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# School to Work Transition perspectives from the informal and formal sector.

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*This session:*

1. Setting the scene
2. Data and trends
3. Policy and programmes implications.



# 1. *Setting the scene*

What is informal employment?

To answer, understand two key concepts:

- I) Informal sector
- II) Informal Job



# 1. *Setting the scene*

## I. Informal Sector?

- I) Private unincorporated enterprises, i.e. enterprises not constituted as separate legal entities independently of their owners, and for which no complete accounts are available that would permit a financial separation
- II) All or at least some of the goods or services produced are meant for sale or barter.
- III) Their size in terms of employment is below a certain threshold to be determined according to national circumstances,
- IV) and/or they are not registered under specific forms of national legislation (such as factories' or commercial acts, tax or social security laws tec..), and/or their employee (if any) are not registered.



# 1. *Setting the scene*

## II. Informal Job?

*Jobs outside the framework of regulations either because (a) the **enterprises**, in which the jobs are located, are **too small and/or not registered**, or (b) **labour legislation does not specifically cover or is not applied** (..) so that the jobs (and, therefore, their incumbents) are **unprotected by labour legislation***



# 1. *Setting the scene*

## Informal employment?

The total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households, during a given reference period.





# 1. *Setting the scene*

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## Informal employment (breakdown)

- **Self employed.** Own-account workers in informal sector enterprises or engaged in the production of goods for own final use; employers in informal sector enterprises; contributing family workers (any type of enterprise); members of informal producers' cooperatives;
- **Employees.** *Informal jobs* in formal sector enterprises, informal sector enterprises, or as paid domestic workers employed by households. Informal job *if the employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits* (advance notice of dismissal, severance pay, paid annual or sick leave, etc.).



# 1. *Setting the scene*

A. Formal  
Employment  
in the  
formal  
sector

C  
Informal  
employment  
in the formal  
sector

B. Informal  
employment  
in the informal  
sector

Informal employment: B+C





# 1. *Setting the scene*

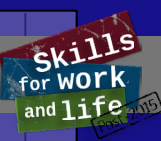
Informal employment. (Main) statistical issues:

- the way in which informal employment manifests itself, varies among countries depending upon their level of development and other factors
- the operational criteria for defining informal jobs are to be determined in accordance with national circumstances and data availability



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## Informal employment: Why do we care?

- Remember: “*Jobs outside the framework of regulations (..)*” and “*employment relationship which “is in law or in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (advance notice of dismissal, severance pay, paid annual or sick leave, etc.)”*”.
- Not a controlling issue (in principle)
- Governance issue related to the rights based approach: protect workers and units through regulation balancing the costs of compliance with incentives for compliance
- Provide conditions and support for growth of MSME and of the economy as whole. (SSAfrica?)
- Avoid unfair competition, enhance respect of commercial and civil law
- (Labour) administration tool



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## Informal employment: Why do we care?

- International Labour Conference (2002) resolution. Member states should:
  - address the needs of workers and economic units in the informal economy, notably by tackling the decent work deficit through tripartite interventions.
  - “Eliminate the negative aspects of informality while at the same time ensuring that opportunities for livelihood and entrepreneurship are not destroyed and promoting the protection and incorporation of workers and economic units in the informal economy into the mainstream economy”
  - “All workers should be able to enjoy, exercise, and defend their rights” so member states act to “support representational rights”

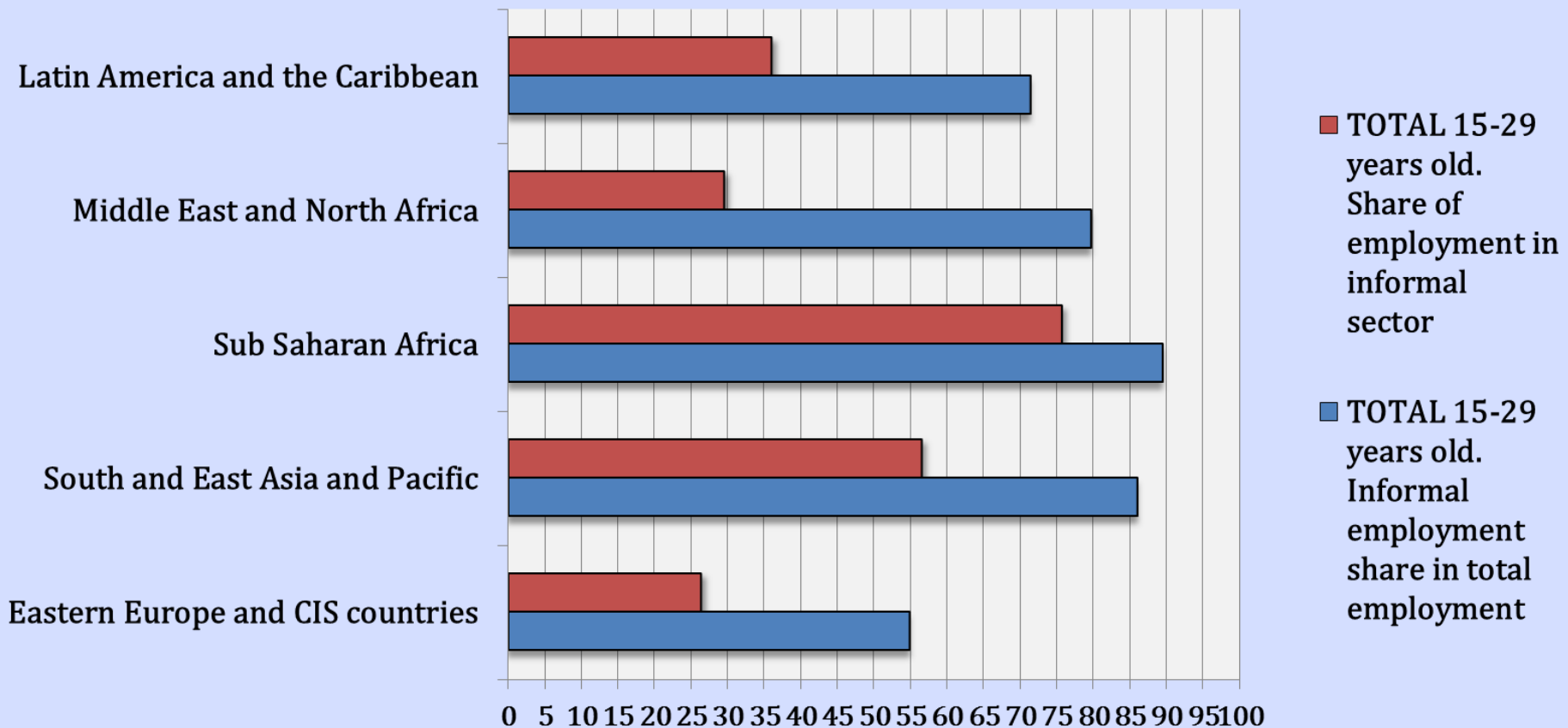


## 2. Data and Trends

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- Youth employment in the informal sector and informal employment.



Source: elaboration on ILOSTAT, 25 countries (5/10/2014)

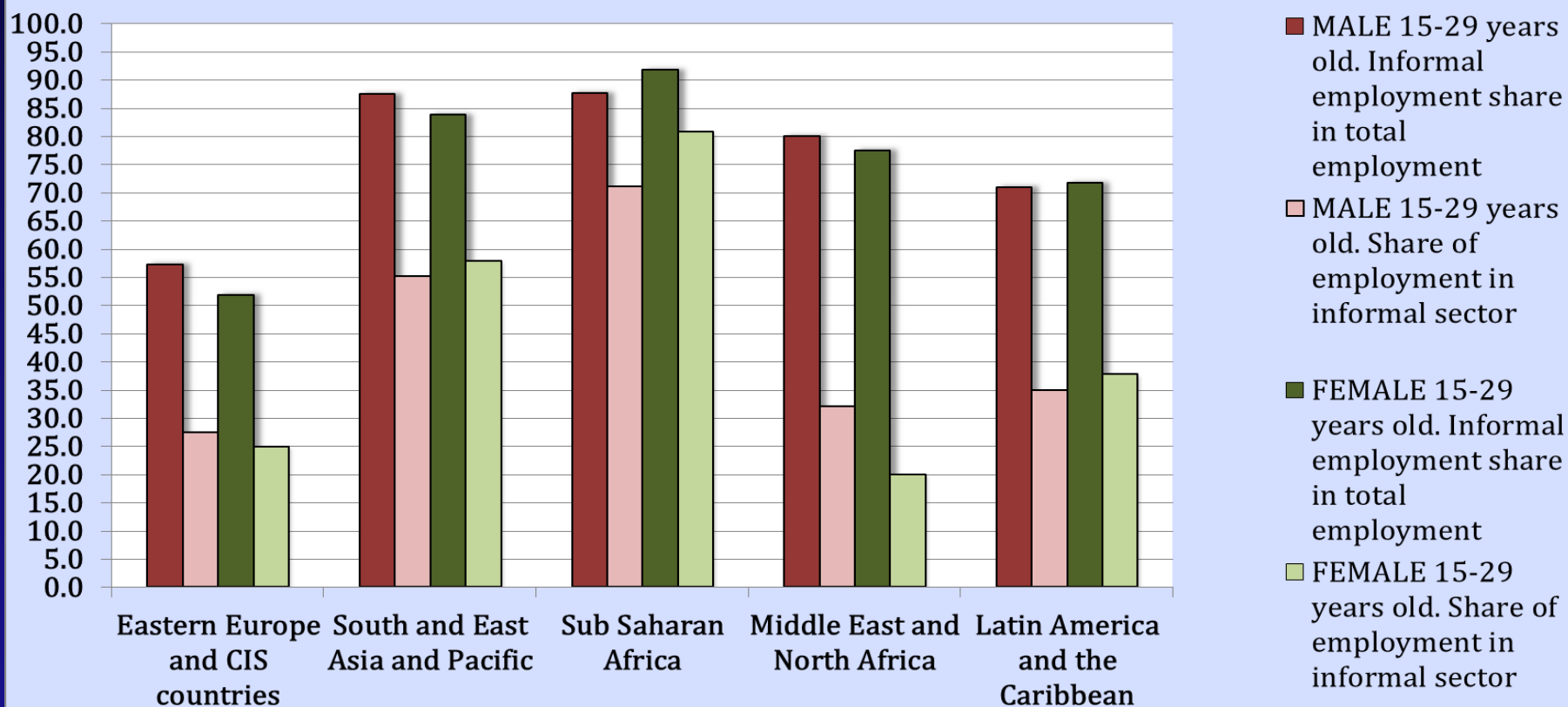


## 2. Data and Trends

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- Youth employment in the informal sector and informal employment (% share) by gender.



Source: elaboration on ILOSTAT, 25 countries (5/10/2014)

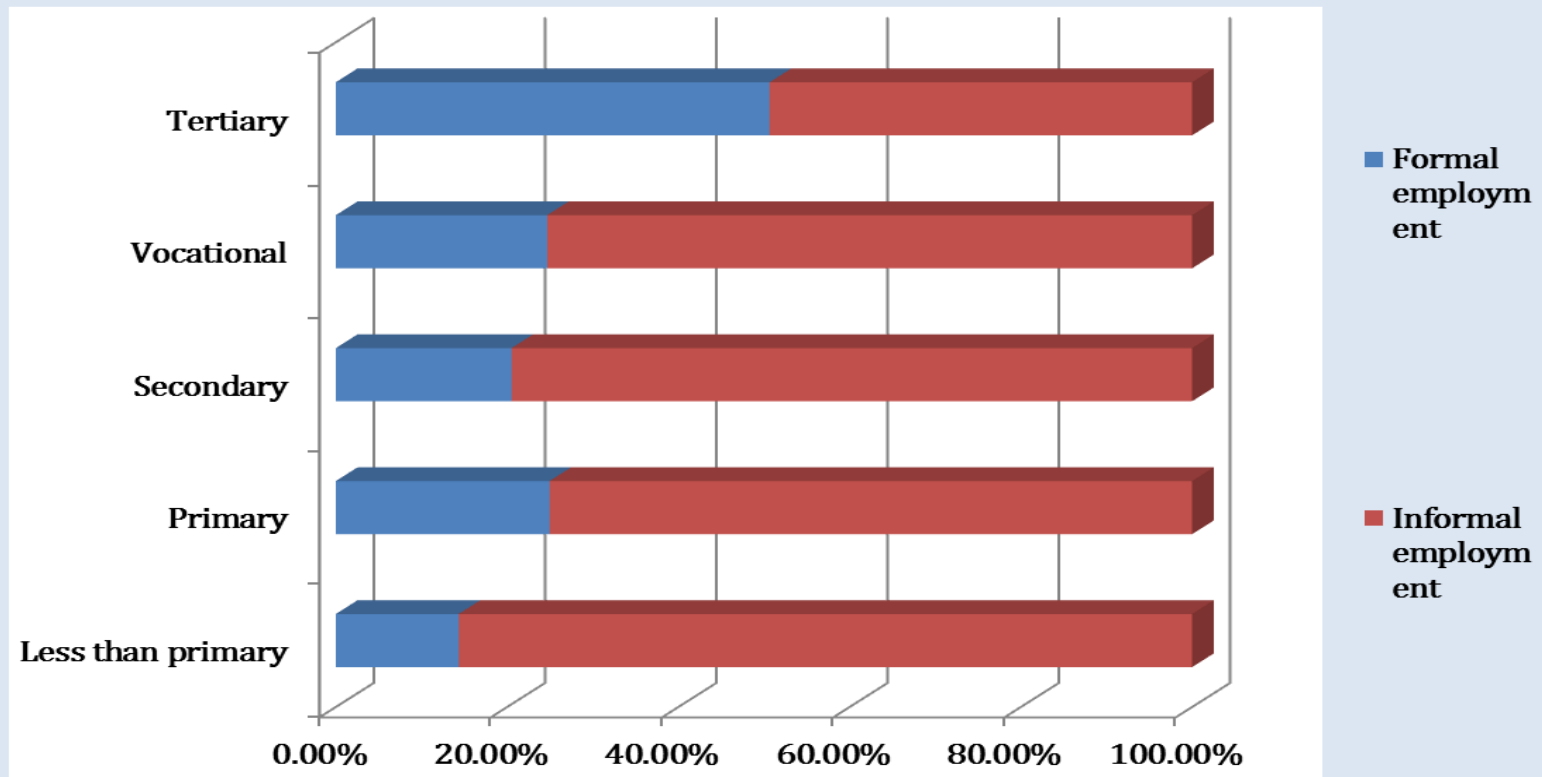


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- Type of employment (formal vs informal) by levels of completed education (20 countries)



Source: Shehu and Nilsson (2014)

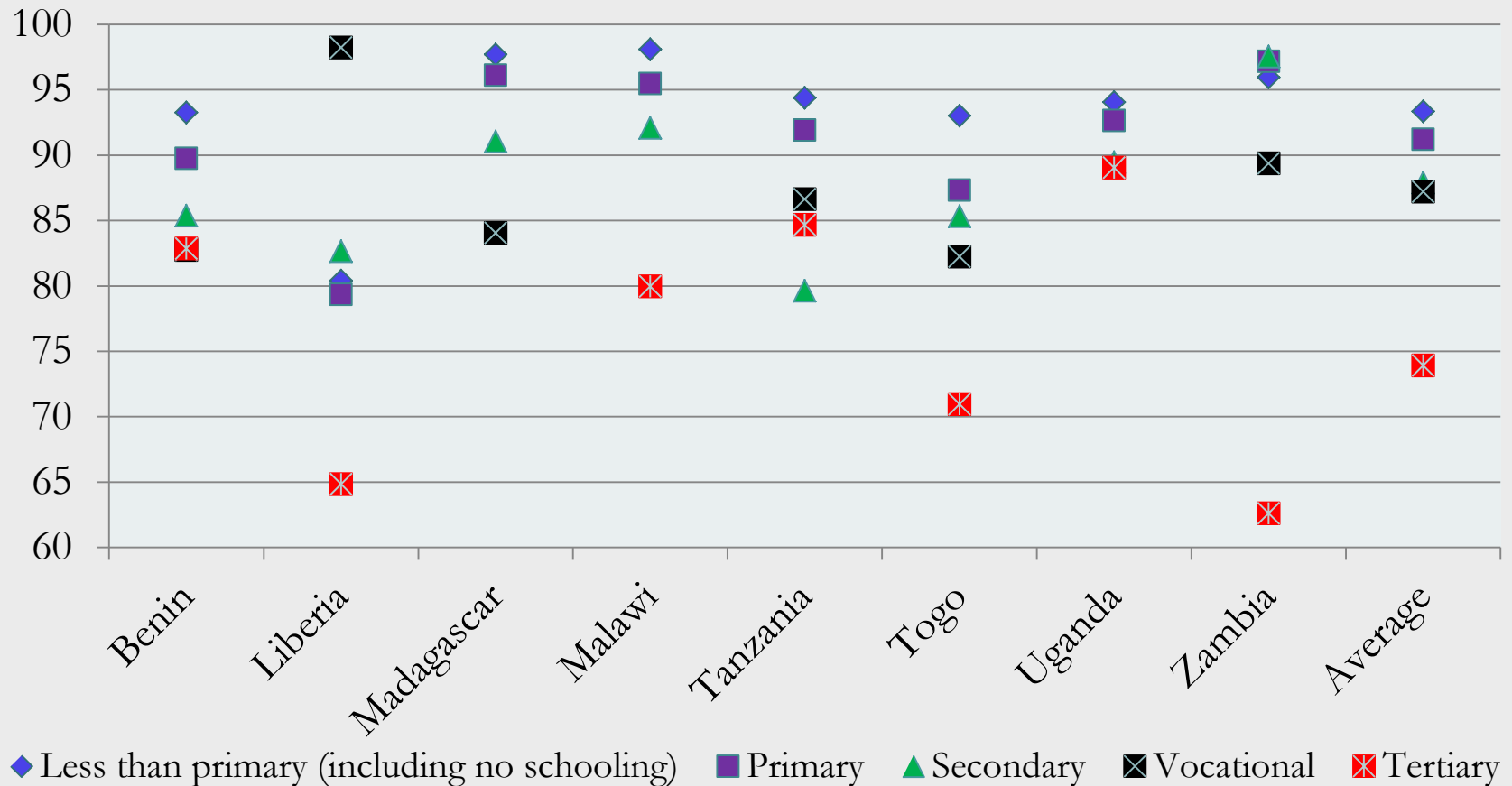


## 2. Data and Trends

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- Informal employment by level of completed education (SSA)



Source: elaboration on ILO STAT





## 2. *Data and Trends*

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### Other trends:

- Age, formality (+)
- Migration Status (Not meaningful differences)
- Pay, formality (+)
- Health
  - In Sub Saharan Africa, no significant correlation between type of employment and declaring at least one health issue
  - Other parts of the world: significant relationship.
- Job satisfaction, formality (+)
- Reason for wanting to change (pay, temporary nature, better working conditions).



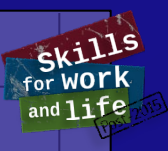
## 3. *Main Policy Implications.*

The utmost majority of developing countries youth are in informal employment and amongst them, the majority is employed in the informal sector.

- Informal employment is invariably related with country income level (determinants? Speed of adjustment?)
- There is a link between informality and education
  - Quantity and quality of education matter (+) but problem is not only, and probably not mostly, one of supply-side, nor one of modality of transition, especially in SSA and SEAP.
  - Understand the link (productivity? knowledge of workers' rights? knowledge of business environment? Social capital? Reverse causality/parents?)
- Informal employment in the formal sector *is* a concern for youth.



# 3. *Main Policy Implications.*



## How to cope?

1. No “one-size-fits-all” policy response to informality: multidimensional approaches
2. Combine, suitably adapt and sequence the two main objectives:
  - Formalization
    - Change in legal environment to increase the benefits or formalization, lowering the cost of the transition to formality (incentives, offering services), information sharing.
    - General rule of law, better governance, controls.
  - Support to informal sector
    - Services (training, education, RPL, certification of trainers and recognition of skills, access to finance, BDS, extend social security coverage (SPF), increase representation, bring the unprotected under the law)



## 3. *Main Policy Implications.*

### How to cope?

3. Mainstream: consider the likely impact of every policy decision on the informal economy and on informal employment



# 3. *Main Policy Implications.*



Relevant macroeconomic and legislative interventions:

- Exchange rate, domestic credit, public investments (↑ growth)
- CCTs, ↑ inclusiveness, ↑ internal demand, ↑ growth
- Simplification (tax regimes, deductions and registration, esp. small business)
- Strengthen labour inspection (incentive structure)
- Revision of the law on employment relationship, combined with increased awareness and reduction in social security contributions (domestic workers and micro enterprises)
- Targeted migration policy
- Targeted labour market policies combined with tax simplification and subsidies-
- Moratoriums



## 3. *Main Policy Implications.*

Programmes?

Consider a number of challenges:

- 1) Informality earmarked resources?
- 2) Programmes' outreach (rural areas, unincorporated enterprises, unrepresented workers and employers, limited involvement of all the stakeholders)
- 3) Legislative changes slow and cumbersome
- 4) Seldom objectives are combined, fragmentation
- 5) System of checks and balances





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