ILO approach to transition to formality (R204)

Formalising enterprises and their workers

UTCOME 6

Tackling Informality

Outline

1. Introduction
2. Why is formalisation important?
3. What is the ILO approach?
4. What do we know so far?

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1 – Introduction

Globally **8 out 10** economic units are informal sector units

More than half of the workers in informal sector units are own-account workers (without employees)

1 - Introduction

What does informality look like?

Street vendor, Manila – Photo Tjerk Destombes

Business registered?

1 - Introduction

What does informality look like?

All workers declared?

1 - Introduction

What does informality look like?

Tax compliant?

1 - Introduction

What does informality look like?

Under-declaration?

How do enterprises formalize?

Compliance with all relevant laws
(labour, commercial, environmental, sector-specific, etc)

Debate on statements

We will have a short discussion

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Step 2 : Enter this PIN: **77188**

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Let’s start with a question to test the system

Debate on statements

Statements (Part 1)

In the Philippines, informal micro and small enterprises are most concerned about the <u>administrative burden</u> related to:

1. Registration and licensing procedures

2. Tax administration

3. Labour administration

4. Import and export procedures

Debate on statements

Statements (Part 2)

1) "The formalization of <u>micro and small firms</u> is an <u>important step</u> towards the formalization of <u>employment</u> in this segment of enterprises"

or

2) "Efforts to formalize <u>micro and small firms</u> <u>don't help much</u> to formalize <u>employment</u> in this segment of enterprises"

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3 – Why is formalization important?

- reduce unfair competition
- Empower vulnerable entrepreneurs
- More & better jobs (*social protection, rights & voice*)
- Increase tax payers' base
- Increase access to markets, finance & the judicial system
- Increase productivity and business income
- Reduce poverty

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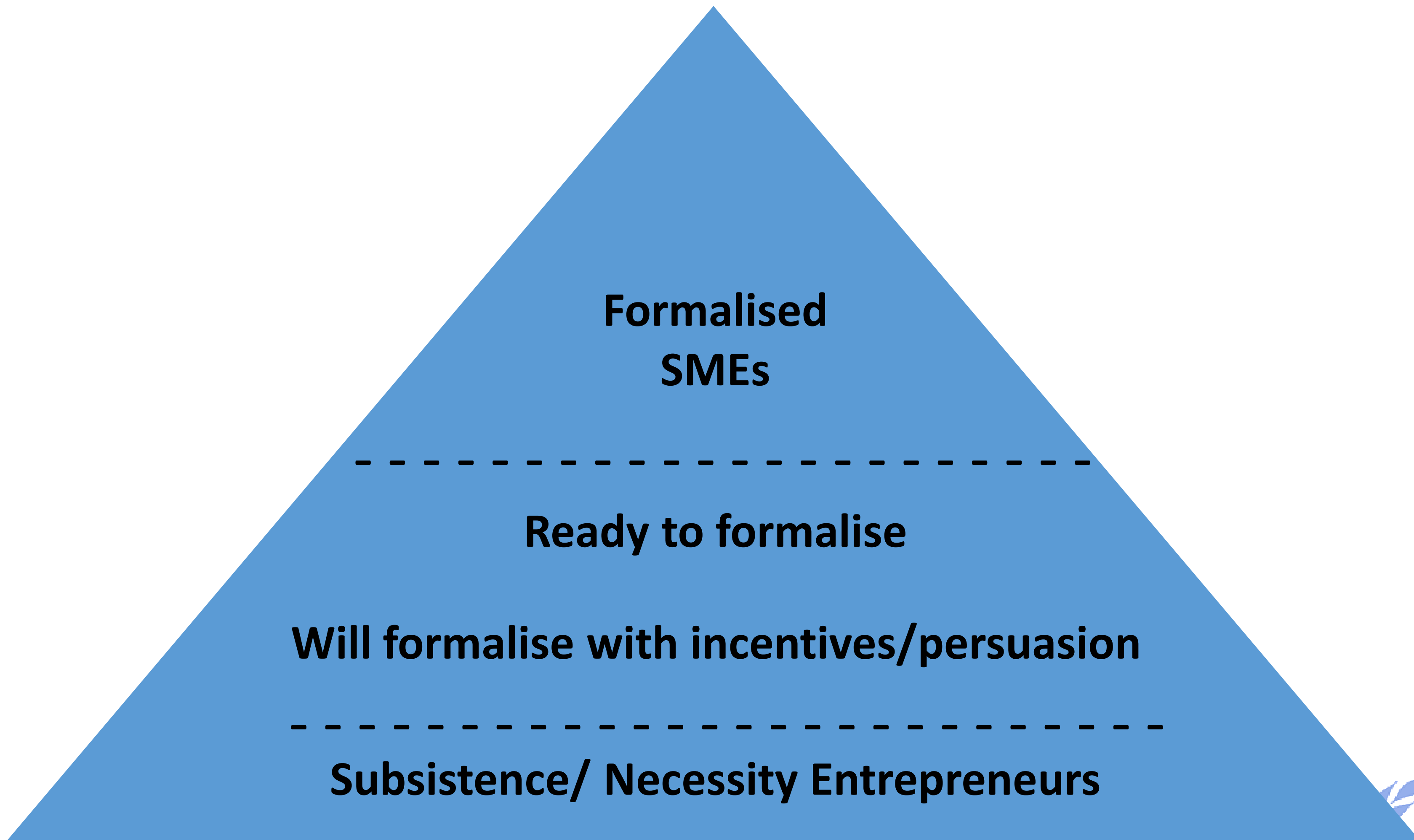
4 - What is the ILO approach?

Formalisation pyramid



4 - What is the ILO approach?

This is what R204 says on enterprise formalisation:

“Integrated policy framework”

“Coherence and coordination across a broad range of policy areas”

“Balanced approach: combine incentives with compliance”

“Conducive business environment”

“Reduce barriers”

“Appropriate legislative and regulatory framework”

”Access to financial and non-financial services ”

“Address diversity among economic units with tailored approaches”

4 - What is the ILO approach?

*Enterprises make a **rational choice** to formalise or not, by comparing:*

Expected **benefits**

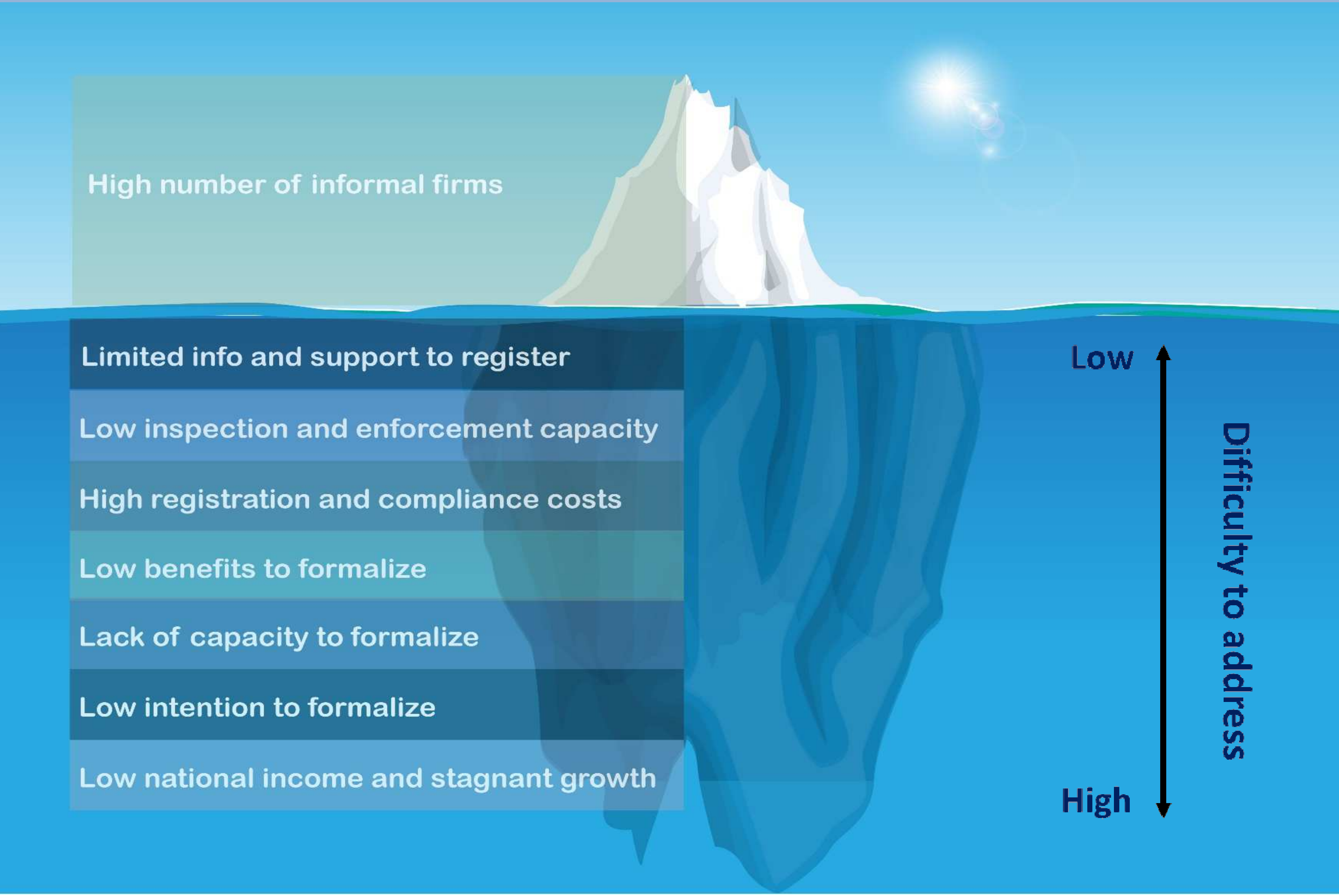
- **Market access**
- **Formal finance**
- **Business devt. services**
- **Social security**

- **Reduced risk of business closure**

Expected **costs**

- **Registration & licensing**
- **Compliance:**
  - **-- Taxes**
  - **-- Social contributions**
  - -- Other requirements

4 - What is the ILO approach?



4 - What is the ILO approach?

Enterprise formalisation:

What does R204 say?

With respect to formalization of micro and small economic units, Members are invited to:

- Undertake **business entry reforms**;
- Reduce **compliance costs** (e.g. introduce simplified tax and contributions assessment and payment regimes);
- Promote access to **public procurement**;
- Improve access to **inclusive financial services**;
- Improve access to **entrepreneurship training, skills development** and tailored **business development services**;
- Improve access to **social security** coverage.

4 - What is the ILO approach?

Step 1. Identify request for support from constituents

Step 2. Engage key stakeholders to coordinate the process (various government ministries & representatives of formal & informal enterprises and their workers)

Step 3. Organise awareness raising/ sensitization workshop:
- Share information on guiding principles, intervention logic, good practices, and lessons learnt => common understanding

Step 4. Assess the situation and challenges to formalize enterprises and their workers
- *Primary & secondary data collection*

Step 5a. Validate findings at tripartite-plus workshop

Step 5b. Assist constituents to develop a draft action plan & road map
- Prioritise measures to facilitate enterprise formalisation

Step 6. Finalise the action plan and roadmap based on exchange with key stakeholders

Phase 2: Implementation

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5. What do we know so far?

1) Enterprise formalization is mostly relevant for '**opportunity entrepreneurs**'. Survivalist entrepreneurs often do not have the means, knowledge or ambition to formalize;

2) Entrepreneurs make a **rational choice** on whether or not to formalize;

3) It is probably not so much the expected costs but rather the **benefits** of formalization that is crucial for entrepreneurs that consider to formalize;

4) Reducing the **compliance costs** of being formal (taxes, social security and labour protection) might be more important than reducing the cost of becoming formal (time and money required to register);

5) Simplifying business registration alone is not sufficient. It is also important that entrepreneurs increase **productivity**;

ILO Approach to Enterprise Formalisation

Enterprise Formalisation - What Do We Know So Far?

6) Interventions should include both ‘**carrots**’ (incentives) **and** ‘**sticks**’ (enforcement measures);

7) Formalization of enterprises has **many facets**. It takes more than simplifying registration, or one single intervention to stimulate formalization.

8) **Combining several reform measures** may work better than piecemeal approaches. It is important to find the right **policy mix**.

9) It seems to be easier to formalize firms while they are being set up than to formalize firms that already exist. Therefore, it might make more sense to make **target start ups**.

Salamat po

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OUTCOME 6
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