

# Transition from informality to formality - the ILO approach for Diagnostics as basis for holistic approaches



Overall objective, scope, steps and the role of labour inspections in the Diagnostics

*27 – 28 March 2019, Tirana, Albania*

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1. The context
2. Objectives and main steps of the diagnostic
3. Quick insight in some of the steps: the core of the diagnostic
  - 3.1 Quantify the extent, nature and composition of the informal economy
  - 3.2 The drivers of informality and of formalization
  - 3.3 Identify main actors and coordination mechanisms
  - 3.4 Review of current, past and planned measures and policies
4. Role of labour inspection as part of the diagnostic





# 1. The context (1)

## 1 Facts

- **More than 60%** of the population in employment worldwide is in informal employment
  - Nearly 90% in low-income countries, 67% in middle-income countries & 18% in high-income countries
  - 14.3% in Northern, Western and Southern Europe but **26.3% in Upper-Middle-income countries** in the region

## 2 Commitment

- **June 2015 | Adoption of the Recommendation 204 concerning the transition from the informal to the formal economy**
  - First international standard to focus on the informal economy in its entirety
    - Universality as well as specificity of national circumstances
    - Diversity of situations and factors of informality
    - Formalization as a mean to achieve decent work and sustainable development
- **September 2015 | Adoption of the 2030 agenda for sustainable development**
  - Indicator 8.3.1: Share of informal employment in non-agricultural employment



# 1. The Context (2)

- R204 recognizes the need for tailored approaches to respond to this diversity of situations and the specificity of national circumstances
- Calls for 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 and regulations, policies and other measures aiming to facilitate the transition to the formal economy (paragraph 8 in R204)...
  - support the design of coherent and **integrated strategies** to facilitate the transition





## 2. National diagnostics of informality: what and what for?

### 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 drivers of informality and obstacles to formalisation
    - Mapping and assessment of current policies/ measures
  - Set the baseline for the monitoring of formalization progress
  - A comprehensive / inclusive process to build a **large domestic consensus** about the informal economy among main actors
  - A shared set of facts and evidence to decide on priorities and discuss on the policies design
- A **sequence** of steps: still not strict and allowing for back and forth
  - A generic approach to adapt to country circumstances and priorities
  - A broad range of issues to be covered
  - Some quantitative and qualitative elements to inform all actors involved;
  - Comprehensive (global to the national economy) or targeted to specific sectors, groups of workers or types of businesses

# Diagnosis cycle: where are we now? Where do we want to go?

1. **Awareness raising/ sensitization activities** => create conditions for a shared understanding of the notions of informal economy & formalization

2. **Working group** in charge of the coordination & implementation of diagnostics

3. Identify national priorities and overall policy framework

4. **Extent, characteristics & nature:** Quantify the extent, nature and composition of the informal economy  
Including baseline indicators as part of the M&E system

5. **Factors & causes:** Identify the main drivers of informality and incentives for formalization

6. Identify **main actors** involved and coordination mechanisms if any

7. Identify and assess current **policy approach, specific programmes and measures** and, whenever possible, their impacts  
Including baseline information and indicators as part of the M&E system

8. Validation tripartite meeting: agree on the situation

9. Identify priorities (specific groups) & sequencing

10. Provide policy recommendations, define an action plan & formulate the road map

PRELIMINARY  
STEPS

DIAGNOSTICS  
CORE COMPONENTS

PRIORITIES  
& POLICIES

Participative process

Slide 8

Qualitative information

Quantitative information

Qualitative & quantitative

Preliminary steps





## Questions

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1

What is the size of the informal economy?

2

Who are the workers **the most exposed** to informality? Who are the **most represented** in the informal economy?

3

What about the working conditions & the exposure to decent work deficits?

4

Identify some of the factors & causes of informality (some are quantifiable, others not)

➔ Monitor progress towards formalization, including **SDG 8.3.1 and specific policies**

Step 4

Step 5

On a continuous basis



# Sources of information for the quantitative assessment

- **Labour force surveys:** allow for a comprehensive analysis with representative results at the national level
- Mixed surveys (LFS + enterprise survey): enterprise features, constraints faced by entrepreneurs, contribution of the informal sector to GDP
- Household income & expenditure surveys: poverty and informality

## As a complement

- **Administrative sources:** e.g. Labour inspection, social security records in particular for **undeclared work**

+

- Important role to understand and bring attention on particular practices at the enterprise level: how & why does this happen?
- Question the law: adequacy, legal gaps
- Identify exposure to particular risks in the workplace, highlight sectors and types and enterprises most at risk
- Important source for the identification of under-declared work / activities

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- **Not representative at the national level:** scope of the analysis limited to information compiled & enterprises covered by labour inspection
- Bias: Focusing on enterprises more at risk of undeclared work/ IE => risk to overestimate the extent
- Suppose a systematic compilation of the information

# Question 2. Groups of workers most affected

## Objective

Identify categories of workers, sectors or enterprises i) the most exposed to informality ii) the most represented in the informal economy

➔ Calling potentially for priority measures



## Questions

Who are the workers the most exposed?

**Informal employment is...**

True

False

A greater source of employment for women than for men

☐☒

Higher among own-account workers compared to wage workers

☒☐

Who are the workers most represented in the informal economy?

**Among workers in informal employment....**

True

False

Wage workers make up the majority of informal employment in most European countries

☐☒☐

Construction workers represent the majority of those in IE

☐☒

# Question 3. Informality and working conditions

## Summary of main questions

- **Objective:** assess working conditions of workers in the informal economy & exposure to decent work deficits
- **Income security,** Level & regularity & predictability of income from labour, full declaration of income
- **Employment security.** Recognition of the employment relationship, type and duration of contract
- **Health and safety issues:** preventive measures, incidence of occupational injuries
- **Hours of work** outside normal hours (short hours or exposure to long hours without due compensation)
- **Skills-security,** Access to training & retraining
- Benefits links to employment (other than social security such as transportation, child care, meals, etc.)
- Coverage by non-employment related social protection
- **Poverty** as cause or a consequence of informality (usually not covered in labour force survey)

The depth of quantitative analysis will depend on the available information in surveys & administrative data

Can typically be part of **labour force surveys + Administrative sources as a complement**

Part of **household income and expenditure surveys** => supposes the inclusion of appropriate questions to identify workers in informal employment

# Working conditions in the informal economy: a critical role of labour inspection & the link with other sources of information (1)

## ■ Focus on the particular case of employees

### Existence, type and duration of contract (employment insecurity)

#### ● Questions?

- What is the proportion of workers without employment contract?
- Are people on temporary contract more exposed than others to informality?
- Is there a need to adjust the legislation (too heavy, inappropriate) to promote the effective recognition of the employment relationship? Should we limit the use of temporary contracts? Are the same levels of protection (labour and social protection) attached to temporary contracts compared to permanent contract?

#### ● Examples of indicators

- Among employees:  
% informal employment among employees under a temporary contract (and duration) compared to employees under a permanent contract
- % employees contributing to social security depending on the existence and the type/ duration of contract
- **Note:** *to be complemented by the assessment of social security and labour laws*



# Working conditions in the informal economy: a critical role of labour inspection & the link with other sources of information (2)

## ■ Informality and health and safety issues

### ● Questions?

- Are workers in informal employment, in informal sector enterprises, more exposed to health and safety risks?
- Assessment of the gaps in both prevention and protection measures
- What about excessive hours of work
- Is there a need for specific measures and what measures at the workplace

### ● Examples of indicators

- Exposure to hazardous conditions of work for respectively workers in formal and informal employment or in formal sector and informal sector units (by sex, status in employment, sectors, occupations)
- Use of preventive equipment, health & safety committee
- Incidence of occupational injuries and diseases
- Protection in case of need (health and employment injury insurance)

**Note:** *to be complemented with of the legislation: what measures for what type of enterprises? Social security coverage: who is covered, what modalities and for what benefits?*



## 5.1 Assessment of the legal and regulatory framework

## 5.2 Analysis of micro determinants of informality (quantifiable)



# Main drivers of informality – macro level to micro level drivers

**1.**

The analysis of the effect of the economic environment

**2.**

A review of the legal and regulatory frameworks and their application: how the existing frameworks limit or enhance the transition to formality

**Multiples drivers and incentives of informality**

... including motivations

**3) Micro level determinants**

**3.**

the analysis of factors associated to some characteristics of workers & economic units that can make it difficult for them to access formal employment/ formal sector

# Example: assessment of the legal and regulatory framework

## Objectives

- Collecting information on how the existing framework limits or enhances the transition to formality (creation of formal jobs; transition from informal to formal jobs & prevention of informalization)
- Seeking for the identification of the **sources of the deficit of protection** (for workers and economic units) among the three main possible sources:
  - A lack of legal coverage (social security and labour protection)
  - the inadequacy in the level of protection provided according to the law; and
  - the non-application of the law in practice



# Assessment of the legal and regulatory framework (1)

## Law in books

- The study of law in books includes the **coverage** and **level of protection** for workers and economic units at risk of informality.
- Laws can include
  - labour law,
  - social security law,
  - fiscal laws,
  - business laws,
  - criminal law and specific regulation (directed to one specific sector or occupational group).

The assessment of 'legal coverage' aims to collect information on the extent to which laws **regulate and protect workers and economic units at risk of informality and to assess the 'legal coverage gap'**



### **Labour inspection**

key role to identify possible legal gaps or when laws might not be appropriate

**i.e. questioning the legal framework**



# Assessment of the legal and regulatory framework (2)

## Law in practice

- Examines **how law is applied and implemented**
- Assesses “the gap” in the implementation and enforcement of the law, and
- Identify the reasons for this “implementation gap”
- The reasons can vary depending on workers/ units / forms of informality and include:
  - A lack of State capacity and budgetary constraints
  - Inappropriate implementation and enforcement mechanisms
  - Inadequate modalities to comply to the law given IE workers and units features
  - Inadequate benefits given their needs
  - Lack of communication from institutions => lack of awareness from the workers/ units
  - Lack of transparency and accountability => Lack of trust/ confidence



Depending on the scope of the diagnostic, both the review of law in books and in practice might apply to particular groups of workers/ enterprises

**Legal  
consciousness**

# Assessment of the legal and regulatory framework (3)

## Situation

## Measures

Legal gap

**Lack of legal coverage** : Review of regulatory/ legal frameworks => identify gaps of legal coverage: Who is covered (workers, economic units)? Who is not?

Extension of legal coverage (reforming existing laws or adopting new laws) to categories not yet covered

Level gap

Are **levels of protection** provided by law sufficient: can we consider them as real protection? Assess for instance the capacity of social transfers to secure income

Enhancing access to improved levels of protection (legal reform & implementation)

Implementation gap

**Non compliance with the law in practice**: requires a mix of measures on several fronts

- **Legal dimension**: adjust modalities as defined in the law to enhance their implementation in practice (ex. simplification; allow for flexibility)
- **Improve enforcement mechanisms**: assessment of compliance mechanisms including labour inspection, social security and taxes; increased capacity
- **Improve transparency and confidence in the system**: (institutions, procedures)



# A mapping of actors (1)

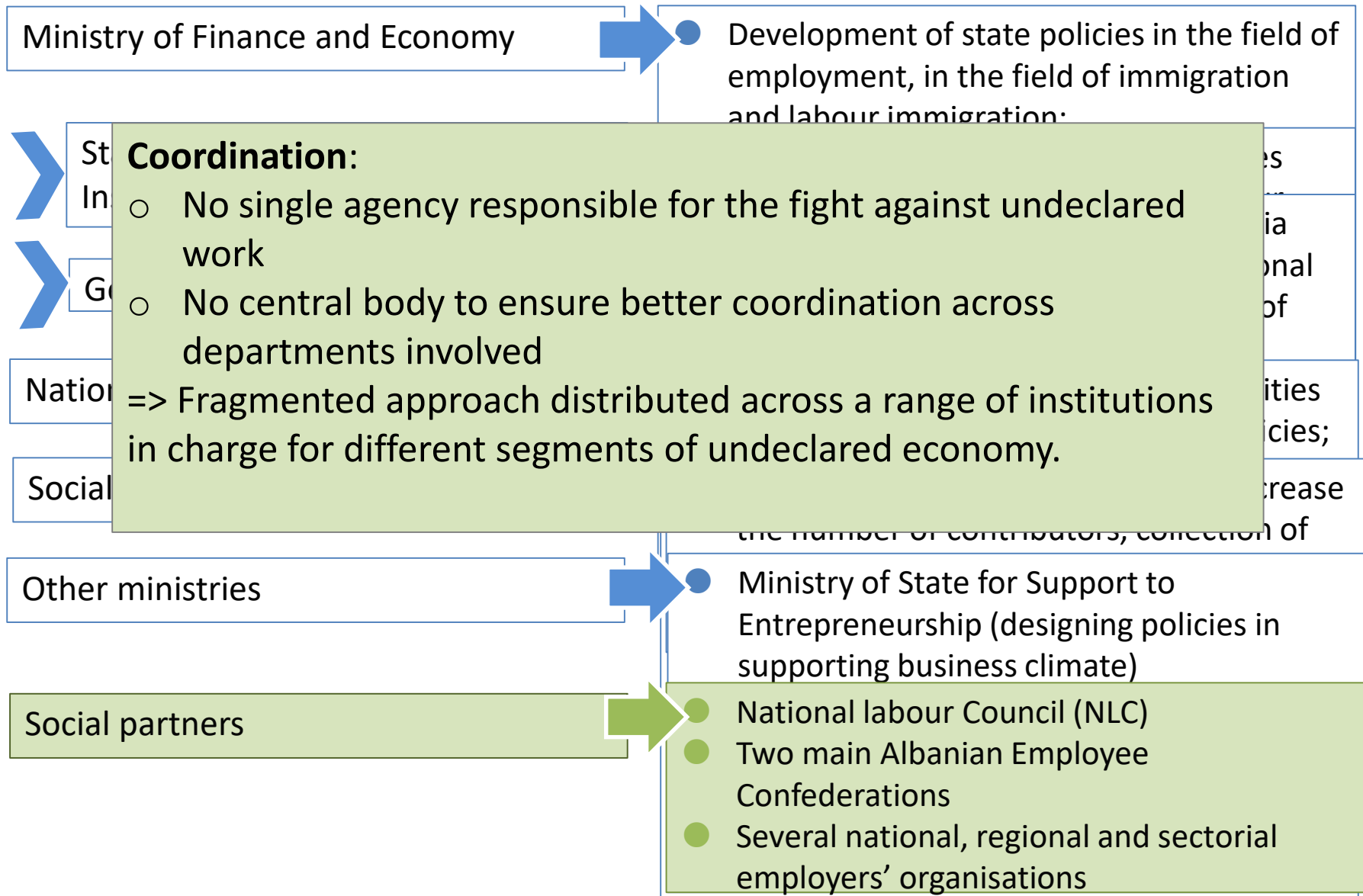
## Mapping of actors involved

- Ministries, institutions & agencies (national, regional, local)
- Main workers and employers' representative; main organizations of the informal economy (representative of economic units, workers, specific occupations or sectors); professional organizations, etc.)
- Non-governmental actors both international and national

## Key questions

- Domain of intervention; objectives and priorities
- Types of informality dimensions (e.g. fiscal issues; social security and/or labour law/ ; effective implementation; other)
- Main target group(s) (SMEs; self-employed or employees; specific sectors)
- Main realizations, programmes: past, current and planned
- Main role in the formulation and implementation of policies / programmes related to informal economy & formalisation
- Role that could be envisaged & constraints to overcome to make their action more efficient
- Coordination with other actors
- Understanding and visions of informality, its causes and consequences (a priori)
- Strengthening capacity: identify needs, if any?

# A mapping of actors (1): example from Albania (undeclared work)





# Coordination of interventions

## Why coordination and cooperation matters?

- Integrated strategies are more effective for transition
- Integrated strategies require cooperation between different bodies and ...
- ... different levels: local, regional and national

The diagnostic aims at identifying what coordination mechanisms exists and conditions favourable to or constraining effective coordination.

- Identify whether there is a formalized coordination mechanism or otherwise some informal coordination mechanisms;
- Assess what is the institutional framework (single agency, cross-government departmental cooperation) and the operational modalities
  - actors involved, responsibilities; participation or consultation of the social partners and the informal economy organizations concerned;
- Identify factors in the current institutional setting that represent constraints and obstacles to an effective coordination; and
- Identify opportunities that could help to recommend possible options given the context and the different existing possible options for organizational arrangements.





### 3.4 Review of current, past and planned measures and policies



## Step 7



# A mapping and assessment of main policies & measures towards formalization

## Objective

- This part of the diagnosis aims at:
  - Mapping current and past policies to get a better understanding of the main policy approach(es) and types of measures adopted (incentives versus curative measures or sanctions) with regard to formalization and/or prevention of informalization, if any
  - Identifying possible shifts in the type of policies adapted (& reasons) (ref. example Europe)
  - Assess what resources were, are and will be engaged
  - Collecting evidence (and any evaluations) on the effectiveness (existence and perceived) of each measure:
    - To what extent are the policies of formalization & reduction of decent work deficits in the informal economy adequate? Do they benefit from sufficient resources?
    - How are these policies translated into programmes?
    - To what extent do these programmes really facilitate the transition to formality? to reduce decent work deficits in the informal economy?

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

A broad diversity of policies

## 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** : to tackle poor social security systems, weak labour market institutions, weak social dialogue, 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).

Then the policy approaches and measures identified, at **the national and in some cases sectoral levels**, can be categorized into two groups in terms of their focus:

... and approaches

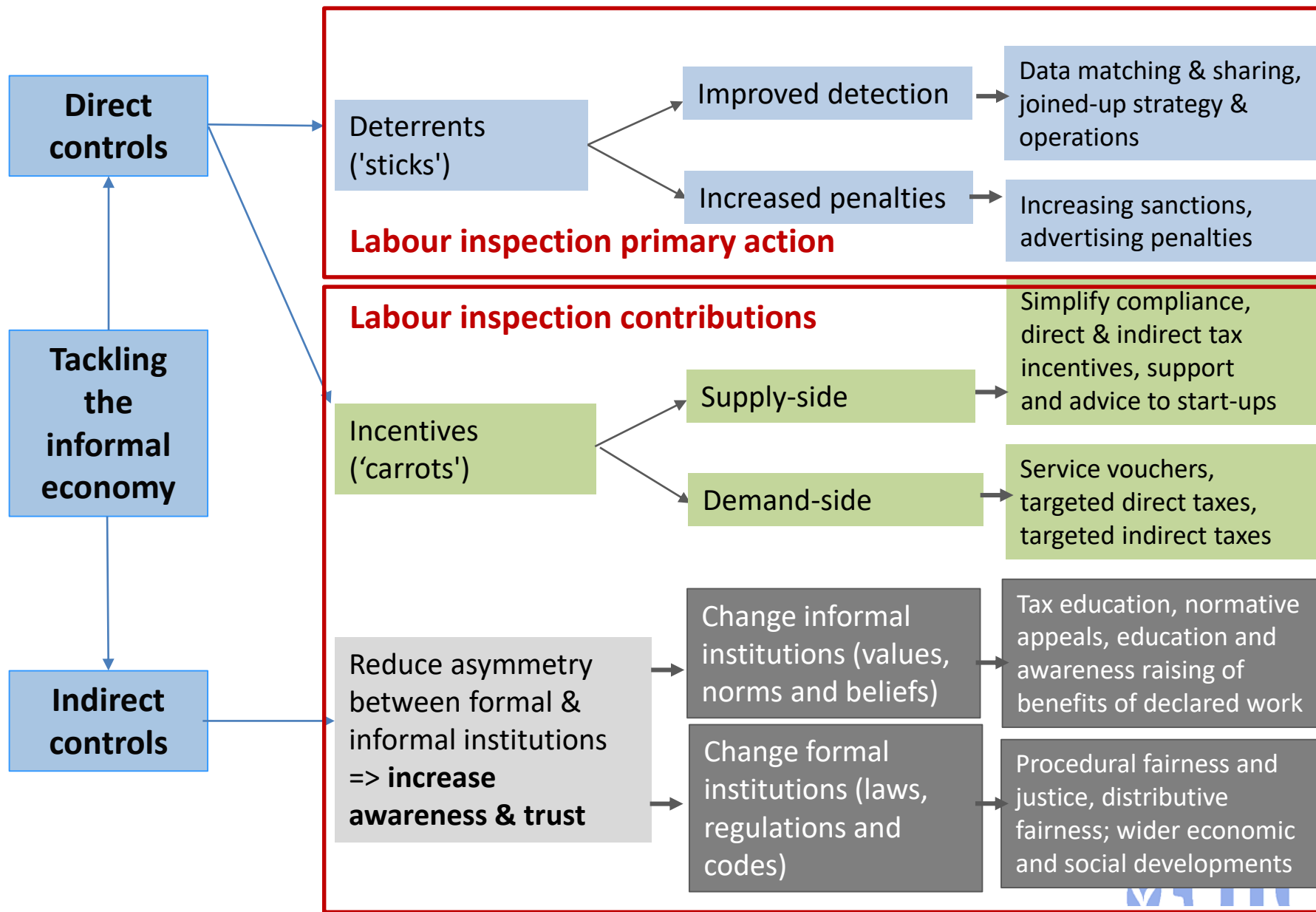
**Deterrence/punitive approaches** – including efforts to detect and penalize informal activities through inspections, controls and sanctions

## **Preventative/curative approaches such as:**

- Simplifying bureaucracy to enable compliance, tax reductions and incentives to declare work or enterprises, and tax incentives for new firms;
- Curative approaches to ease transition to formality
- Campaigns to raise awareness

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

Policy approaches and measures for tackling undeclared work





## 4. Contribution of labour inspection to the diagnostic



## Steps 8–10



# Labour inspection as part of the diagnostic

- Should be involved at all stages in the process: from step 1 to step 10

- **As part of step 4: how many & who are those in the informal economy (STEP 4)**

- Qualitative information regarding current practices: how informal employment happens

- **As part of steps 5 & 6: Drivers of informality & mapping of actors**

- **As part of steps 6: Assessment of current policies to support the transition to formality**

- Assessment of current approaches: is there a

- **And active participation in the next steps, starting with**

- The validation of results
  - The definition of priorities
  - The action plan (including activities, roles and responsibilities & monitoring)



**How do you see your role as part of the diagnostic?**



