

# Transition from the Informal to the Formal Economy

Concepts, R204 and approaches

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# The informal economy: what is it about?

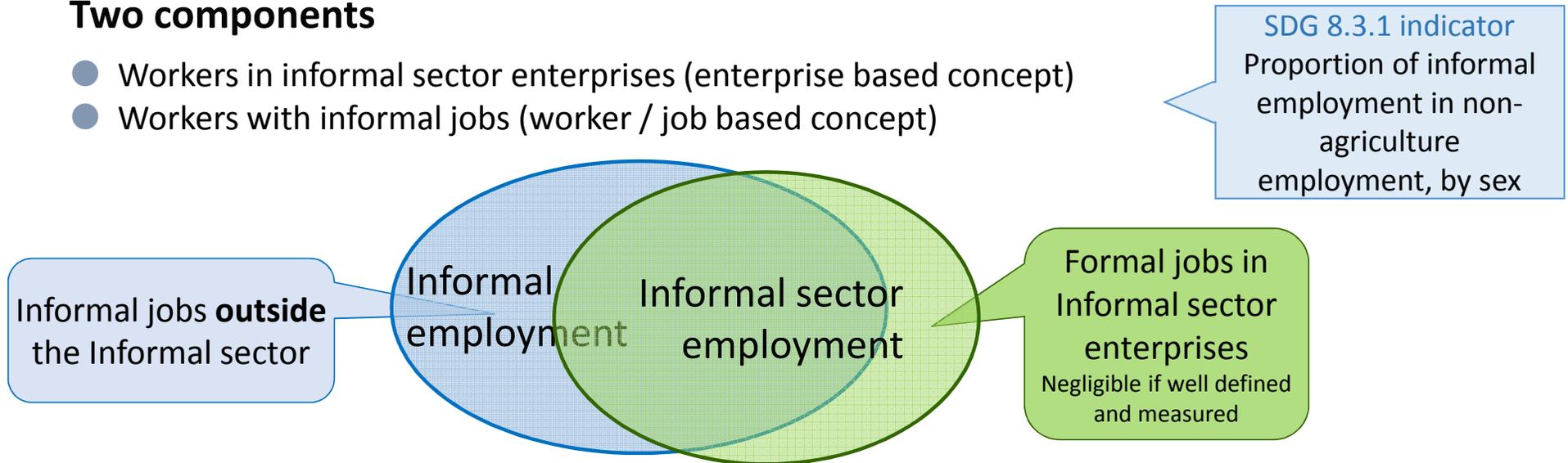
## Some definitions of Informality

- **Employment in the informal sector** – All jobs in informal sector enterprises
  - “ENTERPRISE-BASED DEFINITION”
  - **15th ICLS 1993**
- **Informal employment** – All informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households - “JOB-BASED DEFINITION”
  - **17th ICLS 2003**
- **Informal economy** - All economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements
  - **90th ILC 2002 + Recommendation 204**

# Measuring employment in the informal economy: Two components - SDG Indicator 8.3.1

## Two components

- Workers in informal sector enterprises (enterprise based concept)
- Workers with informal jobs (worker / job based concept)



- Two different aspects of informalisation of employment
- Important to keep separate as often require different policies

## Employment in the Informal Economy:

= employment in the Informal sector + informal employment **outside** of the Informal sector

# According to you what is the share of workers in informal employment

## In the world

- <5%
- 5-25%
- 25-50%
- 50-75%**
- 75-90%
- >90%

➔ **61%**



## In the Americas

- <5%
- 5-25%
- 25-50%**
- 50-75%
- 75-90%
- >90%

➔ **40%**

## In Africa

- <5%
- 5-25%
- 25-50%
- 50-75%
- 75-90%**
- >90%

➔ **86%**

## In Asia & the Pacific

- <5%
- 5-25%
- 25-50%
- 50-75%**
- 75-90%
- >90%

➔ **68%**

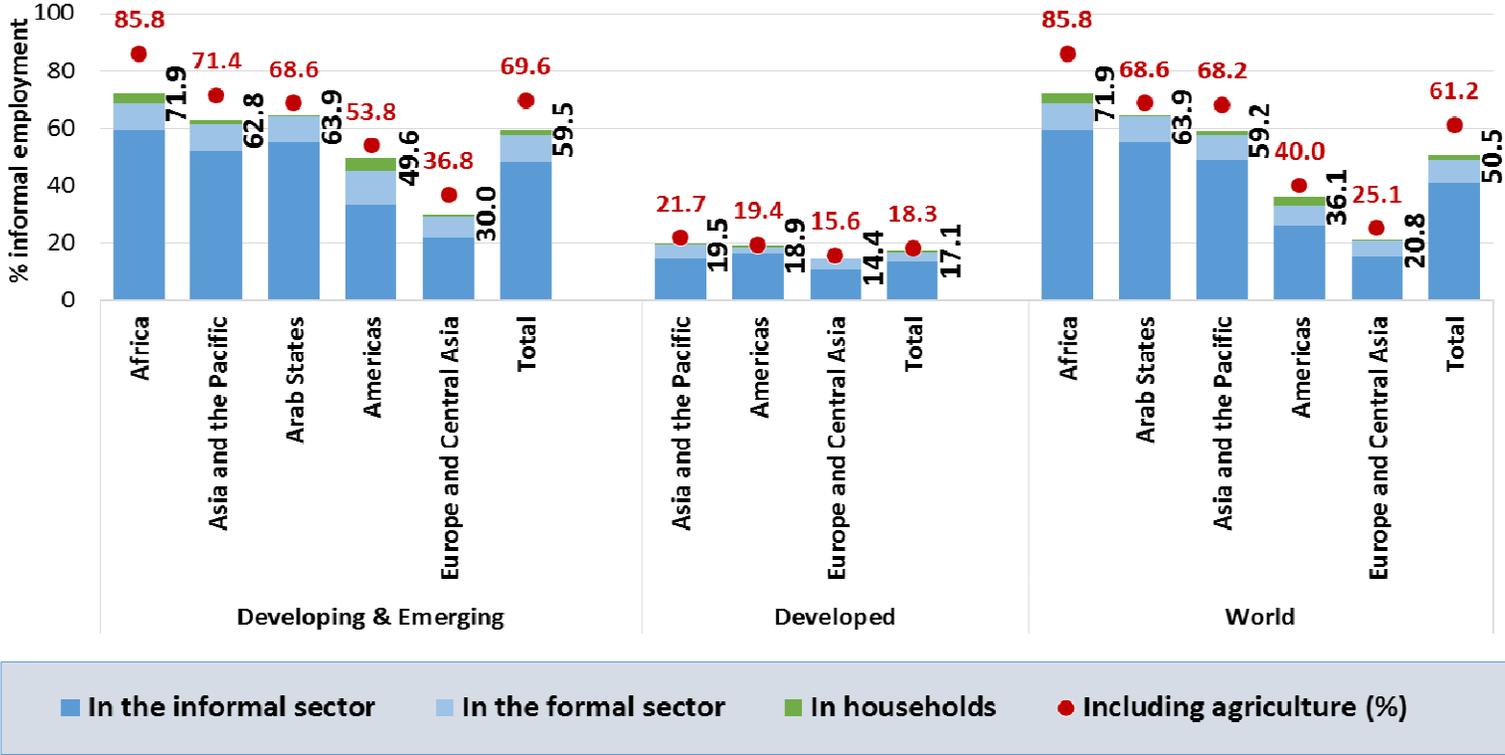
## In Europe

- <5%
- 5-25%**
- 25-50%
- 50-75%
- 75-90%
- >90%

➔ **25%**



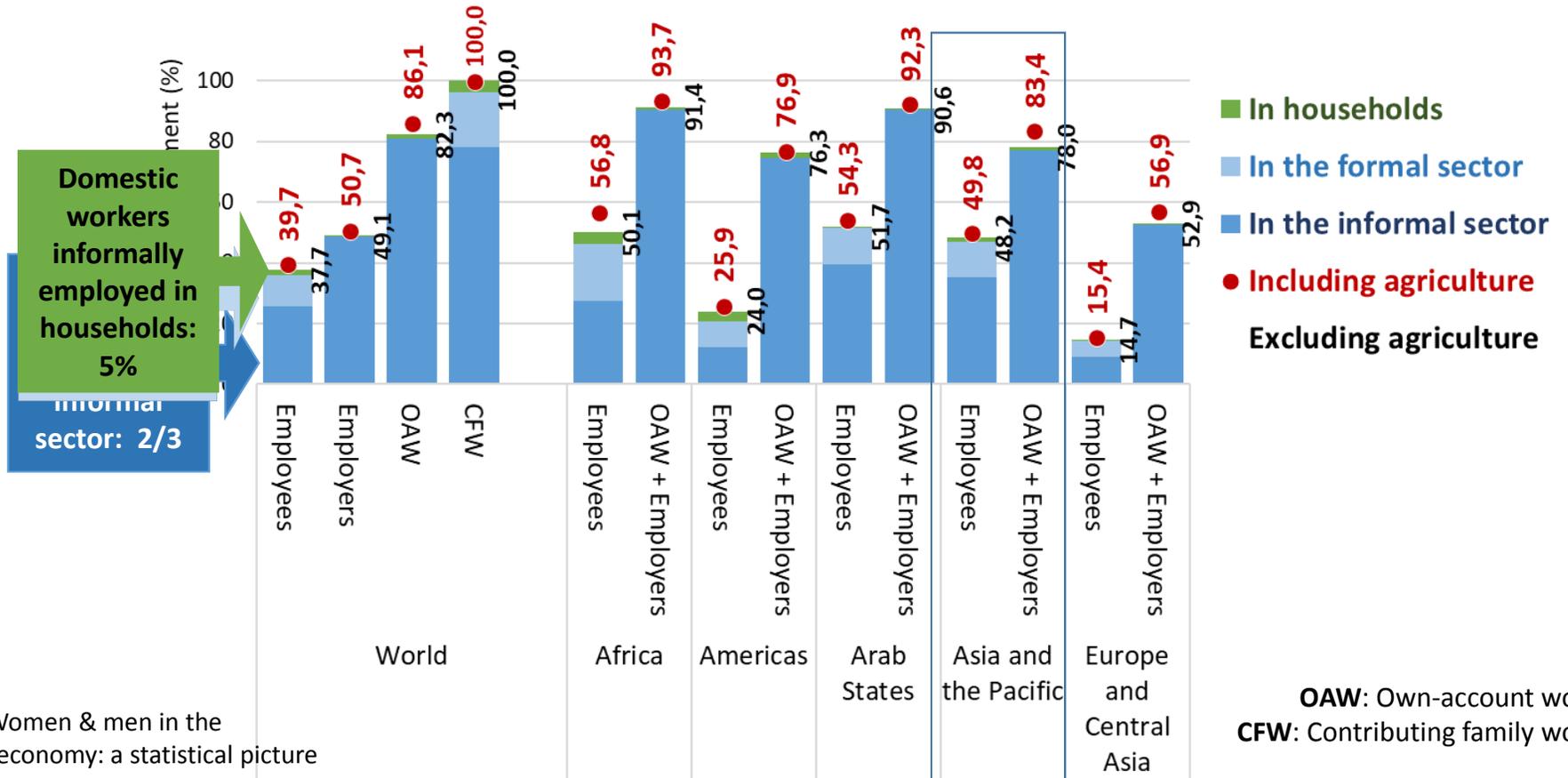
# Informal employment as a proportion of total employment



Note: based on 119 countries representing 90 percent of global employment and estimated missing values. Estimates for 2016. Harmonized definition of informal employment (no registration or no complete set of accounts to define the informal sector and informal employment among own-account workers and employers; no social security gained through employment or, in case of missing, neither annual paid leave, nor paid sick leave to define informal employment among employees; all contributing family members are in informal employment). Limited number of countries for the Arab States, not displayed on this graph. Source: ILO calculations based on national household surveys

# Informal employment employees versus self-employed

Share of informal employment & composition by employment status (% , 2016)



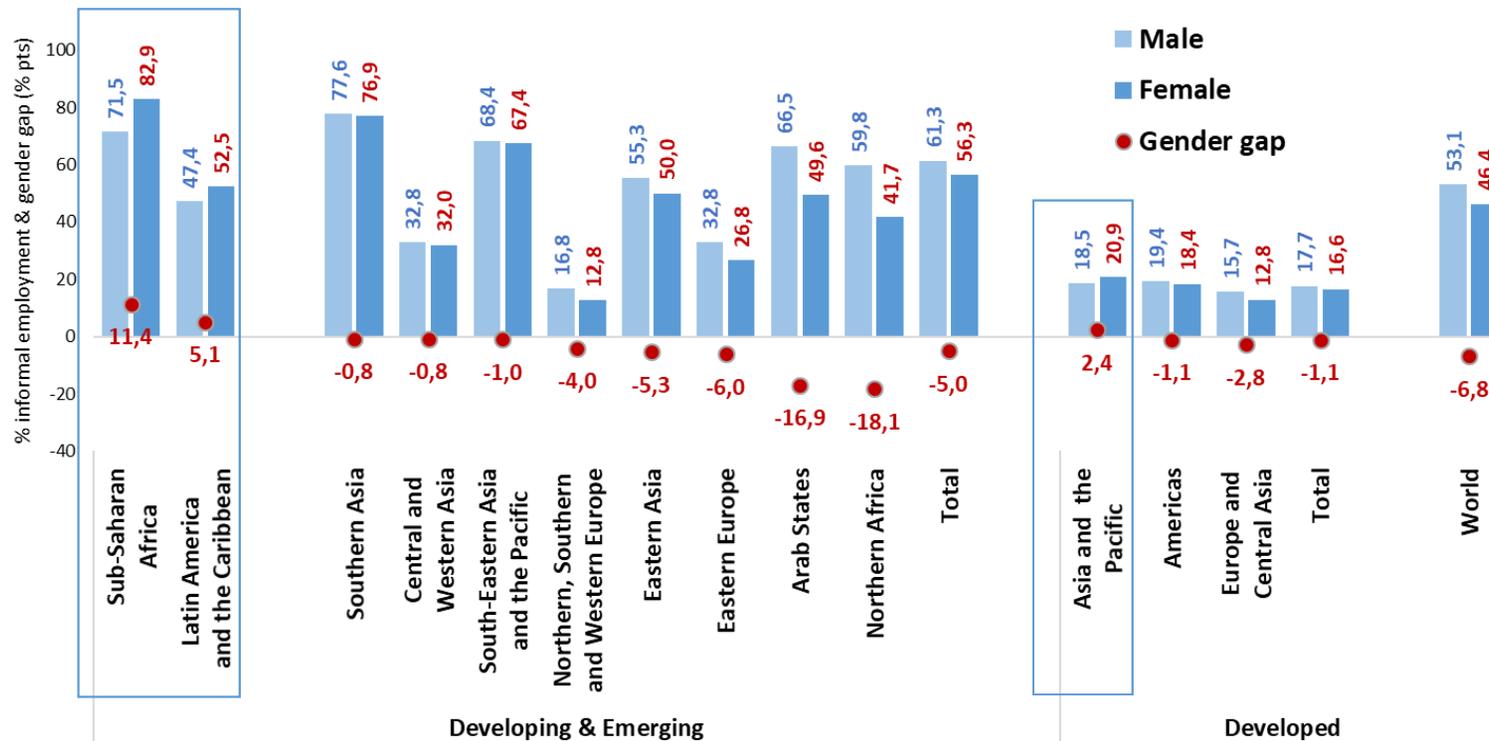
Source: Women & men in the informal economy: a statistical picture

# Extent of informal employment?

## The gender dimension of informality (outside agriculture)

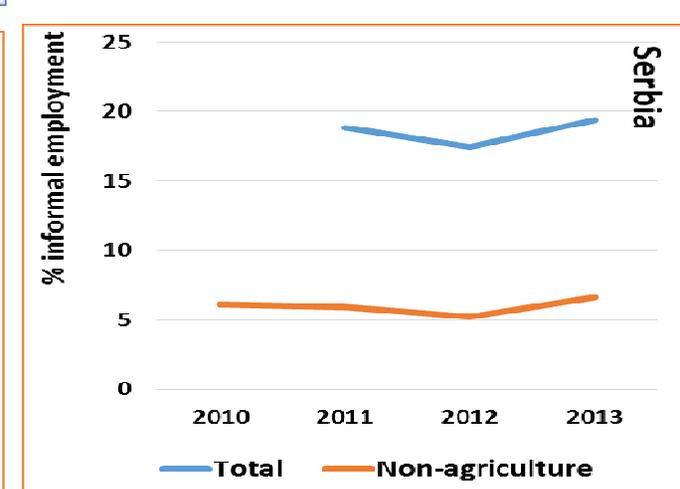
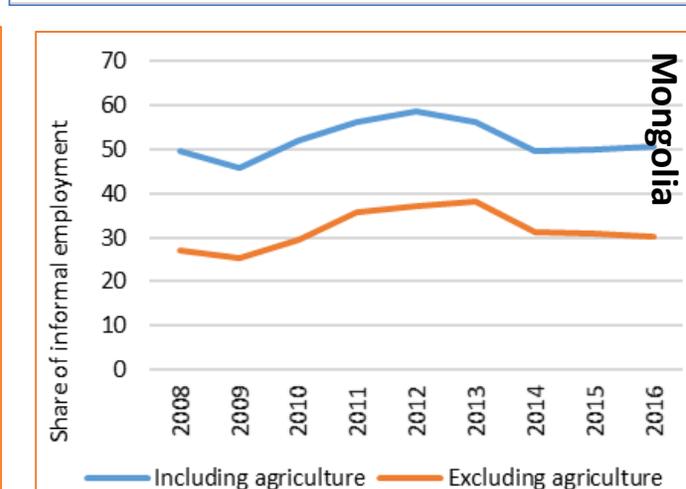
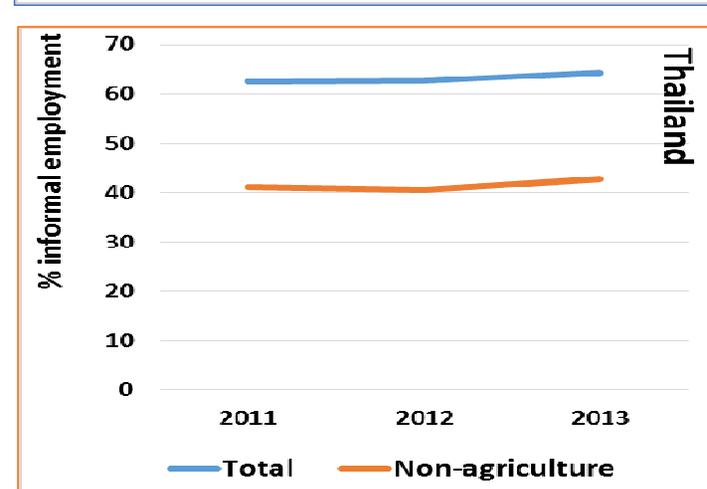
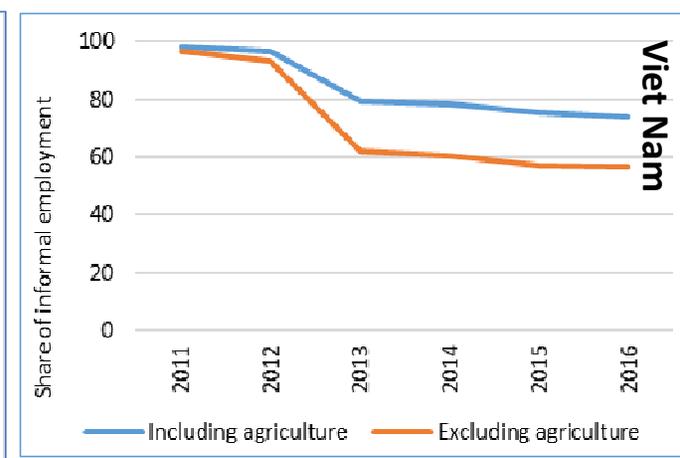
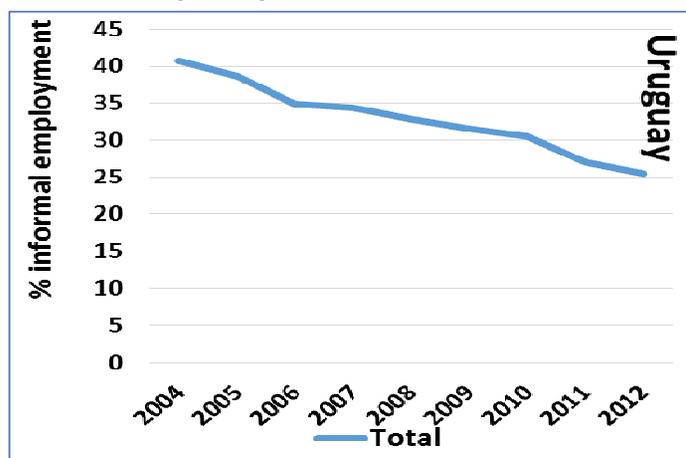
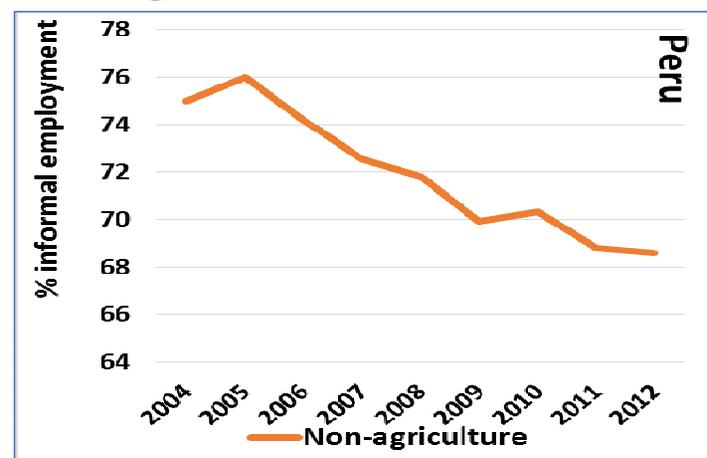
- Women are more exposed than men in some regions **but not globally**.
- Women are not more affected in numbers than men but when in the informal economy, they tend to be in the most vulnerable segments
- The lower the participation of women in the labour market, the lower the share of informal employment in women employment (most extreme cases are North Africa and the Arab States)

### SDG 8.3.1



# Dynamic of informality over time

## Change in the share of informal employment



Source: ILO calculations based on national household surveys  
 Detailed country source available at the end of the presentation

# The significance of the new Recommendation 204: *Transition from the informal to the formal economy*

- First international standard to provide both a normative and a developmental framework focusing on the informal economy in its entirety and diversity.
- For the first time, it establishes labour standard that steers governments, in the form of 12 'guiding principles', on how to help half of the world's labour force transition from the informal to the formal economy.

R204 recognizes that:

- the high incidence of the informal economy
  - ✓ is a major challenge for the rights of workers and decent working conditions
  - ✓ has a negative impact on enterprises, public revenues, government's scope of action, soundness of institutions and fair competition
- Most people enter in the informal economy not by choice
- Decent work deficits more pronounced in the informal economy
- Transition is essential for inclusive development and decent work for all
- Workers and employers' organizations play an important and active role to support transition to formality

# The R204: Threefold objectives

R204 provides guidance to Members to :

1. Facilitate the transition of workers and economic units from the informal to the formal economy
2. Promote the creation, preservation and sustainability of enterprises and decent jobs in the formal economy
3. Prevent the informalization of formal economy jobs

# Some Guiding Principles

R204 invite Members to design coherent strategies that should take into account the following:

- the **diversity** of characteristics and needs of workers and economic units in the informal economy and the necessity to **address such diversity with tailored approaches**;
- the need for **coherence and coordination** across a broad range of policy areas in facilitating the transition to the formal economy;
- the **effective promotion and protection of the human rights** of all those operating in the informal economy;
- the **fulfilment of decent work for all** through respect for the fundamental principles and rights at work, in law and practice;
- the need to **pay special attention to those who are especially vulnerable to the most serious decent work deficits** in the informal economy (e.g. women, persons affected by AIDS, domestic workers);
- the **preservation and expansion**, during the transition, of the **entrepreneurial potential, dynamism, skills and innovative capacities**;
- the need for a **balanced approach** combining **incentives** with **compliance**.

# Transition to formality:

## Understanding the root causes of informality

**To reduce informality durably, one must attack its causes**

**What says R204? Para 8 – Diagnostic**

**The diagnostic: What? & What is it for?**

- The starting point for a better understanding of the informal economy and the context
  - ✓ Level, nature, characteristics of workers and economic units in the informal economy
  - ✓ Main incentives and drivers of informality and obstacles to formalisation
  - ✓ Mapping and assessment of current policies/ measures
- A comprehensive / inclusive process to build a large domestic consensus about this diagnostic and priorities among main actors: government, social partners, etc.
- Constitute the basis for formulating integrated policies: multiple drivers → multidimensional interventions

# Multiple drivers of informality: A call for integrated approaches...

**Broad range of factors** - embrace but transcend the world of work, including

- **Inability of the economy to create enough formal jobs** (*e.g. low growth, job less growth*);
- **Regulatory framework inadequate or lacking** (*e.g. exclusion from the legal coverage of groups of workers, difficulty to comply because of excessive costs and/or complexity*);
- **Weak enforcement systems** (*e.g. low capacity/coverage of labour/social security inspectorate*);
- **Lack of transparency and accountability of public institutions/lack of trust in public institutions** (*e.g. ineffective social security system*);
- **Lack of adequate social benefits to secure income** (*e.g. survival activities*);
- **Low productivity** (*e.g. inability to overcome costs of formalization*);
- **Low educated and qualified workforce** (*e.g. low mobility from informal to formal jobs*);
- **Discrimination** (*e.g. exclusion of workers from categories of jobs based on race, gender, age*);
- **Attractiveness of informal activities** (*e.g. evasion of tax/contributions, work family balance*);
- **Lack of voice and representation of workers** (*e.g. domestic workers, home-based workers*) ....

**Transversal drivers:** influence almost all forms of informality (*e.g. inefficient public institutions, inappropriate macroeconomic frameworks*).

**Specific drivers:** specific to a particular type of economic unit (*e.g. micro and small enterprises*), group of workers (*e.g. domestic workers*) or sector (*e.g. construction*).

# A broad diversity of possible interventions across a large range of policy areas

Heterogeneity of informal economy & multiple drivers → broad range of policies influence formalization/informalization.

Integrated approaches work best!!! See R204 in particular §10, 11, 12

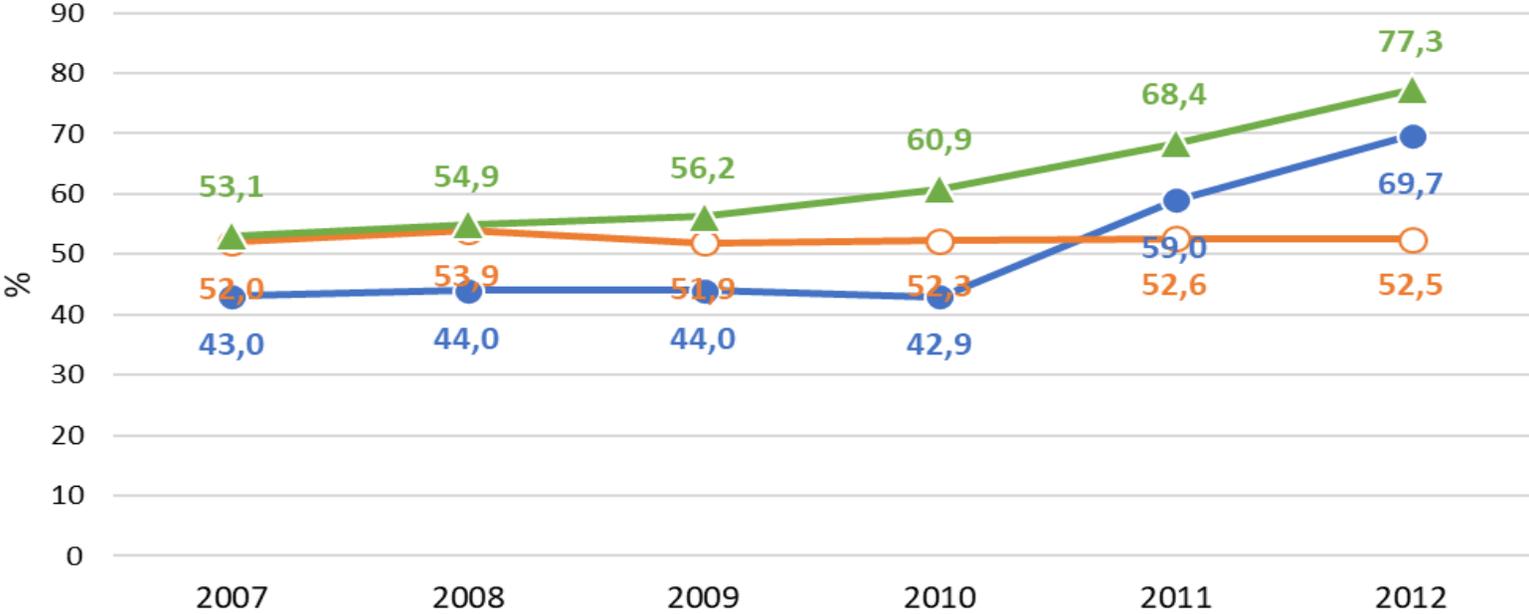
## **A broad diversity of possible interventions:**

- *Policies that affect the environment/context:* Macroeconomic, trade, industrial, tax, sectoral and infrastructure policies aiming to promote employment, enhance productivity and facilitate structural transformations, etc.
- *Policies that affect transversal drivers of formalization, mostly to strengthen institutions, such as those to tackle poor social security systems, weak labour market institutions, lack of access to finance, to education, to skills, to infrastructures, etc.*
- *Policies that target specific categories of economic units (e.g. MSEs), groups of workers (e.g. domestic work, self-employed), type of informality (e.g. undeclared work in formal enterprises).*

Combine interventions to increase: 1) the ability of the environment to absorb the informal and 2) the ability of individuals and economic units to enter the formal economy.

# A broad diversity of possible interventions across a large range of policy areas: The risk of delinking the different dimensions of formalization

Colombia — Formalization of micro-enterprises: trends, 2007-2012



- percentage of micro-enterprises with business registration
- percentage of workers covered by health or pensions in establishments with less than 5 workers
- ▲— percentage of microenterprises with accounts

# A broad diversity of possible interventions across a large range of policy areas: A mix of policy interventions

## Different mix of interventions, Example undeclared work:

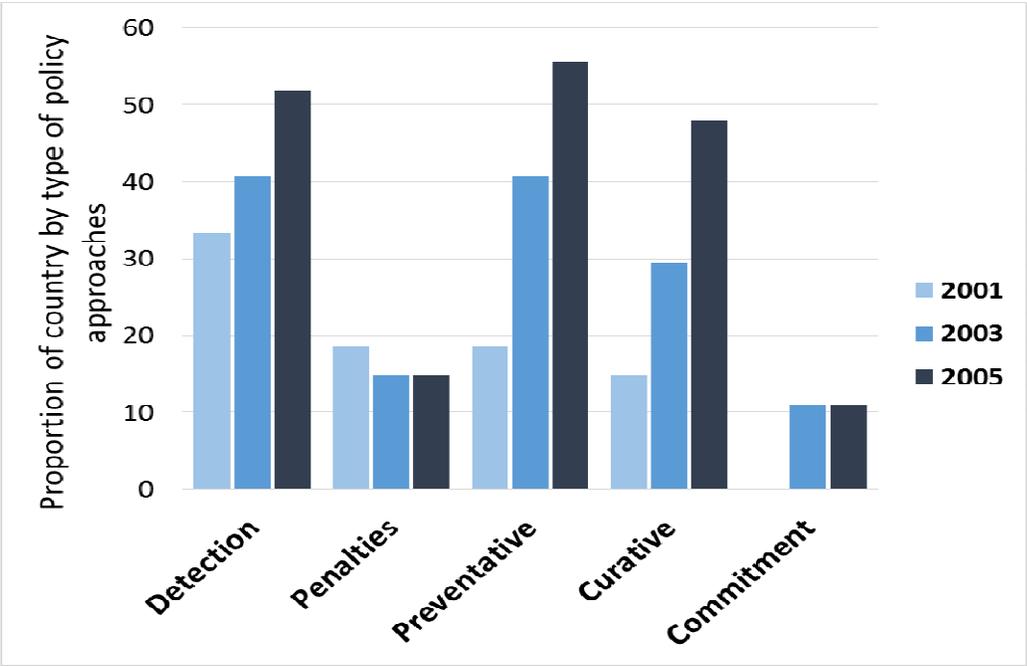
### Deterrence measures

- 1) **Improve detection:** data matching and sharing; joining up strategy; and joining up operations
- 2) **Penalties:** increase penalties for evasion

### Enabling compliance

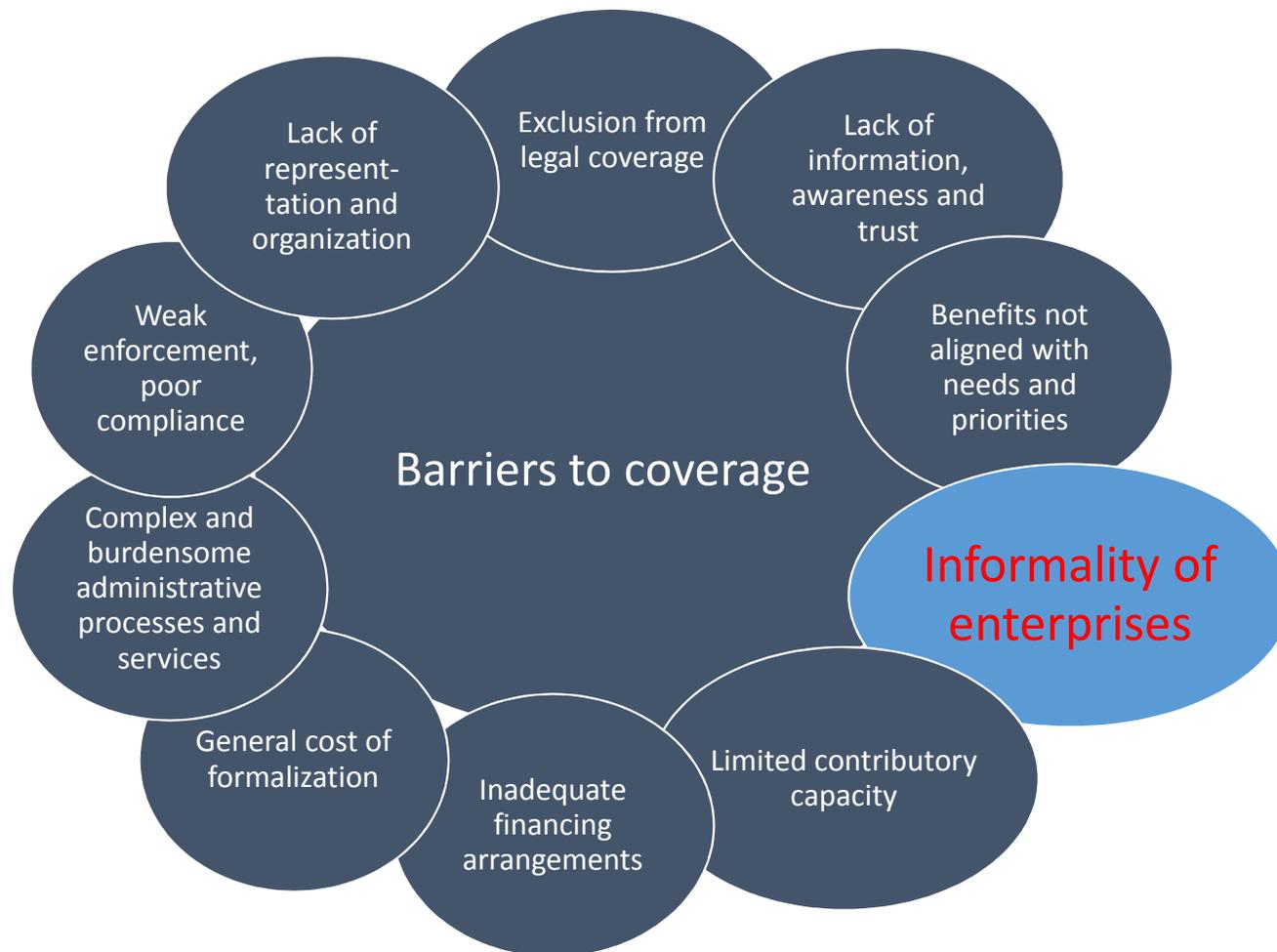
- 1) **Preventative** such as simplification of compliance or direct and indirect tax incentives
- 2) **Curative** such as purchaser incentives and supplier incentives (society-wide amnesties; voluntary disclosure; business advisory and support service)
- 3) **Fostering commitment** such as promoting benefits of declared work; Education; Peer-to-peer surveillance; Tax fairness and Procedural or redistributive justice.

Approaches used to tackle undeclared work in EU27 (2001-2005)



Source: Eurofound (2013). Tackling undeclared work in 27 European Union Member States and Norway. Approaches and measures since 2008.

## An exemple: Extension of social security - Constraining factors for extending social protection to workers in the informal economy



# An example: Extension of social security - addressing financial barriers

## Adapting to way how contributions are determined

- adapting contribution collection schedules
- proxy measures for earned income
- simplified contribution and tax payment mechanisms
- alternative reference values (other than earnings)

## Facilitating the payment of contributions

- expanding access points for the payment of contributions (physical access and mobile/electronic services) – proximity and practicability
- facilitating the consultation of individual information
- allowing for more flexibility in contribution collection

## Subsidizing contributions for some categories of workers

- reduced contributions for some categories of workers
- don't subsidize informality – subsidize those with limited contributory capacity (and promote transition to the formal economy)
- requires careful assessment and design (actuarial, fiscal and economic)

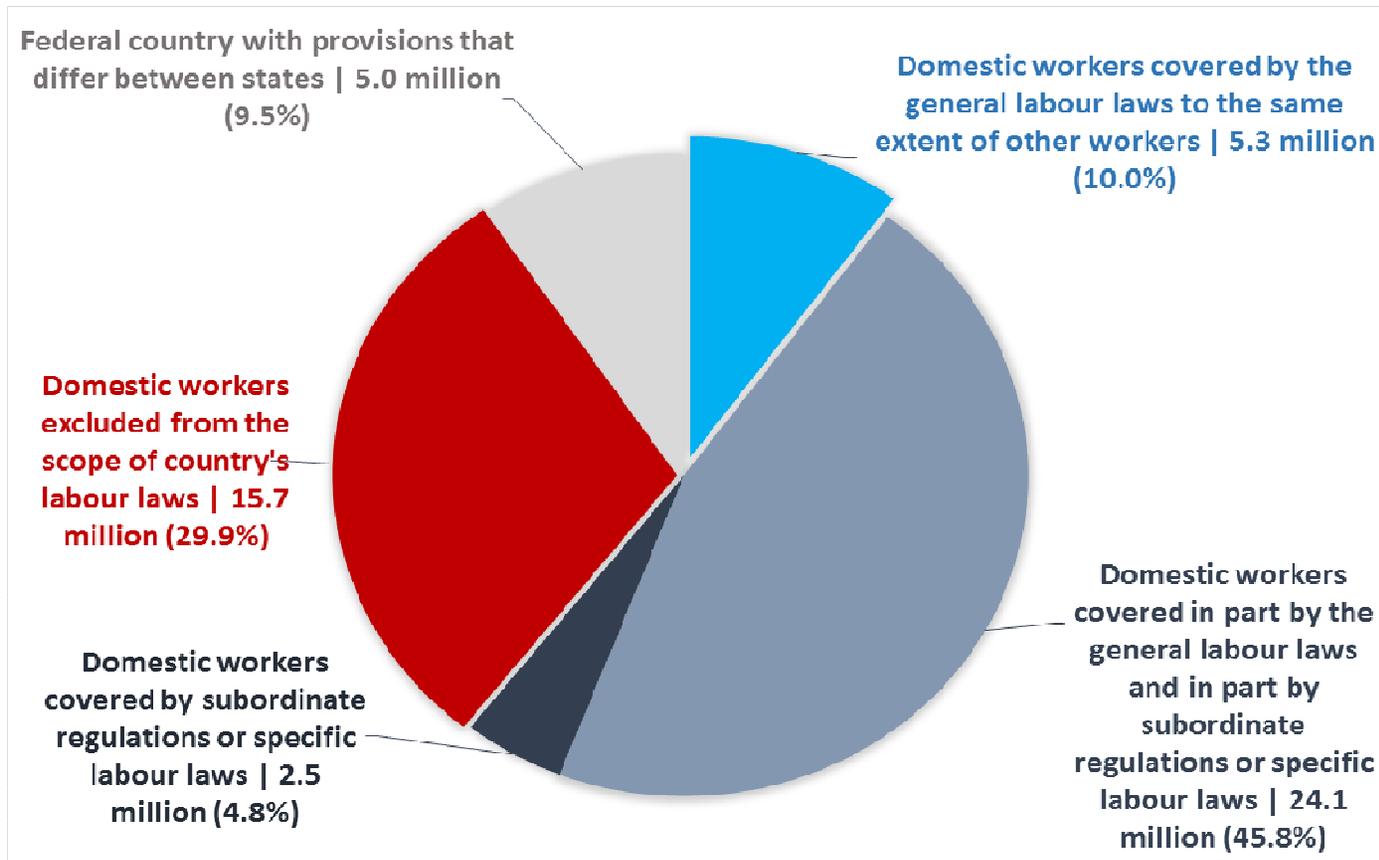
## But extension of social security depends... of the overall efforts to promote formalization

### *Some examples:*

- Most of the jobs are in private sector enterprises → these enterprises need to be formalized to allow the formalization of the workers they employ. It means formalization of enterprises is a condition for extending social insurance (or other employed based schemes) to workers...
- If you want to extend social security to domestic workers → you have to formalize their jobs, this implies working on several drivers of informality and not only social insurance: disclosure of information, simplification of measures to register employment... as we will see
- The problem informal economy workers often face, is the cost of formalization, notably paying on a regular basis social security contributions; if you want to increase their ability to cover such costs, you should, in most of the cases and where possible, increase the productivity of the economic units in which they work

# An example: The informality of domestic work

## Exclusion or sub-coverage for the majority of workers



Source: ILO (2013). Domestic workers across the world: Global and regional statistics and the extent of legal protection

# An example: Some drivers of informality in the domestic work sector

- Total or partial exclusion of labour and social security coverage or partial exclusion of some categories of domestic workers
- Norms, values, perception ...
- Respecting the law is considered as too costly in relation with the income of employers (households): social security contributions, social charges and unaffordable minimum legal salary
- Difficulty regarding enforcement: household privacy; complex inspection procedures; high transaction costs;
- Households and domestic workers are not familiar with public administration. Few or lack of measures to inform the public about the regulations.
- Lack of organization: the dispersion of the labour force makes it difficult for workers to meet and exchange information about their rights.
- Lack of confidence in the institutions (e.g. social security) or little prospect of receiving benefits someday (e.g. migrants)

# An example: Axes of interventions to facilitate transition to formality of domestic workers

- **Extension of the scope of the legislation.** Since the adoption of Convention 189 in 2011, around 50 countries have adopted political, legislative and institutional reforms aimed at expanding labour and social protections.
- **Deterrent approach:** Standard measures include labour and social security inspections, penalization of non-compliance, mechanisms for filing complaints and dispute resolution systems.
- **Preventive approach:** Standard measures include disclosure of information, simplification of measures to register employment, reduction of costs of registration/compliance, introduction of fiscal incentives, etc.
- **Strengthening representation and organizations:** Allow domestic workers to express their interests for the design and implementation of the reforms; increase awareness of rights and responsibilities that help in the application of labour and social protections. Employers' organizations participate in the design of the reforms; awareness and the promotion of compliance. Possibility of collective agreements.
- An example: France

**Thank you  
for your attention**

