

Christa Larsen, Sigrid Rand, Alfons Schmid,  
Vyacheslav Bobkov, Vyacheslav Lokosov (Eds.)

# Assessing Informal Employment and Skills Needs:

Approaches and Insights from  
Regional and Local Labour Market Monitoring

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Rainer Hampp Verlag

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*Christa Larsen, Sigrid Rand, Alfons Schmid, Vyacheslav Bobkov, Vyacheslav Lokosov (Eds.):*

**Assessing Informal Employment and Skills Needs:  
Approaches and Insights from Regional and Local Labour  
Market Monitoring**

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The scope of informal economy and the forms of informal employment differ greatly between countries. Therefore, studying the role of informal employment in the labour market from a comparative perspective provides important insights into economic and social developments in regions and localities. The present publication discusses various concepts and definitions for capturing and analysing informal employment. Furthermore, it demonstrates how a broad variety of methods can be applied for conducting research on informal employment and explores the available data sources. Besides presenting innovative conceptual and methodological approaches towards analysing informal employment, the Anthology of the European Network on Regional Labour Market Monitoring (EN RLMM) discusses how these insights can be used for developing the Network's concept for regional and local labour market monitoring (RLMM) further.

**Key words:** informal employment, informal economy,  
formalising employment relationships,  
regional and local labour markets,  
labour market monitoring,  
applied labour market research



Christa Larsen, Sigrid Rand, Alfons Schmid,  
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## TABLE OF CONTENTS

### Introduction to the Annual Topic 2019

*Christa Larsen and Sigrid Rand*

9

## 1. CONCEPTS OF INFORMAL EMPLOYMENT AND ITS TRANSFORMATION

### 1.1. Theoretical Approaches and Definitions

#### What, Who, Why and Ways out of the Informal Economy: A Brief Review of Key Definitions and Approaches

*Aleksandra Webb, Ronald McQuaid and Sigrid Rand*

23

### 1.2. Strategies for Transformation

#### Skills Development in the Informal Sector

*Ummuhan Bardak and Francesca Rosso*

41

#### Informal Sector Dynamics in India: An Approach Towards Informal-formal Transition

*Atif Khan*

87

#### On the Reasons for an Informal Economy in Italy: The Motivations of Entrepreneurs and Workers

*Renato Fontana, Ernesto Dario Calò and Milena Cassella*

103

## 2. METHODOLOGICAL PATHWAYS TO MEASURE INFORMAL EMPLOYMENT

### 2.1. Using Public Data for Analyses

#### Impact of the Hungarian Labour Market Policy on the Country's Formal and Informal Employment

*Ferenc Bódi and Jenő Zsolt Farkas* 131

### 2.2. Applying Big Data Analyses

#### Reflections of the Navarra's Shadow Economy in the Social and Print Media

*Antidio Martínez de Lizarrondo Artola and Laura Pérez Villanueva* 157

#### Between Formal and Informal Employment: The Case of Freelancers

*Ciprian Panzaru* 181

#### Informal Employment: Can Big Data Improve Knowledge on This Phenomenon?

*Silvia Dusi, Claudia Graziani, Mario Mezzanzanica and Mauro Pelucchi* 197

#### When Is a Job Just a Job – and When Can It Launch a Career? Career Pathways Using Millions of Resumes

*Sara Lamback, Dan Restuccia and Bledi Taska* 231

### 2.3. Holistic Designs for Regions

#### Undeclared Work in Mazovia: Its Scale, Character and Social Effects

*Anna Grochowska* 267

#### Transformation of Employment in Small Cities: Problems of Observation and Assessment

*Nina Oding* 285

### 3. THE CASE OF RUSSIA: MULTIPLE APPROACHES TO ACCESS DIMENSIONS OF INFORMAL EMPLOYMENT

#### 3.1. Concepts and Indicators of Informal Employment

##### Specifics of Employment in the Informal Sector and of Informal Employment in Russia

*Mairash Toksanbaeva* 303

##### Precarious Employment in Russia: Current Situation and Regulation Proposals

*Vyacheslav Bobkov, Elena Odintsova and Vadim Kvachev* 313

##### Labour Underutilisation as One of the Sources of Informal Employment

*Ekaterina Chernykh* 327

#### 3.2. Target Group Approach

##### Foreign Labour in Modern Russia: Registered and Latent Characteristics of Migrant Employment

*Evgeny Krasinets* 343

##### Precarious Employment of Labour Migrants in Russia's Informal Sector

*Igor Shichkin* 359

##### Involvement of Vulnerable Groups in Informal Employment in the Moscow Labour Markets

*Olga Aleksandrova and Yulia Nenakhova* 369

##### Risks Related to the Employment of Older Workers in Terms of Digitalisation

*Farida Mirzabalaeva, Olga Zabelina, Anna Maltseva and Anna Vega* 385

INFORMATION ON THE AUTHORS 395





## Introduction to the Annual Topic 2019

*Christa Larsen and Sigrid Rand*

This year's annual Anthology of the European Network on Regional and Local Labour Market Monitoring (EN RLMM) on the subject of informal employment brought to light a surprising insight: the contributions indicated that, although only about 10% of employees in western, northern and southern Europe are informally employed, informal employment has important consequences for the labour market and economic development. In particular, its varied forms and their transformations show us how regional and local labour markets develop. The contributions to this Anthology demonstrate the extensiveness and versatility of publicly available data for describing and analysing informal employment. A deeper dive into the subject of informal employment helped identify blind spots in our concepts for regional labour market monitoring, which the EN RLMM has been developing over the past ten years. This concerns not just data, but also the systematic involvement of regional and local stakeholders with particular insights into the field of informal employment. We are very grateful to the authors of this Anthology for illustrating the importance of this topic for regional and local labour market monitoring in Europe and beyond. The presented approaches demonstrate that the topic of informal employment can be used to start a discussion in the Network about the extent to which our concepts for regional and local labour market monitoring (RLMM) should be developed.

### The Variety of Concepts, Definitions, Methods and Data

The most widespread definitions of informal employment are delivered by international and transnational organisations: the International Labour Organization (ILO), the Organisation for Economic Co-operation and Development (OECD) and the European Union (EU). The considerable variation across these definitions and the subsequent policies are rooted in their theoretical underpinnings. For example, modernisation theories, which shape most international organisations' concepts and definitions of informal employment, assume that lagging economic development explains the existence of informal economies. Consequently, the

strategies based on this paradigm create incentives for economic development and consider informal employment as a marginal as well as undesirable type of employment (Webb et al. in this volume). By comparison, theories of political economy assume that informality originates from insufficient or inefficient state interventions and address the inadequate protection of employees. Thus, the definitions arising from this school of thought are concerned with different forms of regulating informality and protecting employees, with favoured strategies identifying openings for enacting and enforcing suitable laws. Neoliberal theories perceive informal employment as the reaction by firms and employees to “excessive” regulation, advocating strategies for cutting red tape. Institutional theories study how informal institutions that are embedded in cultural self-understanding support or subvert formal norms and rules concerning economic activities. From this perspective, strategies addressing the informal economy and employment should focus on awareness-building and transparency. Finally, empowerment approaches advocate bottom-up strategies, which regard education and awareness-building as highly relevant to efforts to transform employment relationships from informal to formal.

Besides providing definitions and strategy recommendations, the ILO, OECD and EU also present data enabling interesting insights into informal employment at national level, especially concerning differences between sectors, firm types, regional structures (urban-rural), skills levels of employees, gender and legal status. Furthermore, diverse survey data are available in most countries with developed economies. The share of informal employment is mainly determined through household surveys, which capture the employment status of household members and compare it with official statistics. Some surveys deliver further data on the reasons for and conditions of informal employment.

The articles in this anthology shed light on the informal economy and employment from the perspective of different academic disciplines. Besides contributions from economists, sociologists, political scientists and social psychologists, studies from migration and precarity researchers deliver important data and insights. Also, research on digitalisation, especially the platform economy, contributes further empirical results through the use of Big Data, which offers a different approach to studying the phenomenon of informal employment than administrative or survey data.

## Empirical Phenomena and Related Measures and Policies

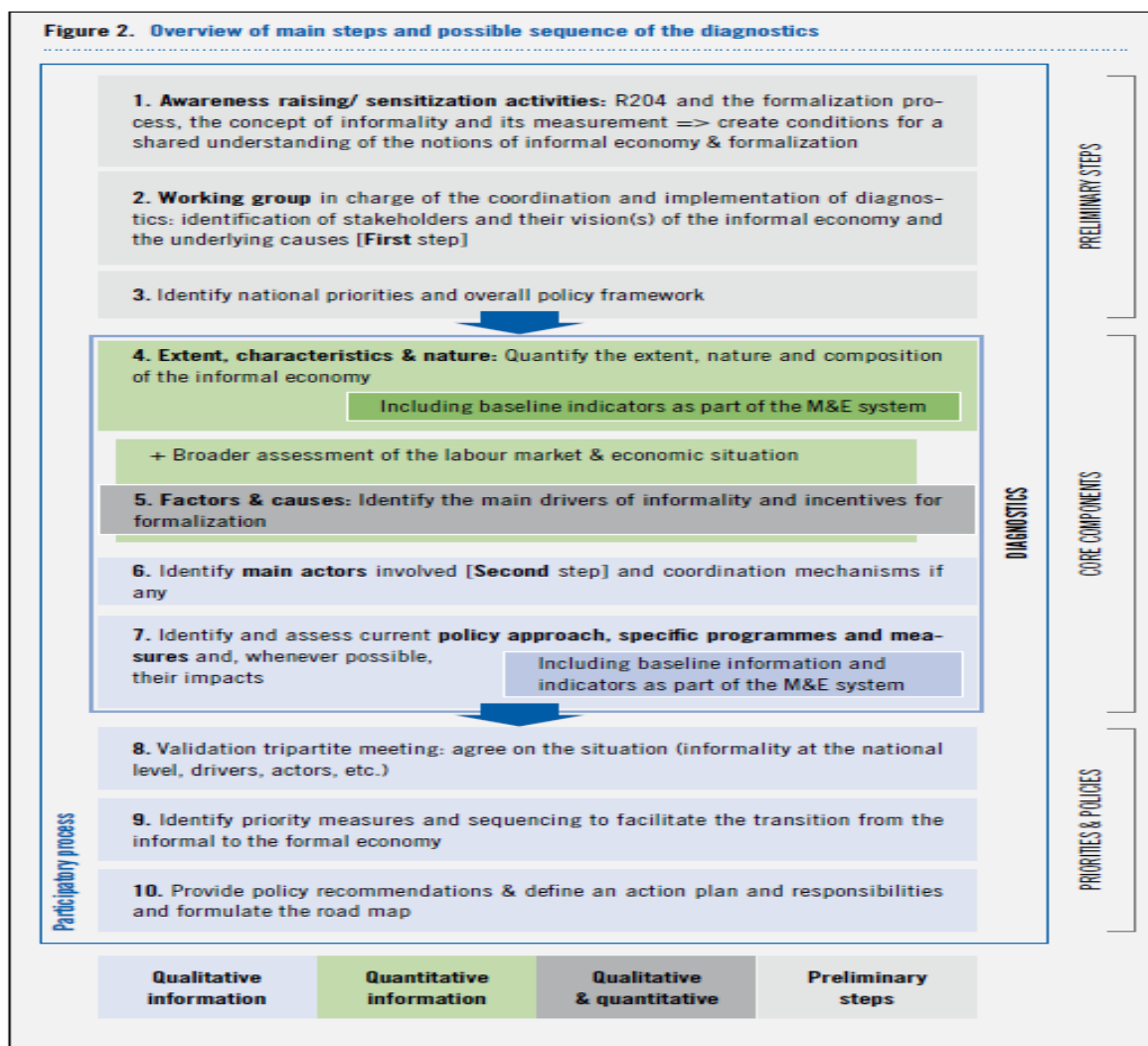
Both data and research concepts differentiate between informal enterprises and informal employment. However, informal employment can take different forms and also occurs in formal enterprises, if, for example, overtime or salary are partly paid in cash. Similarly, formal employment can be found in the informal sector. For example, in the case of the platform economy, formal (employment) contracts exist, but are rarely, if at all, regulated. Furthermore, some contributions in this Anthology illustrate the fluidity between formal and informal employment. Structurally, informal employment is more wide-spread in specific sectors, such as agriculture, construction, hospitality, retail and personal and household services. Moreover, informality appears to be more widespread in rural areas, in small and micro-enterprises as well as among low-skilled, migrant, younger and older workers.

Most of the analyses of informal employment in this Anthology address measures and strategies, which aim at reducing informal employment or transforming it into formal employment. While top-down strategies track tax or social security fraud, bottom-up approaches explore informal employment practices to try to introduce legalisation or formalisation opportunities in these areas. For example, self-employed persons may have the opportunity to formalise their economic activities, so that they have social protection in the event of illness, unemployment or inability to work due to advanced age. In developing countries, educational opportunities are being created to support the development of informal competences and to ensure their compatibility with formal qualifications (Bardak and Rosso as well as Khan in this volume). Furthermore, instruments that create transparency through information campaigns or by introducing financial incentives are applied in different contexts.

However, it is important that strategies are based on a clear concept, which defines the framework for analysis and goals. In recent years, the ILO (2018) presented a scheme for developing such concepts, differentiating between three consecutive phases:

- Preliminary steps;
- Core components;
- Priorities and policies.

**Figure 1: Overview of main steps and possible sequence of the diagnostics**



Source: ILO (2018: 5).

When applying this model to the informal economy and employment, the preliminary steps begin with the establishment of a working group that brings together stakeholders, who are to be involved in the diagnostic and development process. After that, activities are set up to raise awareness of different labour market actors from relevant sectors. By reflecting on the knowledge and experiences of these actors, a common understanding of the informal economy or informal employment in national, regional or local contexts can be developed. This includes reflecting upon the reasons for the emergence and persistence of the informal economy or informal employment, the relationship between informal and formal employment as well as considering possible approaches for transforming informal employment into formal employment. In addition to involving

as many perspectives and experiences as possible, the existing political priorities and policy frameworks should be taken into account.

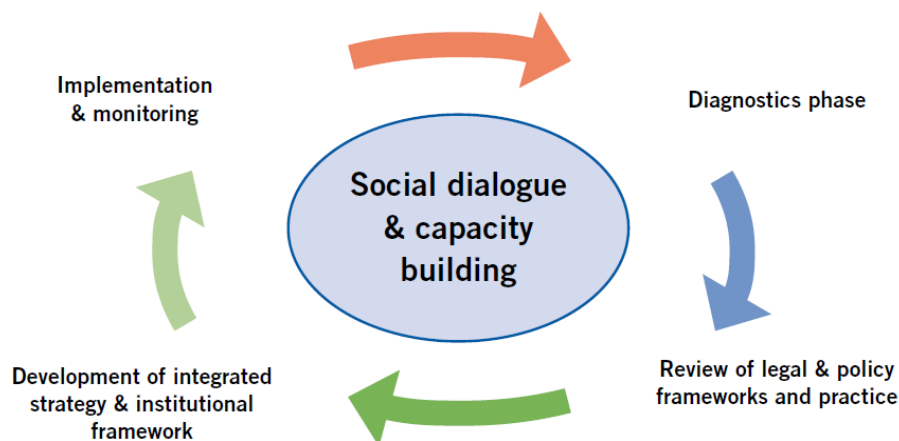
Building upon these considerations, core components are defined in the second phase. These include comprehensive data as well as assessments of the impact of relevant policies. First of all, the scope and structure of informal employment should be explored on the basis of quantitative structural data. Ideally, indicators should be defined, which take into account the dynamic nature of the informal economy. Subsequently, the results are contextualised in relation to the national, regional and local labour markets and economic situations. After the first description of the situation, qualitative data from expert interviews and other interactive formats help to identify the main drivers of informality and to explore which incentives would be suitable for transforming informal employment into formal employment. By combining quantitative and qualitative results, a framework for assessing the effectiveness of previous policies can be established. This includes:

- Identifying relevant actors for the policy process through actor mapping;
- Identifying the previously implemented policy programmes, strategies and measures;
- Analysing the impact of mechanisms, which have been driving the transformation so far;
- Exploring the framework conditions, which re-enforce or reduce the impact.

During the third phase, the collected information is reviewed, and a strategy for transforming informal employment into formal employment is developed. This involves arriving at a shared assessment of the scope of the situation and determining its essential drivers as well as the incentives driving the transformation process. To that end, common goals and suitable measures should be specified, co-ordinated and connected to a strategy. Subsequently, policy recommendations, an action plan and a road map are formulated and a monitoring<sup>1</sup> process for following up on their implementation is introduced.

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<sup>1</sup> The term “monitoring” denotes here the observation, also including evaluation.

**Figure 2: Intervention model for integrated strategies**

Source: ILO (2018: 4).

The social dialogue and capacity-building at the centre of this model demonstrate again how relevant it is to involve social partners and further relevant actors in the process. In doing so, knowledge and competences for action are developed, a necessary pre-condition for evidence-based decision-making.

### Implications of the Results for the Further Development of the Concept for Regional and Local Labour Market Monitoring (RLMM)

The ILO model and the concept of RLMM developed in the EN RLMM are very similar in their cyclical approaches. They are based on comprehensive diagnostics, from which strategies and policies are derived. Their implementation is monitored, evaluated and (if necessary) adjusted. In the following, it is considered how the impulses from the ILO model can be used for developing further the RLMM in its information, communication and action functions.

The **information function** refers to the suitable information that is provided for relevant labour market actors in the monitoring process. Ideally, their information needs, regarding contents and formats, are specified and used for designing the RLMM. The ILO model underlines that the information needs should be clarified in a participative manner. Especially in the case of definitions, it should be considered how certain (theoretical) assumptions about the functioning of the labour market frame the analysis and subsequent actions. At this stage, the following goals are pursued:

- **Arriving at suitable definitions, taking into account regional specifics** (Goal A1): this involves reflecting on the different manifestations of the phenomenon and the reasons for its existence. Here, experiences with the impact of policies up to this point should also be taken into account. The systematic and participative reflection on the regionally available knowledge and experiences helps to arrive at definitions that fit the regional or local situation. Especially by including actors with specific knowledge of particular aspects of the phenomenon, an all-encompassing picture can be developed;
- **Combining and analysing data from different sources** (Goal A2): besides structural data, qualitative information on specific topics is also collected. Here, the involved experts can either act as interview partners/participants of focus groups or enable access to relevant target groups for these formats, as it is important to include the perspective of those who are affected by the policies.

The **communication function** describes the process of interpreting the data by involving important stakeholders of regional and local labour markets. By drawing on their specific knowledge and experiences, they arrive at a co-ordinated description of the current state of the labour market. Furthermore, regional and local policies, which have been carried out so far, are evaluated with regard to their impact. Here, the ILO model delivers the following development impulses:

- **Developing a common interpretation of the results** (Goal B1): it is particularly beneficial to involve actors who have specific expertise concerning the issue under consideration;
- **Evaluating the impact of policies and measures so far** (Goal B2): the impact of measures and policies should be evaluated to detect whether the assumed mechanisms have worked as anticipated. To this end, it can make sense to involve the operative actors, especially if the exploration seeks to understand why measures were or were not successful. Furthermore, to optimise the development of integrated strategy approaches, it is important to reflect on the interdependencies of single labour market areas and policy areas at an early stage.

Once co-ordinated decisions have been made, the **action function** is concerned with specifying an integrated strategy and identifying suitable measures. It is followed by the implementation of these measures and the evaluation of their impact. The results of the evaluation are compared with the goals and re-adjusted in a participative manner. The development impulses resulting from the ILO model are:



- **Developing goals for a co-ordinated strategy and specifying relevant measures** (Goal C1): Especially when selecting suitable measures and considering possible interdependencies with other areas of the labour market, it is necessary to involve the expertise of relevant (operative) actors;
- **Securing the compatibility of different measures** (Goal C2): setting up an evaluation design, interpreting and assessing evaluation results.

Table 1 gives an overview of how the above-described ideas can be used for further developing the RLMM approach used in the EN RLMM. Based on the contributions to this Anthology, the insights are specified for the topic of informal employment.

**Table 1: Approaches and development lines for developing further the RLMM approach**

A. Information	B. Communication	C. Action
<p><b>Goal A1:</b> developing a definition of informal employment and specifying theoretical assumptions for transformation in the context of policy frameworks in a participative manner.</p> <p><b>Implementation:</b> bringing together actors with multiple perspectives; stimulating reflections on informal employment to specify the scope, reasons and openings for transformation into formal employment; reflecting on the impact of the policy framework so far.</p>	<p><b>Goal B1:</b> developing a shared interpretation of the situation.</p> <p><b>Implementation:</b> involving actors with specific knowledge of informal employment.</p>	<p><b>Goal C1:</b> developing goals for an integrated labour market strategy and specifying measures in a participative manner; setting up an integrated roadmap.</p> <p><b>Implementation:</b> connecting different policy areas in a policy framework.</p>
<p><b>Goal A2:</b> generating data for gaining a holistic perspective on informal employment.</p> <p><b>Implementation:</b> collecting quantitative structural data and indicators for describing the phenomenon; collecting qualitative data for explaining different aspects of the phenomenon.</p>	<p><b>Goal B2:</b> assessing previous policies and incentives in a participative manner.</p> <p><b>Implementation:</b> involving relevant expertise and evaluation results; initiating discussions on mechanisms that support transformation.</p>	<p><b>Goal C2:</b> implementing the incentives and measures; evaluating interdependencies with other concepts in a participative manner.</p> <p><b>Implementation:</b> ensuring compatibility with other measures; developing assumptions on interdependencies as a basis for the evaluation.</p>

Source: Larsen and Rand (2019).

In summary, the engagement with the 2019 Annual Topic of the EN RLMM shows that for monitoring issues, which can be difficult to cover due to the variety of definitions or lack of data, the concept of RLMM needs to be revised. In particular, this means including the specific expertise of a wide range of actors from the beginning of the monitoring process. In the following section, this abstract insight will be clarified by delineating the contributions to this year's Anthology.

## Contributions to the EN RLMM Anthology 2019

The contributions to the present Anthology reflect conceptual, methodological, empirical and policy-related perspectives on informal employment. While the introductory chapter is concerned with theories, concepts and definitions, the second chapter focuses on different methodological approaches for measuring informal employment. As many of the 37 contributing authors come from this year's host country, Russia, their contributions are together in the third chapter to showcase developments in the Russian labour market.

**Chapter One** begins with an overview of concepts and definitions by Aleksandra Webb, Ronald McQuaid and Sigrid Rand outlining the various dimensions of informal employment and exploring the reasons for its emergence and prevalence. The authors also present approaches that are concerned with transforming informal employment into formal employment. Contributions from Ummuhan Bardak, Francesca Rosso and Atif Khan present empirical approaches in the field of strategy development for transforming informal employment into formal employment. Bardak and Rosso introduce definitions for informal employment and discuss its different forms as well as the role of skills development in the transformation into formal employment. Their abundant examples illustrate the variety of available development policy measures and at the same time sensitise readers for the importance of bottom-up approaches, regional networks and suitability of strategies. Khan makes the case for a similar change of perspective, which underlines the importance of bottom-up approaches. He discusses different forms of informal employment in India (e.g. informal employment in formal enterprises) and related policy processes. Bardak, Rosso and Khan highlight dynamic developments in the informal economy and employment, which are characterised by innovation and are of high economic relevance. However, they demonstrate that robust pathways into the formal segment of the labour market

can only be shaped according to the structures, behaviours, rationalities and practices in the informal segment. Moreover, Khan assesses how digitalisation works as the engine of such development processes.

The article by Renato Fontana, Ernesto Dario Calò and Milena Cassella assumes a similar perspective. By presenting a case study from Italy, the authors contend that the scope of informal employment is not only related to the economic development stage of a country or region, but also depends on the societal values and identities, which are rooted in a shared national and regional culture and influence the emergence and perpetuation of informal employment.

In **Chapter Two**, the focus is on methods for measuring informal employment. In the first section, Ferenc Bódi and Jenő Zsolt Farkas use public data from Hungary to determine the impact of public works schemes on informal employment. They describe how this relation varies between urban and rural regions and tie the results of their analysis to labour market strategies.

In the second section, four articles apply Big Data to measure informal employment. Antidio Martínez de Lizarrondo Artola und Laura Pérez Villanueva use data from social media to capture perceptions of and attitudes towards the informal economy and employment in real time. These findings are contrasted with an analysis of electronic articles from daily newspapers, in order to identify differences in the discourses. Also, Ciprian Panzaru uses data from freelancer social media forums to identify central topics in the discussion of informal employment. The methodological and technical approaches presented in these articles can be replicated. Furthermore, the authors discuss how these or comparable findings can be used in the context of RLMM.

Silvia Dusi, Claudia Graziani, Mario Mezzanzanica und Mauro Pelucchi explore the extent to which job vacancies from online job portals contain information on working hours and contract modalities. When such information is missing, it is interpreted as an indication that the vacancy may be advertising informal employment. Their analysis shows that specific occupational groups, especially those requiring lower skills, are more frequently associated with informal employment than those requiring higher skills. Moreover, the results of the study can be differentiated at regional level. Sara Lamback, Dan Restuccia und Bledi Taska analyse the contents of four million CVs to determine which skills and certificates are relevant for careers in different occupational areas. This approach can support the planning and facilitation of transformations from informal to

formal employment through skills development. The four contributions using Big Data analysis demonstrate its versatility for extracting and analysing data as well as making use of the subsequently acquired information.

The third section opens with the contribution by Anna Grochowska. She shows how a mixed-method approach using triangulation to connect different research results yields an in-depth picture of informal employment in the Mazovia Voivodeship in Poland. The differentiated results of data analysis enable her to make policy suggestions for transforming informal employment into formal employment. Also Nina Oding approaches the phenomenon of informal employment in a holistic manner by considering the dynamic labour markets in small towns in Russia. Starting with a theoretical concept, she develops a design integrating different data sources and allowing for the fluidity between informal and formal employment.

**Chapter Three** is dedicated to describing informal employment in Russia. It starts with contributions focussing on different conceptual approaches, while later the focus shifts to different target groups among whom informal employment is particularly widespread. Mairash Toksanbaeva compares the common features of and differences between formal and informal segments of the labour market and demonstrates that, for many sectors and firm types, both segments exist in parallel. However, in the case of small businesses in the informal sector, working hours are considerably longer and require more flexibility from the employees. The author suggests that approaches for transforming informal employment into formal employment should consider the time needs of these informal firms. Vyacheslav Bobkov, Elena Odintseva and Vadim Kvachev have chosen a conceptual approach of precarity through which to consider informal employment. They present indicators, which can be used for identifying precarious areas in informal employment, and discuss the need for policy-making. Ekaterina Chernykh demonstrates that informal employment is characterised by disproportionate underutilisation of labour. The empirical data that she presents reveals that this underemployment is not the choice of employees, but rather follows the constraints imposed by employers. Furthermore, underemployment is very closely related to poverty.

The next four articles approach the topic of informal employment from the perspective of specific target groups. Evgeny Krasinets focusses on labour migrants

by analysing two different groups – highly skilled experts and low-skilled labourers. For the latter, he delineates the sectors in which low-skilled labourers are primarily occupied and discusses the policy measures that are needed in this field. Precariously employed low-skilled labour migrants are also at the centre of Igor Shichkin's contribution. He identifies that informal employment is not just as a problem of employees, but also a challenge for the Russian economy, highlighting the need for regulation. The article by Olga Aleksandrova and Yulia Nenakhova addresses the target groups of women with children, older workers and people with disabilities. The authors refer to the missing framework conditions like childcare or formal working places for people with disabilities, which re-enforce informal employment. Finally, Farida Mirzabalaeva, Olga Zabelina, Anna Maltseva and Anna Vega discuss how older workers are drawn into informal employment when they cannot meet new skills requirements arising from digitalisation. They contend that as older workers as well as their employers have little interest in necessary re-skilling measures, policy approaches addressing the particular needs and challenges of the target group should be designed to support skills development.

Looking at this year's Anthology, it is interesting to see that four groups of Network members approached the topic of informal employment through Big Data analyses. These contributions show how diverse, but also viable, Big Data analyses are becoming. These examples will be discussed in the Big Data Working Group of our Network, where a Knowledge Hub will be set up to present methods, techniques, processes, analyses and findings concerning Big Data. The Network Members can use this repository to inform their own research projects and to get feedback from experts in the field. This will ensure that in the coming years developments in the area of Big Data will further inform the RLMM approach. The Big Data Working Group of the EN RLMM will present their Knowledge Hub project for discussion at the Annual Meeting of the EN RLMM in Moscow this year.

As the editors, we are particularly glad that this Anthology has familiarised us with the labour market in Russia. Therefore, we would like to extend a special thanks to the Russian authors, many of whom are contributing to the Network for the first time. We are also very grateful to all of the other authors, many of whom have been contributing to the Anthology for many years. In particular, we

appreciate the new ideas that have been generated by the topic of informal employment, which will inspire further development of the RLMM. Finally, we would like to thank the hosts of the 2019 Annual Meeting, Professor Vyacheslav Bobkov and his team representing the Russian Academy of Sciences in Moscow. Their work on the annual topic for 2019 has greatly enriched the discussions in our Network. Last but not least, we would like to thank Rachel Cylus, Daniel Kunze and Dennis Schmehl, who helped to prepare this Anthology for publishing.

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# 1. CONCEPTS OF INFORMAL EMPLOYMENT AND ITS TRANSFORMATION

## 1.1. Theoretical Approaches and Definitions

### What, Who, Why and Ways out of the Informal Economy: A Brief Review of Key Definitions and Approaches

*Aleksandra Webb, Ronald McQuaid and Sigrid Rand*

#### Introduction

Over the past few decades, there have been many attempts to measure and assess the extent of informal economy. Estimates by regional, national and global reports suggest that the informal economy is widespread, and that informal work and employment is growing compared to formal work and formal economies (ILO 2018a, OECD 2002, Schneider et al. 2010). The International Labour Organization (ILO) (2018a) estimates that two billion workers worldwide are now employed informally, representing a majority of the global workforce (61%). Almost twice as high a percentage of informal jobs are present in rural areas (80%) than in the cities (44%), and a much higher percentage in developing (90%) and emerging countries (67%) than in developed countries (18%) (ILO 2018a)<sup>1</sup>. It is

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<sup>1</sup> The ILO (2018a) report contains the first comparable estimates of informal employment at the global level. It provides information on the informal economy and its components for over 100 countries, including both developing and developed countries as well as both agricultural and non-agricultural labour. ILO's categorises countries based on their Gross National Income (GNI) per capita: developing countries encompass low-income countries where the GNI per capita is below USD 1,005 p.a.; emerging countries denote middle-income countries with a GNI per capita between USD 1,006 and USD 12,235 p.a.; the GNI per capita of high-income countries is above USD 12,236 (ibid.: 14f. and 76, based on the World Bank's country classification: <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups> ).



therefore important to summarise what we already know about the phenomenon of the informal economy, informal employment and informal workers and, based on the existing literature, postulate further directions of investigation.

While the different forms of informal economy bring about a wide variety of employment relationships that can be conducive of innovative economic activities, the majority of informal employment relationships are associated with low quality employment and insufficient social protection. Consequently, the informal economy may limit the development of sustained “decent” work (UN Sustainable Development Goals 8, UN 2017), which includes fair working conditions, equal opportunities and social protection (European Commission 2017). Therefore, the article will discuss different ways to transform informal employment into formal. It aims to systematise **What** the informal economy is; **Who** participates in informal economic activities and **Why**; and how existing bodies of knowledge can be used to plan and facilitate **Ways out** of an over reliance on the informal economy.

We, firstly, present current definitional understandings of the informal economy phenomenon. Secondly, we present some key conceptual approaches to explaining participation in the informal economy, including the rationalities guiding the decisions of individual workers, organisations and businesses. Thirdly, we consider the concept of “tax morale” to help understand the level of engagement with the informal economy, and its potential to inform the design of interventions to tackle the informal economic activities and support individual and organisational actors in the transitions from informal to formal employment. The paper finishes by highlighting some further directions for enriching the debate on informal economy and its workers as it is discussed by the authors in this Anthology.

## What Do We Mean by the “Informal Economy”?

Researchers who attempted to define the phenomenon of the informal economy and informal employment use many different terms to refer to activities that are perceived to be “‘atypical’, ‘cash-in-hand’, ‘hidden’, ‘irregular’, ‘non-visible’, ‘shadow’, ‘undeclared’, ‘underground’ and ‘unregulated’” (Williams and Martinez 2014: 2). These activities, and the incomes derived from them, can be undertaken by both individual workers and organisational employers or business

enterprises, and they often imply, or refer to, a dark side of economic activities or “shadow economy” as opposed to the declared (to tax authorities) and formalised space. Essentially, most definitions of economic activities are concerned with this dichotomy of “open” and “hidden” spaces, as is the case with the classification of registered/unregistered or legitimate/illegal activities. Williams and Martinez (2014: 2), for example, define informal employment as “unregistered by, or hidden from the state for tax and/or benefit purposes”. Importantly, Williams and Horodnic (2016a, b) add that the definition of *informal economic activities* should make a distinction between: “legitimate” informal activities, i.e. those that would be legal in the formal economy if appropriate regulations were followed and taxes paid etc.; and those that would be “illegal” and “illegitimate” in the formal economy, such as criminal activities (e.g. forced labour, drugs smuggling).

Furthermore, the ILO (2018a) argues that there is a distinction between *employment in the informal sector* and *informal employment*. The former concept is defined in terms of the characteristics of the workplace of the worker, i.e. it is based on the organisation or enterprise. Alternatively, informal employment is defined as a job-based concept, referring to the worker’s job and the employment relationship and the associated protection. Hence employment in the informal economy equals “employment in the informal sector + informal employment outside of the informal sector (i.e. informal employment in the formal sector + informal employment in households)” (ILO 2018a: 11).

The definition employed by the ILO underlines the role of state regulation concerning the workplace as well as the employment relationship, i.e. rules and controls, which constitute the legitimate and permissible spheres of economic activities. As regulation delimits the opportunities and spaces for self-regulation of activities, the expansion of rules subjects the whole economy to the “possibility of rule violation for profit” in its extreme manifestation (Portes and Haller 2005: 410). In this context, *informal economy* is understood as an income-generating production that circumvents or otherwise avoids all other institutional regulation (Dell’Anno 2003), in a legal (formal) and social (informal) environment in which similar activities are regulated (Castells and Portes 1989, cited in Williams and Kayaoglu 2016).

Despite not being regulated by formal institutions, Williams with Horodnic (2016a) and Kayaoglu (2016) contend that the informal economy is regulated by

informal institutions. Hence, while illegal from the viewpoint of formal institutions, it is perceived to be socially legitimate from the viewpoint of those informal institutions. These sets of illegal yet legitimate (to some large groups) activities undertaken by actors in the informal economy are focused on the recognition and exploitation of production and distribution (i.e. business) opportunities (Castells and Portes 1989, Portes and Haller 2005: 405f., Webb et al. 2009).

Those working in the informal economy, can broadly be separated into two categories of informal employment (Chen 2012, Hussmanns 2004, ILO/WIEGO 2019, ILO 2018a, Stuart et al. 2018). These are:

- **Self-employment in informal enterprises:** typically workers in small unregistered or unincorporated enterprises, including employers, own-account operators, and unpaid family workers);
- **Wage employment in informal jobs:** informal employees such as workers without formal contracts, statutory workers' benefits, social protection or workers' representation who work in the formal or informal firms, or for households; employees with no fixed employer, and other informal wage workers (e.g. casual or day labourers; domestic workers; industrial outworkers, notably home workers; unregistered or undeclared workers; and temporary or part-time workers).

Defined in such way informal employment encompasses employment in the informal sector, in the formal sector and in households. This heterogeneous classification thus includes individuals in the "gig" economy, who may meet all the statutory tax and other regulations, but are classed as independent contractors who provide their labour to either individuals or businesses (DBEIS 2018: 12), covering a variety of jobs and sectors, as:

- Individuals completing tasks using platforms which play an active role in facilitating work and take a proportion of the pay or charge providers fees for using the platform (e.g. in the UK via Uber, TaskRabbit, PeoplePerHour);
- People providing services who are either freelancers or may have set up a one-person business to offer their services;

People for whom the "gig" economy is the main source of income and those who use it to top up their income from other sources. Furthermore, and in contrast to the conventional outlook that sees a firm dichotomy between formal and informal employment, Williams (2014: 8) suggests a variety of modalities exist

when formal and informal waged work often overlap and blurs a distinction between formal and informal work. For example, in the instance of “envelope wages”: where formal waged employees, working for formal employers, can sometimes be paid two distinct wages by these employers, an official declared wage and an additional unofficial undeclared (“envelope”) wage with cash for overtime and/or for the regular work conducted. Other examples are the various forms of profit-motivated self-employment ranging from the formal self-employed conducting various portions of their trading “off- the-books” (including wholly off-the books trade, i.e. not declared to the tax authorities), or a “false self-employment”, where a self-employed person works for one employer but pays no wage tax. Lastly, undeclared “paid favours” which are often conducted for and by kin relations living outside the household (e.g. friends, neighbours and acquaintances) for social and/or profit motivations can also show the extend and proliferation of the informal economy.

Worldwide, different forms of informal employment prevail depending on the level of socio-economic development, industrial infrastructure, regulatory capacities and administrative structures of the state as well as the social structure and cultural resources of the population (Portes and Haller 2005: 410). The global estimates (ILO 2018a) also reveal a strong relationship between countries with low levels of GDP and high levels of informal employment, which suggests it is much more likely for people in developing countries to be engaged in economic activity that takes place outside the formal economy (including, for example, jobs in subsistence farming, agriculture or the exploitation of natural resources). Furthermore, global comparisons uncover a strong link between informality and poverty (ILO/WIEGO 2019: 15), even if in many countries informal employment is also wide-spread among the non-poor.<sup>2</sup> In Togo, for example, informal employment is of systemic nature, as 95.3% of the poor are informally employed, compared to 91% among the non-poor. In comparison, in South Africa informal employment is more strongly associated with poverty, as 88.5% of the poor are informally employed in contrast to 52.5% among the non-poor (ILO/WIEGO 2019: 17).

Even though economically more developed countries have different structures, tendencies and challenges than those observed in the low income developing

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<sup>2</sup> “In developing and emerging countries, poverty status is defined in reference to the absolute poverty line of US\$3.10PPP” (ILO/WIEGO 2019: 17).

countries, also they are not homogeneous. For instance, the economies of the 27 Member States of the European Union differ in term of the size and character of the informal economy (Williams 2014). William's classification of the EU Member States along the extent of formalisation of their economies detects a European North/South division. According to his analysis, Eastern/Southern countries were more informalised than the Western/Nordic ones: the former had a tendency towards "waged" informal economies, while the latter had a tendency towards "own-account" informal economies and generally higher levels of labour market intervention, social protection, effective state redistribution via social transfers and equality.

The non-regulated aspect of the informal economy can lead to a fragile employment status for those who engage in informal economic activities, who are not protected by employment law and regulations or state agencies. This lack of protection is experienced not only by self-employed freelancers in small, unregistered enterprises, but increasingly also by those in wage employment in unprotected and precarious jobs (WIEGO 2019). Thus the understanding of the informal economy has been expanded to include references to "non-standard" work and workers, or "contingent workers" and the "gig economy" (ILO 2018a). The ILO lists the four main types of non-standard forms of employment as including: (a) temporary waged employment; (b) part-time waged employment with less than 35 weekly working hours; (c) temporary agency work and other forms of employment involving multiple parties; and (d) disguised employment relationships and dependent self-employment. Non-standard forms of employment, such as temporary and part-time employment, are significantly more likely to be informal, which primarily manifests itself in the absence of social security coverage and employer's contributions gained through employment, or through the absence of other forms of social protection such as paid annual or sick leaves. This suggests that a deviation exists in the appropriate scope of current regulations and their effective enforcement, including the issuing of employment contracts for temporary workers, or realistic qualifying thresholds of legal protections such as the length and amount of employment.

Contingent workers, on the other hand, are more commonly used in the competitive free market economies, to provide hiring organisations with high quality and flexible labour when needed and without the burden of costly wages (Robbins et al. 2017). Such strategies of organisations to increase their efficiency and

competitiveness contribute to the development of “gig economy” that “involves exchange of labour for money between individuals or companies via digital platforms that actively facilitate matching between providers and customers, on a short-term and payment by task basis” (DBEIS 2018: 12). The gig economy offers “short and in particular very short hours of work resulting in low levels of income may also lead to an exclusion from the scope of current social security laws if conditioned by a minimum level of earnings” (ILO 2018a: 60). Thus the gig economy can be understood as a labour market characterised by the prevalence of short-term contracts (gigs) or freelance work, as opposed to permanent jobs. It has been praised and criticised. It has been viewed positively for offering flexible working hours (e.g. for students, carers, creative and independent professionals, underemployed), as well as negatively, as a modern form of slavery and workers’ exploitation (DBEIS 2018, TUC 2017, Johnston and Land-Kazlauskas 2018).

While certain groups of workers indeed enjoy the benefit such flexible work can offer, others groups particularly those working in the service sectors, including those who aspire to have a full-time permanent job, have often little choice as short contracts with very little protection by labour laws and regulations appear to be a standard way of contracting the workforce. Particularly a polarised pattern of either underemployment or excessive hours of work, often outside normal hours of work, have been heavily criticised by labour researchers. The ILO (2018a: 62) reports that both scenarios have negative consequences: “time related under-employment and a potentially higher risk of working poverty in the case of very short hours of work and exposure to higher health and safety risks in addition to work-life balance issues without due financial compensation in the case of excessive hours”. The share of workers in the gig economy is systematically higher among workers in informal economy compared to those in formal employment. Employers using informal workers to lower wages and/or terms and conditions is also likely to lead to poorer conditions for “formal” workers in competing firms.

The *ad hoc* or “when required” aspects of work become more and more prevalent in the highly competitive world of business, despite the variable pay and financial insecurities, limited or no employment rights and lower levels of developmental opportunities for individual workers. There are a number of detrimental characteristics of workers in informal economy, which has led the United Nations (UN 2017) to set a specific global statistical indicator (8.3.1) on informal

employment as part of their Global Indicator Framework to monitor the Sustainable Development Goals.<sup>3</sup> On the one hand, organisations in the informal economy may be associated with low productivity, limited capacity for innovation and limited access to capital (de Beer et.al 2013). In effect, the surplus of capital arising from circumventing legal requirements of social security systems and environmental standards leads to a distorted competitive advantage that might undercut organisations in the formal sector and endanger the competitiveness of the latter (ILO 2018b, Stuart et al. 2018).

However, informal economy can also be an integral part of highly innovative economic sectors, such as in the Italian system of flexibly specialised niche enterprises relying on “informally produced inputs and labor” (Portes and Haller 2005: 407) to be able to react quickly to sudden peaks in demand and changing consumer preferences. In a similar vein, Saskia Sassen observed already in 1994 the growing diversification of the economy in terms of “jobs, firms and subcontracting patterns that induce or are themselves susceptible to informalization” (Sassen 1994: 2291). While the growing income polarisation creates a need for customised products satisfying the exclusive taste and lifestyles of the high-income gentrified classes, the needs of the low-income population are met by firms who keep the price of their products and services low by circumventing taxes and social security contributions (ibid.: 2296).

In the next step, we will explore the question of why individuals participate in the informal employment given the risks and opportunities associated with informal employment.

## Who Engages with the Informal Economy and Why?

Employers (large corporations, small and medium business enterprises and other public/private organisations) and individual workers (freelance/self-employed/entrepreneurs and organisational employees) have different reasons for engaging with the informal economy. The motives for the former arise mostly from global competition rules, financial constraints on the employer’s side, lack of awareness and inappropriate understanding of compliance, or a deliberate

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<sup>3</sup> The description of the indicator is available at: <https://unstats.un.org/sdgs/metadata/files/Metadata-08-03-01.pdf> [15 August 2019].

choice not to comply (ILO 2015). Thus, it is clear that the economic activities in the informal economy can be hidden from the authorities and institutions not just for financial gain, but also to avoid regulatory responsibilities (Medina and Schneider 2018, Williams 2011), including entrepreneurial activities in the early stages of product development or trading (Williams and Martinez 2014).

Adom and Williams (2012) address the often blurred demarcation line between formal and informal economy. For example, the evidence from the UK suggests the owners of small businesses resort to informal trading when starting their business to test the viability of their product or service (Williams and Martinez 2014). In addition, as the nature of the entrepreneurial process is focused on the recognition and exploitation of business opportunities (Webb et al. 2009), decisions concerning growth often lead to activities on the periphery or directly in the informal economy. This seems particularly true for entrepreneurs oriented towards growing their ventures as opposed to those seeking a certain lifestyle or only supplementing their income (Webb et al. 2009, Miller 2005). Since the legitimacy is “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman 1995: 574 cited in Webb et al. 2009: 494), entrepreneurs’ definition of an opportunity, and valuation of what constitutes legitimate action in the informal economy, will differ. Such valuation, for example, might lead to a decision to use undocumented workers (e.g. immigrants) to produce legal and legitimate products such as construction of residential homes, farm production or provision of domestic services (Raijman 2001, De Lourdes Villar 1994); or usually legitimate but illegal products such as pirated music and counterfeit items (Givon et al. 1995).

It is especially important to recognise that engagement with the informal economy is not always an individual’s choice, but rather a consequence of the types of work individuals undertake; e.g. temporary/ seasonal jobs which are common in subsistence farming and other agricultural, horticultural and forestry jobs, domestic services, care, catering and tourism, retail etc. These temporary/seasonal or precarious jobs are characterised by the absence of contracts and are short-lasting. These are predominantly labour-intensive low-tech sectors that employ low- and un-qualified workers (Schneider 2011).



## “Tax Morale” and Participation and Engagement with the Informal Economy

In addition to quantifying and classifying sectors, jobs, workers and reasons for participation in informal economies, useful theoretical developments have been suggested as a way to understand such engagement. Williams and Horodnic (2016a) set out three competing theoretical explanations: “modernisation” theory, “neo-liberal” theory and “political economy” theory, which have been commonly used to understand and explain the reasons for participating in the informal economy. First, modernisation theory explains the informal economy in terms of the lack of economic development and modernisation of state bureaucracies (Geertz 1963, ILO 2013, Lewis 1959, cited in Williams and Horodnic 2016a); second, “neo-liberal” approaches see engagement in the informal economy as a response to high taxes and extensive rules and burdensome regulations (De Soto 1989, 2001, Nwabuzor 2005, cited in Williams and Horodnic 2016); and third, political economy theories see it as a result of inadequate state intervention and a lack of protection for workers (Castells and Portes 1989, Dau and Cuervo-Cazurra 2014, ILO 2014, Meagher 2010, Slavnic 2010 cited in Williams and Horodnic 2016).

Importantly, these three approaches, while useful in making distinctions between different national contexts and expectations of an ideal relationship between state, regulation and economic activities, have been criticised for failing to acknowledge the specific intrinsic motivations of individual actors who choose, or not, to participate in the informal economy. Some actors might want to choose to participate in the informal economy when the pay-off is greater than the expected cost, for example of being caught and punished (Allingham and Sandmo 1972) or when alternatives are worse (e.g. unemployment); others might want to choose to participate in the informal economy even if the costs outweighs the benefits (Alm et al. 2012, Kirchler 2007, Murphy 2008). However, such distinction between rational and irrational economic behaviours as motivators for engagement with the informal economy only provide limited understanding.

An alternative understanding of varied behaviours of individual actors and populations has been proposed by institutional theory and the notion of “tax morale” (Williams and Horodnic 2016a, Cummings et al. 2009, McKerchar et al. 2013). This notion of “tax morale” seeks to account for differences in levels of

acceptability of participation in informal economy which is explained as a result of asymmetry between the codified laws and regulations of a society's formal institutions (government morality or "state morale") and the unwritten socially shared norms, values and beliefs of the population that constitute its informal institutions (societal morality or "civic morale") (Williams and Horodnic 2016a). The norms, values and beliefs of a society's informal institutions can either complement those of formal institutions or substitute their rules if incompatibility with the formal institutions occurs (North 1990, Williams and Vorley 2015, cited in Williams and Horodnic 2016a).

There are two key propositions of institutional theory that help to understand the dynamics between the informal and formal economies. Firstly, symmetry between formal and informal institutions eliminate the need for activities in the informal economy. Secondly, asymmetry between a society's formal institutions (government morality) and its informal institutions (societal morality), such as due to a lack of trust in government, feeds the activities in the informal economy. Thus, the greater the asymmetry between government morality and societal morality, the greater is the propensity to participate in the informal economy (Williams and Horodnic 2016a). In other words, this means that the lower the level of "tax morale", the higher is the asymmetry and the level of participation in the informal economy. The higher the tax morale, e.g. due to a greater state intervention in the form of higher taxes resulting in greater social expenditure and social benefits, the lower is the asymmetry and the level of participation in the informal economy.

The finding across a range of geographical contexts suggest that "tax morale" is usually lower among men, single people, the unemployed and self-employed, and increases with religiosity, age, perceived social status and income but is negatively related to years spent in formal education (Williams and Martinez 2014, Williams and Martinez-Perez 2014). These insights can perhaps also be useful for planning interventions focused on tackling the informal economy and supporting workers' transitions from informal to formal employment. Williams and Horodnic (2016a, b) argue that reducing participation in the informal economy is possible through interventions such as: improving educational attainment, older people mentoring younger people, and improving women's participation in the labour market.

## Ways out of Over-reliance on the Informal Economy

As already discussed, engagement with the informal economic activities has multiple negative consequences. It causes a significant tax loss, which reduces public revenues and thus income available for important public services and support, including social protection; it also contributes to poorer working conditions and unfair competition for legitimate businesses, weakening trade unions and collective bargaining (ILO 2014, TUC 2008). These are some of the reasons why governments, labour institutions and agencies, through various policies and regulations, advocate the tackling of the informal economy. Williams and Horodnic, based on the data derived from the UK (2016a), EU (2016b, c) and Eastern Europe (2016d) and drawing upon institutional theory's two basic mechanisms for tackling institutional asymmetry, propose addressing the problem by changes to informal and formal institutions. The first mechanism is based on the idea of disincentives (sanctions and penalties) to prevent socially legitimate but illegal activities, for example by communicating and improving the likelihood of detection through inspection (e.g. Hasseldine and Li 1999). However, such an approach can be counterproductive as it can undermine respect for the fairness of the system and thus reduce voluntary compliance leading to greater engagement in the informal economy (Chang and Lai 2004, Murphy 2005). The second mechanism highlights the need to intensify desirable legal behaviours and activities (Mathias et al. 2015), for example, through direct and indirect tax incentives. This approach, however, fails to fully resolve the issue of compliance and morality.

Williams and Horodnic (2016a) thus propose a different solution to disengaging individuals from participation in the informal economy. This is focused on improving the "tax morale" by shifting from a low-trust and low-commitment ("hard") policy approach that seeks compliance through tight rules and close monitoring, to a high-trust and high-commitment ("soft") policy approach that aims to develop self-regulation through an internal commitment to the norms, values and beliefs of the population ("societal morality") and compliance with the codified laws and regulations of formal institutions ("government morality"). This approach requires change to happen simultaneously at the level of the norms, values and beliefs held by population (through tax education, public information campaigns, appeals) and at the level of formal institutions (through promotion of procedural fairness and trust building,

procedural justice, and redistributive justice). However, such changes may take many years, or even generations, and not all groups in society may change at the same time, so other shorter-term policies are required. Hence other theories may also be useful, such as those seeking to change short-term behaviour including Social Exchange or AMO (ability, motivation, and opportunity) (Appelbaum et al. 2000); or Prospect Theory, which suggests that people systematically overvalue their losses and undervalue their gains (Kahneman and Tversky 1979), so people need to be encouraged to more realistically re-evaluate their assessment of losses and potential gains that may result from them leaving the informal economy.

## Discussion and Conclusions

This paper briefly considered definitions related to the informal economy and explained who and why participate in the informal economy. It is clear that the forms of engagement and reasons for participating in informal economic activities vary amongst different groups in the population and different socio-economic contexts. The unequal distribution of power between employers and workers in the global labour market has been widely discussed and the deteriorating conditions of work and pay are increasingly on the agenda of trade unions and other advocacy agencies. The economic advantages of employing a cheaper workforce (at the expense of such things as occupation health and safety), as well as a use of shorter or no contracts at all, represent clearly the market and profit-driven rationale.

Even if individual actors, for example self-employed persons or entrepreneurs working on own account, can be encouraged and supported to transit from the informal to formal employment, waged actors rarely have much choice as they are not setting the parameters of labour exchange. The question arises therefore how employers can be incentivised to withdraw from such practices and how the balance in labour exchange system can be restored to empower all actors and build stronger foundations for resilient, fair, legal and legitimate activities in the labour market. Essentially, this foundation would need to be raised and guarded by formal institutions, e.g. through approaches based on strengthening “tax morale” among specific sectors of informal economy, which then will spill-over to affect the informal institutions and behaviours.

It is also clear that informal employment, although happening in the shadow of the formal economy, is closely linked through the complex interplay of exchanges between formal and informal institutions and their actors. When formal regulations of employment are not followed through, work of an informal character may begin and the boundaries between these two contexts become blurred. By focussing on the perspective of individual actors (both employees and employers) taking part in the informal economy, we suggest that their decisions and actions are governed through different rationalities often arising from the incompatibilities and contradictions within the socio-economic system of employment. This is why it would be interesting to further explore the connection between the shadow economy and a broader social security and welfare system within specific national and international contexts. A review of social equality policies and practices matched up with labour market policies could offer one interesting avenue for exploring systemic contradictions and mechanisms that encourage participation in the informal economy (e.g. insufficient social security subsidies; gender inequalities within the labour market; or lack of affordable childcare provisions which forces people to consider paid favours; or expensive health systems which in some countries may push people to accept extra and illegal work in case of illnesses).

The contributions in this Anthology (as discussed in the Introduction) offer in-depth insights into the different aspects related to the phenomena of informal economy and employment outlined above. Most of the articles address the conditions for the emergence and persistence of informal economy in specific countries and regions. They demonstrate how regulatory efforts involving the enactment of laws and the enforcement of compliance interact with path-dependent structures based on values and norms supporting and perpetuating different forms of informality. However, especially the contributions from Russia are concerned with precarity inherent to various forms of informal employment relationships. The authors delineate in which sectors informal employment is most widespread and analyse the reasons for engaging informal labour (e.g. the attempts to circumvent labour standards and keep labour costs low). Moreover, they explore which groups are predominantly represented among informal workers (e.g. undocumented migrant workers) and show how their employment status renders them vulnerable to violations of labour law and minimum standards of labour protection.

Furthermore, in the spirit of the “tax morale” concept, several authors place a specific focus on the transition of informal employment relationships into formality and consider the possible effects of different incentives, simplified regulation frameworks and also sanctions. It is argued that it is important to understand how the phenomena of informal economy and employment is discursively constructed in country-specific contexts in order to devise strategies for approaching particular challenges. To this end, several articles apply Big Data analyses of (social) media contributions. Several authors also discuss methodological challenges, including ways to capture the various forms of informality in different contexts by employing qualitative research methods to complement already widely used survey data. A selection of wide range of themes, methods and theories within the current informal economy research this Anthology offers aims to stimulate a much-needed exchange and further research opportunities amongst the European Network on Regional Labour Market Monitoring.

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## 1.2. Strategies for Transformation

### Skills Development in the Informal Sector

*Ummuhan Bardak and Francesca Rosso*

In 2018, the International Labour Organization (ILO) estimated that 61% of the global employed population (two billion people) earn their living in the informal economy (ILO 2018a). Informality exists in countries at all levels of socio-economic development and encompasses a wide range of jobs and economic activities with no work-based social protection: from street vending, home-based work in global and domestic value chains, waste-picking and domestic work to short-term contract work. It is a widely researched topic from economic, productivity, employment or poverty perspectives in different country contexts, but precisely because of its diversity and heterogeneity observed in different contexts, the approach to informality remains ambiguous, if not controversial.

This paper looks at informality from the human capital development perspective. The first section starts with an overview of the informality concept, with a brief discussion of the terminology and definitions used to capture informality in different contexts. For the purposes of this paper, three related terms and definitions adopted by the ILO are used for informality:

- **Informal sector:** unincorporated enterprises that may also be unregistered and/or small (ILO 1993);
- **Informal employment:** employment without social protection through work both inside and outside the informal sector (ILO 2003);
- **Informal economy:** brings both terms together and refers to all units, activities, and workers that are not covered or insufficiently covered by formal arrangements (ILO 2015a).

The literature review in first section also identifies the main characteristics and patterns of informality. The paper continues discussing policy responses towards informality in the second section, where the need for a balanced mix of policy actions addressing both supply and demand side issues is clearly recognised. As many studies highlight the role of skills in improving productivity and increasing