



منصة استعادة الإنتاج والتشغيل
Recovery of Employment
And Production Platform



منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM

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Informal Employment in Jordan: Lessons from COVID-19

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1. Introduction

COVID-19 will deal a double blow to public finance. Budget deficits will increase as government spending increases and tax revenues fall. Governments, in general, have no choice but to borrow and increase public debt. At this stage, while no one can predict with certainty how much public debt will increase, the objective of the response of most governments is to ensure that the effect on the economy (and the budget deficit) is temporary and not permanent.

The impact of COVID-19 on “unemployment” is huge. However, it is important to note that most, if not all, “advanced economies” have built-in “automatic stabilizers” in their public finances. One major element of these stabilizers is “unemployment benefit”. For example, the rise in unemployment in these countries is automatically increasing unemployment benefit payments. Naturally, these payments will mitigate the decline in household incomes, and moderate the slowdown. In addition, the presence of such an unemployment protection system makes it easy for the unemployed to “apply” for his or her benefit and “receive” it in an orderly fashion.

In Jordan, the unemployed are not that lucky. The absence of a built-in “unemployment benefit system” makes it extremely difficult for the government to reach, not only the “formally employed who becomes unemployed” but also the “informally employed and becomes unemployed”

Relative to the above-mentioned observations, it is probably useful to remember a “famous” quotation. “There are decades where nothing happens; and there are weeks where decades happen” (Vladimir Lenin). Given present circumstances, this is accurate. In addition, and within this context, all public and private institutions must examine any “lessons” that emerge from COVID-19 and work on adopting relevant measures.

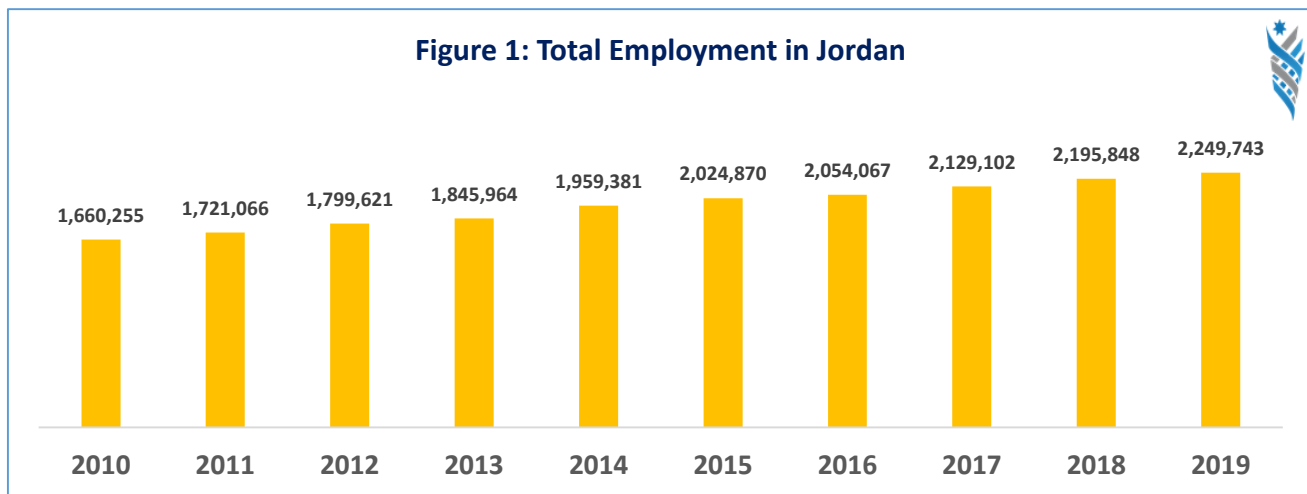
One evolving lesson from COVID-19 is the “INFORMAL EMPLOYMENT”. The International Labor Organization (ILO) defines the concept of informal employment as “all remunerative work (i.e. both self-employment and wage employment) that is not registered, regulated or protected by existing legal or regulatory frameworks”. This is the “informal or shadow economy”.

No one doubts that informal employment per se, plays an important part of all economies. Indeed, informal employment is an integral part of labor markets and plays, in some countries, a major role in the generation of employment, production, and income generation. However, the size of this aspect of the Jordanian labor force should be “known” and dealt with to make it formal. This is the objective of this policy brief, issued by the Jordan Strategy Forum (JSF).

2. The Labour Market in Jordan: Informal Employment

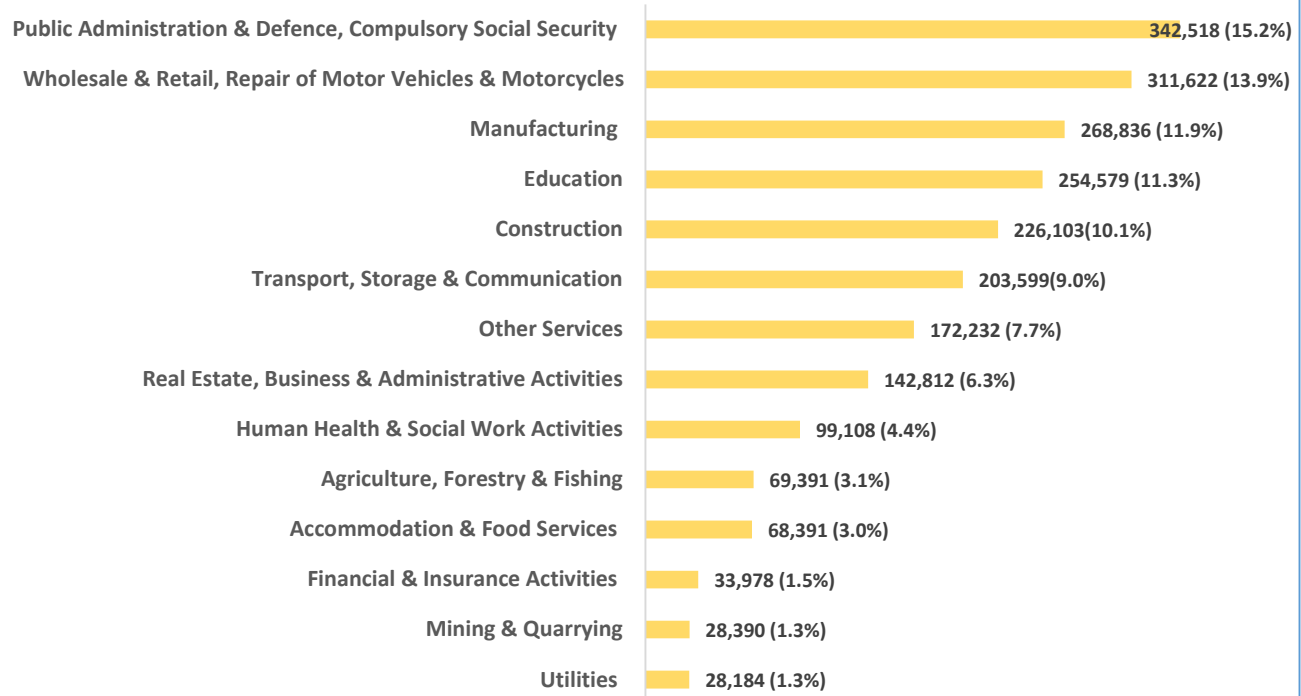
For so long, the ILO has been the world's leading source of labor statistics. Indeed, the ILO's database provides policy-makers with not only "quality data", but also enables them to make "international comparisons". Based on this database, we provide some indicators.

- A) The total number of employees and the self-employed has increased from 1,660,255 individuals in 2010 to 2,249,743 in 2019.



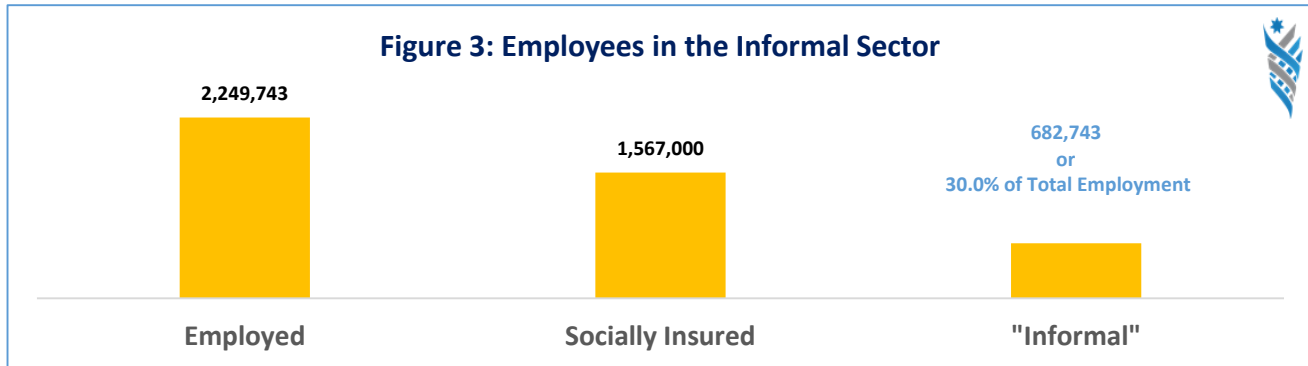
- B) Based on the International Labor Office's (ILO) estimates (ISIC4), most of the employees and the self-employed are in the public administration and defense, compulsory social security (15.2%).

Figure 2: Proportions of Employment (ISIC4): 2019



- C) In 2019, the total number of the socially insured is equal to 1,317,000. If we subtract this number (1,567,000) from total employment (2,249,743), we can state the informal employment (employees not subscribed to social security, and licensed self-employed individuals who are also not subscribed to social security) in the Jordanian economy is equal to 932,743 individuals. This number is equivalent to 41.1% of total employment (2,249,743). In this context, there is a common misunderstanding of the informal employment definition; people usually confuse informal employment with informal economy. However, informal employment is defined by the international labor organization as the employment that is in law or in practice, not subject to national labor legislation, income taxation, social protection or entitlement to certain employment benefits (advance notice of dismissal, severance pay, paid annual or sick leave, etc.).¹

¹ <https://ilo.org/public/english/bureau/stat/download/papers/def.pdf>



D) The size of informal employment is large. No one doubts that informal employment plays an important part of the Jordanian economy. Indeed, informal employment plays a role in the generation of employment, production, and income generation. However, the economy at large also loses.

1. Productivity in the informal sector tends to be lower than in the formal.
2. It is difficult to finance the sector, as it has no adequate financial information.
3. Many of the employed tend to financial suffer more than those who are insured.
4. Tax Revenue: It reduces the government's total tax revenue.
5. Monetary Policy: It increases the demand for money in circulation. Since money supply is related to GDP growth, increases in informal employment makes the demand for money in circulation greater than its supply. This puts pressure (upward) on interest rates.
6. Accuracy of National Accounts: Informality makes the size of the economy (GDP) smaller than what it actually is. This fact overestimates other indicators expressed as a ratio of GDP (such as budget deficit or public debt).

Within the context of the Jordanian economy, a number of factors "cause" informality. These include:

1. To avoid taxes and social security contributions.
2. To avoid labor market standards.
3. To avoid legal and administrative regulations.
4. Lack of incentives to join the formal sector.
5. The present law exempt the enterprises with less than 5 employees to subscribe to social security.

However, the fact that the Law makes it "compulsory" for business entities with at least 5 employees to subscribe to the corporation, many of these entities do not subscribe, if not for anything, for the above-mentioned reasons.



3. IN A NUTSHELL

All relevant stakeholders should look into making it compulsory for all employers (regardless of number of employees) to register their employees with the Social Security Corporation. In addition, the self-employed should be actively encouraged to subscribe as well. If we succeed in increasing the numbers of socially insured, at the COVID-19 will have taught all us a lesson.

However, there should be adequate incentives attractive the informal labor, such as access to fund and capacity building

A distinction should be make between formal sector and informal labor

The process of formalization should be gradual and sector specific, sometimes there are sectors that can be easily attracted to become formal

There is a need tadopt a communication strategy that would proceed the formalization process, Covid-19 shows how vulnerable these groups are and how much they would have benefited from being part of the formal economy. In return, governments' institution should take their part and have a clear mandate in the medium term.



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