), art/recreation (42.8%), and accommodation and food (39.5%).

## Russia

Informal employment shares in total employment in Russia (21%) is the least among BRICS. What is notable is that the share of informal units in all enterprises in Russia is barely 11.7% of all units in the country; yet they account for over a third of all workers of Russia, suggesting how labour intensive are the units in it. The distribution of informal employment across its sub-sectors is as follows: of this 35.7%, 24.3% is in the informal sector itself, and another 11.45 in the formal sector, with no workers in the household sector. This distribution is similar to that found in South Africa.

It is notable that even in Russia, there is still a small share of the workforce that has rather low levels of education in the formal sector: 9% of it in formal employment has acquired education only up to primary level, and 12% in informal employment also has only primary education. The majority of workers still have secondary education: 53% of the formal sector workers, and 64% of informal sector workers. Nearly two of five workers in the formal sector have tertiary education, and quarter of those in informal employment do. In terms of the location of the formal and informal workforce, just over four out of five formal workers are in urban areas in Russia, and the same applies to informal workers. In other words, just under 1 out of five are in rural areas.

Next we examine the distribution of informal and formal employment by enterprise size. Of all informal employment 57% is in the largest units, i.e. those that employ over 50 workers. This is in complete contrast to the situation found in South Africa. The next category, of 10-49 workers, account for 20% of all informal employment. In other words, over three-fourths of informal workers are employed in relatively large units, suggesting that informality prevails, surprisingly more in larger units than in smaller ones: only 12% of the informal workforce consists of own-account workers, and 11% consists of workers in 2-9 worker enterprises.

Among the formally employed, as much as two-thirds work in units that employ >50 workers. Another 23% of formal workers are found in units employing 10-49 workers. That leaves barely 7% of formal workers in units of 2-9 workers and merely 5% of formal workers as own account workers. What comes out from this analysis is that informality is quite widespread in even large enterprises in Russia.

The 10 sectors that are most represented in the informal economy in Russia are as follows: wholesale and retail trade accounts for 32.5% of total informal employment; construction is next at 14.4%; manufacturing

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<sup>16</sup> [https://www.ilo.org/wcmsp5/groups/public/---ed\\_emp/---emp\\_policy/documents/publication/wcms\\_212689.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_policy/documents/publication/wcms_212689.pdf)

13%; transport 10.4%; and then agriculture, public administration, education health, accommodation and food, and mining in descending order between 4.5% and 2%. The 10 sectors that are most exposed to informality (i.e. sectors in which the share of informal employment is relatively high) are: wholesale and retail trade (where 57% of the workforce is informal); in construction 56%; in agriculture 48%; in transport 38%; manufacturing 35%; and then real estate, accommodation & food, mining, finance and insurance, art/recreation between 35% and 21%.

## **Brazil**

Although Brazil has a higher per capita GDP (see Table 1) than South Africa, it is notable that it has a higher share of all informal workers (47.8%). Of this informal workforce, 30.8% are employed in the informal sector, 12.8% in the formal sector, and 4.1% in households. If we exclude agriculture, then 44.7% of the workforce in the non-agricultural workforce is informal.

When we examine informal employment to determine the prevalent form of informality, the following picture emerges. Of the 64% of informal workers in the informal sector, 45% are independent workers, 15% are employees, and nearly 5% are contributing family members. In the formal sector, all informal workers are employees (and they contribute 26.7% to the informal workforce in Brazil. Finally, in households, the 8.5% that worked there were employees (and there were no contributing family members).

If we examine the nature of informal sector employment status, 100% of the contributing family workers are informal, almost inevitably; 81% of their own account workers are informal, and 32.7% of employees are also informal. However, what is notable is that 22.6% of all employers are also informal.

When we investigate informal employment by level of education, one finds that while 7% of those in formal work have no education, and another 10% have only primary education. Of all those in the formal economy, 57% have secondary education, and the remaining 26% have tertiary education. The levels of education among informal workers are lower, though not drastically so: 16% have no education; 18% have primary education; 47% have secondary schooling; while 18% have tertiary education.

Next, we examine the distribution of informal and formal employment by enterprise size. Of all informal employment, 28% are in units that employ >50 workers, and another 1% in units that employ 10-49 workers. The majority of informal workers are in much smaller units: 28% of informal workers are in units with 2-9 workers, while the remaining 43% are own-account workers.

The ten sectors most represented in the informal economy are as follows: agriculture (15%), wholesale and retail trade (14.4%), construction (10.4%), public administration (9%), domestic workers (8.6%), education (8.2%), manufacturing (6.8%), with other services and transport bringing up the rear (10%).

The ten sectors most exposed to informality are the usual ones: agriculture (78%), construction (68%), other services (61%), domestic workers (60.5%), education 56%, water supply 53%, art/recreation (52%), accommodation and food (51%), transport 45%), and wholesale and retail trade (36%).

## India

India has the highest share of its informal workforce: 88.6% if we include agriculture and 80.3% if we exclude agriculture. This situation prevails because 94% of all enterprises are informal – the highest for any country in the G20 and the BRICS. Of all informal workers, 79% are in the informal sector, 7.3% are in the formal sector, and 2.2% in households.

Of all informal employment, the composition is as follows: 79% are in the informal sector, while 7.3% are in the formal sector. Only 2.2% of informal workers are in the household sector.

When we examine informal employment based on employment status, we find that, as expected, 100% of the contributing family members are informal, just as 96.5% of own-account workers are informal. However, what is more concerning is that 89.4% of employers are also informal – a reflection of the high informality of enterprises that we noted above. Notably, of all the employees in the economy, 62% of them are also informal.

Let us now examine the education level of those who are informal workers. Of all the own-account workers, practically all of them are informally employed, regardless of whether they have no education, primary education, secondary schooling, or have acquired tertiary education. At the other extreme, as much as three-fourths of the employers with tertiary education are working informally. Of all employees that have tertiary education, nearly two-fifths have informal employment. Even worse, three-fourths of employers with tertiary education are informal; only the remaining one-fourth is formal.

Taking this relationship between informal employment and level of education further, we find that for those in the formal sector, 10% have no education, and another 6% have only primary schooling. The remaining formal sector employees are equally divided (two-fifths each) between those with secondary and those with tertiary education. When we examine the level of education of those who are informally employed, one-third of them have no education at all, and an additional 14% have barely primary schooling (i.e., grades 1-5). Thus nearly half of the informal workforce have extremely low levels of education. However, 44% of those in the informal sector have secondary education, while 8% have tertiary education.

It is useful to investigate the relationship between the age of the workers and informality by type of employment status (employer, employee, and own-account workers). Given the extremely high level of informality of the total workforce, it is not surprising that over 85% of most members of the workforce – whether they are an employer or own-account worker – start as informal workers and remain so, with the incidence of informality climbing to 96.7% after age 65. What emerges, however, is that employees show a somewhat different trajectory over their working life span, from the age of 15+ to 65+. In the youngest age cohort (15-24 years), 80% of the workforce is informal. Informality incidence systematically declines with successive age-cohort (25-29 years, 30-34 years). In the age cohort of 35-44 years, 60% of the workforce is informal, which falls further secularly until 55-64. In this group, the incidence of informality is lowest at about 43%. But it shoots up again after age 65 to the high 90%. This downward trend of informality with growing age suggests that there is scope for the young workers that enter as informal, that they could potentially go on to become formal workers.

It is worth examining where informality is dominant in terms of location, i.e., whether it is predominantly rural or urban. There is an interesting contrast in India in the rural-urban dimension of informality. Thus, in the formal workforce, two-fifths are located in rural areas. At the same time, the remaining three-fifths are urban – if we exclude agriculture (in other words, if we are observing only the non-farm sector employment). In the informal sector, excluding agriculture, about 55% is rural, while the remaining 45% is urban. However, if we include agriculture and look at the entire workforce (as the denominator), the situation changes dramatically for the informal workforce. In contrast to the formal workforce (where there is very little difference between the share of rural and of the formal urban workforce, regardless of whether the denominator includes or excludes agriculture), in India's informal workforce, 75% is rural, and only the remaining quarter is urban; this, of course, is due to the fact the vast majority of those in agricultural are informal workers.

Remaining with the rural-urban dimension of informality, if we exclude the workforce in agriculture (which currently stands at 42% in 2019), 84.5% of the rural workforce is informal, while 75.7% of the urban workforce is informal.

We now turn to the sectoral dimension of informality to assess which sector of the economy is most represented in the informal economy. If we take the entire workforce as the denominator (i.e., the WF was estimated as 475 m in 2019), agriculture accounts for 48.7% of the informal workforce in India. The construction sector is the next biggest contributor to informality (12%), followed by wholesale/retail trade (11%) and manufacturing (10.7). The remaining sectors (which together account for 13.5% of the informal economy) are (in descending order of significance): transport, education, other services, accommodation and food, domestic workers, and administrative support. These ten sectors account for all but 3-4% of the total informal workforce.

The sectors in India that are most exposed to informality (i.e., have the highest incidence of informality among their workers) show that while 99.6% of agriculture is informal, the remaining top sectors most exposed to informality also have extremely high levels of informality. Starting with domestic workers (98%), in descending order of significance, they are other services; wholesale/retail trade, accommodation, food, real estate, construction, art/recreation, and transport. In these seven sectors, the share of the informal workforce of the total WF in each sector is 97% to 87.5%. The tenth sector where informality is high is manufacturing (78.4%).

## **China**

Informal employment in China is 54.5% (53.4% if we exclude agriculture). As expected, 88.8% of the informal employment is in the informal sector; 11.2% in the formal sector, with none in the household sector. Notably, three-fourths of all enterprises in China are informal sector units (74.7%). Regarding the informal employment composition, of the 54.5% employment that is informal, 48.3% is in the informal sector, while the remaining 6.1% is in the formal sector.

We next discuss the prevalent form of informality in China among the different types of informal workers – independent workers (mainly consisting of own-account workers), employees, and contributing family members. With all informal workers as the denominator, the following is the distribution of workers: independent workers are 20% of the total; 66.6% are employees, and 1.9% are contributing family members. On the other hand, only 11.2% of the informal workforce is in the formal sector: they are mostly employees, with just a few contributing family members.

Of all own account workers, 78% in China are informal workers. While this is expected, just over half of all employers (53.2%) and half of all employees must be informal in terms of employment status.

We next examine the informally employed by the level of education. Of all formal workers, only 4% have primary education, while 75% have at least secondary education. The remaining 21% have tertiary education. On the other hand, in the informal sector, 2% have no education at all, 17% have primary education, and 78% have secondary education. Thus, there are 3% who are in informal employment who have tertiary education.

Let us now examine informal employment depending upon age group. For both employers and employees, the share of informality drops from a high 77% and 62% among 15-24-year-olds and 25-29-year-olds to 50% among 35-44-year-olds. However, with advancing age, the share of informal employment rises again, rising gradually to 60% among employers and 58% among employees, to 82% among 65+-year-olds. In other words, there is a U-shaped relationship between the incidence of informality and the age profile of workers. However, what is notable among own-account workers is that they start with high levels of informality (95%) among the youngest groups and stabilize around 80% informality for the rest of the age cohorts in China.

There are rural-urban dimensions of informality too. Of all formal sector workers, 84% are in urban areas, while the remainder is in rural areas. Of all informal workers, on the other hand, only 40% are in urban areas, while the remainder is in rural areas. This is true regardless of whether we have the entire workforce in mind or only those excluding agriculture. In fact, it is also notable that 82% of rural workers are informal, while only 36% of urban workers are informal.

The distribution of informal and formal employment by enterprise size is also important. Of all informal employment, 30% is in enterprises that employ >50 workers, which is remarkable. Another 23% of informal workers are in units that employ 10-49 workers. Units that employ 2-9 workers account for 28% of informal employment. Finally, only 19% of informal workers are own-account workers. 72% of units employ >50 workers in the formal sector, with another 13% in units with 10-49 workers. On the other hand, barely 9% of formal workers are in units 2-9 workers, with 6% who are own-account workers.

The sectors that are most represented in the informal economy are, in descending order: manufacturing (20.5%), construction (17.6%), administrative support (15%), wholesale/retail trade (13.8%), accommodation and food (7.6%), transport 6.6%), agriculture (5.2), public administration (3.5%), health (1.5%), and mining (1.5%). Notably, the sectors most exposed to informality are similar to those found in other BRICS. For instance, 81.6% of agricultural and construction workers are informal; in accommodation



and food, the share is 75%. The remaining sectors are: wholesale/retail trade (62%); administrative support (61.6%); transport (53.2%); manufacturing 53.2%); real estate (45); mining (40%); and art/recreation (38%).

### **Gender dimensions of informality in the BRICS countries.**

This section briefly discusses the gender dimensions of informality in BRICS countries, based on Tables 11, 12, and 13 below. Women's unequal shouldering of unpaid care work is the main barrier to entering the labour force and limits women's ability to gain access to decent employment opportunities (ILO 2018). Accordingly, female labour force participation rates (LFPR) in the BRICS, like in most other countries, are lower than for men (see Table 13). However, the differences between the BRICS countries regarding female LFPR are also considerable: in India, it is as low as 21.5%, in South Africa is 48.5%, and in Brazil, 53.6%, with Russia at 55.3%. China stands out with the highest female LFPR at 63.7%.

This pattern of female LFPR may itself be a reflection of where each of the BRICS is in the transition in the labour markets as structural transformation proceeds. Thus, a well-known stylized fact about the female LFPR is the U-shape hypothesis: that at relatively low levels of per capita income (PCI), female LFPR is high because most women are engaged in agriculture. With structural transformation taking place, and the share of agriculture falling in GDP and employment, the participation of women in the labour market declines. However, as this transformation gathers further momentum and per capita income rises, the female LFPR rises again, resulting in the U-shape relationship between PCI and female LFPR. It appears that at least in respect of the BRICS, this relationship does hold up.

India has seen a fall in female LFPR as structural transformation out of agriculture has gathered momentum; thus, one could argue that India might be hitting the bottom of the trough of the U-shape (Mehrotra and Parida, 2017; Mehrotra and Sinha, 2017). Girls have also gotten better and educated in India, with secondary enrolment reaching 85% in 2015 for 15-16-year-olds; this happened with gender parity. As a result, female LFPR (which is measured for over 15-year olds) has seen a sharp decline in the past two decades.

Meanwhile, the higher-income BRICS seem to belong to the upward rising part of the U-shaped curve, with female LFPRs being much higher. However, there is no certainty that structural transformation will improve the conditions of women in the labour market (ILO, 2019)<sup>17</sup>. Women are still heavily represented among the informal workers in the BRICS countries as elsewhere.

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<sup>17</sup> Gendered impacts of structural transformation, ILO Technical Brief no.2, [https://www.ilo.org/wcmsp5/groups/public/---ed\\_emp/documents/publication/wcms\\_735154.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_735154.pdf). Also, see [https://www.ilo.org/wcmsp5/groups/public/---ed\\_emp/---ifp\\_skills/documents/presentation/wcms\\_729757.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---ifp_skills/documents/presentation/wcms_729757.pdf)

Table 11: Distribution of workers in informal employment and in formal employment by

|              |                                | Employment status and sex (including agriculture) |        |       |       |              |      |
|--------------|--------------------------------|---|--------|-------|-------|--------------|------|
| Country      |                                | Brazil  | Russia | India | China | South Africa |      |
| <b>Total</b> | <b>Informal Employment (%)</b> | Employees   | 49.5   | 97.2  | 13.7  | 52           | 70.2 |
|              |                                | Employers   | 1.7    | 1.7   | 1.2   | 3.5          | 5.8  |
|              |                                | Own-account workers                               | 43.9   | 0     | 70.3  | 28.8         | 23.2 |
|              |                                | Contributing family workers                       | 4.9    | 1.1   | 14.9  | 15.7         | 0.8  |
|              | <b>Formal Employment (%)</b>   | Employees   | 84.3   | 90.3  | 68.4  | 82           | 93.5 |
|              |                                | Employers   | 6.8    | 1.2   | 1     | 5            | 4.9  |
|              |                                | Own-account workers                               | 8.9    | 8.6   | 30.6  | 13.1         | 1.6  |
|              |                                | Contributing family workers                       | 0      | 0     | 0     | 0            | 0    |
| <b>Men</b>   | <b>Informal Employment (%)</b> | Employees   | 42.4   | 97.1  | 14.5  | 56.2         | 66.9 |
|              |                                | Employers   | 2.3    | 2     | 1.4   | 4.8          | 9    |
|              |                                | Own-account workers                               | 52.3   | 0     | 74.7  | 34           | 23.4 |
|              |                                | Contributing family workers                       | 3      | 1     | 9.5   | 5.1          | 0.7  |
|              | <b>Formal Employment (%)</b>   | Employees   | 81.9   | 88.5  | 69.7  | 77.5         | 91.6 |
|              |                                | Employers   | 8.1    | 1.7   | 1.2   | 7.3          | 6.6  |
|              |                                | Own-account workers                               | 10     | 9.9   | 29.1  | 15.2         | 1.8  |
|              |                                | Contributing family workers                       | 0      | 0     | 0     | 0            | 0    |
| <b>Women</b> | <b>Informal Employment (%)</b> | Employees   | 59.2   | 97.5  | 11.4  | 46.4         | 74.2 |
|              |                                | Employers   | 0.8    | 1.2   | 0.5   | 1.8          | 2    |

|  |                                |                             |      |      |      |      |      |
|--|--------------------------------|-----------------------------|------|------|------|------|------|
|  |                                | Own-account workers         | 32.4 | 0    | 56.6 | 22.6 | 22.9 |
|  |                                | Contributing family workers | 7.6  | 1.3  | 31.4 | 29.2 | 1    |
|  | <b>Informal Employment (%)</b> | Employees                   | 87.8 | 91.9 | 62.4 | 87.7 | 96.3 |
|  |                                | Employers                   | 4.9  | 0.8  | 0.2  | 2    | 2.4  |
|  |                                | Own-account workers         | 7.3  | 7.4  | 37.4 | 10.3 | 1.3  |
|  |                                | Contributing family workers | 0    | 0    | 0    | 0    | 0    |

Source: ILO, 2018. Women and men in the informal economy: a statistical picture (third edition) ;availableat:[https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms\\_626831.pdf](https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_626831.pdf)

ILO, 2018. Women and men in the informal economy: a statistical picture (third edition) ;available at: [https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms\\_626831.pdf](https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_626831.pdf)

Table 12: Composition of informal employment: What is the prevalent form of informality in the country? (%)

|   |   |                               | Brazil                      | Russia | India | China*            | South Africa      |      |
|---|---|-------------------------------|-----------------------------|--------|-------|-------------------|-------------------|------|
| Female  | Informal sector                                       | Independent workers-IE   IS   | 34.6                        | 27.9   | 49.3  | 20.4              | 18.4              |      |
|   |   | Employees-IE   IS             | 9.7                         | 62.6   | 4.2   | 64                | 41.9              |      |
|   |   | Contributing family - IE   IS | 6.5                         | 1.6    | 30.7  | 4.1               | 1.1               |      |
|   | Formal sector   | Employees - IE   FS           | 31.0                        | 6.6    | 10.3  | 10.7              | 13.3              |      |
|   |   | Contributing family - IE   FS | n/a                         | 0.2    | 0.1   | 0.7               | 0.7               |      |
|   | Households  | Independents-IE   HH          | n/a                         | n/a    | 1.2   | n/a               | 1.9               |      |
|   |   | Employees - IE   HH           | 18.0                        | 1.0    | 3.6   | n/a               | 22.6              |      |
|   |   | Contributing family - IE   HH | 0.2                         | n/a    | 0.6   | n/a               | n/a               |      |
|   | <b>Labor Force Participation Rate (%)<sup>®</sup></b> |                               |                             | 53.6   | 55.3  | 21.5              | 63.7 <sup>#</sup> | 48.5 |
|   | Male  | Informal sector               | Independent workers-IE   IS | 53.2   | 29.7  | 73.6              | 20.3              | 24.3 |
| Employees-IE   IS                                     |   |                               | 22.1                        | 56.8   | 8.0   | 68.1              | 58.7              |      |
| Contributing family - IE   IS                         |   |                               | 2.9                         | 1.5    | 7.8   | 0.5               | 0.4               |      |
| Formal sector   |   | Employees - IE   FS           | 20.7                        | 11.8   | 8.6   | 10.8              | 6.1               |      |
|   |   | Contributing family - IE   FS | n/a                         | 0.1    | 0.1   | 0.2               | 0.2               |      |
| Households  |   | Independent-IE   HH           | n/a                         | n/a    | 1.1   | n/a               | 2.3               |      |
|   |   | Employees - IE   HH           | 1                           | 0.2    | 0.5   | n/a               | 7.9               |      |
|   |   | Contributing family - IE   HH | n/a                         | n/a    | 0.2   | n/a               | n/a               |      |
| <b>Labor Force Participation Rate (%)<sup>®</sup></b> |   |                               | 72.6                        | 70.6   | 74.4  | 78.2 <sup>#</sup> | 62.5              |      |

Note: \*2014 data; #2010 data for China; @2019 data

Source:

[https://data.worldbank.org/indicator/SL.TLF.CACT.FE.NE.ZS?end=2019&locations=IN-CN-ZA-BR-RU&name\\_desc=false&start=1960&view=chart](https://data.worldbank.org/indicator/SL.TLF.CACT.FE.NE.ZS?end=2019&locations=IN-CN-ZA-BR-RU&name_desc=false&start=1960&view=chart)

ILO, 2020, Informality | Country factsheet, Overview of the informal economy in Brazil (PNADC, 2019)

ILO, 2020, Informality | Country factsheet, Overview of the informal economy in Russian Federation (Labour force survey, 2019)

ILO, 2020, Informality | Country factsheet, Overview of the informal economy in India (Periodic Labour Force Survey, 2019)

ILO, 2020, Informality | Country factsheet, Overview of the informal economy in China (China Household Income Project, 2014)

ILO, 2020, Informality | Country factsheet, Overview of the informal economy in South Africa (QLFS, 2019)

**Table 13: The Gender Dimension: Distribution of informal & formal employment by employment status (%)**

|                     |          | Female    |           |                     |                             | Male      |           |                     |                             |
|---------------------|----------|-----------|-----------|---------------------|-----------------------------|-----------|-----------|---------------------|-----------------------------|
|                     |          | Employees | Employers | Own-account workers | Contributing family members | Employees | Employers | Own-account workers | Contributing family members |
| <b>Brazil</b>       | Formal   | 85        | 6         | 9                   | 0                           | 80        | 9         | 11                  | 0                           |
|                     | Informal | 58        | 1         | 34                  | 7                           | 43        | 3         | 51                  | 3                           |
| <b>Russia</b>       | Formal   | 100       | 0         | 0                   | 0                           | 100       | 0         | 0                   | 0                           |
|                     | Informal | 70        | 5         | 23                  | 2                           | 69        | 6         | 23                  | 2                           |
| <b>India</b>        | Formal   | 74        | 0         | 26                  | 0                           | 79        | 3         | 18                  | 0                           |
|                     | Informal | 18        | 1         | 50                  | 31                          | 17        | 3         | 72                  | 8                           |
| <b>China*</b>       | Formal   | 93        | 2         | 5                   | 0                           | 89        | 5         | 6                   | 0                           |
|                     | Informal | 74        | 3         | 17                  | 6                           | 79        | 3         | 17                  | 1                           |
| <b>South Africa</b> | Formal   | 96        | 3         | 1                   | 0                           | 91        | 7         | 2                   | 0                           |
|                     | Informal | 71        | 3         | 24                  | 2                           | 63        | 9         | 27                  | 1                           |

Note: \* 2014 Data

Source:

ILO, 2020, Informality | Country factsheet, Overview of the informal economy in Brazil (PNADC, 2019)

ILO, 2020, Informality | Country factsheet, Overview of the informal economy in Russian Federation (Labour force survey, 2019)

ILO, 2020, Informality | Country factsheet, Overview of the informal economy in India (Periodic Labour Force Survey, 2019)

ILO, 2020, Informality | Country factsheet, Overview of the informal economy in China (China Household Income Project, 2014)

ILO, 2020, Informality | Country factsheet, Overview of the informal economy in South Africa (QLFS, 2019)

Global informality rates are 63.0 per cent for men and 58.1 per cent for women. But women are more exposed to informal employment in sub-Saharan Africa (90 per cent), South Asia (89 per cent), and Latin American countries (75 per cent), especially in low-income and lower-middle-income countries (ILO, 2018). In 55 per cent of the countries surveyed, the incidence of informality is higher for women (ILO 2018). According to Chen (2007), although informal employment comprises different employment statuses, including employers, employees, and own-account operators, casual wage workers, and industrial outworkers / homeworkers, women are overrepresented in lower-income segments.

We examine below the gender dimensions of informality for each BRICS country.

### **South Africa**

Of all women workers in the informal sector 18.4% are independent workers, another 42% are employees, with 1.1% being contributing family members. On the other hand, of all men working informally, the corresponding shares for men are 24.3%, 58.7% are employees, and barely 0.4% being contributing family members. Thus the first main difference between men and women that are informal workers is that men are more likely than women to be mainly independent workers or employees in the informal sector. The second main difference is that of all women informal workers, 22.6% are independent workers in households, but only 8% of men informal workers are so engaged.

If we examine employment status distribution (employees, employers, own-account workers) and contributing family workers by gender. We find that both in formal and informal work, the share of men and women in each employment status category is quite similar. Moreover, it is notable that even by the level of education, both in formal and informal work, there is great similarity in the level of education of men and women.

## Russia

For women, the prevalent form of informality in Russia is informal *employees* (54% of all women informal workers in the country) as it is for men (64% of men informal workers are also employees). However, more women among all women informal workers are independent workers (graph 3) (17.6% among women as opposed to 9.6% among men).

There is not much difference between men and women employed in the formal sector in terms of employment status; they are in 9 out of 10 cases employees. However, in the informal sector, 8 out of 10 women are employees, while for men, it is 9 out of 10. The main gender difference between men and women in the informal sector employment is that women (16% of women) have a higher share of contributing family members among them than men (7% of men informal workers).

An important pattern emerges when examining gender differences by level of education. In the formal sector, a higher share of women (43% of women workers) have tertiary education than men (32% of men do). Remarkably, the same pattern prevails in the informal sector, with women having a higher share (30% of women) with tertiary education here than men (19% of men). Correspondingly, there are fewer women than men in formal and informal sectors with only primary education.

## Brazil

Of all women informal workers in Brazil, two of five are working in the informal sector, while this ratio is three of four among men. One-third of women informal workers are in the formal sector, while men workers represent just 22%. One other big difference between women and men informal workers is that 18% of female informal workers in Brazil are employees, while that share is only 1% for informal workers. Furthermore, men are hardly found in the household sector at all.

In the formal sector, there is practically no difference between men and women regarding employment status: over four of five workers, whether they are men or women, are employees. There are no contributing family workers in the formal sector among either men or women. The main difference emerges in informal employment in Brazil: women are much more (58%) likely than men (43%) to be employees. Women are much less likely to be own-account workers (33% of men) than men (51% of men informal workers).

The majority of both men and women working in the formal sector have secondary education – in the case of both genders, their secondary education of informal workers is similar. In the informal sector, nearly half of both men and women informal workers also have secondary education. However, it is notable that women have the edge over men in the share of women with tertiary education: 30% of women as against 22% of men informal workers in the formal sector, and 24% of women as against 13% of men have tertiary education in the informal sector. Correspondingly, a smaller share of women than men has no education or primary education in formal and informal sectors.

## India

There is a significant gender difference in the type or prevalent form of informality in the country. Thus while the majority of informal workers are in the informal sector, regardless of whether they are men or women, it is the type that differs. First, of all men employed in the informal sector, 74% nearly are independent workers (mainly consisting of own-account workers and a tiny share of employers). In contrast, just under half of the women, informal workers are independent workers. The second gender difference among informal workers is that one-third of women are contributing family members, but under 10% of men, informal workers are in this status.

Next, we examine gender differences regarding employment status (i.e., employees, employers, own-account workers, and contributing family workers). Here we compare how men and women are distributed across these four employment statuses in each formal and informal sector unit. In the formal sector, three-fourth of informal women and three-fourth of informal men are employees; a quarter of all women informal workers are own-account workers, while one-fifth of men in the formal sector are own-account workers. However, there is a significant difference between men and women in the informal sector. Nearly half of the women in the informal sector are own-account workers, while only 17% of them are employees. By contrast, among men, three-fourths of them are own-account workers, while 16% of them are employees. In addition, the role of women as contributing family workers is much more significant than that of men (33% as against 9%).

In contrast to South Africa, women in India have much lower mean years of schooling, which shows up in the workforce as well. In the formal sector, the incidence of women workers with no education is double that for men (18 versus 8%), and in the informal sector, the incidence is much higher (55% vs. 29%). Similarly, while 44% of men in the formal sector have secondary education, only 29% of women workers have secondary education. However, there is gender parity in the formal workforce, with 42% of men and 47% of women having tertiary education.

The situation, however, is very different in the informal sector. While 43% of all men have either primary or no education, two-thirds of women have these limited levels of education.

## China

Regarding the prevalent form of informality in China, there is practically no difference between men and women. While 20% of both men and women who are informal are independent workers in the informal sector; similarly, 68% of men and 64% of women are employees in the informal sector. In the formal sector, there are informal employees, and the share of both men and women is nearly 11%, and these are employees. The data suggests that there are no informal workers in households, and contributing family members that are informal form a minuscule share of the informal workforce both for men and women (that is under 5% of men and women).

When we examine the employment status of men and women in the formal and informal sector, we find the following. Nine out of 10 men and women formal sector workers have the employment status of an



employee. The rest consist of employers, both in the case of men and women. On the other hand, when we examine the employment status of workers in the informal sector, we find that there are practically no gender differences worth the name. Three-fourths of women and four-fifths of males are employees in the informal sector.

If we examine the educational level of workers, we find that three-fourths of men and women have a secondary level of education in the formal sector. An additional 21% of men and the same share among women have tertiary education. Those with primary education are minuscule for both men and women. A similar situation prevails in the informal sector, where one finds practically no gender differences in terms of the education level of the informal workers. Four out of 5 men and three-fourths of women have secondary education, and similar 17 to 18% of both men and women have primary education or less. Thus, in the informal sector, the share of both men and women with a tertiary level of education is barely 3%.

## **ILO Recommendation 204 and its dimensions: implications for informality in BRICS countries.**

ILO Recommendation No. 204 suggests a policy framework with three primary objectives for the transition to formality:

- Formal business and employment generation.
- Policies to facilitate the transition from the informal to the formal economy.
- Policies for preventing the “informalization” of formal jobs.

We discussed objectives (a) and (c) in section 1 of the paper. This section carries that discussion forward but devotes more space to objective (b), even though one should note that the three objectives are complementary. The same policies could promote all three significant objectives. While Recommendation 204 provides a broad set of policy guidance in multiples areas that are strongly interrelated, paragraph 25 dealing specifically with the formalization of micro and small enterprises is examined.

ILO Recommendation 204, with its six dimensions of actions, will be used to examine the prospects for a transition to formality in this study (six points under Article 25 of R204). They are:

- Business entry reforms.
- Simplified tax and contributions assessment and payment regimes.
- Access to public procurement.
- Access to inclusive financial services.
- Access to entrepreneurship training, skills development, and tailored business development services.
- Access to social security coverage.

These are recognized as potential triggers in the transition to the formality of informal units.

This section shall attempt to provide examples of good practices in the above six dimensions adopted in different BRICS countries regarding as many areas/countries as possible (given space constraints). Therefore, this section focuses on the first five-set of actions (a to, e). At the same time, the subject of social security in the BRICS, which is central to workers’ informality, is discussed at much greater length in the following section (5).

A general challenge in all countries, including the BRICS, is that R 204 is a relatively new agreement (of 2015), and there is little information or recognition within countries of the implications.

Comprehensive diagnoses of the informal economy at large are being undertaken in several countries, including Brazil, Nepal, South Africa, Swaziland, and Vietnam. National action plans/ road maps have been or are being formulated with ILO support, including the road map to tackle undeclared work in Greece, the five-year master plan for Kwazulu Natal Province in South Africa, and the formalization strategy in Zimbabwe. In Latin America and the Caribbean, strategies are being pursued based on multiple interventions, such as those implemented in Argentina and Brazil. It is expected that at least ten countries across the regions will champion the development and implementation of integrated policy frameworks over the 2016–21 period.

There remains a struggle to get most government officials and other social partners to recognize self-employed workers as making a significant contribution to the economy. It is assumed that up-scaled businesses can only make such a contribution. However, some good practices seem to be emerging in the implementation of R204 in the BRICS, which we note below in several case studies. R 204:

*Business environment reforms:*

*Case study 1 of the Goods and Services Tax (GST) in India.* ILO has historically had two definitions of informality: one for informal enterprises (firm-centric) & informal work (worker-centric). India too has the same definitions: the firm-centric one is called organised (>10 workers) for 'formal' (although half of the workers in such firms don't have social insurance), unorganized (<10 workers) for informal (national statistical definition of informal enterprises).

Most organized units will be part of the tax net; most unorganized units will not be paying any form of taxes, direct or indirect. An indirect tax reform (GST 1 July 2017) is transforming informal sector enterprises into formal – but only to the extent that they now have an incentive to register with the GST authority of the government.

Why is GST a game-changer? The main reason is its provision for input tax credit (ITC). The basic premise is that taxing the same thing twice is not fair. To avoid double taxation on items used as inputs to make other items, credit of taxes paid on inputs can be claimed by the maker of the following item while paying tax on the output. If the tax paid on inputs is higher than an output tax, the excess can be claimed as a refund. ITC is also available to traders on goods bought for sale/resale. Since many small traders in the unorganized, informal units purchase goods from formal, organized sector enterprises, they have seen the self-interest in registering with the GST authority. Till 1 July 2017, the input tax credit was available for taxes such as Central Excise duty, VAT. (which varied by State), CST (Central Sales Tax) and service tax. But there had been several 'ifs and buts' as to which of the taxes can be set off against each other under the previous regime. GST is essential as integrating 17 different indirect taxes under GST will make life easier for companies to claim the input tax credit.

Second, GST rules for claiming ITC have been tightened to avoid frauds or revenue leakage for the government. The buyer cannot get ITC unless the supplier has actually paid the relevant tax or claimed input credit. Without ITC, there is a 'cascading effect of taxes. Erstwhile unregistered (for tax purposes) firms will now get a tax history, so there is now under the GST potential for access to institutional (as opposed to non-institutional) credit – reducing credit cost.

Why is GST transformative for formality? GST is levied at every step in the production process but is refunded to all parties in the production chain other than the final consumer. Goods and services are divided into five tax slabs for tax collection - 0%, 5%, 12%, 18%, and 28% (the last one for luxury, demerit goods). As a result of the introduction of GST, a large increase has occurred in the number of indirect taxpayers; many have voluntarily chosen to be part of GST, especially small enterprises that buy from large enterprises and want to avail themselves of input tax credits. An increase in the number of indirect taxpayers spells the growing formality of erstwhile informal firms. We find that GST India's formal sector non-farm payroll is substantially greater than currently believed. Formality defined as social security provision yields an estimate of formal sector payroll of 31% of the non-agricultural workforce; formality defined registration for payment of GST, i.e., in terms of being part of the GST net suggests a formal sector payroll of 53% (Ministry of Finance, 2018).

In Dec 2017, there were 9.8 million unique GST registrants, slightly more than total indirect tax registrants under the old system. But the two numbers are not comparable: registrants in the old system were not unique since many taxpayers were registered under several taxes. Adjusting the base for double and triple counting, GST increased the number of unique indirect taxpayers by >50% - a substantial 3.4 million.

One of the many benefits of GST was the voluntary compliance it elicited. About 1.7 mn registrants who were below the threshold limit of Rs 2 mn turnover pa (and hence not obliged to register) *chose to do so*. Indeed, out of the total estimated 71 million non-agriculture enterprises, around 13% are registered for GST.

In India, the government provides social security for its employees. The Employees' Provident Fund Organization (EPFO) provides it to private-sector employees for pensions and provident funds, and the Employees' State Insurance Corporation (ESIC) regarding medical benefits. EPFO contribution is mandatory for industries employing >20 workers, and whose monthly wage/salary is <Rs. 15,000. Above that level, contributions are voluntary. Jan-June 17 registrations jumped between March-July 17 by 10mn because of GST registration of erstwhile informal firms.

Business registration for tax purposes increased as a result of GST introduction. Since new data on the GST is available, formal non-farm payroll from a *social security perspective is estimated at 75 MN or 31% of the non-agricultural workforce*. This estimate includes government non-farm payroll (center and states, about 15 mn excluding defence personnel). The formal non-farm payroll from a *tax definition implies that*

nearly 53% of the non-agricultural workforce (240 million) is in the formal sector (Ministry of Finance 2018)<sup>18</sup>.

*Case study 2.* Incentives for the formalization of workers. The Indian government is encouraging formalization through incentives. Historically, employers' evasion of Employees Provident Fund (EPF) is widespread, given poor enforcement of labor laws. In its efforts to formalise employment, the present government has incentivised employers to enroll workers under EPF by offering to make employers' contributions to the social security scheme for three years, thus boosting enrolment.

Maharashtra state (in western India), for instance, as an additional labour welfare measure, has widened the ambit of EPF to include all power-loom workers (irrespective of the size of the enterprise), boosting formal sector employment. Such measures, however temporary, may enlarge the formal sector size. Since Sept 2017, EPFO registration data been released monthly: half a million new registration means as many formal jobs every month (not new jobs) – a big difference to the overall wellbeing of those workers who have been registered.

*Case study 3.* In South Africa, in the waste picker sector, a national set of guidelines for recognizing and integrating waste pickers at the local level has also been reached. The next and most challenging steps will be to negotiate changes at a national and local level that will make a material difference to the lives of informal workers. When informal workers start to feel more secure in the work, when their incomes start to improve, and when they can enjoy the social and legal protections that formal workers enjoy, then we can really start talking about achievements.

#### *R 204: Access to Public Procurement*

*Case study 4: Public procurement and MSMEs* India's MSME Development Act 2006 – specified M-S-M thresholds by size of capital investment. The government gives a preference in procuring government tenders for fully registered firms. The Public Procurement Policy 2012 states that Central Government shall procure a minimum of 20% of their total annual value of goods/services from MSEs (mandatory => April 2015). In the quota of 20 percent of annual procurement, 4 percent is earmarked for the Scheduled Tribes and Caste-owned MSEs, and a procuring entity has to report procurement compliances in its annual report. An MSE quoting price within the price band of L1+15 percent will be allowed to supply by bringing down its price to L1 (lowest bidder) price.

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<sup>18</sup> Chief Economic Adviser Subramaniam: "The revenue garnered by GST has exceeded all expectations with a tax buoyancy of 1.2 rather than 1 (indirect type taxes normally increase at the same rate as nominal GDP.) Remarkable is that GST tax revenue has increased at a rate 20% faster than traditional indirect taxes. That was in the first eight months of implementation, when implementation problems were immense" (Ministry of Finance, 2018). Hence the potential is vast!

R 204: Access to inclusive financial services.

| Table 14: Financial Inclusion in BRICS |                                  |      |                           |      |                             |      |   |      |   |      |
|--|----------------------------------|------|---------------------------|------|-----------------------------|------|---|------|---|------|
|  | Account (% age 15+) <sup>1</sup> |      | Account, male (% age 15+) |      | Account, female (% age 15+) |      | Account, income, poorest 40% (% ages 15+) |      | Account, income, richest 60% (% ages 15+) |      |
|  | 2011                             | 2017 | 2011                      | 2017 | 2011                        | 2017 | 2011                                      | 2017 | 2011                                      | 2017 |
| Brazil                                 | 56                               | 70.0 | 61                        | 73   | 51                          | 68   | 38  | 57   | 68  | 79   |
| Russia                                 | 48                               | 75.8 | 49                        | 75   | 48                          | 76   | 40  | 70   | 53  | 79   |
| India                                  | 33                               | 79.9 | 44                        | 83   | 26                          | 77   | 27  | 77   | 41  | 82   |
| China                                  | 64                               | 80.2 | 68                        | 84   | 60                          | 76   | 47  | 68   | 75  | 88   |
| South Africa                           | 54                               | 69.2 | 56                        | 68   | 51                          | 70   | 40  | 63   | 63  | 74   |

Note: The percentage of respondents who report having an account (by themselves or together with someone else) at a bank or another type of financial institution or report personally using a mobile money service in the past 12 months

Source: Demirgüç-Kunt, Asli, Leora Klapper, Dorothe Singer, Saniya Ansar, and Jake Hess. 2018. The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution. World Bank: Washington, DC.

Case study 5. Financial Inclusion in the BRICS

Tables 14 show that all the BRICS have made significant progress in ensuring that nearly four in five males and a similar proportion of women have a bank account. It also appears that all income quintiles seem to be doing well in terms of financial inclusion. The real question is whether having a large proportion of the citizens having a bank account translates into less informality.

In the earlier sections, we have already seen that informality remains exceptionally high in three of the five BRICS and high even in the remaining two. Bank account ownership has shot up in India since 2015, but it has not contributed to a fall in informality. In principle, those with special 'no frills' bank accounts (JDY scheme) were given an overdraft facility of Rs 5000 – so credit was available to individuals. (But very few took overdraft since their incomes did not give them the confidence they will be able to repay). However,

since most accounts are in public sector banks, they were given access to personal loans (noncollateralised): MUDRA individual loans for consumption/productive uses. However, the average loan size was Rs 17000 (\$250) in 2105-16, rose to Rs 47000 in 2016-17 – but that is not enough to conduct a real business<sup>19</sup>.

*R204: Access to skills and business development services.*

In the context of BRICS, occupational skills fall under the initiatives for the education and training of workers and disseminating the Decent Work Agenda. Such initiatives are gaining momentum, as seen in the BRICS Declarations of Fortaleza and Ufa and the discussions at the BRICS Academies.

There are many cases of good practice in respect of skills in each of the BRICS countries. ILO has tried to bring together at least the work related to Recognition of Prior Learning in each of the five BRICS countries. We provide a short brief about the work undertaken in each country. However, the objective here is to focus only on the good practices that other BRICS countries could potentially examine for replication.

*Case Study 7. Russia's National Occupation Standards.* Russia is undergoing significant changes in its labour market. As the population ages, on the one hand, the young are not finding work, and as a result, are entering informal work. Thus, studies by the Russia Academy of Sciences Sociology Institute show that if from 2001 to 2012, the proportion of all those employed in the informal sector in the total number of people employed in the country's economy went up from 12.5% to 19%, the age group under 20 shows an increase from 23.0 % to 47.7%, the next age group, 20-24, – from 13.3% to 55.8%, and the next one, 25–29, – from 12.5% to 34.7%, respectively. Informal youth employment is represented today by being hired by goods and services manufacturers, being engaged in individual and family entrepreneurship, working in private gardens, etc. All this shows that young people today form a layer of society that is among the least protected. Nevertheless, even in the informal sector, the young are gaining some skills.

Even though personnel certification (skills certification) in Russia has existed for over 20 years, the system has not yet become integrated and uniform. In 2012, the Russian Federation government adopted a system National Qualifications Standards. As a result, currently, some radical changes in skills recognition and assessment have been implemented:

- Occupational standards as the basis for qualification requirements are being implemented (by the end of 2015, around 500 occupational standards have been approved);

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<sup>19</sup> Another action with potential effects on formalization was demonetizing high denomination currency notes that accounted for 86% of currency circulation in the Indian economy. Demonetization of largest denomination Rs 500/1000 notes on 8 Nov 16 was announced by the government. Cash is the preferred means for transactions demand for money in an informalized economy. So the goal was to reduce cash holdings – reduce corruption, widen direct tax net, less cash; in other words, increase formality! However, there was a devastating impact on the informal economy/workers, which has lasted till now; in fact, this effect was the more negligible effect on the organised sector, more on unorganized units/workers. Workers with bank A/Cs began to be paid by cheque – so some very limited formalization followed.

- The National Council leads organisation and coordination of skills assessment activities under the RF President and Industry Qualifications Councils (18 such councils have already been set up);
- The Federal Law on Independent Assessment of Qualifications and Amendment of Certain Laws of the Russian Federation has been drawn up.

Creating an occupational standards-based independent skills assessment system serves as a basis for developing uniform approaches to procedures and results of skills recognition. In addition, employers may use this mechanism as a confirmation for the employer that their employees have the qualifications that meet the occupational standard.

Very importantly, by virtue of Federal Law # 122 dated May 2, 2015, the Labour Code was amended. Thus, article 195 says that if this Code, other federal laws, or other regulatory legal acts of the Russian Federation set requirements to a qualification that the worker needs to carry out a particular work function, the application of occupational standards concerns the said requirements is mandatory for employers.

*Case Study 8. China Recognition of Prior Learning System.* China has decided to move up the value chain into more technologically sophisticated product manufacturing, per 'Make in China 2025, which aims at making China into a world leader in Industrial Revolution 4 technologies. According to the deployment of China's National Middle and Long Term Talents Development Plan Outline (2010-2020) and Highly Skilled Talents Building Middle and Long Term Plan (2010-2020), the implementation plan of national high-skilled talents revitalization plan in recent years, departments, localities, and enterprises made various fruitfully explorations on setting up Chinese Characteristics Vocational Training and Skill Recognition System and accumulated valuable experience. Three work programs are carried out: a program of technician training, a programme of capacity building of training bases for high-skilled talents, and a programme of skill master studios.

There were more than 9,000 public occupation skill-testing stations in China in 2014. Under OSTA guidance, these testing stations manage occupational skill assessments and provide testing fields, equipment, and detection means for testing activities that meet the quality standard. **CRRC Corporation** Limited (known as **CRRC**) is a **Chinese** state-owned and publicly traded rolling stock manufacturer. It is the world's largest rolling stock manufacturer in revenue, eclipsing its major competitors of Alstom and Siemens. The outcome of inner recognition in CRRC is that the enterprise is satisfied with the outcome. The most outstanding three contributions to the enterprise from our interview are: Enhance the skill levels of the recruits, and promote the ability of the on-the-job personnel to ensure the product quality; the inner recognition brings in a more effective system and lower cost to the enterprise; condense the staff through inner recognition, and the staffs love their job and would like to devote to it. It's also beneficial to their career development.

*Case study 9.* Brazil has neither an NQF (National Qualification Framework) nor a national recognition system. However, it does have an effective engagement of industry in skill development of both formal and informal workers, which also involves an effective industry-driven financing system for skill development in place since 1942. This combination has made Brazil an emerging market economy leader in manufacturing

and skill development. Historically, VET in Brazil has been developed as a partnership between government and entrepreneurs to cope with an inadequate educated and low-skilled labour force. This strategy has supported most industrial development since the 40s. Therefore, VET has benefited from important investments and has advanced earlier and better than primary education itself.

Brazil's VET system success is founded upon a. an institutional arrangement of employers (called the 'S system') in industry, agriculture, and services, who pay a b. levy to finance vocational training. "S System" is a usual denomination for the National Apprenticeship and Social Services created in Brazil in the 40s. They are not a system but independent entities focused on specific sectors: Senai/Sesi (industry), Senac/Sesc (commerce and services), Senate/Seat (ground transport), Senar (agriculture), Sebrae (technical assistance for micro and small enterprises), and Sescoop (urban cooperatives)

This "system" is primarily financed by levies, which, although the government imposes it, is managed by entrepreneurs' organisations at national and state levels, including government representatives on their national and state boards. Since 2011 the "Ss" technical schools and colleges have been integrated into the federal network (Law 12513) but have kept their management autonomy.

So successful is Brazil's S system financed by levies that employers themselves pay. It has been adopted by 62 countries globally, including in Latin America, Europe, Africa, and significant east Asian miracle economies (South Korea, Malaysia, Singapore).

*Concluding remarks on R 204 and potential for collaboration among BRICS.*

Benhassine et al. (2016) and Campos et al. (2015) find that a combination of measures, such as in-person visits to explain business and tax registration and benefits, is more effective than just disseminating information on business and tax registration. Also, business registration will not automatically improve financial inclusion and access to credits unless other formalization assistance, such as training programmes and bank information sessions, is provided. ILO (2020), Mehrotra (2020), Chacaltana and Leung (2020), and Kiaga (2020) discuss what measures have worked globally, in Asia, Latin America, and Sub-Saharan Africa respectively. For example, in Latin America, a simplified tax system has been developed in some countries. In some cases, tax incentives have been associated with social security contributions, integrating several payments into a single tax, known as the *monotributo* (ILO, 2021).

"It is clear that the only way to facilitate the transition to formality sustainably is to engage in interventions in the multiple dimensions of informality at the same time. In all episodes of formalization, we have found the presence of economic growth and structural transformation, together with a combination of incentives and enforcement measures (sticks and carrots) for business or labour. Although the evidence indicates that the impacts of each intervention tend to be small, together, they can make a significant difference. In other words, these policies or interventions tend to work better together than separately. The experience of

formalization episodes also shows that the exact combination of economic and institutional policies in each region needs to be set according to its own needs.” (ILO, 2020, p. 167)<sup>20</sup>.

There already exists a network of labour research institutes of the BRICS. The leading Research Institute of the BRICS chairing country (changes every year) acts as the Rotation Director of the BRICS Labour Research Institutes Network. The leading Research Institute invites relevant universities, research institutes, and the country’s social partners to participate. The primary responsibilities of the Network Rotation Director are: to propose an annual research plan or proposals for revision of the research plan; to organize meetings with all member Institutions (at least once a year); to prepare reports to the Ministerial Meeting and to submit a report to the Ministerial Meeting after the Employment Working Group meeting. Given that COVID-19 has impacted the informal sector and its workers more severely than other sectors/workers, it is only appropriate that informality should be the subject of further collaborative work between the networks of labour researchers of the BRICS. Further suggestions are offered in this regard in section 7 of the current paper. A new research theme for 2020-2021 was chosen (Support of employment and income in the context of the COVID-19 crisis), which is consistent with the proposed approach.

In this section, we have presented several case studies from each of the types of recommendations included in R 204, which could be considered for adoption by other countries among the BRICS.

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<sup>20</sup> In South Africa, where there is the extensive Expanded Public Works Programme (EPWP), significant contributions have been made on the T2F, and south-south initiatives continue in terms of capturing good practices around employment-intensive works and south-south capacity development has been ongoing for many years (e.g., with India for example) especially for informal workers. India and South Africa have one of the largest public employment programmes, as we all know, with extensive experiences to be shared.

## Social security in the BRICS

ILO Recommendation R202 recommends a social protection floor for all workers, as does Recommendation 204 (2015). The most prominent international instruments on social security are the Social Security (Minimum Standards) Convention, 1952 (No. 102), and the Social Protection Floors Recommendation, 2012 (No. 202) (of the ILO). The long-standing Convention of 1952 (No. 102) brings together the nine classical social security contingencies (medical care, sickness, unemployment, old age, employment injury, family responsibilities, maternity, invalidity, survivorship) into a single comprehensive and legally binding instrument. We will examine the presence or absence of these SI ingredients in five BRICS countries in this section<sup>21</sup>.

In this section, we examine the social insurance system prevailing in the BRICS. We draw upon Tables 14-25 to analyse the situation in each country. We will address the potential for cooperation between the BRICS in the conclusion section, but there are many success stories within each country from which the others can learn. For instance, the conditional cash transfer programme Bolsa Família in Brazil, the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) in India, and the rights-based approach to social security in South Africa. These are good examples of practices that can be adapted to other contexts.

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<sup>21</sup> Brazil has ratified C168 Employment Promotion and Protection against Unemployment Convention, and except for South Africa, they have all ratified C122 on Full Employment

**Table 15: Overview of national social security systems**

| Country   | Number of policy areas covered by at least one programme |   | Existence of a statutory programme |                  |                 |              |            |              |           |         |
|---|--|---|------------------------------------|------------------|-----------------|--------------|------------|--------------|-----------|---------|
|   | Number of policy areas covered by at least one programme | Number of social security policy areas covered by a statutory programme | Child and Family                   | Maternity (cash) | Sickness (cash) | Unemployment | Employment | Disability / | Survivors | Old age |
| <b>Brazil</b>   | 8  | Comprehensive scope of legal coverage   8                               | ●                                  | ●                | ●               | ●            | ●          | ●            | ●         | ●       |
| <b>Russia</b>   | 8  | Comprehensive scope of legal coverage   8                               | ●                                  | ●                | ●               | ●            | ●          | ●            | ●         | ●       |
| <b>India</b>  | 7  | Nearly comprehensive scope of legal coverage   7                        | None                               | ●                | ●               | ●            | ●          | ●            | ●         | ●       |
| <b>China</b>  | 8  | Comprehensive scope of legal coverage   8                               | ●                                  | ●                | ●               | ●            | ●          | ●            | ●         | ●       |
| <b>South Africa</b>   | 8  | Comprehensive scope of legal coverage   8                               | ●                                  | ●                | ●               | ●            | ●          | ●            | ●         | ●       |
| <p>Note:</p> <ul style="list-style-type: none"> <li>● At least one programme anchored in national legislation, including employer-liability programmes based on mandatory risk pooling</li> </ul> <p>Definitions:<br/>The scope of coverage is measured by the number of social security policy areas provided for by law. This indicator can take the value 0 to 8 according to the total number of social security policy areas (or branches) with a programme anchored in national legislation. The following eight branches are taken into consideration: sickness, maternity, old age, survivors, invalidity, child/family, employment injury and unemployment. The number of branches covered by at least one programme provides an overview of the scope of legal social security provision</p> <p>Source:</p> <p>ILO(International Labour Office),2017. World Social Protection Report 2017–19: Universal social protection to achieve the Sustainable Development Goals. Available at: <a href="https://www.ilo.org/global/publications/books/WCMS_604882/lang--en/index.htm">https://www.ilo.org/global/publications/books/WCMS_604882/lang--en/index.htm</a> [29 November 2017].</p> |  |   |                                    |                  |                 |              |            |              |           |         |

**Tale 16: Social protection effective coverage (SDG indicator 1.3.1), latest available year**

| Country             | Population covered (in at least one area) <sup>1</sup> | People covered by social protection systems including floors |                                    |                                  |            |               |                   |
|---------------------|--|--|------------------------------------|----------------------------------|------------|---------------|-------------------|
|                     |  | Children <sup>2</sup>  | Mothers with newborns <sup>3</sup> | Persons with severe disabilities | Unemployed | Older persons | Vulnerable groups |
| <b>Brazil</b>       | 59.8   | 96.8   | 45                                 | 100                              | 7.8        | 78.3          | 42                |
| <b>Russia</b>       | 90.4   | 100  | 69                                 | 100                              | 68.2       | 91.2          | 54.5              |
| <b>India</b>        | 19   |  | 41                                 | 5.4                              |            | 24.1          | 14                |
| <b>China</b>        | 63   | 2.2  | 15.1                               |                                  | 18.8       | 100           | 27.1              |
| <b>South Africa</b> | 48   | 75.1   |                                    | 64.3                             | 10.6       | 92.6          | 35.6              |

Source:

ILO(International Labour Office),2017. World Social Protection Report 2017–19: Universal social protection to achieve the Sustainable Development Goals.Available at: [https://www.ilo.org/global/publications/books/WCMS\\_604882/lang--en/index.htm](https://www.ilo.org/global/publications/books/WCMS_604882/lang--en/index.htm) [29 November 2017].

The demographic profile of the BRICS countries, reveals the following. Russia has been an ageing society for many decades already. Over 20% of its population is over the age of 60; by comparison, the population over 60 in the European Union countries is 23.4 ((Pieters and Schoukens, 2012). China ceased to be in its demographic dividend in the middle of the second decade of this century and became an aging society from around 2015 onwards; the share of the Chinese population above age 60 is 13.5%. Brazil is on the verge of becoming an aging society with its population growth rate sharply down; at present, 11.5% of its population is above 60. The only two BRICS countries that are still within their demographic dividend are South Africa and India. South Africa's population growth rate, which remained in the region of 2.5 % per annum from before 1970 until the mid-1990s, has sharply declined to around 1.2 to 1.5 % per annum since 2000. India will become an aging society sometime between 2036 and 2040 and is well past the two-thirds point of its demographic dividend.

Given these demographic and aging challenges that the BRICS countries face, one would expect that each of them would have a well-advanced social security system for its aging population. However, as we show in this section reviewing social security coverage and arrangements, this is far from being the case currently. The covid-19 pandemic has only highlighted the vulnerabilities of the population, which is unprotected and works informally.

Tables 15 to 26 present an overview and details about the national social security system existing in the BRICS countries. Table 15 suggests that all the possible policy areas that can be covered under the rubric of social security are available in all five countries, whether it is child and family support, maternity benefit, sickness benefit, unemployment insurance, employment injury protection, disability, benefits for survivors and old-age pension. However, the reality is quite complex, as we will see in these tables.

Table 16 shows the variation by country in respect of the people covered by social insurance systems. The share of the population covered in at least one area (among the list just mentioned) is said to be the highest in Russia at 90%, followed by China at 63% and Brazil 60%, and then South Africa 48%, followed by India at 19 percent. The rest of the columns show that there is a considerable variation even within countries in respect of coverage under different types of protections. What is also clear is that in no country is unemployment benefit very high in its coverage except in Russia. This is not surprising given that even in the OECD countries, unemployment benefits were the last social security element introduced. In all categories of social protection, India has the smallest share of the population covered, which is consistent with the fact that 85% of its workforce is informal.

Table 17 shows that child and family benefit adequate coverage is nearly universal in Brazil and Russia. This kind of social assistance is means-tested and employment-related in both countries. In South Africa, the child benefit has 75% coverage of households. However, in India<sup>22</sup> and China, child and family benefits

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<sup>22</sup> India's Integrated Child Development Scheme is an early childhood development scheme for 0-6-year-olds (pregnant and lactating mothers) and does not fall within the definition adopted internationally.

are practically non-existent. One must note that even in all BRICS countries other than India, the benefits are through a non-contributory scheme that is not likely to cover those in informal work. That is why in Brazil, Russia, and South Africa, the coverage is as high as it is, which holds out a lesson for both India and China.

Maternity benefit (table 18) is available to most of the workforce in Brazil, Russia, and China because it covers those in an employer-employee relationship and those who are self-employed. Given that most self-employed are informal workers, the coverage of maternity benefits is very high. However, in India and South Africa, the self-employed are not financing the maternity benefit. Therefore, the coverage is much lower at 38.6 percent in South Africa and less than 9% in India<sup>23</sup>.

Effective coverage of those who receive benefits when unemployed (see table 19) is very limited in all BRICS, except in Russia, where 59% of men and 79% of women have employment-related benefits as of 2015. Most are financed through non-contributory schemes. However, the coverage of contributory schemes predominates in the remaining BRICS countries, where the extent of the population in the workforce covered is as follows: Brazil 7.8%, India 3%, China 18.8%, and South Africa 10.6%. It is not surprising that the coverage of unemployment benefits is as limited as given the level of per capita income of the BRICS countries other than Russia. It is notable that even in the now OECD countries, it is only very late in the evolution of social security systems that unemployment benefits were made available to the workforce. They were the last benefits in the social insurance package that was to be included in it.

Coverage of employment injury goes to the heart of social insurance in any country (see table 20). It is notable that the coverage of employment injury is high in Russia and China at 88 and 84% of the labour force, respectively. It is noteworthy that in both countries, self-employed are not mandatory cover in China, the coverages voluntary for self-employed and yet employment injury is high it is also notable that in both cases there is no employee contribution expected. It is the employer that is contributing. In both Brazil and South Africa, there is a reasonably high coverage at 63 and 64 percent, respectively. In all four countries, it is mandatory for legal employment injury coverage. Notably, it is as high as it is even though the self-employed are not covered. So, in other words, all four countries have managed to provide employment injury protection to the workers to a significant extent, including some portion of the informal workers in the informal sector. However, in the case of India, employment injury is restricted to 7.9 % of the labour force, which is not surprising given that that was the share of the workforce in the formal sector in the year 2013 (for which year the data is provided).

The most critical dimension of social insurance in any country is the availability or not of old-age pension (see table 21 for contributory and table 22 for non-contributory schemes). Contributory schemes apply to workers in the formal sector, while non-contributory schemes tend to apply to informal workers. What is clear from table 22 is that all countries among the BRICS have an old-age pension for workers in the formal

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<sup>23</sup> Although the ILO 2019 publication mentions that 41% of mothers are covered in India, this is a mistake given that the Employees State Insurance Corporation, which is the provider of maternity benefits for formal sector workers, has in the best case scenario coverage of 9% of the workforce or less.

sector who contribute to the scheme. That is why coverage achieved shows 100% for workers that are formal in the case of each country.

In the case of non-contributory pensions (table 23), they are more like social assistance. Notably, there are significant variations among the BRICS countries in the transfer to beneficiaries as a proportion of minimum wage. For instance, in Brazil, this old-age pension constitutes 100% of the minimum wage. In India, it is 6.1%, in China in the range of 3.5 to 7%. Unfortunately, no information is available for South Africa.

Tables 24 and 25 present information on public social protection expenditure. The former table shows data for all social protection expenditure as a proportion of GDP while the latter presents the distribution by type of guarantee. What is remarkable is the extensive variation of public expenditure on social protection, which only to a limited extent corresponds to or correlates with per capita income levels. For example, Russia in 2015 allocated 15.6% of its GDP to social protection. However, it had the highest level of per capita income among the BRICS countries – double that of its closest BRICS, China. China allocated 6.3 % of GDP while Brazil allocated 18.3 % of GDP, even though Brazil's per capita income was slightly lower than that of China, although in the broadly same ballpark. But what is noticeable is that Brazil was already in 1995 allocating the highest proportion of GDP to social expenditure at 15.5%.

Table 26 presents the distribution of public social protection expenditure by different types of guarantee. In Brazil's case, social protection expenditure, including health, is 18.3 % of GDP; but it is 9.6 % excluding health. The corresponding ratios for the remaining BRICS countries are: Russia 15.6 including health and 8.7% exclusive of health expenditure; South Africa 10.1 and 3.4 %; China 6.3 and 3.7 %, and India spends 3 and 2.7% of GDP. Public social protection expenditure for children as a proportion of GDP without health expenditure is the highest in South Africa at 1.6 %, followed by Brazil and Russia at 0.6 % each. China and India at 0.2 and 0.1 % respectively.

#### *Final remarks on social insurance in the BRICS*

What emerges from the preceding analysis is that all social insurance, which is the defining feature of informality in the workforce, is not available to most of the workforce in Brazil, India, and China. Over 20% of the Russian workforce and one-thirds of the South African workforce are still informal. What also emerges is that the social security system as it exists is currently quite fragmentary, and its coverage is patchy in the best of cases.

At the same time, all the BRICS are either aging or will be on the verge of aging in 10-15 years. This poses massive challenges to the BRICS countries, given that many of them still have large populations of poor people. While these challenges are common across the BRICS, each country has specificities. The one-child policy in China (which was nearly reversed just under a decade ago), the decline of life expectancy combined with low fertility in Russia, and the steady increase of life expectancy and decline of fertility in Brazil make the provision of social security for the elderly and those who will become elderly in some years are extremely urgent challenges. Both Brazil and South Africa, where the demographic dividend has ended, and India, which still has a few years remaining in its demographic dividend, all currently still face the dual challenges of ensuring rapid GDP growth with employment growth for the increasing numbers of young that

are joining the labour force each year. At the same time, they build a social security system for the rapidly aging population, who will also live longer.

It is also worth highlighting that some BRICS countries have made relevant progress in expanding social protection coverage, particularly for specific target groups, due to the effective implementation of inclusive social insurance policies. For instance:

1. Child and family benefits based on non-contributory schemes have reached near-universal coverage in Brazil and Russia, reaching a large part of the population in South Africa.
2. Four out of the five BRICS countries have found ways to provide employment injury protection to a large share of workers, including a portion of the informal workers in the informal sector.
3. In Russia and Brazil, persons with severe disabilities have universal access to social protection.
4. Very significant progress has been made in South Africa concerning maternity coverage.
5. China has achieved universal pension coverage (ILO, SP, P 30). Brazil has reached close to universal coverage for pensions (ILO World Social Protection Report 2017-2019).
6. The inclusion of self-employed workers in existing social security schemes is successful by Brazil (and several countries, including Argentina, Cabo Verde, Jordan, Kenya, Mexico, the Philippines, and Uruguay). They have included the self-employed in their general social protection schemes. Such an approach has the advantage of allowing workers to remain in the same scheme, regardless of their employment status. It provides adequate coverage when workers change their employment status or combine (part-time) paid employment and self-employment.
7. In its new Social Security Code 2020 (passed by the national parliament), India has included 'gig and platform workers' for inclusion in social security schemes. The inclusion of the self-employed often requires the redefinition of terms in the social security legislation, such as "contributor or insured person." This may require changing the definition of insured persons from "the worker" to "any person," which could make the law applicable to the self-employed (ISSA 2009).
8. To include self-employed workers in the social security legislation, the Government of Brazil created a new legal category of self-employed micro entrepreneurs, the Micro empreendedor Individual (MEI). It facilitated the extension process through the Plan Simples.

These achievements demonstrate the capacity of inclusive social protection systems to reach also the informal sector, even in economies of the South that face the challenges of a dual labour market. Moreover, they can provide a basis for South-South Cooperation through peer-learning and knowledge-sharing initiatives to transition to formality among BRICS countries. However, we also know that the effect of the COVID-19 pandemic will be fiscal limitations, and there is a risk that benefits could be rolled back.

**Table 17: Child and family benefits: Key features of main social security programmes and social protection effective coverage (SDG indicator 1.3.1 for children and families with children)**

| Country  | Contributory schemes | Non-contributory schemes     |                                  | No programme anchored in legislation or no information | Effective covered (%) | Latest year available |
|--|----------------------|------------------------------|----------------------------------|--|-----------------------|-----------------------|
|  | Employment Related   | Universal (not means-tested) | Social assistance (means-tested) |  |                       |                       |
| <b>Brazil</b>  | •                    |                              | •                                |  | 96.8                  | 2015                  |
| <b>Russian Federation</b>  | •                    |                              | •                                |  | 100                   | 2015                  |
| <b>India</b>   |                      |                              |                                  | •  |                       |                       |
| <b>China</b>   |                      |                              | •                                |  | 2.2                   | 2015                  |
| <b>South Africa</b>  |                      |                              | •                                |  | 75.1                  | 2015                  |
| <p>Note:</p> <ul style="list-style-type: none"> <li>• Legislation not yet entered into force.</li> </ul> <p>Source:</p> <p>ILO(International Labour Office),2017. World Social Protection Report 2017–19: Universal social protection to achieve the Sustainable Development Goals.Available at: <a href="https://www.ilo.org/global/publications/books/WCMS_604882/lang--en/index.htm">https://www.ilo.org/global/publications/books/WCMS_604882/lang--en/index.htm</a> [29 November 2017].</p> |                      |                              |                                  |  |                       |                       |

**Table 18: Maternity: Key features of main social security programmes and social protection effective coverage (SDG Indicator 1.3.1 for mothers with newborns)**

| Country             | Date of the law (or Labour Act*) | Provider of maternity benefits, type of programme and financing sources |                   |  | Coverage of self-employed                | Length of maternity leave |              | Percentage of wages paid during covered period (%) | Mothers with newborns receiving cash benefit, 2015 (%) |
|---------------------|----------------------------------|---|-------------------|--|--|---------------------------|--------------|--|--|
|                     |                                  | Provider of maternity benefit   | Type of programme | Sources of financing   |  | Period (no. and unit)     | No. of weeks |  |  |
| <b>Brazil</b>       | 1943                             | National Social Security Institute – social security                    | Social insurance  | Employer, employee and self-employed                                     | yes                                      | 120 days                  | 120 days     | 1002, 89   | 45   |
| <b>Russia</b>       | 1912                             | Social Insurance Fund – social security                                 | Social insurance  | Employer and self-employed   | Yes                                      | 126 days                  | 18           | 85   | 100  |
| <b>India</b>        | 1948                             | Employee's State Insurance Corporation – social security                | Social insurance  | Employer, employee and government  | No                                       | 26a weeks                 | 26a          | 100  | 41   |
| <b>China</b>        | 1951                             | Social security (individual state-run enterprises)                      | Social insurance  | Employer, self-employed and government (subsidizes administrative costs) | Yes (in most provinces), voluntary basis | 98 days                   | 14           | 100  | 15.1   |
| <b>South Africa</b> | 1937                             | Unemployment Insurance Fund – social security                           | Social insurance  | Employer and employee  | no                                       | 17.3 weeks                | 17.3         | 38.6   |  |

Source:

ILO(International Labour Office),2017. World Social Protection Report 2017–19: Universal social protection to achieve the Sustainable Development Goals.Available at: [https://www.ilo.org/global/publications/books/WCMS\\_604882/lang--en/index.htm](https://www.ilo.org/global/publications/books/WCMS_604882/lang--en/index.htm) [29 November 2017].

**Table 19: Unemployment: Unemployed who actually receive benefits, latest available year (SDG indicator 1.3.1 for unemployed)**

|                     | Contributory schemes | Non-contributory schemes | Contributory and non-contributory schemes | Male | Female | Latest Year | Unemployment benefit programme   |
|---------------------|----------------------|--------------------------|---|------|--------|-------------|--|
|                     |                      |                          |   |      |        |             | Existence of unemployment programme anchored in legislation and type of programme                          |
| <b>Brazil</b>       | 7.8                  | 0                        | 7.8                                       |      |        | 2015        | Employment related and individual account (employer liability)   |
| <b>Russia</b>       | 0                    | 68.2                     | 68.2                                      | 59.2 | 78.7   | 2015        | Employment related   |
| <b>India</b>        | 3                    | 0                        | 3   |      |        | 2008        | Social insurance, social assistance (public employment guarantee scheme), and withdraw from provident fund |
| <b>China</b>        | 18.8                 | 0                        | 18.8                                      |      |        | 2015        | Local government-administered social insurance programmes  |
| <b>South Africa</b> | 10.6                 | 0                        | 10.6                                      |      |        | 2015        | Social insurance   |

Source:  
ILO (International Labour Office), 2017. World Social Protection Report 2017–19: Universal social protection to achieve the Sustainable Development Goals. Available at: [https://www.ilo.org/global/publications/books/WCMS\\_604882/lang--en/index.htm](https://www.ilo.org/global/publications/books/WCMS_604882/lang--en/index.htm) [29 November 2017].

**Table 20: Employment injury: Key features of main social security programmes**

|              | Type of programme  | Contribution rate (%) <sup>b</sup>             |  |                 |  | Estimate of legal employment injury coverage as % of the labour force |                    |                                    |
|--------------|--|--|--|-----------------|--|---|--------------------|------------------------------------|
|              |  | Employee                                       | Employer   | Self-employed   | Financing from government  | Mandatory coverage  | Voluntary coverage | Latest available year <sup>c</sup> |
| Brazil       | Social insurance   | No contribution                                | 1% to 3% of gross payroll according to assessed risk; 0.1% of gross payroll for employers of rural workers | Not covered     | No contribution  | 62.9  | 0                  | 2015                               |
| Russia       |  | No contribution                                | 0.2% to 8.5% of payroll according to 32 classes of professional risk related to 22 industry categories     | Not covered     | No contribution  | 87.6  | 0                  | 2015                               |
| India        | Social insurance   | Global contribution und sickness (1% of wages) | Global contribution und sickness (1% of wages)   | Not covered     | Global contribution under sickness (12% of the cost of medical benefits) | 7.9   | 0                  | 2013                               |
| China        | Social insurance; employer liability                           | No contribution                                | 0.2% to 1.9% of total payroll according to industry's risk classification                                  | Voluntary basis | Subsidies as needed  | 83.7  | 13.3               | 2014                               |
| South Africa | Employer liability (involving insurance with a public carrier) | No contribution                                | Total cost (pays insurance premiums which vary depending on the industry and reported accident rate)       | Not covered     | No contribution  | 63.9  | 0                  | 2015                               |

Source:

ILO(International Labour Office),2017. World Social Protection Report 2017–19: Universal social protection to achieve the Sustainable Development Goals.Available at: [https://www.ilo.org/global/publications/books/WCMS\\_604882/lang--en/index.htm](https://www.ilo.org/global/publications/books/WCMS_604882/lang--en/index.htm) [29 November 2017].

**Table 21: Disability benefits: social protection effective coverage  
(SDG indicator 1.3.1 for persons with severe disabilities)**

| Country      | Contributory     |                |                                |                              | Non-contributory             |                                  |                                      | Effective coverage (%) | Latest available year |
|--------------|------------------|----------------|--------------------------------|------------------------------|------------------------------|----------------------------------|--------------------------------------|------------------------|-----------------------|
|              | Social insurance | Provident fund | Mandatory occupational pension | Mandatory individual account | Universal (not means-tested) | Social assistance (means-tested) | No programme anchored in legislation |                        |                       |
| Brazil       | •                |                |                                |                              |                              | •                                |                                      | 100                    | 2015                  |
| Russia       | •                |                |                                |                              | •                            |                                  |                                      | 100                    | 2015                  |
| India        | •                | •              |                                |                              |                              | •                                |                                      | 5.4                    | 2015                  |
| China        | •                |                |                                |                              |                              |                                  |                                      | -                      | -                     |
| South Africa |                  |                |                                |                              |                              | •                                |                                      | 64.3                   | 2015                  |

Note:

- Legislation not yet entered into force.

Source:

ILO (International Labour Office), 2017. World Social Protection Report 2017–19: Universal social protection to achieve the Sustainable Development Goals. Available at: [https://www.ilo.org/global/publications/books/WCMS\\_604882/lang--en/index.htm](https://www.ilo.org/global/publications/books/WCMS_604882/lang--en/index.htm) [29 November 2017]

**Table 22 Old-age pensions: Key features of main social security programmes**

| Date of first law/ year | Type of programme   | Pensionable age |  | Contribution rates: Old-age, disability, survivors |   |   |   | Estimate of legal coverage for old age (as a % of the working-age population) |   |                  |      |      |
|-------------------------|---|-----------------|--|--|---|---|---|---|---|------------------|------|------|
|                         |   | Men             | Women  | Insured person                                     |   |   | Financing from Government   | Contributory Mandatory  | Contributory  | Non-Contributory |      |      |
|                         |   |                 |  | Employer   | Self-employed                                     |   |   |   |   |                  |      |      |
| 1923                    | Social insurance (Age Pension)  | Urban           | 65   | 60   | 8.0-20.0 <sup>2</sup>                             | 11.0 <sup>1</sup> ;                           | 20.0 <sup>4</sup>   | 20  | Earmarked taxes finance admin costs and any deficit of social insurance | 61.2             | 38.8 | 38.8 |
|                         |   | Rural           | 60   | 55   | No contribution <sup>3</sup>                      | Na  | Na  |   |   |                  |      |      |
| 1996                    | Means- and pension tested non-contributory pension (SA, Basic Old-Age Solidarity Pension)                               | 65              | 65   | No contribution                                    | No contribution                                   | No contribution                               | Total costs   |   |   |                  |      |      |
| 1928                    | Means-tested, noncontributory pension (SA) Means-tested, noncontributory pension for war veterans (SA)                  | 60              | 60   | No contribution                                    | No contribution                                   | No contribution                               | Total cost  | 0   | 0   |                  |      | 100  |
| 1951                    | Social insurance (SI) and individual accounts (IA) for urban workers (Basic Old-age Insurance Scheme for Urban Workers) | 60              | 60 (professional); 55 (nonprofessional salaried); 50 (other) | No contribution (SI) or 8 (IA)                     | Up to 20% of payroll (SI) or no contribution (IA) | 12 (SI) or 8 (IA)                             | Central and local governments provide subsidies as needed                                   |   | 49.8  | 50.2             |      | 0    |
| 2011                    | Noncontributory pension and individual account schemes for rural and non-salaried urban residents                       | 60              | 60   | No contribution (NCP) or voluntary basis (IA)      | n.a.  | No contribution (NCP) or voluntary basis (IA) | At least 70.0 yuan (tax funded) or 50% of the cost, depending on region (NCP); 30 yuan (IA) |   |   |                  |      |      |
| 1952                    | Provident Fund  | 58              | 58   | 12   | 3.67 (+ 0.85 for admin costs)                     | n.a.  | No contribution   |   | 10.4  | ..               |      | 87.5 |
| 1952                    | Pension scheme (SI)   | 58              | 58   | No contribution                                    | 8.3   | n.a.  | 1.16% of the insured's basic wages  |   |   |                  |      |      |
| 1995                    | Means-tested non-contributory pension (SA)  | 60              | 60   | n.a.   | n.a.  | n.a.  | Total cost  |   |   |                  |      |      |
| 1922                    | Notional defined contribution (NDC)   | 60              | 55   | No contribution                                    | 22  | Annual contribution of 17,328.48 ruble        | No contribution   | 66.2  | ..  |                  |      | 33.8 |

| ... | Pension-tested<br>noncontributory pension<br>(SA) | 65 | 60 | No<br>contribution | No<br>contribution | The total cost of<br>social pensions. <sup>5</sup> |
|-----|---|----|----|--------------------|--------------------|--|
|-----|---|----|----|--------------------|--------------------|--|

Notes:

1: according to 3 income bands

2: if voluntarily insured

3: proof of 60-180 months of rural work

4: 2.75- 7.83 for small businesses depending on annual earnings and sector

5: Regional and local governments may finance supplementary benefits

6: Gratuity schemes for industrial workers (lump sum benefit – employer liability) – 4% contribution rate by employers

Source:

ILO (International Labour Office), 2017. World Social Protection Report 2017–19: Universal social protection to achieve the Sustainable Development Goals.

Available at: [https://www.ilo.org/global/publications/books/WCMS\\_604882/lang--end/index.htm](https://www.ilo.org/global/publications/books/WCMS_604882/lang--end/index.htm) [29 November 2017].

**Table 23: Non-contributory pension schemes: Main features and indicators**

| Country            | Year introduced                 | Name of scheme   | Legal requirements and characteristics of the schemes |             |           |             |            |              | Level of benefit (monthly) |   |              |              |                   | Effective coverage (number, %) |                        |                        |                           |      | Cost            |      |      |
|--------------------|---------------------------------|--|---|-------------|-----------|-------------|------------|--------------|----------------------------|---|--------------|--------------|-------------------|--------------------------------|------------------------|------------------------|---------------------------|------|-----------------|------|------|
|                    |                                 |  | Age of eligibility                                    | Citizenship | Residency | Income test | Asset test | Pension-test | National currency          | USD   | PPP          | Year         | % of minimum wage | Number of recipients           | Population 60 and over | Population 65 and over | Population above eligible | Year | Cost (% of GDP) | Year |      |
| Brazil             | 1996                            | Benefício de Prestação Continuada (BPC / Continuous Cash Benefit)  | 65  | --          | •         |             | •          | ○            | •                          | 880   | 264.5        | 471.7        | 2015              | 100                            | 191891.8               | 8                      | 11.7                      | 11.7 | 2015            | 0.3  | 2013 |
|                    | 1963                            | Aposentadoria por Idade pelo segurado especial (Age Pension for rural workers, formerly Previdência Rural) | 60 (m)<br>55 (w)                                      | --          | --        | --          | --         | •            | •                          | 880   | 264.5        | 471.7        | 2015              | 100                            | 5820780                | 27.1                   | 40.5                      | 22.1 | 2012            | 1    | 2012 |
| Russian Federation |                                 | State social pension   | 65 (m)<br>60 (w)                                      | --          | --        | --          | --         | •            | •                          | 3692  | 59.1         | 171.8        | ...               | n.a.                           | 3000000                | 10.4                   | n.a.                      | 12.1 | ...             | 0.2  | ...  |
| India              | 1995                            | Indira Gandhi National Old-Age Pension Scheme  | 60  | --          | --        | •           | --         | --           | •                          | 200   | 3            | 11.4         | 2014              | 6.1                            | 20595274               | 17.7                   | 28                        | 17.7 | 2015            | 0    | 2015 |
| China              | 2011                            | Pension Schemes for Rural and Non-salaried Urban Residents   | 60  | --          | ○         | --          | --         | •            | •                          | 70.0 (basic tax-funded benefit)               | 10.2         | 19.8         | 2015              | 3.5–7.0                        | 148003000              | 70.7                   | 112.6                     | 70.7 | 2015            | 0.1  | 2012 |
| South Africa       | 1927 (for specific group), 1944 | Old-Age Grant  | 60  |             | •         | •           | •          | --           | •                          | 1,410.0 (up to age 74); 1,430.0 (75 or older) | 110.1; 111.7 | 256.4; 260.0 | 2015              | n.a.                           | 3114729                | 74                     | 113.6                     | 74   | 2015            | 1.3  | 2015 |
|                    | 1928                            | War Veteran's Grant  | 60  |             | •         | •           | •          | --           | •                          | Up to 1,430.0                                 | ...          | ...          | 2015              | ...                            | ...                    | ...                    | ...                       | ...  | ...             | ...  | ...  |

Note:

- Yes
- No

 Source: ILO (International Labour Office), 2017. World Social Protection Report 2017–19: Universal social protection to achieve the Sustainable Development Goals. Available at: [https://www.ilo.org/global/publications/books/WCMS\\_604882/lang-en/index.htm](https://www.ilo.org/global/publications/books/WCMS_604882/lang-en/index.htm) [29 November 2017].

**Table 24: Deficits in universal health protection by rural/urban areas (global, regional and country estimates)**

| Country      | Legal health coverage deficit, % of population without legal coverage |       |       |      | Out-of-pocket expenditure, % of total health expenditure <sup>1</sup> |       |       |      | Financial deficit, % of population not covered due to financial resource deficit (threshold: US\$239) |       |       |      | Staff access deficit, % of population not covered due to health professional staff deficit (threshold: 41.1) |       |       |      | Maternal mortality ratio, deaths per 10,000 live births |       |       |      |
|--------------|---|-------|-------|------|---|-------|-------|------|---|-------|-------|------|--|-------|-------|------|---|-------|-------|------|
|              | Total   | Urban | Rural | Year | Total   | Urban | Rural | Year | Total   | Urban | Rural | Year | Total  | Urban | Rural | Year | Total   | Urban | Rural | Year |
| Brazil       | 0   | 0     | 0     | 2009 | 30.6  | 35.6  | 3.7   | 2009 | 0   | 0     | 0     | 2010 | 0  | 0     | 0     | 2010 | 5.6   | 5.6   | 5.8   | 2010 |
| Russia       | 12  | 1     | 16.7  | 2011 | 36.4  | 46.9  | 7.3   | 2008 | 0   | 0     | 0     | 2010 | 0  | 0     | 0     | 2010 | 3.4   | 3.4   | 3.4   | 2010 |
| India        | 87.5  | 74.9  | 93.1  | 2010 | 61.8  | 49.8  | 67.2  | 2009 | 90  | 89    | 94.4  | 2011 | 62.5   | 50.5  | 68    | 2011 | 20  | 18.1  | 35.5  | 2011 |
| China        | 3.1   | 1     | 5.1   | 2010 | 35.3  | 55.3  | 15.9  | ...  | 24.1  | 23.9  | 24.2  | 2009 | 29   | 28.9  | 29.1  | 2009 | 3.7   | 3.7   | 3.7   | 2009 |
| South Africa | 0   | 0     | 0     | 2010 | 7.4   | 10.9  | 1.9   | 2011 | 0   | 0     | 0     | 2010 | 0  | 0     | 0     | 2010 | 30  | ...   | ...   | ...  |

Source4

ILO (International Labour Office), 2017. World Social Protection Report 2017–19: Universal social protection to achieve the Sustainable Development Goals. Available at: [https://www.ilo.org/global/publications/books/WCMS\\_604882/lang--en/index.htm](https://www.ilo.org/global/publications/books/WCMS_604882/lang--en/index.htm) [29 November 2017]

**Table 25: Public social protection expenditure, 1995 to latest available year (percentage of GDP)**

| Country            | Total public social protection expenditure (% of GDP) |      |      |      |      |      |      |      | Latest available | Year                  | Source |
|--------------------|---|------|------|------|------|------|------|------|------------------|-----------------------|--------|
|                    | 1995  | 2000 | 2005 | 2010 | 2011 | 2012 | 2013 |      |                  |                       |        |
| Brazil             | 15.5  | 14.2 | 15.5 | 16.4 | 16.1 | 16.6 | 15.3 | 18.3 | 2015             | ECLAC                 |        |
| Russian Federation | 11.1  | 9.4  | 11.8 | 16.6 | 14.9 | 14.8 | 15.4 | 15.6 | 2015             | IMF                   |        |
| India              | 1.5   | 1.6  | 1.5  | ...  | 2.6  | 2.4  | ...  | 2.7  | 2014             | GSW                   |        |
| China              | 3.2   | 4.7  | 2.7  | 6.7  | 7.3  | 8    | 8.4  | 6.3  | 2015             | ILO. Before 2015: IMF |        |
| South Africa       | 6.8   | 6.7  | 8.6  | 9.8  | ...  | 9.9  | 10   | 10.1 | 2015             | IMF                   |        |

Source:

ILO (International Labour Office), 2017. World Social Protection Report 2017–19: Universal social protection to achieve the Sustainable Development Goals. Available at: [https://www.ilo.org/global/publications/books/WCMS\\_604882/lang--en/index.htm](https://www.ilo.org/global/publications/books/WCMS_604882/lang--en/index.htm) [29 November 2017].

*BRICS' government responses to the economic impact of COVID-19 pandemic and on the informal economy.*

This section begins by discussing the impact on global labour markets briefly, examining the specific effects on informal workers in the BRICS, and then assessing the response of BRICS countries to the economic impact.

#### *The Impact of the Covid-19 Pandemic on global labour markets*

Of the global workforce of around 3.3 billion, nearly 2 billion workers (or 61 per cent) are engaged in the informal economy. Women and migrant workers are particularly vulnerable. Of these 2 billion, almost 1.6

billion are estimated to be significantly impacted by the crisis due to lockdown measures or working in high-risk sectors (Lee, Schmitt, and Verick, 2020). This applies as much to the BRICS countries as elsewhere.

The informal sector and informal workers were the worst impacted. Incomes fell as economies contracted: all BRICS economies, except China, acquired in 2020. Massive income effects have much to do with the nature of the pandemic. Informality is often a “last-resort” option for survival, but this option often was not viable due to repeated lockdown measures that continue into 2021. This resulted in income risks for informal workers much higher during this pandemic than previous global crises of comparable scale.

As we saw in section 1, youth were vulnerable going into this crisis. Unemployment affected 67.6 million young women and men worldwide, or 13.6 per cent of the youth labour force. Many more millions were not in employment, education, or training (NEET). In addition, more than three-quarters of young people were employed in the informal economy, making them highly vulnerable to this downturn.

With this background, the COVID-19 crisis has affected young people in three ways:

1. Disruptions to education, training, and work-based learning.
2. Increased difficulties for job seekers and new labour market entrants.
3. Job and income losses, along with the deteriorating quality of employment.

At the onset of the crisis, 178 million youth were employed in sectors, such as accommodation and food services and retail trade, which have been hard hit, leading to cuts in working hours, layoffs, and severe losses in incomes. According to the Global Survey on Youth and COVID-19 implemented by the ILO and other partners, more than 1 in 6 young people surveyed have stopped working since the crisis started.

As we saw in section 2, women are more represented in informal labour markets. However, women had lower labour force participation, wages, and quality of employment before the Covid pandemic. As Lee et al. 2020 note, the crisis disproportionately affects women workers in four main ways, in the BRICS as elsewhere.

First, almost 510 million or 40 per cent of all employed women worldwide work in hard-hit sectors (compared with 36.6 per cent of employed men). Second, 55 million or 72.3 percent of domestic workers worldwide were at significant risk of losing their jobs and incomes due to the lockdown and the lack of adequate social security coverage. Third, women represent more than 70 percent of those employed in health and social work. Though these women represent the bulk of frontline workers who face the direct risks of responding to the virus, they tend to be engaged in lower-skilled and lower-paid jobs in this sector. Finally, closures of early childhood education centers, care services, and schools, along with the unavailability of older relatives to provide support, have exacerbated the unequal distribution of care.

The impact of the COVID pandemic on the informal workforce for each BRICS country is examined below (see tables 27 and 28). It has sapped the fiscal capacity of most governments and led to sharp economic

contractions, thus constraining fiscal space further. The impact has been most severe in India and Brazil, followed by South Africa, Russia, and least of all on China. Finally, we will examine what special measures countries have taken to respond to the crisis, including those with labour market implications to protect informal workers

**Table 26: Proportion of informal economy workers significantly impacted (of total employment %)**

|                     | Total                     |                                 | High Risk                 |                                 | Medium Risk               |                                 | Low risk                  |                                 |
|---------------------|---------------------------|---------------------------------|---------------------------|---------------------------------|---------------------------|---------------------------------|---------------------------|---------------------------------|
|                     | Total informal employment | Significantly impacted informal |
| <b>Brazil</b>       | 48                        | 38                              | 34                        | 34                              | 58                        | 58                              | 57                        | 6                               |
| <b>Russia</b>       | 21                        | 19                              | 26                        | 25                              | 22                        | 20                              | 6                         | 9                               |
| <b>India</b>        | 88                        | 86                              | 84                        | 86                              | 86                        | 86                              | 48                        | 31                              |
| <b>China*</b>       | 54                        | 37                              | 59                        | 54                              | 68                        | 63                              | 26                        | 5                               |
| <b>South Africa</b> | 35                        | 34                              | 31                        | 27                              | 32                        | 47                              | 46                        | 41                              |

**Table 27: Sectors most represented among informal workers significantly impacted by the crisis (%)**

|                     | Women     |             |          | Men       |             |          |
|---------------------|-----------|-------------|----------|-----------|-------------|----------|
|                     | High Risk | Medium Risk | Low Risk | High Risk | Medium Risk | Low Risk |
| <b>Brazil</b>       | 34.6      | 0.8         | 28.9     | 29.4      | 18.9        | 16.2     |
| <b>Russia</b>       | 64.7      | 2.6         | 5.6      | 38.6      | 18.7        | 6.7      |
| <b>India</b>        | 21.3      | 3.9         | 8.4      | 27.5      | 16.2        | 2.9      |
| <b>China*</b>       | 73.4      | 7.3         | 8.4      | 48.4      | 27.2        | 7.6      |
| <b>South Africa</b> | 36.7      | 7.9         | 45.9     | 39.4      | 29          | 21.7     |

Note: \* 2014 Data

Source: ILO, 2020, Informality | Country factsheet, Overview of the informal economy in Brazil (PNADC, 2019)

ILO, 2020, Informality | Country factsheet, Overview of the informal economy in Russian Federation (Labour force survey, 2019)

ILO, 2020, Informality | Country factsheet, Overview of the informal economy in India (Periodic Labour Force Survey, 2019)

ILO, 2020, Informality | Country factsheet, Overview of the informal economy in China (China Household Income Project, 2014)

ILO, 2020, Informality | Country factsheet, Overview of the informal economy in South Africa (QLFS, 2019)

## The impact of COVID-19 pandemic on the informal economy.

Based on empirical analysis of the impact of the covid-19 pandemic on the informal economy International Labour Organisation has identified sectors according to their risk levels, i.e., the risk of being impacted by the economic crisis resulting from the Covid-19 pandemic and lockdowns. According to ILO, the high-risk factors are the following: wholesale and retail trade, repair of motor vehicles, manufacturing, accommodation and food services, real estate, business, and administrative activities.

The medium-high risk sectors are arts, entertainment, and recreation; domestic workers and other services; transport, storage, and communication. The medium-risk sectors are construction, financial and insurance services, mining, and quarrying. The low, medium-risk sectors are agriculture, forestry, and fishing. Finally, the low-risk sectors are human health and social work activities, education, utilities, and public administration.

Please note that ILO primarily uses the term “jobs at risk” because jobs may not be “lost” permanently when an economic shock hits an economy. Moreover, the labour market will adjust through other mechanisms and outright job losses, such as layoffs, reduced hours, pay cuts, and so on. This is exactly what has transpired if we look at news reports from across all countries. However, the contraction in aggregate demand will cause a slow climb back.

In this section, we examine the impact on informal economy workers in each of the BRICS countries, including by risk of covid-19 impact in the sector. Tables 26 and 27 estimate the impact. In addition, table 26 examines the proportion of informal economy workers that are significantly impacted, while table 27, disaggregated by gender, and examines the sectors impacted that are represented among informal workers. First, however, for each country, we begin by examining the economic measures taken by the government to respond to the economic crisis and its effect on the labour market.

In Table 28 we present the size of the fiscal, monetary and macro-financial measures taken by BRICS governments.

| Table 28: Country Fiscal Measures in Response to the COVID-19 Pandemic(as a % of GDP) |                       |                  |                                      |                                     |
|---|-----------------------|------------------|--------------------------------------|-------------------------------------|
| Country   | Total on budget (A-D) | Total off budget |                                      |                                     |
|   |                       | Total (B+C)      | Below the line measures <sup>B</sup> | Contingent liabilities <sup>C</sup> |
| Brazil  | 8.3                   | 6.2              | 1.1                                  | 5.1                                 |
| Russia  | 2.9                   | 1.5              | 0.5                                  | 1                                   |
| India   | 3.1                   | 5.1              | 0.3                                  | 4.8                                 |

|  |     |     |     |     |
|--|-----|-----|-----|-----|
| China  | 4.7 | 1.3 | 0   | 1.3 |
| South Africa   | 5.5 | 4.3 | 4.1 | 0.1 |
| <b>Notes:</b>  |     |     |     |     |
| A. Above-the line measures: Additional spending and forgone revenue; it includes additional spending (health services and unemployment benefits); capital grants and targeted transfers (wage subsidies or direct transfers); or tax measures (tax cuts or other relief) provided through standard budget channels   |     |     |     |     |
| B. Below the line measures: Equity injections, asset purchases, loans, debt assumptions, including through extra-budgetary funds   |     |     |     |     |
| C. Contingent liabilities: Guarantees (on loans, deposits etc.), Quasi-fiscal operations (non-commercial activity of public corporations on behalf of government)  |     |     |     |     |
| D. Accelerated spending and deferred revenue in areas other than health  |     |     |     |     |
| <b>Source:</b>   |     |     |     |     |
| IMF Fiscal Affairs Department, January 2021. Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic. Also available at: <a href="https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19">https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19</a> |     |     |     |     |

## South Africa

South Africa was already in recession prior to the arrival of COVID-19. It had three-quarters of continuous contractions to its GDP between Q3 2019 and Q1 2020.<sup>5</sup> South Africa's level of unemployment is already among the highest in the world, at 30.1 per cent as of Q1 2020. Moreover, large proportions of the working population earn below various measures of poverty. Of those employed, 60.5 per cent earn below the working poverty line of R5 086 (\$300) per month, while 13 per cent earn below the Upper Bound Poverty Line (UBPL) of R1 183 (\$70) per month; employment (including waged and self-employment) is a crucial means of tackling poverty. As a result, the virus risks exacerbating the already incredibly high levels of inequality and working poverty in South Africa's labour market. As a result, at least five years must pass for South Africa's economy to return to pre-2019 levels – unless innovative actions are implemented (UNDP and Government of South Africa, 2020).

Since the beginning of the pandemic, net capital outflows (bonds and equities) have amounted to \$ 12.1 billion (4.2 percent of GDP), and the rand has depreciated by about 0.5 percent vis-à-vis the US dollar. Following a request from the government, on July 27, the IMF approved emergency assistance under the Rapid Financing Instrument equivalent to US\$4.3 billion.

The key Policy Responses as of December 17, 2020, were as follows on the fiscal side. First, as part of the second phase of recovery in South Africa, the government announced a social relief and economic support package of R500 billion, or around 10 percent of GDP. This fiscal support package is at the centre of the government's second phase economic response (UNDP-Government of South Africa). The R500 billion will

be paid for by repurposing R130 billion within the current budget, R44 billion worth of temporary tax referrals (National Treasury has described as liquidity support). At the same time, the remaining R330 billion (roughly 6.5 percent of GDP) will be raised both from local sources, such as the UIF and from global partners and international financial institutions.

As Table 29 shows, the South African government took significant on-budget as well as off-budget measures. The government assisted companies and workers facing distress through the Unemployment Insurance Fund (UIF) and special programs from the Industrial Development Corporation. Additional funds were made available for the health response to Covid-19, workers with an income below a certain threshold received a small tax subsidy for four months, and the most vulnerable families are receiving temporarily higher social grant amounts until the end of October 2020. A new temporary Covid-19 grant was also created to cover unemployed workers that did not receive grants or UIF benefits and was extended for an additional three months through January 2021. In addition, the numbers of food parcels for distribution was increased.

Funds were made available to assist SMEs under stress, mainly in the tourism and hospitality sectors and small-scale farmers operating in the poultry, livestock, and vegetable sectors. A new loan guarantee scheme is helping companies with turnover below a certain threshold to get bank financing for the payment of operating expenses as of May 12. Allocations were made to a solidarity fund to help combat the spread of the virus, with the assistance of private contributions. The revenue administration accelerated reimbursements and tax credits, allowing SMEs to defer certain tax liabilities, and issued a list of essential goods for a full rebate of customs duty and import VAT exemption.

*Impact on Informal Workers.* ILO primarily uses the term “jobs at risk” because jobs may not be “lost” permanently when an economic shock hits an economy. Moreover, the labour market will adjust through other mechanisms and outright job losses, such as layoffs, reduced hours, pay cuts, and so on. In total employment, the share of informal employment is 35%, and the significantly impacted workers also account for 34% of the total workforce in South Africa (ILO, 2020). In the high-risk sectors, the significantly impacted informal workers are 27% of total employment in the high-risk sector. The medium and the low-medium risk sectors have a relatively higher share of informal workers, significantly impacted by 37% and 47%, respectively. The low-risk sectors have 41% of significantly impacted informal workers.

There are some notable gender differences in the sectors most representative among informal workers significantly impacted by the Covid-19 pandemics. About 44% of men are in high-risk or medium-high risk sectors, while the share of women informal workers in the sectors is 36.7%. About 35% of men are in the medium risk and low, medium risk sectors, and the crisis significantly impacts these male informal workers. Forty-six percent of informal women workers are in low-risk sectors, while only 21.7 percent of male informal workers are in these low-risk sectors.

## **Russia.**

The government’s economic response to the pandemic included the following key measures. For workers, the following actions were taken: (i) increased compensation for frontline medical staff as well as health

and safety inspectors; (ii) individuals under quarantine to receive sick leave benefits and leave pay to equal at least the minimum wage until the end of 2020; (iii) for those who lost a job after March 1, 2020, including for sole proprietors, the standard unemployment benefit to equal the minimum wage for five months; the minimum unemployment benefit to be tripled until end-August; and eligibility was extended by three months. In addition, a series of cash transfers were increased: (iv) all children up to 3 years of age to receive an additional lump sum benefit for three months, starting in April. All children 3-15 years of age-eligible for a one-time lump sum benefit; all children under 16 years of age eligible for another one-time lump sum benefit. All families with children get an additional lump sum benefit for each child for up to 6 months if a parent loses a job (for up to 4 months for parents who lost their jobs before March 1).

Furthermore, there were actions that helped small enterprises: (i) interest rate subsidies for SMEs and systemically important enterprises; (ii) tax deferrals for most affected companies on most taxes; (vii) deferrals on social contributions for SMEs in affected sectors for 6 months (extended for three more months for selected affected sectors); (iii) social contributions by SMEs on wages in excess of the minimum wage permanently reduced; social contributions and CIT permanently reduced for IT firms; (iv) a tax holiday on all taxes (excluding VAT) and social contributions for Q2 for SMEs, sole proprietors, and NGOs providing social services; (v) registered self-employed were refunded their taxes for 2019 and get a partial refund on their 2020 taxes; eligibility age to register as self-employed lowered from 18 to 16; (vi) sole proprietors got a partial refund on their social contributions; (xii) deferrals on rent payments to all levels of government until the end of the year plus zero rent to the federal government for three months for SMEs in affected sectors; (vii) budget grants for SMEs in affected industries to cover salaries at the rate of one minimum salary per employee for two months plus subsidized and forgivable loans for all enterprises in affected industries to pay minimum wages for 6 months; (viii) zero import duties for pharmaceuticals and medical supplies and equipment; (ix) guaranteed loans to SMEs and affected industries. As a result, the total cost of the 2020 fiscal package is estimated at 3½ percent of GDP— 4½ percent if debt guarantees and capital injections are also included.

*Impact of the pandemic on Informal Workers.* In contrast to South Africa, only 19% (Table 26) of informal workers are significantly impacted in Russia. Significantly impacted informal workers constitute 25% of workers in the highest impact sectors; 19% in the medium-high risk sectors, 20% in the medium-risk sectors, 19% in the low, medium risk, and only 9% low-risk factors.

Women informal workers are overwhelming to be found in the high risk (64.7%) and medium-high risk (13.5%) sectors (Table 27). By contrast only 38.4 percent of men are in high-risk sectors and an additional 21% in the medium high-risk factors. Of all male informal workers, 27% are in the medium-risk sectors, and about 6% in the low, medium-risk sectors, just 10% of the women informal workers are in medium risk and low, medium risk factors. The share of women (16%) in the low-risk sectors is double that of men under (8%). That clearly implies women are at a much greater risk of being impacted adversely by the covid-19 crisis among the informal workers in Russia.

## **Brazil.**

To mitigate the impact of COVID-19, the authorities announced a series of fiscal measures adding up to 12 percent of GDP, of which the direct impact in the 2020 primary deficit is estimated at 8.4 percent of GDP. Congress declared a state of “public calamity” on March 20 and thus set aside the government’s obligation to comply with the primary balance target in 2020 and invoked the escape clause of the constitutional expenditure ceiling to accommodate exceptional spending needs. The government essentially announced an emergency separate (so-called ‘war’) 2020 budget.

The fiscal measures included the following: a. temporary income support to vulnerable households (cash transfers to informal and low-income workers), b. bringing forward the 13th pension payment to retirees, c. expanding the Bolsa Familia program to include over 1 million more beneficiaries, d. advance payments of salary bonuses to low-income workers, e., employment support (partial compensation to workers who are temporarily suspended or have a cut in working hours, as well as temporary tax breaks). The government also lowered taxes and import levies on essential medical supplies and new transfers from the federal to state governments to support higher health spending and cushion against the expected fall in revenues.

To address the crisis in the health sector and minimize the effects on the income of the most vulnerable families due to lower economic activity, the federal government put forward a package of fiscal measures that add up to about 8.6 percent of GDP. The federal government has pledged to keep state and municipal transfers (FPE and FPM, respectively) for subnational governments at the same levels as in 2019. In addition, it has approved transfers to finance expenditures related to the health crisis (World Bank, 2020).

Another aid package for states and municipalities (worth R\$60 billion, or 0.9 percent of GDP) is intended to partially offset local tax revenue losses and finance expenses related to COVID-19. Of this total, R\$50 billion can be freely used by each sub-national entity to finance its expenditure needs in the face of reduced tax revenues. The remainder is earmarked for health care and social assistance. Financial assistance to states and municipalities – with a temporary stay of debt payments– was also announced.

### *Impact of Pandemic on informal workers in Brazil.*

Of total employment, 48% are in the informal sector; however, significantly impacted informal workers are slightly less at 38% of total employment. 34% of workers are in informal employment in the high-risk sectors, and almost all are at high risk. Similarly, 53 percent of total employment in the sector is informal in the medium-risk sectors, and the covid-19 pandemic significantly impacts all those workers. Furthermore, 78% of workers in the low, medium-risk sectors are informal, and nearly all of them, 72%, are significantly impacted. Finally, in the low-risk sectors, 57 % of all employment is informal only 6% are significantly impacted, informal workers.

There are gender differences among informal workers in the way that the crisis impacts them. Men and women are almost equally impacted in the high-risk sectors. However, this changes quite radically when it comes to the medium-high risk sectors, where 28% of women are significantly impacted while that share is half 14% for men. Thus, around one-fifth of men that are informal workers are significantly impacted if

located in the medium-risk sectors. Still, that incidence among women within the medium-risk sectors is negligible. Meanwhile, in the low-risk sectors and the low, medium-risk sectors, 37% of men are impacted and a similar share of women, except that women are more heavily represented in the low-risk sectors.

## India

India's fiscal support measures can be divided into two broad categories: (i) above-the-line measures, which include government spending (about 3.2 percent of GDP, of which about 2.2 percent of GDP is expected to fall in the current fiscal year), foregone or deferred revenues (about 0.3 percent of GDP falling due within the current year) and expedited spending (about 0.3 percent of GDP falling due within the current year); and (ii) below-the-line measures designed to support businesses and shore up credit provision to several sectors (about 5.2 percent of GDP) (IMF, 2020).

In the early stages of the pandemic response, above-the-line expenditure measures focused primarily on social protection and healthcare. These include in-kind (food; cooking gas) and cash transfers to lower-income households (1 percent of GDP); wage support and employment provision to low-wage workers (0.5 percent of GDP); insurance coverage for workers in the healthcare sector; and healthcare infrastructure (0.1 percent of GDP).

The more recent measures announced in October and November include additional public investment (higher capital expenditure by the central government and interest-free loans to states of about 0.2 percent of GDP) and support schemes targeting certain sectors. The latter includes a Production Linked Incentive scheme targeting 13 priority sectors and is expected to cost about 0.8 percent of GDP over five years, a higher fertilizer subsidy allocation benefiting the agriculture sector (0.3 percent of GDP), and support for urban housing construction (0.1 percent of GDP). On the other hand, tax measures are merely confined to postponing some tax filing and other compliance deadlines and reducing the penalty interest rate for overdue GST filings.

Measures without an immediate direct bearing on the government's deficit position aim to provide credit support to businesses (1.9 percent of GDP), poor households, especially migrants and farmers (1.6 percent of GDP), distressed electricity distribution companies (0.4 percent of GDP), and targeted support for the agricultural sector (0.7 percent of GDP), as well as some miscellaneous support measures (about 0.3 percent of GDP). Key elements of the business-support package are various financial sector measures for micro, small, and medium-sized enterprises and non-bank financial companies. In contrast, additional support to farmers will mainly be in providing concessional credit to farmers and a credit facility for street vendors. Agricultural sector support is mainly for infrastructure development.

*Impact on the Informal Workers.* Of all employment in India, 88% is accounted for by informal employment. Hence, it is not surprising that the pandemic significantly impacts 86% of all informal workers. The high-risk, the medium risk, and the medium-high risk sectors all have an extremely high share of informal workers significantly impacted at 84 to 86%. Only in the case of low-medium risk sectors, 97% of the informal workforce are significantly impacted. Only sectors with lower risk are the low-risk sectors, where only 31% of informal workers are significantly impacted.

Men are represented among informal workers significantly impacted by the crisis to a greater extent than women, especially in the high risk and the medium high-risk sectors, which account for 38% of all informal workers. In comparison, women in these sectors account for 28% of all women informal workers. On the other hand, of all women informal workers, 60% are working in the low, medium risk sectors while the share for men in the same sectors is only 43%, suggesting men seem to be at greater risk of impact.

*BOX 1. India Covid impact on informal workers.*

*COVID-related male unemployment in India has adversely affected the men and the women in their households. In addition, the return of millions of interstate migrant workers to their villages has spread the infection, and female relatives, as the main caregivers, are most at risk of exposure.*

*Second, the sudden unemployment of these migrants has sharply cut off remittances. Domestic remittances alone financed over 30% of annual household consumption expenditure in remittance-receiving households, which accounted for nearly 10% of rural India. The burden of making do with less tends to fall mainly on women's shoulders.*

*Third, with many returning male migrants seeking work in the villages, women have been crowded out to some extent from the most important government job security scheme—the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS).*

*Fourth, the return of male migrants has increased rural women's domestic work burden, not only in cooking, cleaning, etc. but also in other tasks. The central government's promise of free delivery of gas cylinders during the crisis can help only some households.*

*Fifth, large numbers of rural households' report food insecurity across surveys. For example, in the mentioned CSO (2020) survey, 62% of the households with returned migrants had reduced the number of items eaten per meal, and half had reduced the number of meals eaten.*

*Sixth, COVID-19 lockdowns increased household size with the closure of educational institutions and rising unemployment. This raised the burden of regular domestic work and also added new tasks such as sanitizing products. Normally, women shoulder most domestic work. However, by the all-India pre-COVID Time Use Survey in 2019, females spend on average 5 hours per day on unpaid domestic work, and males spend 1.6 hours (rural/urban averages are about the same).*

*Seventh, with men's extended home confinement, the perils of domestic violence and emotional abuse have risen in India, as also found globally. Even in normal times, spousal violence is significantly higher in India if men are unemployed and women lack independent assets or incomes. COVID-19 has exacerbated this effect.*

Source: Agarwal (2021)

## **China**

Although Covid-19 began in China, with strong and effective measures, the government was able to control the effects of the pandemic on the economy. The result was that while the rest of the world contracted during 2020, China's economy still emerged relatively unscathed. Moreover, with normalizing economic

activity, real GDP in 2020 rebounded by 3.2 percent (yoy) in Q2 and continued to recover by 4.9 and 6.5 percent in Q3 and Q4, respectively. Thus, real GDP grew by 2.3 percent in 2020. China was unique in this regard among the major economies of the world, including among the BRICS.

As IMF (2021) notes, China's response to contain the economic impact was effective. An estimated RMB 4.8 trillion (or 4.7 percent of GDP) of discretionary fiscal measures were announced. Key measures included: (i) increased spending on epidemic prevention and control, (ii) production of medical equipment. In addition, and very importantly from the viewpoint of the workforce, other measures included: (iii) accelerated disbursement of unemployment insurance and extension to migrant workers, (iv) tax relief. Furthermore, they waived social security contributions and (v) additional public investment. Moreover, the overall public sector support is expected to be higher. For example, support outside the budget includes additional guarantees for SMEs of RMB 400 billion (0.4 percent of GDP) and fee and tariff cuts of over RMB 900 billion (0.9 percent of GDP) to use such items as roads, ports, and electricity.

*Impact on informal workers.* China will experience positive growth in 2020, the only BRICS country to do so. But it is not that the informal workforce in China would emerge unscathed. On the contrary, as much as 37% of all informal workers are at risk of being significantly impacted in China. However, large numbers will be impacted since informality affects 54% of those working in high-risk sectors. In comparison, those workers in the medium high-risk sectors account for 43% of the total employment and hence will be significantly impacted by the pandemic. The medium-risk sectors account for 68% of total informal employment, while 63% informal will be significantly impacted. However, the impact will be lower in the remaining sectors since informality is not prevalent in the low, medium risk, and lower risk sectors.

Women are most representative significantly impacted in high-risk sectors, where they account for three-fourths of the workers; by contrast, only 48% of all men are in the high-risk sectors.

## Summary and Recommendations for BRICS: Potential for learning from and among the BRICS experience.

Given that 61% of employment in the world is informal (ILO, 2018), it is critical that the BRICS countries, which not only have a global leadership role, as well as leadership roles within their regions, may consider cooperating among themselves to promote a transition to the formality of both units and workers. Therefore, we present here lessons from BRICS and other countries which can be considered at the BRICS Summit of 2021.

**Recommendation 1.** *Arriving at a consensus that informality is a serious enough issue to deserve greater attention.* The first step toward achieving such a goal of transition from informal to a formal economy would be to agree with themselves (at the forthcoming BRICS Summit in 2021) the great damage that informality does to their economies and citizens. Several distinct arguments can be put forward and agreed upon by the BRICS government. The Theory of Change (developed by ILO) on the transition to formality is a helpful tool to consider by the BRICS countries<sup>24</sup>. Solving a problem begins with the recognition of how the problem affects our citizens. Informality is a source of and a symptom of poverty, inefficiency, and public finance concerns. We discuss each in turn.

First, we should consider the equity and poverty reduction considerations:

- Informal jobs are often vulnerable, have low productivity, and are of a low general quality.
- Most of the informally employed are exposed to various risks – health, safety at work, loss of earnings – without adequate protection. This is true for most of those working on their account, contributing family members, and wage employees within the informal sector.
- Unable to afford spells of unemployment, many people in the BRICS use informal employment as a survival strategy.
- Moreover, certain groups, such as the young and women, seem to be over-represented within this category of jobs (as we saw in this paper).
- Quite apart from earnings levels, informal employment is also associated with vulnerability in basic rights and a limited capacity to defend those rights. As such, it can be a major cause of poverty e poverty. Workers in the informal economy are twice as likely as formal workers to be poor. In

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<sup>24</sup> [http://search.ilo.org/global/topics/employment-promotion/informal-economy/publications/WCMS\\_768807/lang--en/index.htm](http://search.ilo.org/global/topics/employment-promotion/informal-economy/publications/WCMS_768807/lang--en/index.htm)

addition, informality is a constraint in areas other than that of simple income. Informal economy workers and economic units have difficulty to express their view and defend their rights in formal social dialogue processes<sup>25</sup>. With the adoption in 2000 of the Millennium Development Goals (MDGs) and the Sustainable Development Goals for 2030 (to which the BRICS government have been committed) by more than 190 heads of state and government leaders, the **reduction of poverty** has become a key issue for policymakers in developing and developed countries alike. The debate about how best to achieve the SDGs has also prompted interest in looking again at the role of employment in poverty reduction (Islam, 2006; Cook *et al.*, 2008; Lundström and Ronnas, 2006) and examining ways to create not only more jobs but also better ones (Paci and Serneels, 2007).

- Transition to formality contributes to reaching primarily SDG 8 to promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all. It is particularly a condition of the fulfilment of target 8.3 and to monitor progress based on indicator 8.3.1 (“share of informal employment in employment, by sex and sectors”). As informal economies are typically characterized by a high incidence of poverty, inequality, and decent work deficits, transition to formality will also have a significant influence on reaching several other SDGs and related targets under Goals 1 (all targets) through higher labour incomes and extended social security coverage; Goal 5 (targets 5a, 5.4 and 5.5) through gender-sensitive formalization policies that support the economic empowerment of women; Goal 10 on inequality (targets 10.2 and 10.4) through the economic and social inclusion of those in the informal economy and Goal 16 (target 16.3) through higher respect for the rule of law.

The second set of concerns arise on account of productivity losses from pervasive informality.

- Informality reduces the competitiveness of the economy as informal firms prefer to stay small or are compelled by the threat of inspections to do so, have less access to inputs (credit, training), cannot engage in formal relationships, and accordingly also exhibit lower productivity (OECD, 2004; Levy, 2008; La Porta and Shleifer, 2008).
- On the other hand, in emerging economies such as China, informal employment is sometimes seen as a positive phenomenon (admittedly a temporary one) and an engine of growth. Hu (2004) argues that informal employment growth since the early 1990s has been the main driving force of job creation in China and is seen as extremely flexible, dynamic, and innovative. While this debate is not settled yet, the link between productivity and informal employment is an important one that deserves close attention. In India, too, there is a pervasive belief that informality is here to stay, it is the natural state of things in the labour market, and the best we can do is to think of ensuring

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<sup>25</sup> The econometric analysis finds a negative association between informal employment and gross domestic product (GDP), the Human Development Index and labour productivity, and a positive correlation with poverty. Some of these associations disappear over time within countries. See: [https://www.ilo.org/global/topics/employment-promotion/informal-economy/publications/WCMS\\_711804/lang--en/index.htm](https://www.ilo.org/global/topics/employment-promotion/informal-economy/publications/WCMS_711804/lang--en/index.htm)

GDP growth and the “problem” will go away on its own. In this paper, we have attempted to show that there is little evidence to suggest that the disappearance of informality will be a natural and inevitable consequence of growth over time. However, more attention needs to be given because the structural transformation that took 200 years in the now industrialized countries has to be completed by the emerging market economies in less than half that time. For most of the BRICS certainly, time is running out (see section 1 of this paper on demographic trajectories in the BRICS).

The third set of considerations that BRICS leaders need to focus on relates to implications of informality for public finance.

- Persistent and high levels of informality reduce tax revenues and the ability to develop contribution-based social security systems.
- Furthermore, those workers who are rationed out or excluded from formal jobs and who depend on informal employment, either as micro-entrepreneurs or informal wage workers, for income generation represent a huge challenge for public expenditure (OECD, 2004).
- Ultimately, the prevalence of informal employment is not only a fiscal issue: it can be interpreted as a sign of a dysfunctional social contract between the state and its citizens. The state is not delivering the public goods in the quantity and quality desired by its citizens. In parallel, citizens are evading taxes, social security contributions, and the like in actions that undermine the capacity of the state to deliver those goods.

**Recommendation 2:** BRICS governments could commit at the Summit in Delhi in 2021 that, given how the issue of informal workers has come to the fore during the COVID-19 pandemic, to undertake to commit to undertaking a review of what actions each government could take to encourage the formalization of informal units in the economy rapidly.

**Recommendation 3:** BRICS countries can agree on undertaking an assessment and diagnostics of informality in their country and agree to set up a technical group for mutual learning and support in this regard. The BRICS leaders’ summit could consider “undertake a proper assessment and diagnostics of factors, characteristics, causes and circumstances of informality in the national context to inform the design and implementation of laws/regulations/policies” to facilitate the transition to a formal economy. These assessments could be ready by the time the next BRICS Summit occurs and be brought to that summit’s agenda as a basis for discussion.

To undertake an assessment and diagnostics of informality in their country, BRICS leaders could agree to a. cooperate with each other and; b. cooperate with ILO and other multilateral organizations to prepare a plan of action to trigger the formalization of informal enterprises.

**Recommendation 4:** BRICS country leaders should consider agreeing to “review and enforce national laws and regulations or other measures to ensure appropriate coverage and protection of all categories of workers and economic units.” Such a decision would set the tone at both a national level as well as at an

international level and demonstrate the seriousness of governments to move forward together on this extremely important matter, on which depends the achievement of several SDG goals, as well as the reduction of poverty, to which all BRICS governments are already committed. ILO could work with BRICS governments to study the national laws and regulations prevailing in each country. ILO could prepare a project or programme in this regard, the results of which could be brought to the agenda of a BRICS Summit two years from 2021.

**Recommendation 5:** BRICS country leaders could also consider adopting an “integrated policy framework to facilitate the transition to the formal economy is included in national development strategies or plans.” This integrated policy framework could address the following three goals: (a) the promotion of strategies for poverty eradication and inclusive growth, with the generation of decent jobs in the formal economy; (b) the establishment of an appropriate legislative and regulatory framework for promoting the transition of informal workers and informal sector units to formality.

**Recommendation 6:** BRICS countries that have not already done so should commit to formulating and adopting a National Employment Policy in line with the ILO Employment Policy Convention 1964. It should also be stated that three BRICS countries that already have a National Employment Policy (China, South Africa, Brazil) (per Employment Policy Convention 1964 of ILO) could consider sharing information at the 2021 Summit on the implementation bottlenecks and successes in respect of their respective National Employment Policy (NEP). Countries that do not currently have a NEP could commit to preparing one by the time of the next BRICS Summit, where it could be discussed and deliberated upon so as to sustain the dialogue on the subject of employment and informality. This will be particularly important going forward since it is well known that the world economy is not expected to grow anywhere close to the rate it had been growing pre-Covid pandemic.

Joblessness and hence poverty is expected to increase in 2020 (as economies have contracted) and may take a few years before they achieve their pre-COVID trajectory. Reducing poverty to achieve the 2030 SDG goals requires that growth achieved in the run-up to the global economic crisis of 2008 will need to be repeated if the SDGs are to be achieved. Although 24 National Employment Policies (NEPs) consider the transition to formality as either an objective or policy pillar, only 6 of them include formalization targets (ILO, 2020).

Employment policies should be considered as part of a broader framework that fosters formal job creation. This includes different types of policies, such as macroeconomic or trade policies. This needs to be underlined, an enabling environment that allows the development and sustainability of enterprises that are the main engine of job creation<sup>26</sup>.

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<sup>26</sup> Please refer to the theory of change in [http://search.ilo.org/global/topics/employment-promotion/informal-economy/publications/WCMS\\_768807/lang--en/index.htm](http://search.ilo.org/global/topics/employment-promotion/informal-economy/publications/WCMS_768807/lang--en/index.htm)

Drawing upon this and other analysis, an ILO project/programme on the subject could be agreed upon at the Delhi Summit 2021. The agreement among the BRICS could be that those BRICS that don't currently have National Employment Policies will formulate them to include goals of formalization of units and workers. Those BRICS that do have NEPs may consider incorporating in their goals of formalization.

**Recommendation 7:** Learning from the Analysis of Informality in the BRICS Countries. Several lessons emerge from the theoretical review and the empirical analysis conducted in this paper. They are summarized here for the sake of convenience. First, growth can but may not lead to formalization<sup>27</sup>. Of all regions of the world, the developing market economies of East Asian and Southeast Asia and even South Asia have experienced steady growth over reasonably long periods (quite unlike Latin America, Sub Saharan Africa), with falling population growth rates. They have also followed a planning framework, and planning institutions still survive in almost every country<sup>28</sup>. They adopted an industrial policy and an education/skills strategy aligned to the industrial policy. They managed open economies between these two strategies, with high shares of export (and import) to GDP, which absorbed surplus agricultural labour with fast GDP growth. These East/Southeast Asian countries also have among the lowest poverty ratios for most developing countries. So without growth, the other drivers of formalization lose momentum.

Despite this success with growth, human development, and income-poverty reduction, East Asia (including China) and Southeast Asia still have high levels of informality. Even excluding agriculture, 51% of males are informal, and 46% of females are too. Excluding China, the share drops to less than half in East Asia (but that is because the remaining countries are all high-income countries). In Southeast Asia, the percentage of informal employment (excluding agriculture) for males is even higher at 65% (females 63%). South Asia has experienced very rapid GDP growth, but the share of males working informally is as high as 77.6% (females 77%). So growth in the Asian experience certainly has been associated with formal employment growth, but informality not only survives but has remained entrenched. Thus, there is nothing inevitable about growth leading to a decline in informality – the fact that BRICS leaders need to recognize.

Second, we have argued that managing the growth pattern is very important if informality is to decline. Institutions that past policies have entrenched generate a certain path dependence for the pattern of growth. Despite fast growth and increasing openness of the economy (e.g., India's export to GDP ratio rose from 11% to 25% between the economic reforms of 1991 and 2018), the share of formal workers has barely fallen at all in India. Most of South Asia has similar problems. If they wish to reduce formality, their

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<sup>27</sup> In many countries, long-term GDP growth did not necessarily lead to a reduction in informality, leading some countries to develop formalisation strategies. South Africa, for instance, in addition to economic growth, implemented several formalisation policies, including the National Informal Business Upliftment Strategy, increased enforcement measures, recognition of prior learning, and increased access to social security. Such measures contributed to the overall decline in informality, together with the effect of other factors, such as urbanisation, unemployment, taxes, costs of compliance associated with formality, enforcement power of government regulations, corruption, education level, and flexible work hours

<sup>28</sup> Among the BRICS, the countries with planning ministries or planning commissions are Brazil, China, South Africa. Russia has ceased to have five-year plans since 1991, although the state's role remains significant in the economy and has grown in recent years (Cooper, 2013).

policymakers will need to manage the pattern of growth, especially the formal employment elasticity of growth, much better than before if they are to repeat the East and Southeast Asian experience of falling poverty and informality (though the latter has now reached a plateau). Even though the remaining BRICS have lower levels of informality, none of them is the share of informal workers lower than a third of employment. An additional new challenge in the 21st century is that many of the new forms of jobs, such as those related to digital platforms, are mostly informal.

Third, the formality of workers through social insurance can be achieved. Most emerging economies, especially in the low-middle income category and certainly the BRICS and upper-middle-income countries, have the fiscal resources to fully finance social insurance for poor informal sector workers and part-finance the premium for non-poor informal workers. The latter have income levels that would allow them to contribute out of pocket in such countries. If the employers were to be registered, even the employers could be incentivised to contribute towards the social insurance fund of informal workers (especially the regular workers). For the self-employed poor and the casual wage workers, the state will need to bear the burden. India has universalized maternity benefits for poor women, and old-age pensions and death/disability coverage of the poor, unorganized sector workers is growing. All BRICS countries need to prepare a cost estimate of the fiscal cost of achieving universal social insurance for all informal workers<sup>29</sup>. This cost estimate would be part of the actions suggested in Lesson 2-5 above.

Suppose BRICS country governments were to agree to engage in the diagnostic work and cost mentioned above. In that case, it could be the basis of a concrete BRICS project or programme, with ILO providing technical support. That would enable show-casing the achievements/good practices in increasing coverage of social protection in BRICS countries. Again, incorporating successful practices from the South would be a key outcome.

Fourth, BRICS countries took bold actions to respond to the economic effects of the Covid-19 pandemic. Still, the fragmentary nature of each country's social insurance system systems had left many informal workers, already vulnerable before the crisis, now even more vulnerable since they lost incomes and work. Without social insurance, they are more likely than before to have fallen into poverty. Thus, there is a case for each BRICS country to work together to expand their social insurance systems as their economies recover.

Finally, this paper has found that while all BRICS countries are signatories to the ILO Recommendation 204, more systematic information about each BRICS country about the six key recommendations, and the

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<sup>29</sup> Mehrotra (2020) shows that the cost of providing social insurance for at least the 22% poor workforce of India is quite affordable. The total cost (which includes what central and state governments are already spending on various funds and maternity benefits listed above) comes to <\$2 billion (or Rs 1,37,737 crores annually. This amount was 0.69% of GDP in 2019-20 (i.e., at 2019-20 prices); since we assume this will be shared equally between central and state governments (on a 50-50 basis), the cost to all state governments together will barely be 0.35% of GDP annually; similarly, for the Union government, it will be 0.35% of GDP.

effectiveness of each type of action in promoting formality of firms in either the BRICS or elsewhere, except in the case of social security for informal workers needs to be researched. They are:

1. Business entry reforms.
2. Simplified tax and contributions assessment and payment regimes.
3. Access to public procurement.
4. Access to inclusive financial services.
5. Access to entrepreneurship training, skills development, and tailored business development services.
6. Access to social security coverage.

These are recognized as potential triggers in the transition to the formality of informal units.

**Recommendation 8:** There is a case for BRICS countries to undertake a systematic review in their own country regarding these R204 measures (which require institutional changes that impact the level of informality) and for ILO to support such actions across the globe systematically. We presented a series of good practices in respect of R 204 for each of the BRICS. These and others could be considered carefully for adoption by other BRICS countries.

We already have a BRICS SKILLS Policy recommendations (from the BRICS Summit of 2020), which states: “To address mismatch in BRICS countries, policies should target specific forms of mismatch and improve the alignment of educational supply with the demands of employers. This means increasing the vocational content and practical experience of post-compulsory courses for all fields of study as well as examining and implementing ways for firms to more flexibly harness the skills of their workforce.” In addition, an extension of Social Protection through employment programmes will address better the skills mismatch and matching better the demand with supply for those in the active age (see the SPF and the life cycle), also meaning more people employed, less unemployment insurance, and an easier transition to formality, eventually leading to a possible increase in tax-base.

Clearly, there is a case here for ILO to prepare a project or programme (perhaps with funding from BRICS countries together) to support such activities in each of the BRICS countries. For example, the close collaboration between India, Brazil, and South Africa (IBSA) and the ILO in promoting the Decent Work Agenda has shown positive results that can be scaled up through greater cooperation in the broader framework of BRICS. The latter could include agreeing on joint positions on different items during the ILO Governing Body.

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