

Informal employment and undeclared work in the Western Balkans

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Florence Bonnet (bonnet@ilo.org)



1. Scope & Definitions

Defining informal employment and undeclared work – ILO and EU definitions

2. An overview of the current situation in the Western Balkans in 4 questions

Question 1

What is the size of the informal economy: global and regional dimensions?

Question 2

Who are the most exposed to informality? Who are the most represented among those in informal employment?

Question 3

Are decent work deficits most pronounced in the informal economy?

Question 4

What can we say about drivers of informality?
Some first elements about a few of them...





1. Scope & definitions

Defining informal employment
and undeclared work – ILO
and EU definitions?



1. Scope & definitions

Informal economy: the term “informal economy”: refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements; and does not cover illicit activities (R204)

Absence of legal coverage

Informal employment: a statistical definition

Undeclared work

- No universal definition at the European level: Member States define undeclared work very differently. Sometimes there is not even a definition.
- At EU level, undeclared work is defined as "any paid activities that are **lawful as regards their nature but not declared to public authorities**, taking account differences in the regulatory systems of the Member States".
- This means that only legal activities are covered but not illicit practices (e.g. corruption and drug trafficking).

Under-declared work (under déclaration, « envelope wages »)

1. The informal economy: what is it about?

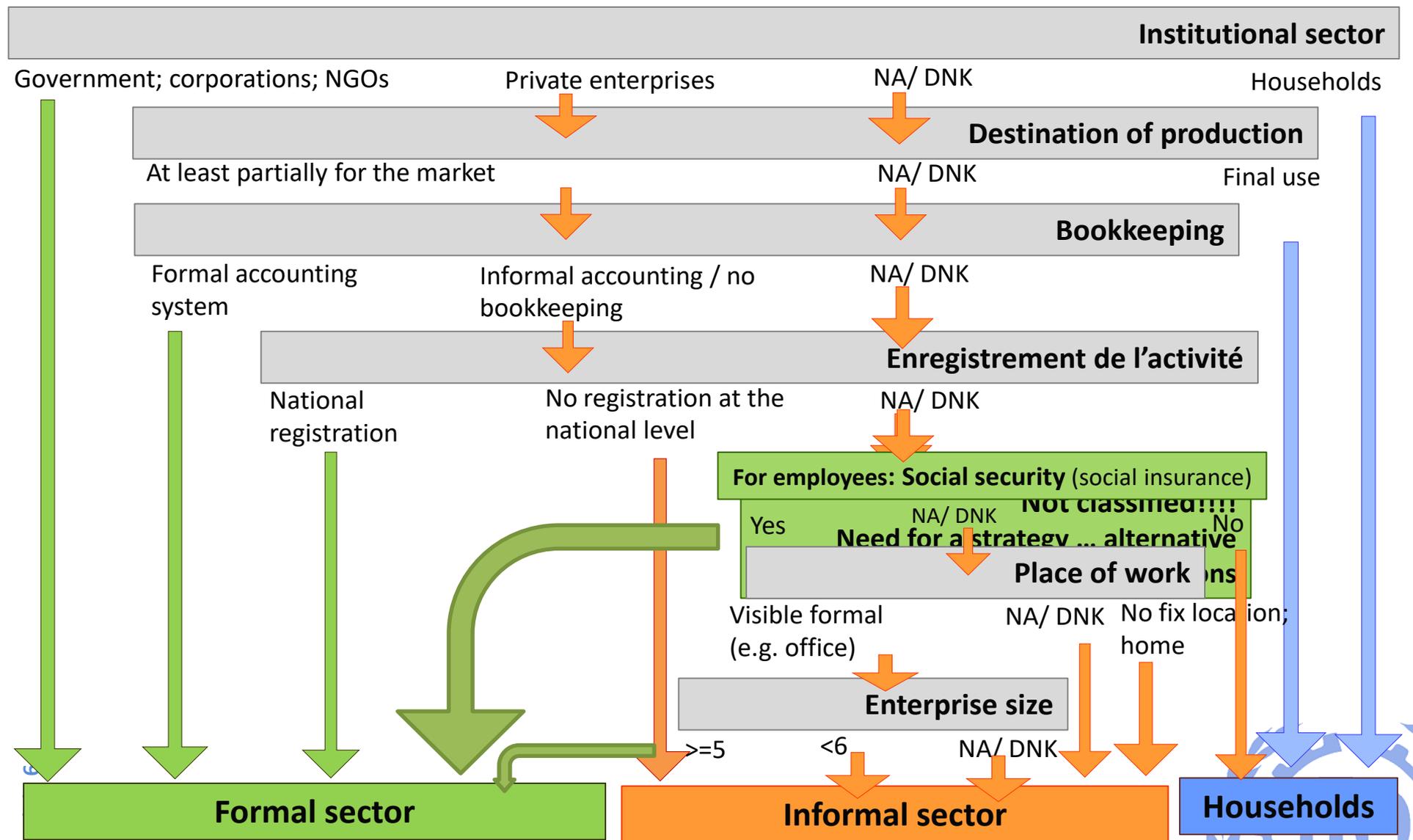


- Two different aspects of formalisation of the informal economy
- Important to distinguish as often require different policies

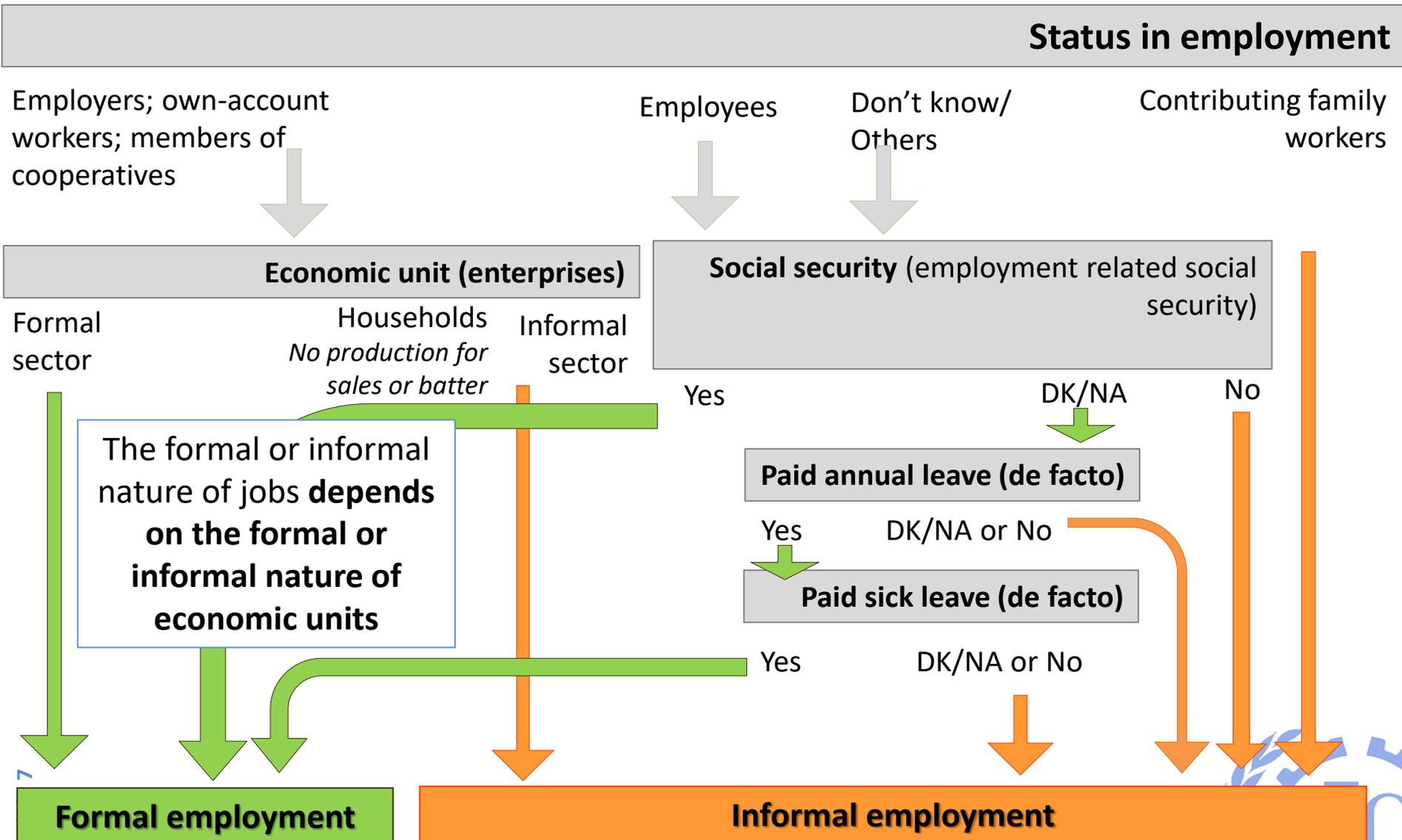
Employment in the Informal Economy:

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

1. Informal sector: Operational definition



1. Informal employment: Operational definition



Can we measure informal employment in Albania, Bosnia and Herzegovina, Montenegro and Serbia based on the national Labour force survey?

1

Questions available to identify employment in the **informal sector**

Informal sector Main criteria	Destination of production	Institutional sector	Registration	Bookkeeping	Size	Place of work
Albania	X	X	O		X	X
Bosnia & Heryegovina		X			X	X
Montenegro		X	X	X	X	X
Serbia		X	X		X	X

O: Albania: Alternative criteria: payment of income tax on wages (by the employer)

2

Questions available to identify **Informal employment** (among employees)

Informal employment Main Criteria	Status in employment	Employer's contribution to social security	Benefit from annual paid leave	Benefit from paid sick leave (when needed)
Albania	X	X	X	X
Bosnia and Heryegovina	X	X		
Montenegro	X	X	X	X
Serbia	X	X	X	X

2. An overview of the current situation in the Western Balkans in 4 questions



Question 1

What is the size of the informal economy: global and regional dimensions ?

Question 2

Who are the most exposed to informality?

Question 3

What about the working conditions of workers in informal employment ?

Question 4

What can we say about drivers of informality?





Question 1

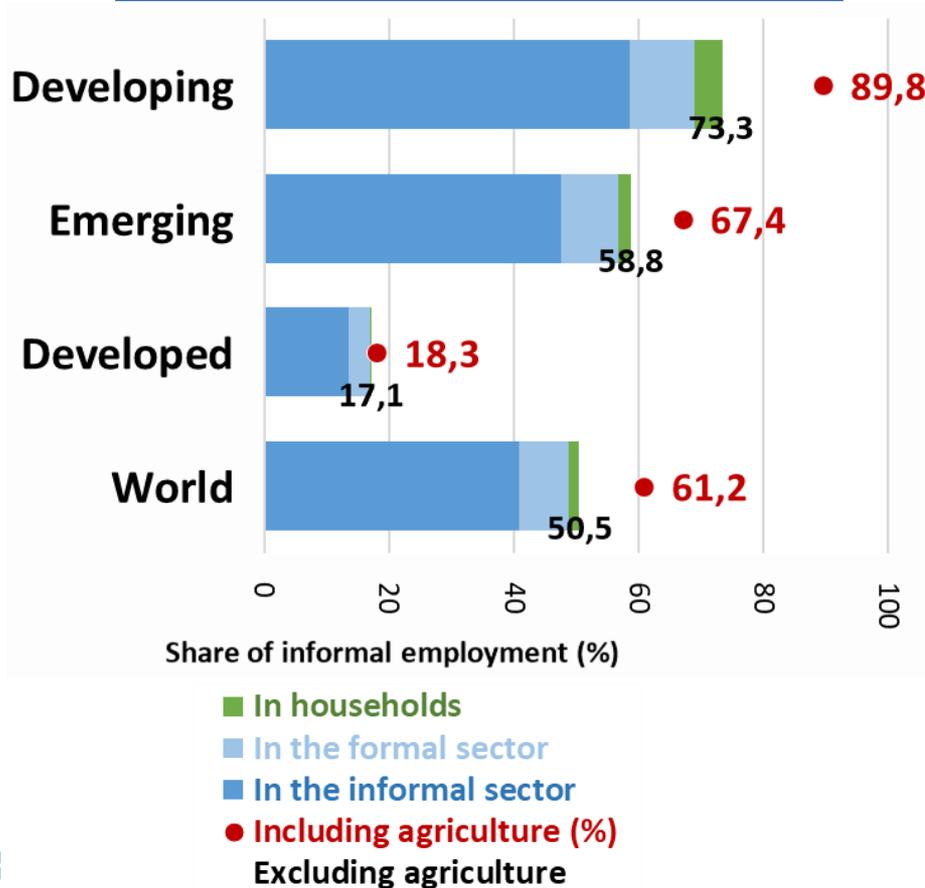
What is the size of the informal economy: global and regional dimensions ?



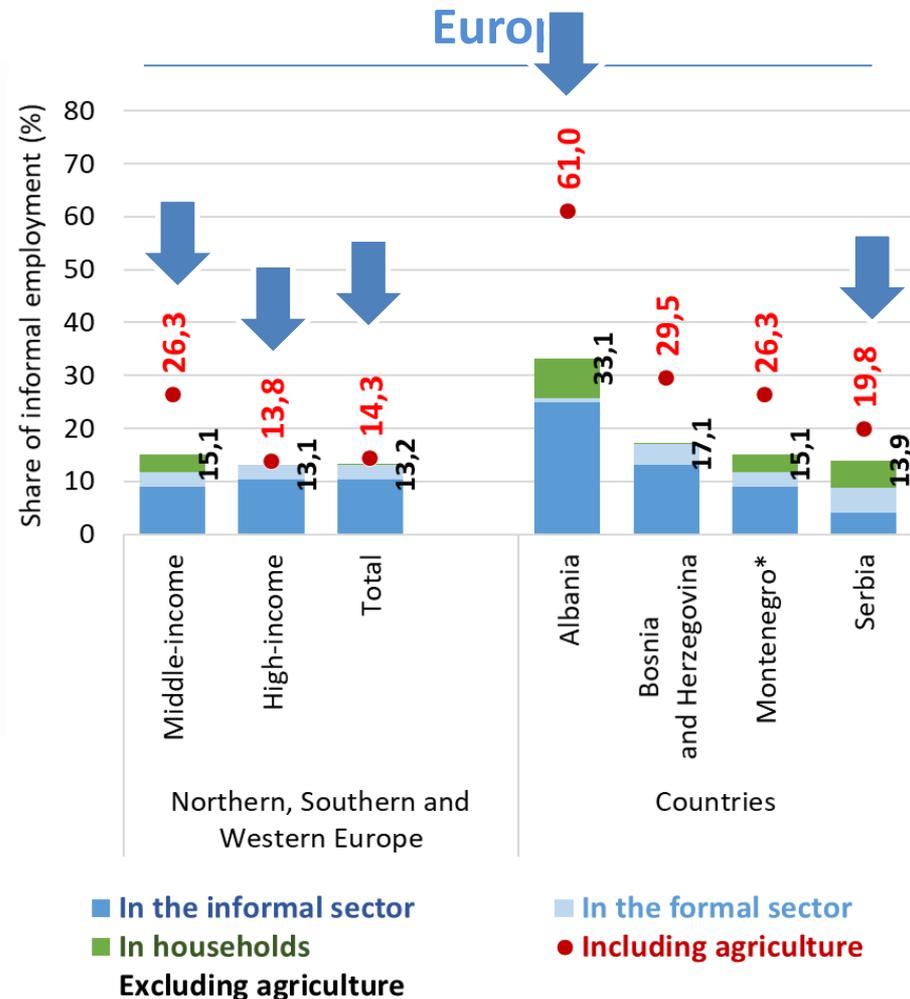
2 billion people – more than 60 per cent of the world's employed population are in informal employment

Share of informal employment in total employment (including & excluding agriculture, 2016)

World



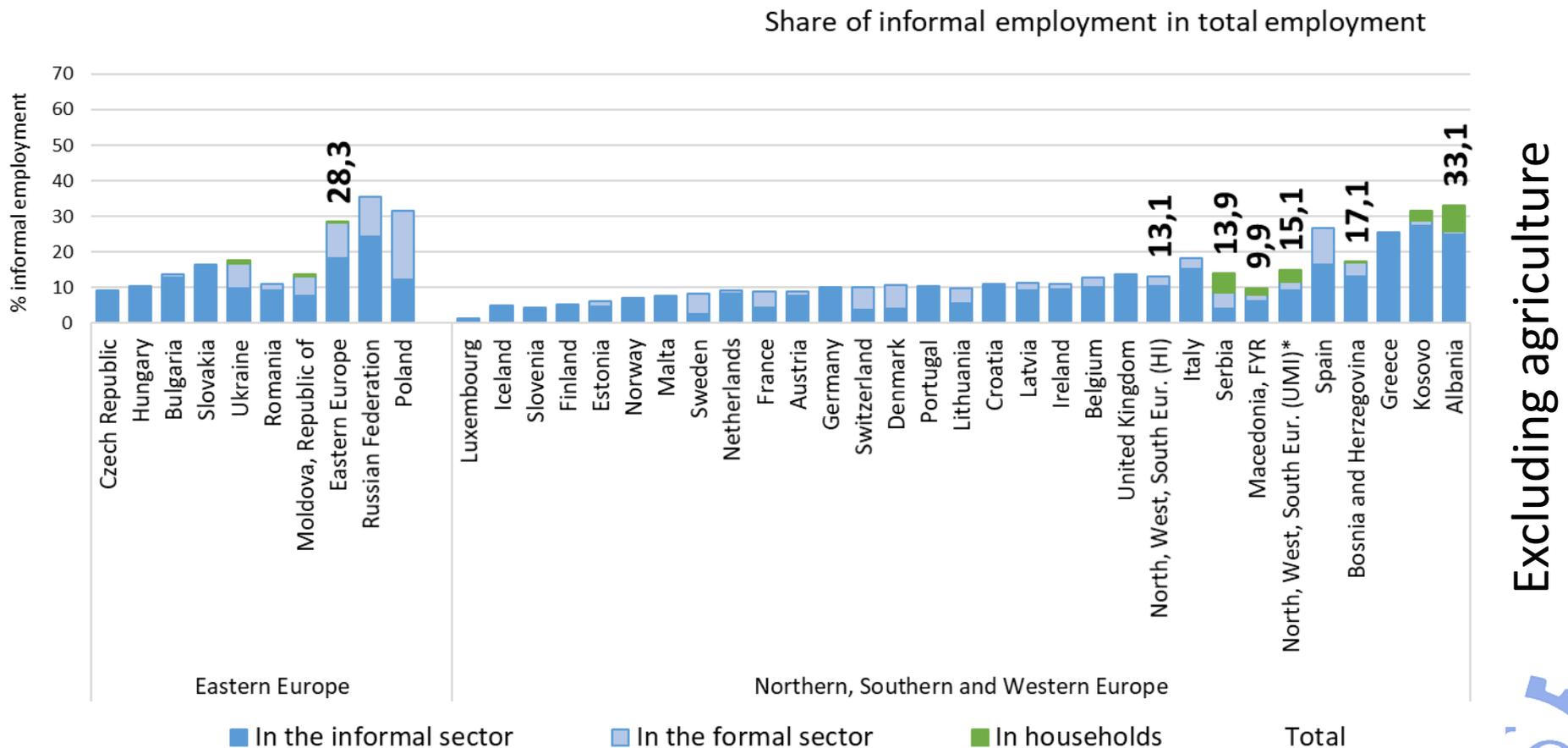
Northern, Southern and Western Europe



Size of the informal economy in Europe: country data

Share of informal employment (% total employment)

Share of informal employment in **total employment** in Europe: country data (% , latest available year)



Excluding agriculture



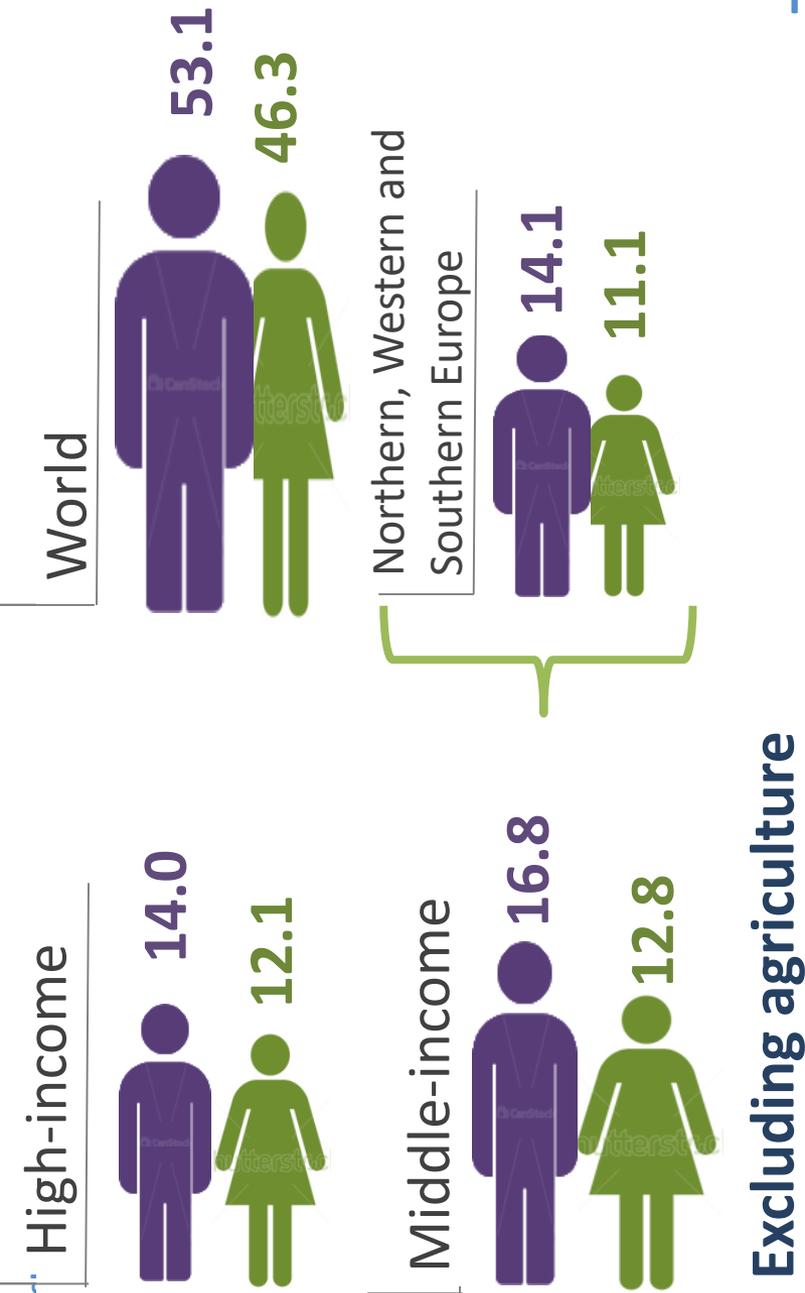


Question 2

Who are the most exposed to informality? Who are the most represented among those in informal employment?



The gender dimension of informality



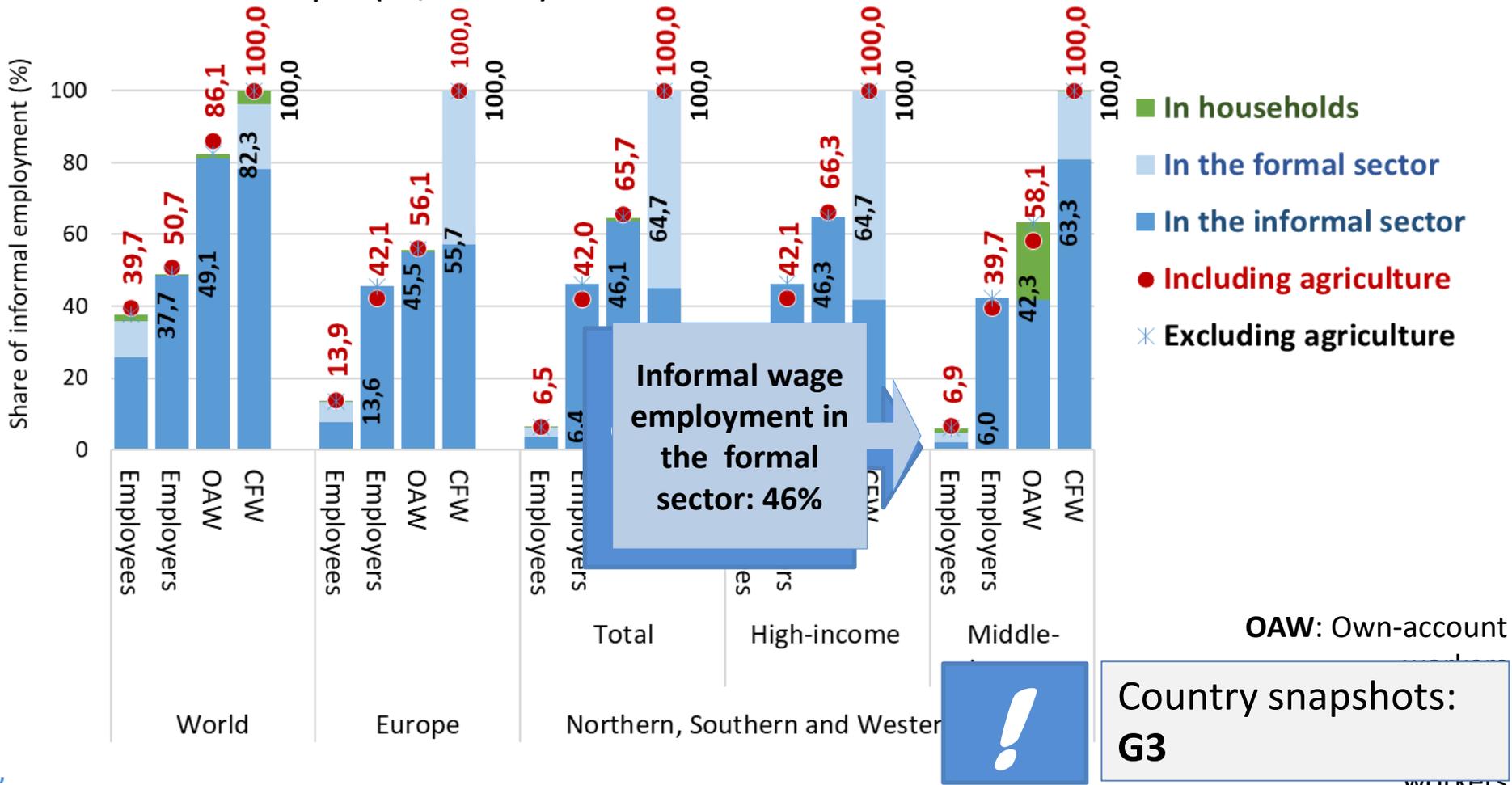
1. In the world but also Northern, Western and Southern Europe informal employment is a greater source of employment for men than for women ...
2. ... However, the situation seems to differ in middle-income countries from the sub-regions
 - At least when *agriculture is included*: 26.8% of women in informal employment compared to 26% of men
 - but similar to all European countries once agriculture is excluded: then men are more at risk of informality (16.8%)



Country snapshots:
G1, G2

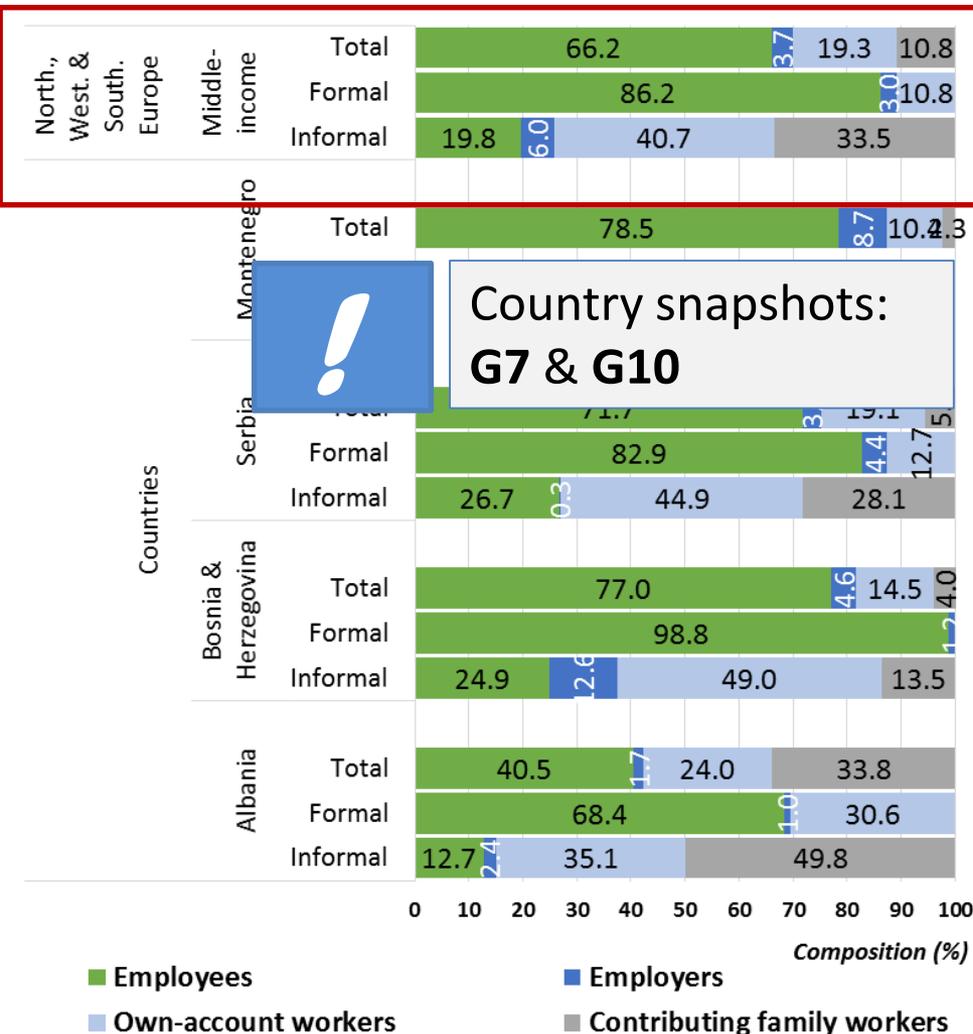
The various levels of exposure to the risk of informality by employment status in Europe

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



Importance of labour market structure: the composition of informal employment & by employment status

Distribution of informal employment by status in Western, Northern and Southern Europe (middle-income countries) & in selected countries



Structure of informal employment

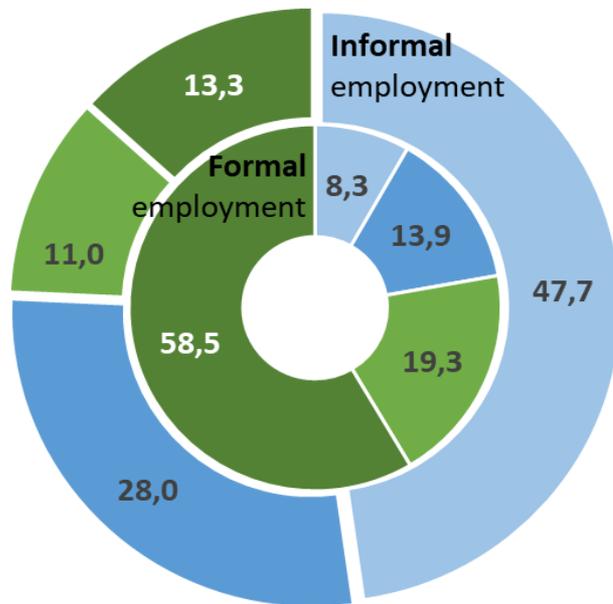
- Own-account workers and contributing family workers make up either the largest group or the majority of workers in **informal employment**: from 49% in BIH to 85% in Albania
- The situation would certainly be different if under-declared work and second jobs (and not only main jobs) would be included



Informality and formalization is primarily an issue of formalizing enterprises of less than 10 workers ...

1. Enterprises of less than 10 workers concentrate **75% of total informal employment and 80% of employment in the informal sector**

World

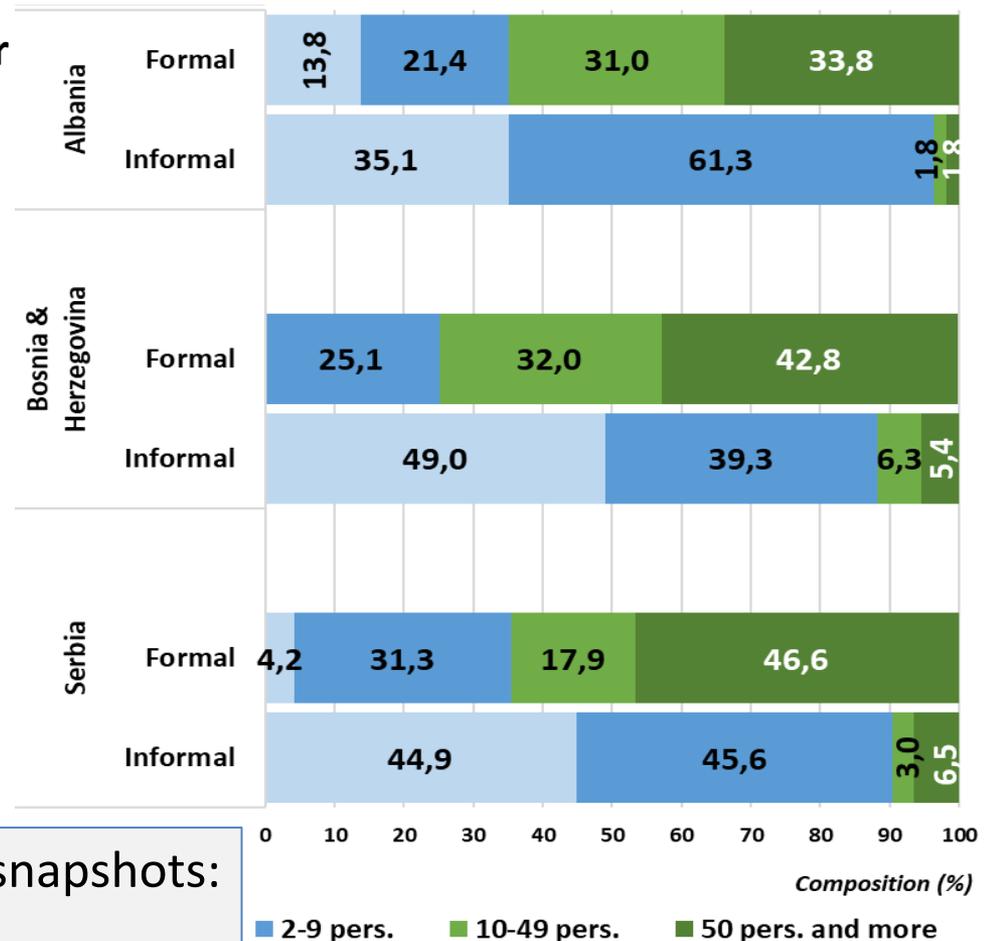


- 1 worker
- 10-49 workers



Country snapshots:
G11

.... Situation in Western Balkans





Question 3

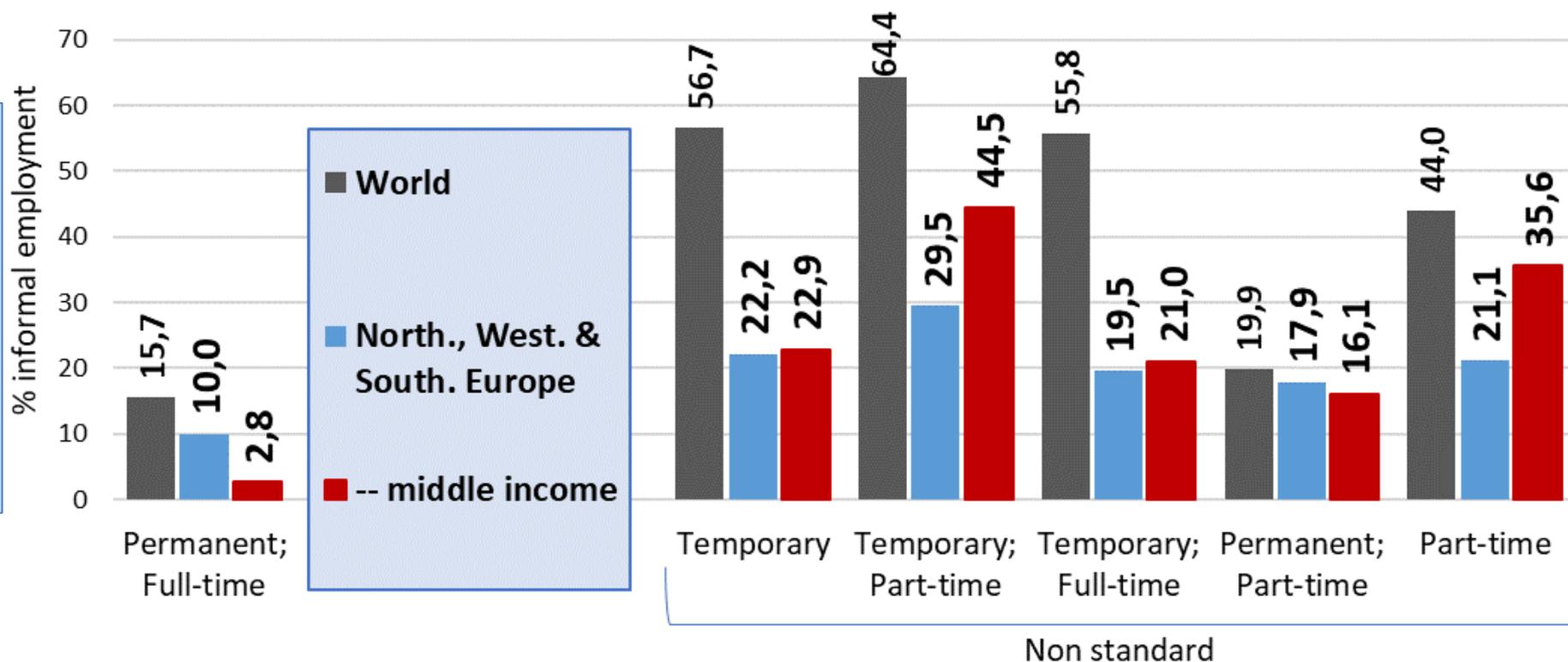
What about the working conditions of workers in informal employment?

R204 stresses the fact that decent work deficits are more pronounced in the informal economy, facts provide a confirmation



Compared to permanent, full-time employment, **non-standard forms of employment are significantly more likely to be informal**, the worst situation being employees in “temporary part-time jobs”

Share of informal employment and NSFEs (% , latest available year)



Among employees

Note: Global and regional estimates based on data for 96 countries representing
Harmonized definition of informal employment and informal sector

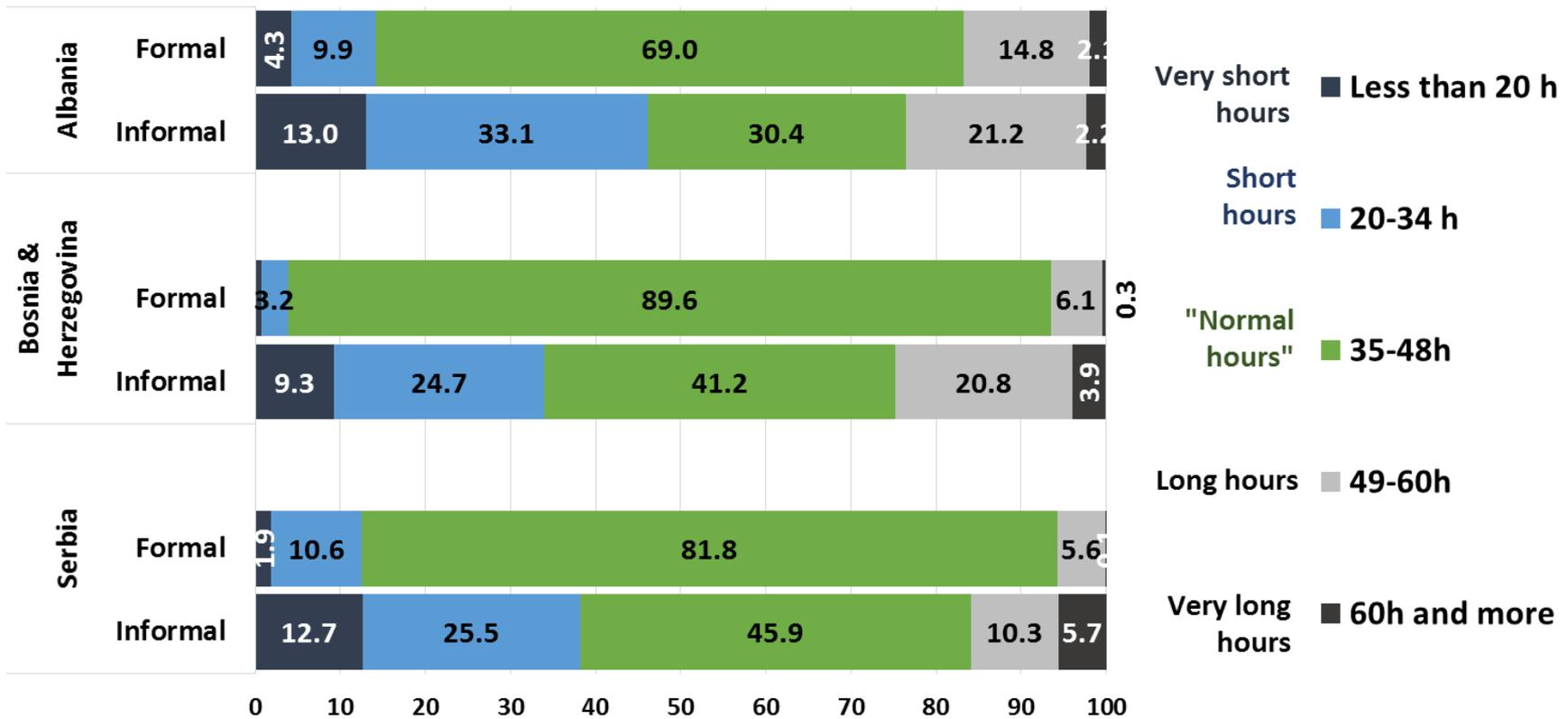


Country snapshots:
G13

Informality and Working time

Not covered by labour laws and regulations or lack their effective implementation, workers in informal employment are more likely to be outside normal hours

Distribution of hours of work among workers with formal and informal jobs, by sex (%)



Women

Composition



Country snapshots:
G14

Source: ILO calculations based on national household surveys.

Notes: Global & regional estimates based on 106 countries representing 88% of global employment

Informality and monthly earnings among employees

— examples from Albania and Bosnia & Herzegovina

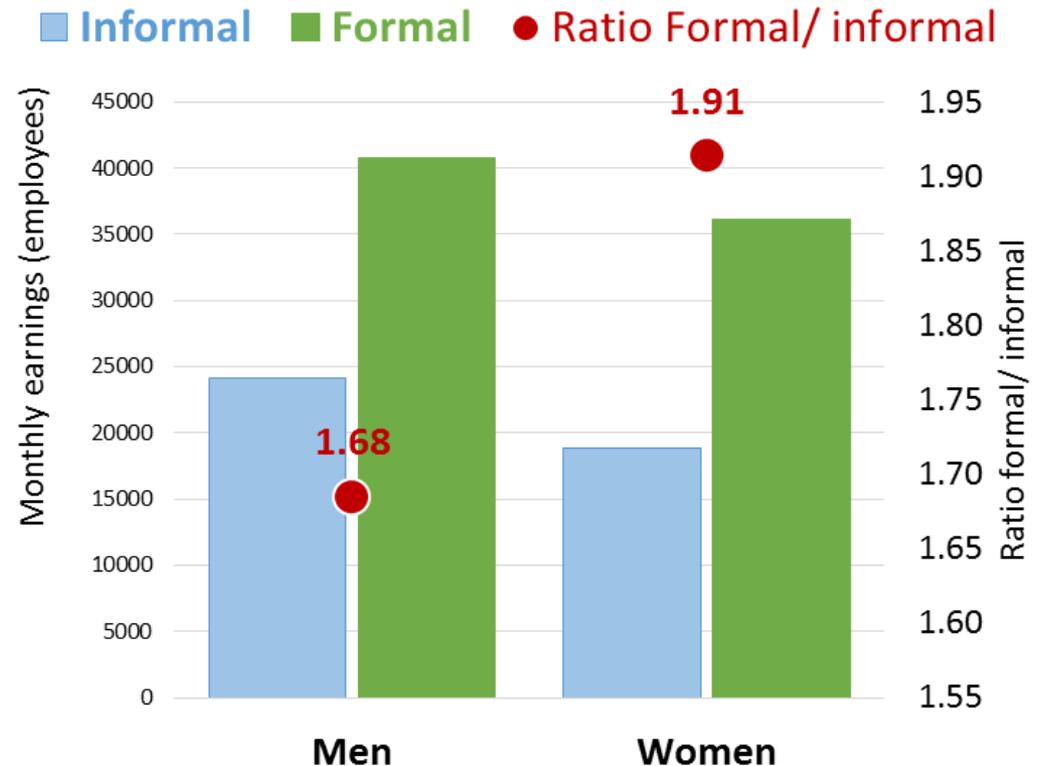
A double penalty

The informal – formal penalty

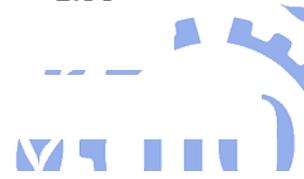
The women – men penalty

As part of the diagnostic:

More than the average wages what matters is the identification, among wage informal workers, of groups of workers with various levels of labour income, including those that could cover the cost of formalization or the payment of social security contributions



Source: ILO calculations based on national household surveys





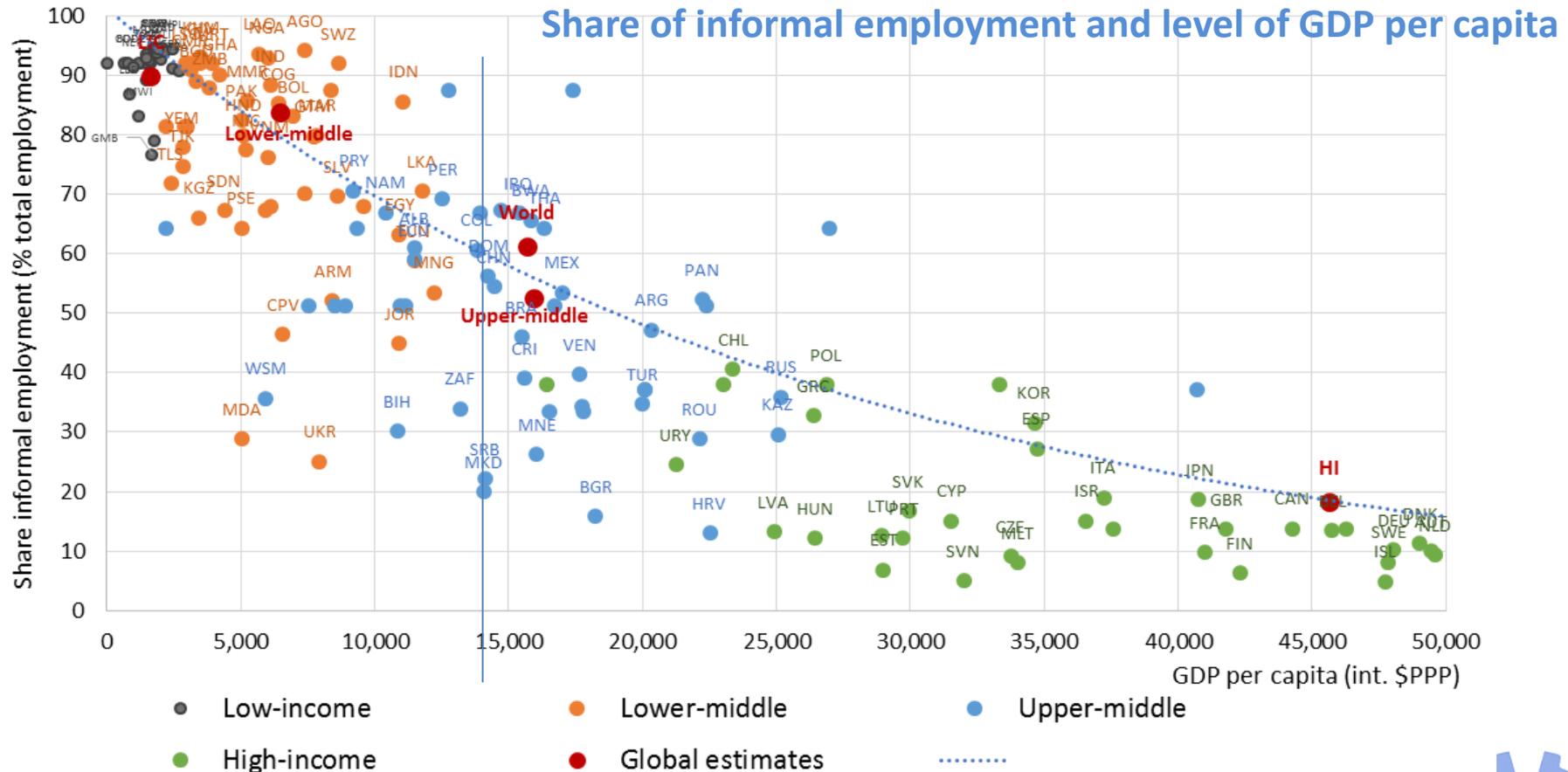
Question 4

What can we say about drivers of informality?

Some first elements about a few of them...



Higher levels of GDP per capita and growth are associated to lower levels of informality ... but not strictly: countries with similar levels of GDP per capita are presenting very different levels of informality



Note: The coefficient of determination $R^2=0.57$.

Source: ILO harmonized data on the share of informal employment in total employment and World Development Indicators 2017 for GDP per capita.

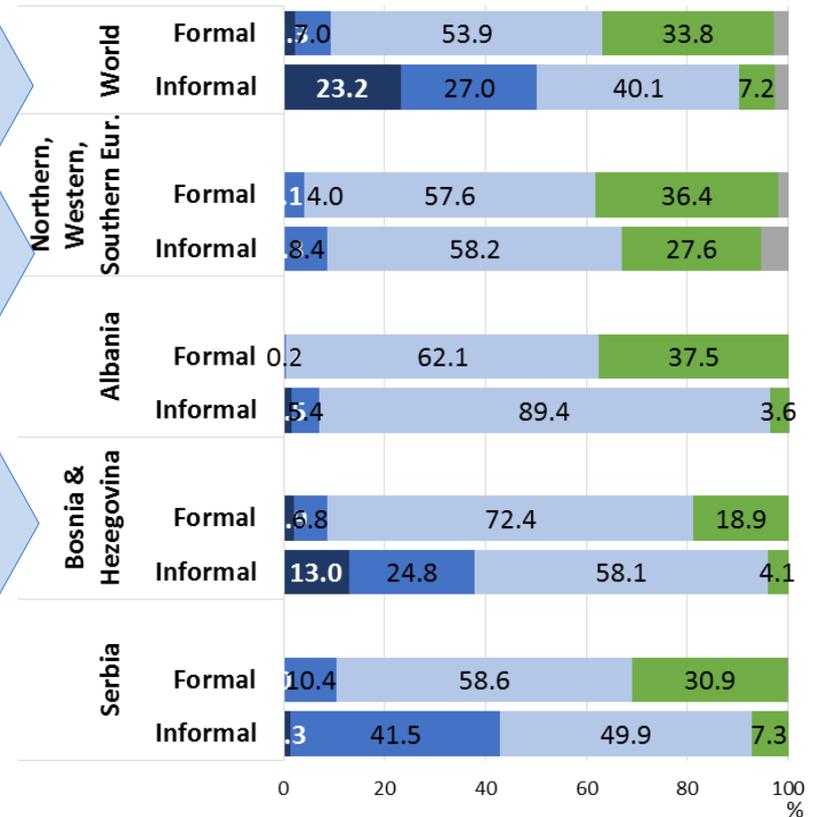


The level of education of workers is not a guarantee but an important asset to access formal employment

Share of informal employment in total employment by level of education | World

- The situation in developed countries and notably in Northern, Western and Southern Europe is slightly different.
 - Secondary & tertiary levels are the
- In BIH or Serbia & Albania less than 10% of workers in informal employment have a tertiary level compare to 20% to more than 1/3 among those in formal employment
- There are some highly educated people in informal employment but ...
- ... the informal economy tend also to absorb most of low-skilled workers

Distribution of informal and formal employment by level education



Note: Global and regional estimates based on data for 107 countries representing 86 per cent of the world's employed population..

Source: ILO calculation based on micro data.

Country snapshots:
G5 & G9

Other dimensions to consider ...

- The **sectoral dimension of informality** | [Graph G4 & G10](#)
 - Workers in agriculture are at higher risk of informality
- The age profile of informality | [Graph G6](#)
 - The youth and older workers are most exposed to informal employment
- The **geographic dimension of informality** | [Graph G12](#) for BIH and Serbia
 - Informality tends to be high in rural areas
- **Additional drivers of informality**
 - Poverty | [Graph G12 for Albania](#)
 - the poor face higher rates of informal employment and working poverty is higher among workers in informal employment compared to workers in formal employment
 - Related to the macroeconomic context: inability of the economy to create enough formal jobs? Structure of the labour market?
 - Associated to the institutional and regulatory environment



Thank you
The floor is
yours

