



منتدى الاستراتيجيات الأردني  
JORDAN STRATEGY FORUM

# Jordan's Informal Economy: A Potential Opportunity for Higher Productivity and Economic Growth

May 2023





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The Jordan Strategy Forum (JSF) is a not-for-profit organization, which represents a group of Jordanian private sector companies that are active in corporate and social responsibility (CSR) and in promoting Jordan's economic growth. JSF's members are active private sector institutions, who demonstrate a genuine will to be part of a dialogue on economic and social issues that concern Jordanian citizens. The Jordan Strategy Forum promotes a strong Jordanian private sector that is profitable, employs Jordanians, pays taxes and supports comprehensive economic growth in Jordan.

The JSF also offers a rare opportunity and space for the private sector to have evidence-based debate with the public sector and decision-makers with the aim to increase awareness, strengthening the future of the Jordanian economy and applying best practices.

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**Knowledge is Power Report: It is a report that presents facts, figures, and observations from various sources on a specific topic within one report.**

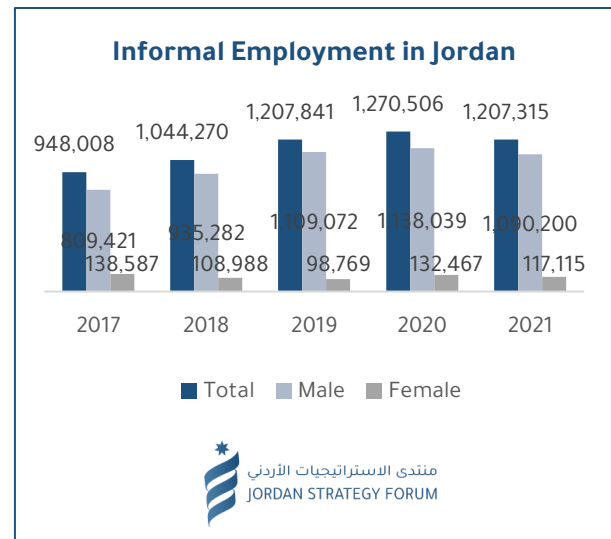
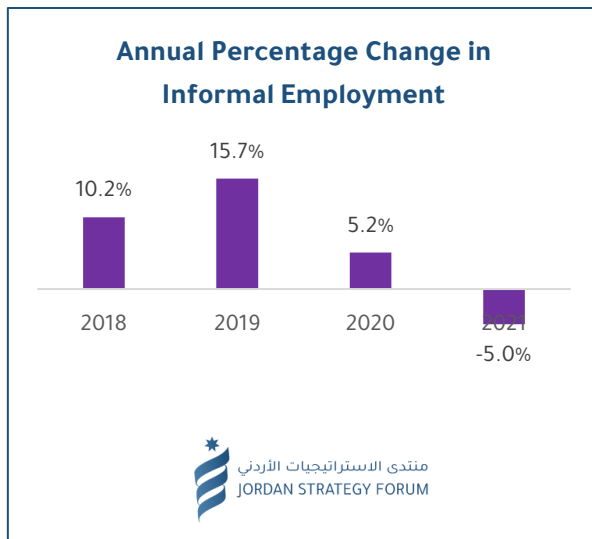
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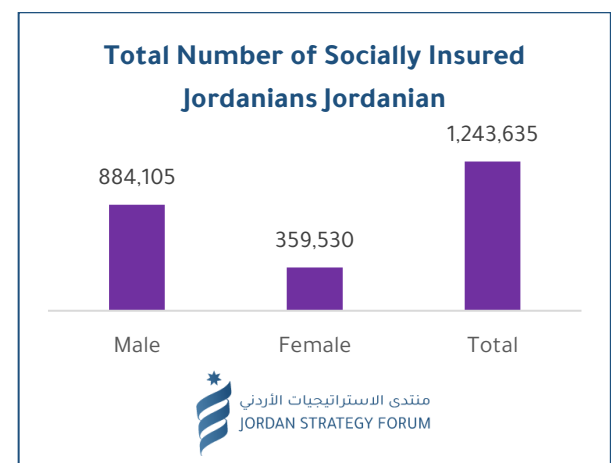
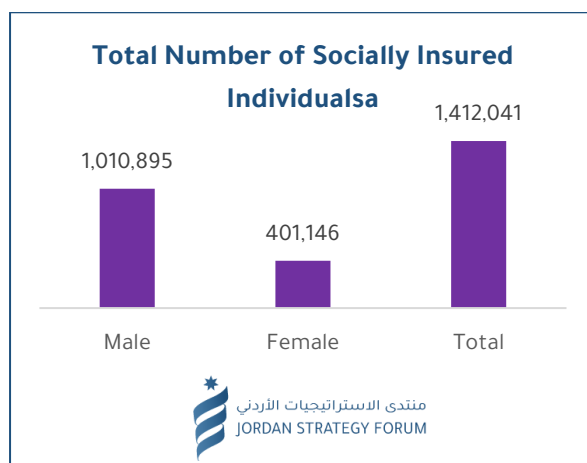


## Some Observations about the Informal Economy in Jordan:

The International Labor Organization (ILO) estimates that about 1.207 million individuals earn their living in the informal economy, and most of them are males. It is also estimated that the annual growth rate in informal employment has decreased from 15.7% in 2019 to 5.2% in 2020 and to -5.0% in 2021.



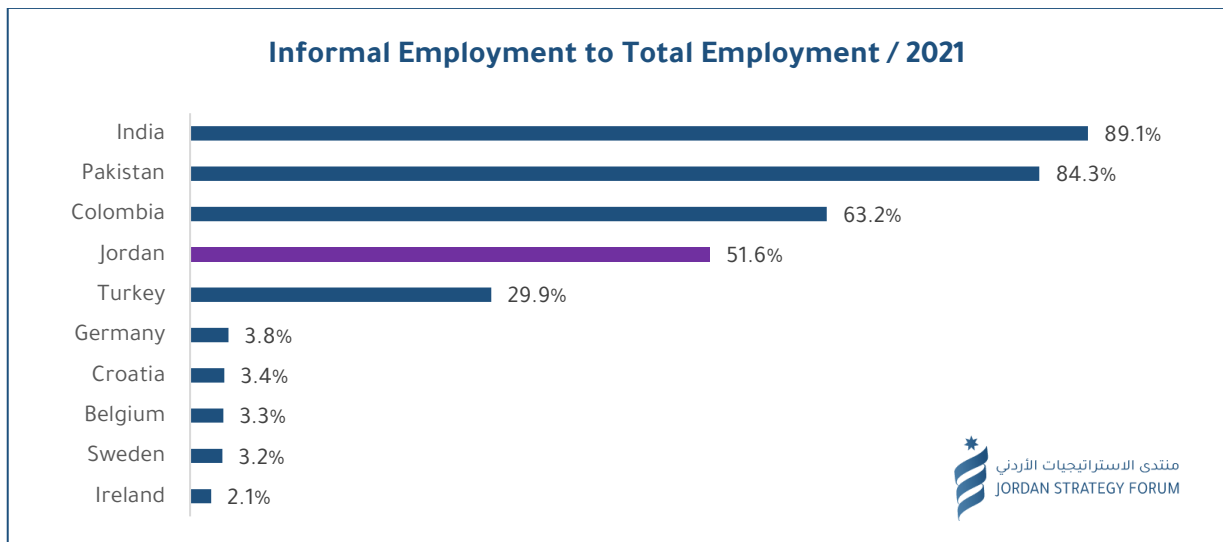
According to the 2021 Annual Report issued by the Social Security Corporation, the number of active socially insured individuals (Jordanians and non-Jordanians) is 1,412,041. The number of insured Jordanians is equal to 1,243,635 individuals.



Based on these figures, informal employment to total employment is 46.1%.

$$1,207,315 / (1,412,041 + 1,207,315)$$

This figure (46.1%) is close to the ILO's estimate of 51.6%. However, this ratio is high, when compared to many countries such as Ireland, Sweden, and Belgium.



The available evidence indicates that some of the main causes of the informal economy are to avoid taxes and social security contributions, avoid labor market standards. And to avoid legal and administrative regulations, and others.

The informal economy involves a number of negative implications.

**1. Weak Tax Revenues:** The informal economy leads to a decline in tax revenues, due to a rise in tax evasion. In turn, this widens the fiscal deficit.

**2. Low Efficiency and Competition:** In most cases, firms that operate in the informal economy are likely to remain small to avoid detection. This implies that such firms do not benefit from economies of scale and efficiency. In addition, registered (official) firms face competition (unfair) and their performance tends to be affected (negatively).

**3. Uneven Impacts on Poverty:** Some argue that the informal economy impacts poverty in a negative manner. The lost tax revenues (tax evasion) affect the size of tax programs which are allocated to support the poor and the low-income classes. Others, on the other hand, argue that the informal economy protects the poor by meeting some of their goods and services at lower prices.

In addition, one should remember that the informal economy involves a positive side. This sector contributes to the advancement of the economy as it creates job opportunities, provides stable income for its employees and their families, and hence, constitutes a safety valve for the poor in society. In other words, the informal economy can increase capital accumulation and contribute to the dynamism of the domestic economy.

Based on the above, the Jordan Strategy Forum (JSF) calls for developing an effective national strategy whose main aim is to encourage the informally employed to move to the formal sector. The development of a specialized and detailed database can be instrumental in understanding the characteristics of the informal economy (including its various sectors). This is important in assisting stakeholders make appropriate decisions. Moreover, any decrease in the number of the employed informally is bound to decrease the number of the unemployed.



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