



**International
Labour
Organization**

January / 2021

**Towards integrated strategy for
the transition to formality:
Road maps for Azerbaijan, Kyrgyz
Republic, Tajikistan and Uzbekistan**

Colin C Williams
University of Sheffield

Copyright © International Labour Organization 2021

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. Nevertheless, short excerpts from them may be reproduced without authorization, on condition that the source is indicated. For rights of reproduction or translation, application should be made to ILO Publications (Rights and Licensing), International Labour Office, CH-1211 Geneva 22, Switzerland, or by email: rights@ilo.org. The International Labour Office welcomes such applications.

Libraries, institutions and other users registered with a reproduction rights organization may make copies in accordance with the licences issued to them for this purpose. Visit www.ifrro.org to find the reproduction rights organization in your country.

ISBN: 9789220342701 (Print)

ISBN: 9789220342718 (Web PDF)

ILO Cataloguing in Publication Data

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the International Labour Office concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers.

The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them.

Reference to names of firms and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

Information on ILO publications and digital products can be found at: www.ilo.org/publns.

Contents

EXECUTIVE SUMMARY	1
1. INTRODUCTION	5
2. THE INFORMAL ECONOMY IN THE FOUR COUNTRIES.....	7
2.1 Magnitude of the informal economy.....	7
2.2 Nature of the informal economy	8
3. FORMALISING THE INFORMAL ECONOMY AS A STRATEGIC OBJECTIVE	10
4. DEVELOPING A WHOLE GOVERNMENT COORDINATED APPROACH	13
4.1 Cross-government coordinated strategy.....	13
4.2 Coordinating operations	15
4.3 Cooperation on data mining, sharing and analysis.....	16
4.4 Improving social partner involvement.....	18
5. POLICY MEASURES FOR THE TRANSITION TO FORMALITY	22
5.1 Introduction.....	22
5.2 Improving sanctions	25
5.3 Improving the risks of detection	26
5.4 Improving the ease and benefits of operating formally.....	29
5.5 Education and awareness raising	31
5.6 Modernising formal institutions	36
6. CONCLUSIONS AND RECOMMENDATIONS	41
6.1 A Road Map for the four countries: next steps	41
6.2 Recommendations for South-South and triangular cooperation and peer learning	46
REFERENCES.....	46

EXECUTIVE SUMMARY

In many countries, there is a fragmented and uncoordinated approach across the multifarious government bodies responsible for the transition to formality and a limited involvement of social partners, as well as an incomplete range of policy measures used. To resolve this, an integrated strategic approach has been proposed. This is where:

a national government facilitates the transition to formality using a whole government approach to achieve the inclusive structural transformation required, joins-up the fields of labour, tax and social security law, involves social partners, and uses the full range of *direct* and *indirect* policy measures available to enhance the power of, and trust in, authorities respectively (Lapeyre and Williams, 2020).

Breaking this down, there are three major components:

- Shifting the objective from “reducing the informal economy” to “formalizing the informal economy”;
- Developing a whole government coordinated approach, and
- Implementing the full range of direct and indirect policy tools.

This report sets out road maps for Azerbaijan (AZ), Kyrgyz Republic (KY), Tajikistan (TS) and Uzbekistan (UZ) to make progress towards an integrated strategic approach to facilitate the transition to formality. The baseline assessment of their current positions is based on a questionnaire survey of national government authorities and social partners conducted in July-September 2020.

Extent and nature of informality

There are few sources of comparative data on informality across these four countries. One of the few is the World Bank Enterprise Survey which interviews formal businesses with more than five employees and provides a portrait of the prevalence of informality in the four countries.

Prevalence and impacts of informal enterprises, 2019

Indicator	AZ	KY	TS	UZ	Europe and Central Asia	All Countries Globally
% of firms formally registered when they started operations in the country	97.1	98	86.7	99.2	96.8	88.3
Number of years operated without formal registration	0.1	0.1	0.4	0	0.2	0.7
% of firms competing against unregistered or informal firms	29.9	51.4	11.8	21.5	33.9	52.4
% of firms identifying practices of competitors in the informal sector as a major constraint	21.7	39.0	13.7	11.5	23.5	28.7

Source: World Bank Enterprise Survey

To allow evidence-informed policy decisions, a comprehensive survey of the prevalence and nature of the informal economy in the four countries is a priority.

Formalising the informal economy as a strategic objective

Until now, the strategic objective of governments has usually been to reduce the informal economy. This has resulted in state authorities setting targets of how many inspections/audits they will conduct, what proportion should identify informality, and what level of fines they should generate each year. However, when the strategic objective is to formalize the informal economy, the targets become the number of businesses or jobs moved into the formal economy.

The survey reveals that AZ has adopted this strategic objective, but in TS and UZ the targets are to reduce the informal economy although progress is being made towards adopting this objective.

A first step, therefore, is for state authorities to shift their strategic objective from reducing the informal economy to formalizing the informal economy. Following this, targets need to be set for formalising the informal economy that are **Specific, Measurable** in a generally accepted manner, **Achievable, Realistic** and **Time bound** (SMART).

Developing a whole government coordinated approach

Developing a whole government coordinated approach is comprised of four sub-components:

- cross-government coordinated strategy;
- coordinating operations across government;
- cross-government coordination on data mining, matching and sharing, and
- improving the involvement of social partners.

Cross-government coordinated strategy

Different government departments are often responsible for different aspects of tackling the informal economy (e.g., tax authorities for tax compliance, labour inspectorates for labour law and social insurance bodies for social security compliance). These departments often work in “silos” with separate strategies and targets. The result is a fragmented and uncoordinated strategic approach towards the informal economy and no common and/or shared strategy, strategic objectives or targets.

A more integrated strategic approach is to establish a body responsible for developing and coordinating strategy towards the informal economy. This body might also establish horizontal cross-cutting strategic objectives and common targets for all government agencies, and joint/common reporting, monitoring and evaluation.

TS has a single body responsible for national strategy, as does AZ although different departments are responsible for each aspect. In UZ, each department is responsible for each aspect. TS has one set of national targets for tackling the informal economy that is common across the whole of government, whilst in AZ and UZ, some government departments have shared targets.

A way forward, exemplified by AZ and TS, is firstly, to establish a body responsible for developing and coordinating strategy towards the informal economy and secondly, establish a national strategy which includes horizontal cross-cutting strategic objectives and common targets for all government agencies.

Coordinating operations across government

It is traditionally the case that different enforcement bodies conduct separate operations in an uncoordinated manner. A more business-friendly and effective approach is to coordinate operations, such as using joint and concerted inspections or coordinated education and awareness raising campaigns.

In AZ, joint operations with other national organisations has been fully adopted, whilst discussion on this is taking place in TS and UZ. In AZ, a target has been set for the proportion of all operations which are joint or concerted operations with other national organisations, whilst in TS the decision has been taken to implement this and in UZ this is being discussed.

A way forward is for each enforcement authority to set targets stating what share of all operations will be conducted in cooperation with other authorities (e.g., the share of all inspections which

will be joint or concerted inspections; the proportion of education and awareness raising activities that will be planned and implemented with other authorities and/or social partners).

Cross-government coordination on data mining, matching and sharing

In AZ there is full electronic access to all relevant data in other authorities' databases, whilst in UZ there is access to some data of other enforcement authorities and in TS the enforcement authority receives printouts of data from other enforcement authorities.

On data analysis, no country has one central unit that holds the data and does the analysis for all enforcement authorities. Instead, the TS enforcement authority can directly analyse some relevant databases from other agencies whilst in AZ and UZ the enforcement authority receives data from other enforcement authorities that can be imported into their databases.

To more effectively detect informality, a first step is for all state authorities to establish electronic databases (e.g., case management records, employment registers, business registers) that have real-time up-to-date data collected in a cost effective manner (e.g., making the employer responsible for updating registering/deregistering an employee prior to the first day of work/on the last day of work).

The next step is to ensure that these databases are inter-operable with the databases of other state authorities and Ministries so that data can be shared electronically, and to establish bilateral and multilateral agreements for the sharing of data.

A final step is to consider the establishment of a central unit holding the combined databases of all enforcement authorities and providing the data analysis function for all enforcement authorities and Ministries.

Improving the involvement of social partners

To improve social partner involvement, the first step required by any authority is:

- to identify the social partners (e.g., trade unions, employer federations);
- to identify for each social partner their role and relevance for the various services of the state authority (e.g., referrals, exchange of information, detection, prevention, joint inspections), and
- the level (national, regional, local) at which each of these relationships is sought, including at the level of the overall coordinating body.

Having identified the relevant social partners and their roles, the second step is to build these partnerships with the social partners. This requires:

- staff to be allocated with the objective of partnership building at the various levels of the enforcement authority;
- the specific activities and contributions expected from these employees who have the objective of partnership building to be specified; and
- the challenges to partnership building at various levels addressed and solutions sought.

The third step is to manage these partnerships by:

- involving them in all relevant phases of the strategic management and service provision process;
- developing transparent agreements with clearly defined responsibilities;
- systematically monitoring and evaluating the outcomes of the partnership arrangements, and
- sharing the monitoring/evaluation results with the partners.

Social partners, meanwhile, can consider the same above steps for their own partnership building, namely: the identification of the state authorities/groups of authorities/overall

coordination body they wish to build partnerships with and for what purpose; how they will build these partnerships, and the management of these partnerships. They could also consider the tools and measures they are going to use.

In AZ, it is asserted that nearly all these steps have been taken whilst this is less the case in TS and UZ. In UZ, there is a perception of greater involvement by the employer federation than by the trade union confederation.

Implementing the full range of direct and indirect tools

To facilitate the transition to formality, direct controls that deter engagement in informality by increasing the risks of detection and penalties (i.e. “sticks”) can be used as well as incentives to make formality easier and more beneficial (i.e. “carrots”). However, informality is not always purely a rational economic decision for employers and workers, so merely ensuring that the costs outweigh the benefits is insufficient. Informality also results from formal institutional failings that lead to the non-alignment of the laws and regulations (state morale) with what populations seen as acceptable (civic morale). There is therefore also a need to pursue educational and awareness raising campaigns about the benefits of formality. However, the unacceptability of informality is unlikely to change without improvements in the formal institutions, requiring broader inclusive structural transformation.

Although the four countries have adopted a wide array of the direct and indirect policy measures available, they assert that there is a need to improve detection methods, the range of incentive measures and education and awareness raising. A range of best practice examples of such policy initiatives are here provided potentially transferable to these four countries.

A pre-requisite for success, however, is that the relevant institutions must be equipped with the mandate and resources needed to be able, individually and as the whole government, to meaningfully promote formalisation of the informal economy. Unless this exists, they will be unable to enforce compliance and incentivise adherence to the formal rules so as to facilitate the transition to formality.

Lessons for South-South Cooperation and Triangular Cooperation

There is no need for these four countries to each “reinvent the wheel” when developing their integrated strategic approach for the transition to formality and their road maps for accomplishing this. To achieve their individual and/or shared national capacity development objectives, this project and report has displayed the benefits of exchanging knowledge, skills, resources and technical know-how, through regional and interregional collective actions, including partnerships involving governments, regional organizations, civil society, academia and the private sector. The result has been a process of mutual learning that has enabled the countries to learn from each other about the challenges involved in making progress on each of the components of the strategic integrated approach and how these can be overcome, so as to enable faster progress on each component than would otherwise be the case.

1. INTRODUCTION

The starting point of this report is recognition that in many countries, a fragmented and uncoordinated approach too often exists across the multifarious government bodies responsible for facilitating the transition to formality and weak integration of social partners, as well as a limited range of policy measures used. The result is the lack of an integrated strategic approach.

Here, an **integrated strategic approach** can be defined as where:

a national government facilitates the transition to formality using a whole government approach to achieve the inclusive structural transformation required, joins-up the fields of labour, tax and social security law, involves social partners, and uses the full range of *direct* and *indirect* policy measures available to enhance the power of, and trust in, authorities respectively (Lapeyre and Williams, 2020).

Breaking this integrated strategic approach down, there are three major components:

- Shifting the objective from “reducing the informal economy” to “formalizing the informal economy”.
- Developing a whole government coordinated approach, comprised of four sub-components:
 - Cross-government coordinated strategy;
 - Coordinating operations across government;
 - Cross-government coordination on data mining, matching and sharing, and
 - Improving the involvement of social partners.
- Implementing the full range of direct and indirect tools, namely:
 - Implementing more effective sanctions;
 - Improving the risk of detection;
 - Improving the ease and benefits of engaging in the formal economy;
 - Implementing education and awareness raising campaigns, and
 - Modernising enforcement authorities

This report sets out a road map for Azerbaijan (AZ), Kyrgyz Republic (KY), Tajikistan (TS) and Uzbekistan (UZ) to make progress towards an integrated strategic approach to facilitate the transition to formality. The baseline assessment of their current positions is based on a questionnaire survey of national government authorities and social partners conducted in July-September 2020. In total, 5 questionnaires were returned: 1 from Azerbaijan, 0 from Kyrgyz Republic, 1 from Tajikistan and 3 from Uzbekistan (see Table 1).

Table 1. Respondents to Questionnaire

	Ministries	Trade Unions	Employer Federations
Azerbaijan [AZ]	Ministry of Labour and Social Protection of the Population of the Azerbaijan Republic		
Kyrgyzstan [KY]			
Tajikistan [TS]	Ministry of Labour, Migration and Employment of Population of the Republic of Tajikistan		
Uzbekistan [UZ]	Ministry of Employment and Labour Relations of the Republic of Uzbekistan	Federation of Trade Unions of Uzbekistan	Confederation of Employers of the Republic of Uzbekistan

The intention in reporting their progress towards adopting an integrated strategic approach is to facilitate **South-South Cooperation** and **Triangular Cooperation (SSTC)**. **South-South**

Cooperation here refers to the process whereby two or more developing countries pursue their individual and/or shared national capacity development objectives through exchanges of knowledge, skills, resources and technical know-how, and through regional and interregional collective actions, including partnerships involving governments, regional organizations, civil society, academia and the private sector, for their individual and/or mutual benefit within and across regions. South-South and Triangular Cooperation aims to promote self-sufficiency and strengthen ties among development partners whose characteristics, challenges and areas of opportunity are similar. South-South cooperation is not a substitute for, but rather a complement to, North-South cooperation.¹ **Triangular cooperation (TC)** here refers to South-South cooperation supported by a “Northern” partner. TC can often involve both a financial contribution from a partner in the North and technical expertise provided by a partner in the South, in support of another developing country. The idea is to bring together the resources and expertise of the parties in activities that follow the principles of horizontality that govern South-South Cooperation. It must therefore be driven by the developing countries involved and in accordance with their national priorities.

South-South and Triangular Cooperation can also include the strengths of international and regional organizations, bilateral agencies, academic institutions, national institutions and other networks. ILO constituents and partners have shown their support for South-South and triangular cooperation and have followed the principles of solidarity and non-conditionality, thus promoting cooperation among developing countries. This partnership between equals is fundamental to the integration of the Decent Work Agenda.

To facilitate such mutual learning, in the next section, a brief overview of the extent and nature of the informal economy in the four countries is provided. This is then followed in section 3 by their progress on implementing the strategic objective of formalizing the informal economy and what additional progress is required, followed by an evaluation of their progress on developing a whole-of-government coordinated approach in section 4 examining coordinating strategy, operations, data mining, matching and analysis along with improving social partner involvement in turn. Section 5 then introduces the full range of policy measures available, and discusses in turn implementing more effective sanctions, improving the risk of detection, improving the ease and benefits of engaging in declared work, improving education and awareness raising and the greater modernisation of enforcement authorities. Section 6 then draws conclusions and recommendations for the four countries.

To define the informal economy, the ILO (2015a: 6) Recommendation 204 states that the informal economy (a) 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 (b) does not cover illicit activities, in particular the provision of services or the production, sale, possession or use of goods forbidden by law, including the illicit production and trafficking of drugs, the illicit manufacturing of and trafficking in firearms, trafficking in persons, and money laundering, as defined in the relevant international treaties.

Employees are therefore considered to have informal jobs if their employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (advanced notice of dismissal, severance pay, paid annual or sick leave, etc.). The underpinning reasons may be the non-declaration of the jobs or the employees; casual jobs or jobs of a short duration; jobs with hours of work or wages below a

¹ South-South Cooperation is based on the positive effects of proximity, whether cultural, economic, political or social, between the countries that practice it. Similar levels of development, challenges, and experiences make good practices from one country highly adaptable to another in the South. Sharing and adapting evidence-based good practices is a cost-effective means of addressing development challenges.

specified threshold (e.g. for social security contributions); or lack of application of law and regulation in practice.

Employers and own-account workers are considered informal when their economic units belong to the informal sector. The informal sector is a subset of household unincorporated enterprises (not constituted as separate legal entities independently of their owners)² that produce for sale in the market, even if partly, and that do not have a complete set of accounts and/or are not registered under national legislation. Finally, all contributing family members are considered as informally employed. Countries use different operational criteria among those mentioned above to measure informal employment according to national context and circumstances.

As such, the only difference between informal and formal work in this report is that the workers and economic units are – in law or in practice – not covered or insufficiently covered by formal arrangements. If other differences exist, it is not the informal economy. For example, if the goods and services provided are illegal, it is part of the wider criminal economy.

2. THE INFORMAL ECONOMY IN THE FOUR COUNTRIES

Some 60% of the global workforce have their main employment in the informal economy (ILO, 2018c). Although modernisation theories in the 1950s and 1960s predicted a universal process of convergence of countries towards formal jobs in a growing modern sector, the informal economy has shown, over the decades, a remarkable resilience and vitality. More than two billion workers today have their main employment in the informal economy. While some of these informal workers have reasonable livelihoods and incomes, most face a high level of vulnerability to basic risks and a wide range of decent work deficits, as they are not covered by a legal and regulatory framework and are excluded from social protection schemes. As a result, the informal economy is a major challenge for the rights of workers, gender equality and for inclusive development. It also has a negative impact on: i) the development of sustainable enterprises (i.e. on productivity, technological change and fair competition), ii) the environment, iii) public revenues and iv) governments' scope for action (ILO, 2015).

2.1 Magnitude of the informal economy

Given that the informal economy is hidden from view, all measurements of its size are estimates based on various approximation methods.

One such estimate is provided by the World Bank Enterprise Survey, which is a survey of a representative sample of formal businesses with five or more employees. As Table 2 reveals, 97.1% of these enterprises were registered when they started operations in Azerbaijan (AZ), 98% in the Kyrgyz Republic (KY), 86.7% in Tajikistan (TS) and 99.2% in Uzbekistan (UZ). This is similar to Europe and Central Asia, but far better than the global figure of 88.3%. Moreover, those starting-up unregistered did not remain unregistered for long (0.1-0.4 years). However, this survey only interviews formal enterprises with five or more employees. There may be many firms that started-up unregistered and remain unregistered. Tentative evidence that this might be the case is that 29.9% of surveyed formal enterprises in AZ assert that they compete against unregistered or informal firms, 51.4% in KY, 11.8% in TS and 21.5% in UZ. Moreover, 21.7% (1 in 5 formal enterprises) identify the practices of competitors in the informal sector as a major constraint in AZ, 39.0% in KY, 13.7% in TS and 11.5% in UZ. Although these percentages are mostly lower than in the Europe and Central Asia region in general, as well as lower than the global

² ILO, Resolution concerning the measurement of employment in the informal sector, Fifteenth International Conference of Labour Statisticians (ICLS), Geneva, 1993.

figures, they nevertheless reveal that a significant minority of formal enterprises compete against, and are constrained by, the operations of unregistered or informal enterprises.

Table 2. Prevalence and impacts of informal enterprises

Indicator	AZ 2019	KY 2019	TS 2019	UZ 2019	Europe and Central Asia	All Countries Globally
% of firms formally registered when they started operations in the country	97.1	98	86.7	99.2	96.8	88.3
Number of years operated without formal registration	0.1	0.1	0.4	0	0.2	0.7
% of firms competing against unregistered or informal firms	29.9	51.4	11.8	21.5	33.9	52.4
% of firms identifying practices of competitors in the informal sector as a major constraint	21.7	39	13.7	11.5	23.5	28.7

Source: World Bank Enterprise Surveys 2019

2.2 Nature of the informal economy

Starting with the sectors in which the informal economy is concentrated, the WBES reveals that starting-up unregistered is slightly more common among manufacturing than service sector enterprises in all four countries (see Table 3). However, when the service sector is broken down into its component parts, retail sector businesses less commonly start-up unregistered than other services.

Across the four countries, there are no uniform trends in whether manufacturing business are less likely to state that they compete against unregistered or informal firms than service sector businesses, and neither are there any common trends across the countries in terms of whether manufacturing firms are more likely to state that the practices of competitors in the informal sector are a major constraint than service sector businesses.

Table 3. Prevalence and impacts of the informal economy: by sector

Indicator	AZ 2019	KY 2019	TS 2019	UZ 2019	Europe and Central Asia	All Countries Globally
% of firms formally registered when they started operations in the country						
All Manufacturing	100.0	97.6	80.6	96.6	96.3	86.8
All Services	96.5	98.2	90.7	99.0	97.1	88.8
Retail	97.6	99.0	88.3	97.4		
Other services	96.0	97.8	91.5	99.4		
Number of years operated without formal registration						
All Manufacturing	0.0	0.2	0.4	0.0	0.3	0.9
All Services	0.1	0.2	0.4	0.0	0.1	0.6
Retail	0.0	0.1	0.2	0.0		
Other services	0.1	0.1	0.4	0.0		
% of firms competing against unregistered or informal firms						
All Manufacturing	37.0	52.9	14.3	23.5	31.7	51.8
All Services	28.6	50.6	14.3	20.4	34.6	52.6
Retail	24.0	53.5	12.2	10.5		
Other services	30.6	48.9	9.3	23.0		
% of firms identifying practices of competitors in the informal sector as a major constraint						
All Manufacturing	25.6	34.8	10.0	14.9	21.9	28.5
All Services	21.0	41.4	16.2	9.6	24.2	28.7
Retail	14.9	39	16.9	7.5		
Other services	23.6	42.7	16.0	10.1		

Turning to how the prevalence and impacts of the informal sector varies by firm size, Table 4 reveals again no clear trends on whether smaller formal businesses were more likely to have started-up unregistered than larger firms, although currently large firms spent longer unregistered than those that are smaller. This tentatively suggests starting-up unregistered improves the future growth of businesses once they formalise and that the longer they remain unregistered, the greater is their future growth. This provides a clear rationale for encouraging businesses to undergo the transition to the formal economy since unregistered firms can grow into large formal businesses.

Interestingly, it is not smaller businesses alone who view themselves as competing against unregistered or informal firms. So too do medium and large-sized enterprises. It is similarly the case that all sizes of enterprise state that they identify the practices of competitors in the informal sector as a major constraint.

Table 4. Prevalence and impacts of the informal economy: by firm size

Indicator	AZ 2019	KY 2019	TS 2019	UZ 2019	Europe and Central Asia	All Countries Globally
% of firms formally registered when they started operations in the country						
Small (5-19)	96.2	97.2	87.2	99.1	96.6	86.8
Medium (20-99)	97.2	100	86	99.6	96.9	90.6
Large (100+)	100.0	95.7	84	100	97.7	93.0
Number of years operated without formal registration						
Small (5-19)	0.0	0.1	0.3	0	0.2	0.7
Medium (20-99)	0.2	0	0.3	0	0.2	0.6
Large (100+)	0.0	0.6	1.8	0.3	0.3	0.7
% of firms competing against unregistered or informal firms						
Small (5-19)	31.5	50.3	11.4	24.7	35.2	54.5
Medium (20-99)	31.2	54.8	10.0	13.3	32.6	50.0
Large (100+)	21.1	46.0	25.3	20.1	22.6	43.4
% of firms identifying practices of competitors in the informal sector as a major constraint						
Small (5-19)	28.1	37.8	15	13.8	24.3	30.1
Medium (20-99)	13.5	41.3	11.1	6.5	22.6	27.0
Large (100+)	14.2	37.4	13.7	4.9	15.5	22.2

Table 5 reveals whether the prevalence and impacts of the informal economy vary by whether firms export or not. This reveals that non-exporting formal businesses were more likely to have started-up unregistered than businesses that directly export 10% of more of their sales. It also reveals that non-exporting businesses are less likely to witness competition from unregistered or informal firms. However, it is exporting businesses which are more likely to state that the practices of competitors in the informal sector are a major constraint.

Table 5. Prevalence and impacts of the informal economy: by export propensity

Indicator	AZ 2019	KY 2019	TS 2019	UZ 2019	Europe and Central Asia	All Countries Globally
% of firms formally registered when they started operations in the country						
Direct exports are 10% or more of sales	100	98.3	91.9	100	97.1	91
Non-exporter	96.6	98	86.5	99.2	96.8	87.9
Number of years operated without formal registration						

Direct exports are 10% or more of sales	0	0.1	3.1	0	0.3	0.7
Non-exporter	0.1	0.1	0.3	0	0.1	0.7
% of firms competing against unregistered or informal firms						
Direct exports are 10% or more of sales	24.4	51.8	14.1	45.6	30.6	46.3
Non-exporter	30.4	51.4	12.1	20.5	34.9	53.3
% of firms identifying practices of competitors in the informal sector as a major constraint						
Direct exports are 10% or more of sales	24.8	38.2	45.7	30.6	22.5	24.3
Non-exporter	20.8	39.1	13.1	10.6	24.0	29.2

It is important to note that this WBES survey only examines formal businesses with five or more employees. It is not therefore a representative sample of the whole business community and neither does it survey informal enterprises. To allow evidence-informed policy decisions to be taken, **a comprehensive survey of the prevalence and nature of the informal economy in the four countries** is a priority. Unless this is undertaken, it will not be known whether the policy measures are targeting the appropriate sectors and operators, and whether the major reasons for businesses and citizens engaging in informal work are being tackled.

3. FORMALISING THE INFORMAL ECONOMY AS A STRATEGIC OBJECTIVE

Until now, many governments have adopted the strategic objective of reducing the informal economy. To pursue this, labour inspectorates for example often set targets such as:

- how many inspections they will conduct;
- the proportion of all inspections that should identify the informal economy, and
- the level of fines that should be generated.

However, ILO Recommendation No. 204 emphasises the objective of formalising the informal economy (ILO, 2015). Recommendation No. 204 is constructed on the belief that an integrated strategy is required, which targets not only those working in the informal economy, but also the model of growth to ensure the development of decent work. As a result, it provides guidance to draw up integrated strategies with a view to achieving three objectives:

1. Facilitating the transition of workers and economic units from the informal to the formal economy, while respecting workers' fundamental rights and ensuring opportunities for income security, livelihoods and entrepreneurship;
2. Promoting the creation, preservation and sustainability of enterprises and decent jobs in the formal economy and the coherence of macroeconomic, employment, social protection and other social policies; and
3. Preventing the informalisation of formal economy jobs.

A further international instrument is the Sustainable Development Goals adopted by the United Nations General Assembly in September 2015, particularly Goal 8 on promoting "sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all". Target 8.3 to "promote development/oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalisation and growth of micro, small and medium sized enterprises, including through access to financial services" aims at promoting formalisation and formalisation is in particular a condition for progress on SDG Indicator 8.3.1: Proportion of informal employment in non-agriculture employment, by sex. The transition to formality also contributes to other SDGs such as Goal 1: End poverty in all its forms everywhere (all targets), Goal 5: Achieve gender equality and empower all women and girls (targets 5a, 5.4 and 5.5), Goal 10: Reduce inequality within and among countries (targets 10.2 and 10.4) and Goal 16: Promote peaceful and inclusive societies

for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels (target 16.3).

The report of the Global Commission on the Future of Work (2019) echoes this new priority of the development agenda when it states that the intention is “to facilitate the formalization of those in informal employment” (p.24). Similarly, the European Commission’s European Platform Tackling Undeclared Work advocates transforming undeclared work into declared work (European Commission, 2016; Williams, 2016, 2017).

A problem, however, is that labour inspection systems cannot pursue the formalizing the informal economy process as long they are limited in their mandate, powers and resources. In this regard, the 2019 CEACR General Observations on Labour Inspection Convention, 1947 (No. 81) Labour Inspection (Agriculture) Convention, 1969 (No. 129), published in 2020 underline that a modernisation of labour inspectorates is required to reflect this formalisation of the informal economy process and that this is in keeping with the previous Conventions.³

A key reason for seeking to formalise the informal economy is that two-thirds of all businesses globally start-up or operate partially or fully in the informal economy (Autio and Fu, 2015) and at least half of all enterprises globally operate unregistered (Acs *et al.*, 2013). Formalising the informal economy therefore seeks to harness this entrepreneurship and enterprise culture by bringing it into the formal economy in order to facilitate economic development and growth (see Williams, 2017).

This objective of formalising the informal economy, rather than eradicating it, has significant implications for the targets of governments and enforcement authorities. For example, if the strategic objective of labour inspectorates will be to formalise the informal economy, a Key Performance Indicator (KPI) will be the number of labour relations that are formalised each year, rather than the number of cases of informal work detected and punished. Indeed, if governments are successful at formalising the informal economy, then a zero identification of informal work during inspections will be the measure of success, not a high level of detections.

Table 6 reports whether this strategic objective has been adopted in the four countries. Whilst AZ recognises that the goal is to formalise the informal economy and sets targets that measure the magnitude of the transition from informality to formality, in TS and UZ, the targets remains to reduce the informal economy.

Table 6. Are targets set for tackling the informal economy in your enforcement authority?

	Organisation	Targets	What are the current targets/goals/KPIs?
TS	Ministry of Labour, Migration and Employment of Population	Yes	<ul style="list-style-type: none"> ▪ Reduce informal employment
UZ	Ministry of Employment and Labour Relations	Yes	<ul style="list-style-type: none"> ▪ Reduction in the share of the informal sector (formulation of proposals towards legalization of the informal sector)
AZ	Ministry of Labour and Social Protection of Population	Yes	<ul style="list-style-type: none"> ▪ A number of labour contracts signed ▪ A number of insured persons registered in the State Social Protection Fund ▪ Revenues originating from social security contributions in the State Social Protection Fund

To achieve these targets, AZ has sanctions and/or incentives at all levels of their organisation and for all groups of employees. UZ does not.

³ https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---normes/documents/publication/wcms_752439.pdf

To make progress on achieving this strategic objective and the associated targets:

- AZ has already fully adopted this strategic objective and the goal now is to implement the national strategy to achieve this.
- TS reports that the decision has been taken to implement this.
- UZ reports that discussion is taking place. For further progress to be made, this strategic objective could be placed in the section on the informal economy in the National Employment Strategy due to be adopted by the end of 2020, and also included as part of the national social protection strategy to be developed by April 2021 where some aspects of access to social protection and extension of social insurance to workers in informal economy will be addressed, and the government is intending to re-examine its social insurance system.

To display how an enforcement authority can change its strategic objective from reducing the informal economy to formalising the informal economy, Box 1 describes the process used by the State Labour Inspectorate in Latvia.

Box 1. Adopting the strategic objective of formalising the informal economy in the State Labour Inspectorate of Latvia

The Latvian State Labour Inspectorate (SLI), recognising the need to switch from detecting and punishing non-compliance to pursuing the transition to formality, developed a new strategy for 2018-2019 and changed its strategic objectives. This has some key wider lessons for labour inspectorates across the world.

The SLI recognised that its traditional KPIs of (i) the number of inspections undertaken and (ii) the proportion identifying cases of informality, was no longer relevant if their objective is to formalise the informal economy. A high number of detected cases in inspections is more a measure of the failure of the SLI to formalise the informal economy.

Previously, therefore, their Key Performance Indicators (KPIs) were the number of inspections conducted and the effectiveness indicator of the number of instances of informal labour identified (set at 25% of inspections).

In the new strategy, the SLI adopted new pilot KPIs. These included:

- the number of legitimised labour relations (using 2018 as a base and then seeking a 10% increase in 2019), and
- the number of advice/support consultations provided (with enterprises selected in two sectors where the informal economy is prevalent for piloting).

They found that in 76% of the cases where informal work was encountered during an inspection, the persons received a formal labour agreement or were registered with the State Revenue Service.

Further information: <https://ec.europa.eu/social/BlobServlet?docId=21461&langId=en>

The precise strategic objectives and targets adopted in AZ, KY, TS and UZ need to be tailored to reflect national contexts. However, some common processes should be followed when setting targets (see Box 2).

Box 2. Common processes to follow when setting targets

When setting targets for tackling the informal economy, it is important for enforcement authorities to use a process for setting targets that is:

- (i) not too complicated and time consuming;
- (ii) informed by a systematic analysis of the informal economy, and
- (iii) involves regional/local units in a way that allows them to mutually agree the extent to which they can contribute to achieving the targets, given local circumstances.

Additional targets can be also developed at a local level to address local issues, although mechanisms are required to avoid too many additional local targets that can lead to confusion and a lack of focus.

Enforcement authorities can then translate these targets into key performance indicators (KPIs). These KPIs should be **S**pecific, **M**easurable in a generally accepted manner, **A**chievable, **R**ealistic and **T**ime bound (SMART). For example, a SMART KPI might be

“to increase the number of formalised labour relations resulting from inspections by 5% per annum”.

These KPIs need to be communicated to all relevant levels of the organisation (regional/local offices, teams/employees). The KPIs are then measured at all relevant levels of the organisation and systematically compared with the predefined targets. KPIs can be then adjusted for regional and/or local factors. Responsibilities for the targets must be clearly defined to ensure accountability.

It is important for an enforcement authority to share information on whether it achieves its KPIs (i.e., its performance) in an easily understood format and at agreed time intervals. This can use different communication channels for different audiences. For enforcement authority staff, face-to-face information can be given at an individual or team level on a regular basis (e.g., monthly). Meanwhile, for external stakeholders (e.g., businesses, workers, citizens, trade unions, employer federations), a short annual report could be used or an infographic on the Ministry website.

This reporting of achievements needs to be followed up with top-down and bottom-up dialogues about performance. All relevant staff can be involved, and the main characteristics of these performance dialogues will be: respect and fairness; open dialogue; empowerment; reward, and recognition.

Decisions taken that arise from these dialogues are directly and fully implemented, monitored, assessed and (if necessary) revised. Responsibilities for all these activities are again clearly defined to ensure accountability.

4. DEVELOPING A WHOLE GOVERNMENT COORDINATED APPROACH

Developing a whole government coordinated approach is comprised of four sub-components:

- cross-government coordinated strategy;
- coordinating operations across government;
- cross-government coordination on data mining, matching and sharing, and
- improving the involvement of social partners.

Here, a road map for each component is provided for AZ, KY, TS and UZ to follow.

4.1 Cross-government coordinated strategy

In many countries, different government departments are responsible for different aspects of the informal economy (e.g., tax authorities for tax compliance, labour inspectorates for labour law and social insurance bodies for social security compliance). Often these departments work in “silos” with separate strategies and targets. The result is a fragmented and uncoordinated strategic approach towards the informal economy and no common and/or shared strategy, strategic objectives or targets. Hence, a more integrated strategic approach is required. A way of coordinating strategy is to develop one overall national body responsible for coordinating strategy towards the informal economy.

Different countries are at various stages in developing integrated strategy. At one end of the spectrum, there are countries with a high-level coordinating body that is responsible for developing an overall strategy towards the informal economy. This high-level government body has the competence to address the full range of initiatives needed to formalize the informal economy and will involve high-level social partners and other stakeholders. In other countries, there is no coordinating body and no overall strategy. Instead, Ministries and enforcement authorities have their own individual strategies and operate autonomously in “silos”.

It is similarly the case with targets that countries are at different stages. At the top of the spectrum are fully joined-up forms of governance with one central body and one common set of targets across the whole of government. Moving down the spectrum, there is cross-government cooperation with a shared strategy and some common targets. Following this, there is then cross-government cooperation where the departments have separate strategies but share some common targets. Finally, and at the bottom of the spectrum, are completely fragmented forms of government where departments operate in “silos” and have separate strategies and no shared targets.⁴

In Azerbaijan, for instance, there is a special Commission on Regulation and Coordination of Labour Relations chaired by the Deputy Prime Minister. The Commission is represented by the heads of relevant public authorities including representatives of Trade Unions and Employers Unions Confederations. One of the main objectives of the Commission is to coordinate activities of relevant public institutions in tackling informal employment. Nevertheless, the Ministries involved in supporting the transition from the informal to formal economy largely work separately, with each responsible for their own segment of the informal economy, namely:

- The Ministry of Labour and Social Protection of Population for labour law violations and social insurance evasion; and
- The Ministry of Taxes for tax non-compliance.

AZ therefore has a single body, although different departments are responsible for each aspect. Meanwhile, TS has a single body responsible for the national strategy and one set of national targets common across government. In UZ, each department is responsible for each aspect, with some shared targets across government departments in both AZ and UZ.

In AZ, therefore, the next step is to consider where further horizontal cross-cutting shared targets could be used to promote further joined-up cooperation between departments, and where this is so, there might be common/joint monitoring and evaluation and reporting to further promote coordination. Similar next steps could be pursued in TS. In UZ, meanwhile, a cross-government coordinating body is required which will produce a national strategy. This strategic body should involve the social partners.

⁴ This table only considers joined-up government, not joined-up “governance”, which includes tripartite social dialogue.

Box 3 provides hyperlinks to some good practice examples of cross-government joined-up bodies and the development of national strategies (e.g., Greece, Latvia, Lithuania, Finland) and also an example of where there is experimentation with cross-cutting shared objectives (e.g., Finland).

Box 3: Good practice examples of cross-government joined-up strategy

- [Shadow Economy Combatting Board, Latvia](#)
- [The Central Coordination Group \(CCG\), Lithuania](#)
- [Government Resolution on a Strategy and Action Plan for tackling the Grey Economy and Economic Crime for 2020 – 2023, Finland](#)
- [Road map for fighting undeclared work, Greece](#)

4.2 Coordinating operations

It is traditionally the case that different enforcement bodies conduct separate operations in an uncoordinated manner. A more business-friendly and effective approach would be to engage in greater coordination, such as joint and concerted inspections:

- **Concerted inspections** are inspections undertaken by two or more competent authorities simultaneously and related to the same case, but perhaps in different locations.
- **Joint inspections** of a workplace are when an inspection is conducted concurrently by several enforcement authorities in the same workplace.

Rather than receive multiple visits from different arms of government (e.g., labour inspectors, health and safety inspectors, tax inspectors), a joined-up approach can be perceived as a business-friendly approach that reduces the perceived burden of government regulation.

The problem is that despite many economies pursuing joined-up operations bringing together various authorities, these joint operations remain a small minority of all inspections. To facilitate greater cooperation on operations, each enforcement authority could set a target of achieving a share of all its inspections as joint or concerted inspections. It could also be agreed how the successes of the joint inspections will be distributed (i.e., which enforcement authority claims the detections and fines), which has previously been a contentious issue in some economies.

In AZ, joint operations with other national organisations is a clearly defined strategic objective, whilst this is being discussed in TS and UZ. In AZ, moreover, a target has been set for the proportion of all operations which are joint or concerted operations with other national organisations, whilst a decision has been taken to do this in TS and it is being discussed in UZ.

Box 4 highlights how in Serbia a coordinating body has been established at government level to develop an action plan for joined-up inspections.

Box 4. Coordinated inspections in Serbia

In Serbia, within the Coordination Body which oversees strategy, there exists the **Working Committee for Suppression of Undeclared Work (WCSUW)**, established in November 2017. The members of WCSUW are mainly inspectorates and the WCSUW adopts an annual action plan for coordinated inspections.

In the UK, meanwhile, joint teams were established inhabiting the same offices, although the staff in these joint teams still belonged to their departments and the staff had separate targets which

belonged to their departments. To resolve this, it is useful for joint teams to have common shared targets (Williams, 2014).

Joining-up operations, nevertheless, does not only relate to inspections and neither does it have to be confined solely to collaboration between government departments. Joining-up operations can include preventative activities such as joint education and awareness raising campaigns and joining-up operations can also involve working with social partners.

For example, in Estonia since 2005, there has been a social partner cooperation agreement (*Sotsiaalpartnerite koostööleping*) to undertake joint activities signed by 10 organizations including the main trade union which represents 19 trade union organizations and the main employer organization which represents 23 sector-based employer organizations. The joint activities have been mainly concerned with increasing public awareness of the negative consequences of envelope wages (Pau, 2005a,b; Vare 2006).

Of course, joining-up operations is only relevant in countries in which several departments are responsible for different aspects of the informal economy. In countries with only one body responsible for tackling the informal economy (e.g., Germany), joining-up operations between different government departments is not relevant. Instead, the focus in Germany is upon joining-up operations with social partners, which they pursue on a sectoral level through sectoral alliances.

Box 5 highlights some examples of good practice in joining-up operations.

Box 5: Good practice examples of joining-up operations

- [Joint operation group between public agencies, Norway.](#)
- [Action Alliances against undeclared work and illegal employment between the Federal Ministry of Finance and the social partners, Germany](#)
- [Specialised team of labour inspectors to combat undeclared work in the media sector in Portugal](#)
- [Multiagency initiative on tackling social dumping – the role of letterbox companies, Denmark](#)
- [Inter-agency inspections to tackle undeclared work, Czechia](#)
- [Joint control actions between the Ministry of Labour and the Ministry of Transport in the transport sector, France](#)

4.3 Cooperation on data mining, sharing and analysis

Besides coordinating strategy and operations across government, it is also becoming increasingly important to cooperate on data mining, sharing and analysis. These terms can be defined as follows:

- **Data mining:** a set of automated techniques used to extract buried or previously unknown pieces of information from large databases (De Wispelaere and Pacolet, 2017). Through data mining, correlations or patterns among dozens of fields in large relational databases can be identified. This process allows potentially fraudulent claims and payments to be better identified.
- **Data sharing:** the process of making data available to other users (De Wispelaere and Pacolet, 2017). Sharing of data both between enforcement authorities is important for tackling informal work. Legislative and technical constraints often prevent data sharing (Williams and Puts, 2018).

- **Data analysis:** the large-scale analysis of records or files collected or held for different purposes, with a view to identifying matters of interest (De Wispelaere and Pacolet, 2017). This process allows potentially fraudulent claims and payments to be better identified.

Box 6 outlines some key questions that can be used by enforcement authorities to assess their progress on moving towards a cross-government coordinated approach on data mining, sharing and analysis.

Box 6: Key questions on data mining, sharing and analysis

- Does your enforcement authority have databases available to detect potential instances of informal work? Are these databases solely case management records from inspections/audits, or do you have other databases (e.g., employment registers, business registers)?
- Is the data available to all relevant levels in your organisation, including inspectors?
- Is there real-time/up-to-date data? Is the data updated in a cost-effective manner (e.g., the employer is responsible for updating the employment register when they register or deregister an employee)?
- How are databases used in your enforcement authority?
 - To keep a record of inspections (and their outcomes)?
 - To identify targets for inspections?
 - To identify targets for notification letters?
 - To identify targets for education and awareness raising campaigns?
- Do you have access to data from other government departments? Do you have bilateral or multilateral agreements for sharing data? Do you have access to all the data you need to identify informal work?
- If you have access, is this in electronic form? If yes, are their databases inter-operable with your databases?

A first objective of all enforcement authorities, if they are to be effective, is to ensure that they have access to data on businesses and employment records to enable risky businesses to be identified. This identification of risky businesses is not only for the purpose of selecting workplace inspections but also for preventative actions such as selecting businesses and workers to whom notification letters and educational and awareness raising materials can be sent. This requires:

- (i) the existence of databases (e.g., employment registers) that can be mined for the purpose of identifying potential instances of undeclared work and
- (ii) the development of a data mining IT system that collects and stores comprehensive and high-quality up-to-date individual-level data about customers. The data needs to be made available to all relevant levels of the organisation, including inspectors.

The next step is to ensure that it has inter-operability with the databases of other enforcement authorities and Ministries so that data can be easily shared electronically. This requires a cross-government information technology infrastructure that actively supports the implementation of standardised processes. The design and the architecture of the information technology infrastructure will need to reflect the operational needs of the enforcement bodies and be capable of being updated without prohibitively high effort and cost. This can be achieved, for example, by making it mandatory for employers to register and de-register electronically their

employees by their first day of starting work and the end of their last day of employment. Responsibilities for all these activities can be clearly defined to ensure accountability.

The third step relates to data analysis. Some economies are closer to a fully coordinated cross-government approach to data sharing and analysis, with a central unit collating the various datasets and providing a common data analysis function to all relevant authorities. Other economies might have fully interoperable datasets and data sharing across enforcement authorities, whilst yet other economies might have lower levels of cooperation on data sharing and analysis. Some economies might have very limited datasets not capable of detecting instances of informal work.

In AZ there is full electronic access to all relevant data in other authorities' databases, whilst in UZ there is access to some data of other enforcement authorities and in TS the enforcement authority receives printouts of data from other enforcement authorities.

On data analysis, no country has one central unit that holds the data and does the analysis for all enforcement authorities. Instead, the TS enforcement authority can directly analyse some relevant databases from other agencies whilst in AZ and UZ the enforcement authority receives data from other enforcement authorities that can be imported into their databases.

For progress on data mining, sharing and analysis, the next step in AZ is firstly, to establish risk assessment system in order to improve detection and prevention by integrating the needed data of relevant public authorities and secondly, to consider whether there could be one central unit that does the analysis for all enforcement authorities. In UZ, there is a need firstly, to ensure that the labour inspectorate has access to relevant data from all other enforcement authorities and secondly, to consider whether there could be one central unit that does the analysis for all enforcement authorities. In the labour inspectorate in TS, there is a need firstly, to develop a database in-house that collects micro-level data which can be used to detect informality, secondly, to ensure that this is inter-operable with databases in other government departments so that data can be exchanged electronically, and thirdly, to consider whether there could be one central unit that does the analysis for all enforcement authorities.

Box 7 provides hyperlinks to good practices on cross-government cooperation on data mining, sharing and analysis.

Box 7: Good practices on cross-government cooperation on data mining, sharing and analysis

- [Grey Economy Information Unit \(GEIU\), Finland](#)
- [National Anti-Fraud Office, Spain](#)
- [Estonian Register of Employment, Estonia](#)
- [REVISAL digital register of employees, Romania](#)
- [The Incomes Register, Finland](#)
- [MiningWatch: using data analytics for targeted inspections of social security fraud, Belgium](#)
- [Intelligence and analysis methods, Norway](#)

4.4 Improving social partner involvement

Any government and its enforcement authorities need to build partnerships with social partners, defined as representatives of management and labour (employers' organisations and trade

unions). This can be a clearly defined strategic objective of enforcement authorities with targets set regarding involvement and outcomes.

To improve social partner involvement, the first step required by any enforcement authority is:

- (i) to identify the social partners (e.g., trade unions, employer federations);
- (ii) to identify for each stakeholder their role and relevance for the various services of the enforcement authority (e.g., referrals, exchange of information, detection, prevention, joint inspections), and
- (iii) the level (economy, regional, local) at which each of these relationships is sought.

Box 8 provides a practical guide to how an enforcement authority can do this not only in relation to social partners but also other state authorities.

Box 8: A practical guide to help enforcement authorities identify and structure the partnerships required to facilitate the transition to formality

When pursuing a more joined-up strategy to facilitate the transition to formality, the first step required by any institution involved is to identify its relevant stakeholders in this regard (e.g., other Ministries, trade unions, employer federations) and to then structure/classify them into functional groups. For each relevant stakeholder (other government departments, trade unions, employer federations, agencies from other economies, etc.), the type or the nature of the relationship can be defined, the relationship with the stakeholder on different levels (economy, regional, local) can be considered, and their relevance for the various services of the institution (given its objectives and targets in relation to facilitating the transition to formality) at these levels can be assessed.

Key questions to ask to identify and structure the partnerships required:

1. Which stakeholders are important for your organisation?
2. Are some stakeholders more relevant than others?
3. How are they identified?
4. Do you categorise your stakeholders into different functional groups? If so, how?
5. Are different stakeholders relevant to different functions and specific levels within the organisation? If so, which ones to which aspects and which levels? (e.g., can you list various “bilateral and multilateral agreements” that currently exist and are required, including their focus and at what level?)
6. What should be the outputs of these partnerships (e.g., referrals, exchange of information, detection, prevention, joint inspections)?

Answering these questions will enable an institution involved in tackling the informal economy to identify and structure the partnerships required with other institutions.

Having identified the relevant social partners and their roles, the second step is to build these partnerships with the social partners. This requires:

- (i) staff to be allocated with the objective of partnership building at the various levels of the enforcement authority;
- (ii) the specific activities and contributions expected from these employees who have the objective of partnership building to be specified; and
- (iii) the challenges to partnership building at various levels addressed and solutions sought.

Box 9 provides a practical guide to how government institutions (and social partners) can engage in partnership building.

Box 9: Partnership building

Any government body or social partner involved in facilitating the transition to formality needs to build partnerships with relevant stakeholders (e.g., Ministries, social partners such as employer federations and employee representative organisations, sectoral partners; agencies from other countries). This can be a clearly defined objective of the organisation and carried out at all levels of the organisation with the aim of setting up partnership programmes and actions that ensure innovative collaborative policy implementation regarding the targets of the organisation. In doing so, it is recognised that a prerequisite for partnerships is mutual willingness for co-operation.

Key questions to ask when building partnerships:

1. For whom is partnership building an objective and at what level of the organisation?
2. What kind of specific activities and contributions are expected from employees who have the objective of building partnerships?
3. What is done within the organisation to foster a climate of external partnership building, both at a country and international level?
4. Are there shared targets and Key Performance Indicators (KPIs) with your partners (or are their targets and KPIs separate and different to your own)? If so, what are the commonalities?
5. What challenges are witnessed with partnership building at various levels and on different initiatives (e.g., conflicting targets; disagreements over who claims successes from joint operations)? How can these be overcome?

The third step is to manage these partnerships by:

- (i) involving them in all relevant phases of the strategic management and service provision process;
- (ii) developing transparent agreements with clearly defined responsibilities;
- (iii) systematically monitoring and evaluating the outcomes of the partnership arrangements, and
- (iv) sharing the monitoring/evaluation results with the partners.

Box 10 provides a practical guide to the management of partnerships.

Box 10: Management of partnerships

A government authority or social partner manages their partnerships by: (i) a thorough and balanced involvement of them in all relevant phases of the strategic management and service provision process; (ii) by developing transparent agreements for each partner's responsibilities; (iii) by systematically monitoring and evaluating the implementation and the results of partnerships, and (iv) by sharing the monitoring/evaluation results with all partners.

Key questions to ask when managing partnerships:

1. How are partners involved in different phases of the strategic management and service provision processes?
2. Do you have transparent partnership agreements with clearly defined responsibilities?

3. Are they systematically monitored and if so, how?
4. Are the implementation and the results of the partnerships evaluated? If so, what evidence is there of the outcomes of such partnership arrangements?
5. Does your organisation share the monitoring/evaluation results with the partners (e.g., other Ministries)?

In AZ, all these steps have been taken. It would therefore be useful for AZ to share with the other countries the challenges they faced and how they overcame these challenges.

In TS, discussion is taking place in the ML about making partnership building with social partners and state authorities a strategic objective of the organisation, including building engagement at the national, regional, and local level, and collective bargaining on collective agreements that contain tools to resolve issues in the world of work and OSH procedures. There is now a need to move towards full tripartite agreement and consultation on: sector specific inspection targets; information exchange, and awareness raising, and to conduct periodic monitoring and evaluation of the results of partnership agreements, and sharing the results of monitoring/evaluation with the partners. There is also a need in the ML to assign specific responsibilities to employees, responsible for partnership relations, and supervise them. There is also a need to invite social partner participation in discussions and working groups; encourage them to provide technical assistance to enforcement agencies in the development of information systems, data mining and risk assessment, website development, and working with social networks, and establish relevant contacts through the members of their organizations.

In UZ, based on proposals from social partners, and with reference to foreign experience, the Cabinet of Ministers of the Republic of Uzbekistan adopted a Decree No. 553 of July 3, 2019 “On Trilateral Commissions on Social and Labour Issues”. In accordance with the “Regulations on Tripartite Commissions on Social and Labour Issues” established by this decree, tripartite commissions on social and labour issues are permanent bodies of social dialogue in the world of work. Commissions are established at the republican level, as well as at the level of the Republic of Karakalpakstan, the regions, and the city of Tashkent. The decision has been taken by the ML to implement the decision to make partnership building with social partners and state authorities a strategic objective of the organisation, including by enhancing the capacity of the Republican Tripartite Commission on Social and Labour Issues. Full tri-partite agreement and consultation on: sector specific inspection targets; information exchange, & awareness raising is now required, as well as the development of transparent agreements, programmes, and contracts with clearly delineated responsibilities, and monitoring the implementation of agreements, programmes, and contracts.

Social partners, meanwhile, can consider the same above steps for their own partnership building, namely:

- the identification of the state authorities they wish to build partnerships with and for what purpose;
- how they will build these partnerships, and
- the management of these partnerships.

In all three countries responding, the view was that nearly all the following initiatives are being undertaken by social partners:

- Raising awareness and changing behaviours through campaigns, awards, dedicated websites, etc at sectoral and company level;
- Referring cases of informal work to enforcement and judicial authorities;

- Negotiating collective agreements which contain instruments to tackle the informal economy, including in supply or subcontracting chains;
- Supporting workers by protecting them when in informal work situations, and aiding transition into a formal work situation;
- Supporting employers by protecting them from unfair informal or unregistered competitors;
- Raising awareness of situations of informal work and making calls for action;
- Cooperating across borders to tackle the informal economy;
- Performing research to identify the key reasons, manifestations, specifics and impact of the informal economy;
- Providing policy and legal advice on procedural and legal changes needed;
- Providing policy advice on where enforcement authorities should focus their efforts (e.g., the sectors, occupations, types of informal work);
- Taking part in consultations and working groups;
- Providing technical support to enforcement authorities in developing information tools, data mining and risk assessment, building websites and social media platforms;
- Establishing relevant contacts through their networks of members;
- Serving as access points to corporate databases, and
- Conducting workplace inspections (e.g., checking ID cards).

Given this view that social partners are already engaging in nearly all these policy measures, it is perhaps the case that the next step is for social partners and enforcement authorities to organised meetings where each of these initiatives can be taken in turn and they can discuss what might be done to improve cooperation on each of these initiatives so that the effectiveness of each initiative in formalising the informal economy can be improved.

Box 11 provides some good practice examples from other countries which might be transferable to AZ, KY, TS and UZ.

Box 11: Good practice examples of social partner involvement:

- [Action Alliances against undeclared work and illegal employment between the Federal Ministry of Finance and the social partners, Germany](#)
- [Social Partners and their key role in tackling undeclared work: 12 success stories](#)
- [Joint targeted inspections by the Greek Labour Inspectorate \(SEPE\) and the Athens Labour Union Organisation \(EKA\), Greece](#)

5. POLICY MEASURES FOR THE TRANSITION TO FORMALITY

5.1 Introduction

To facilitate the transition to formality, on the one hand, there are direct tools which ensure that benefits of operating in the formal economy outweigh the costs of working in the informal economy. These involve deterrence measures to increase the costs of non-compliance (“sticks”) and/or formalisation incentive measures to make formality more beneficial and easier (“carrots”). On the other hand, there are indirect tools. These shift away from using “sticks” and “carrots”, and instead focus on dealing with the formal institutional failings to repair the social contract between the state and its citizens in order to foster a high trust high commitment culture (see Figure 1).

Direct controls, therefore, seek to reduce the costs and increase the benefits of informality (OECD, 2008). Viewing the non-compliant as rational economic actors who engage in informality

when the pay-off is greater than the expected cost of detection and punishment, the objective is to change the cost/benefit ratio facing those participating or considering participation in the informal economy (e.g., Allingham and Sandmo, 1972; Hasseldine and Li, 1999; Richardson and Sawyer, 2001). This can be achieved in two ways:

- *Deterrence measures* detect and punish non-compliant behaviour. This is achieved by firstly, raising the perceived or actual likelihood of detection and/or secondly, increasing the penalties and sanctions for those caught. This approach thus seeks behaviour change by using “sticks” to punish non-compliant behaviour.
- *Formalisation incentive measures* seek to make it easier to undertake, and reward, compliant behaviour. To achieve this, one can use either:
 - Supply-side incentives to make it easier and/or more beneficial for businesses and workers to operate in the formal economy
 - Demand-side incentives targeting their customers with rewards for using formal goods and services.

The problem with using these direct tools is that those operating in the informal economy are not always rational economic actors purely calculating the costs and benefits. They can be also social actors who engage in the informal economy because there is lack of alignment between their own morality and the laws and regulations, such as due to a lack of trust in the state and what it is seeking to achieve.

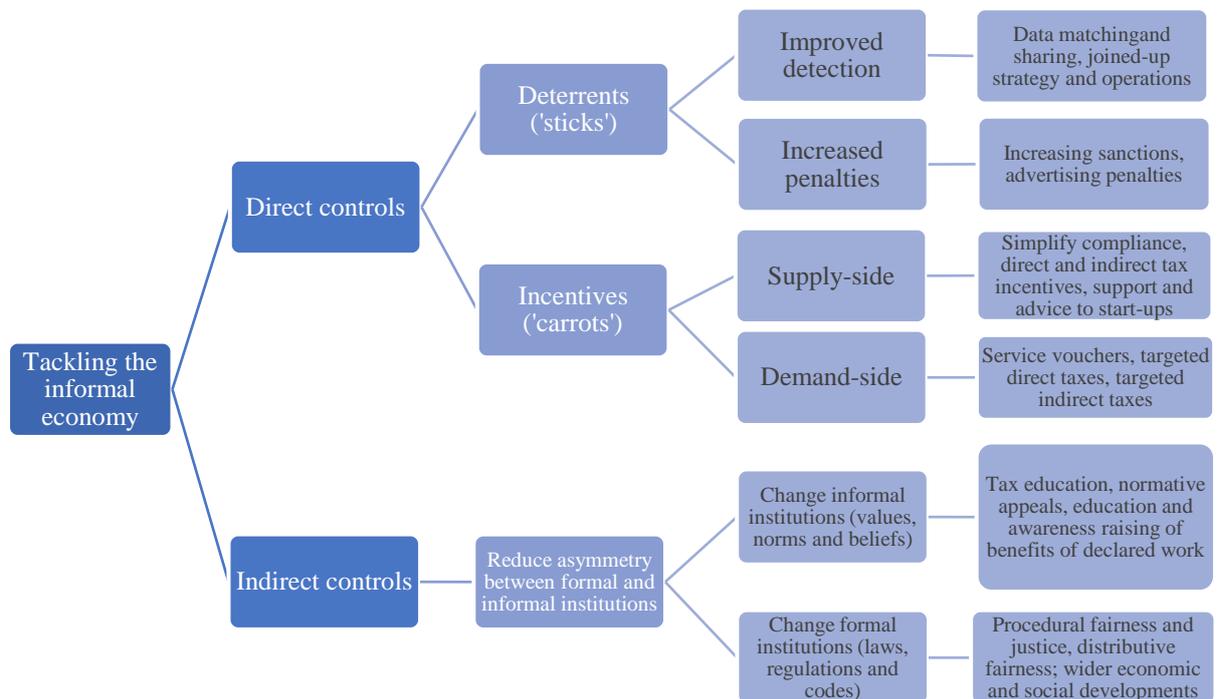


Figure 1. Policy approaches and measures for tackling the informal economy

Indirect controls, therefore, seek to deal with the formal institutional failings and repair the social contract between the state and its citizens so as to create a high trust high commitment culture (Alm et al., 1995; Torgler, 2003; Wenzel, 2002). The intention is to seek a voluntary

commitment to compliant behaviour rather than force citizens to comply using threats, harassment and/or incentives (Kirchler, 2007; Torgler, 2007, 2011). To align civic morality with state morality, one can either:

- *Change the informal institutions* – to change the norms, values and beliefs of citizens regarding the acceptability of informal work, so that these are in symmetry with the laws and regulations, one can use awareness raising campaigns and educational initiatives about the costs of informality and benefits of formality.
- *Change the formal institutions* – this is particularly important in societies in which there is a lack of trust in government, such as due to public sector corruption or in societies where citizens do not believe that they receive back from government what they expect. This can involve either:
 - Changes in the internal *processes* of the formal institutions to improve the perception amongst citizens that there is procedural and distributive fairness and justice, and/or
 - Change in the *products* of formal institutions by pursuing wider economic and social developments (e.g., increased social expenditure levels, more effective social transfers).

To facilitate the transition to formality, it is not an either/or choice between using either direct or indirect policy measures. Direct and indirect policy measures are not mutually exclusive. Both can be used. For example, governments may target key country-level macro-economic and social conditions that have a direct influence on the prevalence of the informal economy, change the organisational culture of government departments, such as tax offices and labour inspectorates, towards a more customer-oriented approach, and introduce public awareness raising campaigns on the benefits of formality, whilst simplifying regulatory compliance for business start-ups and introducing incentives for employers, workers and customers to operate in the formal economy (e.g. amnesties, tax deductions). For those failing to comply, sanctions along with improvements in the ability to detect those operating in the informal economy may be also used.

The debate, therefore, is not whether to use one set of tools. Instead, the key issue is which policy measures in each approach are most effective in what context, and what is the most effective way of combining and sequencing them to facilitate formalisation. Two alternative approaches exist for **combining these direct and indirect tools**:

- *Responsive regulation* - this envisages a regulatory pyramid, sequenced from the least intrusive indirect controls at the bottom and used first, to the most intrusive direct controls at the top. The idea is that an authority does not need in most cases to pursue the coercion option at the top of the pyramid to win compliance. Instead, it can start with the indirect tools at the bottom of the pyramid and if these fail to elicit behaviour change with some groups, then the level of intrusiveness escalates up the pyramid until it reaches the intervention that elicits the desired response (Braithwaite, 2002, 2009). The outcome is that policy measures are temporally sequenced. In the first instance, indirect controls are used to facilitate voluntary self-regulated compliance, followed by persuasion using incentives and only then punitive measures for those still failing to comply (Braithwaite, 2009; Job et al., 2007). The Australian government for example has adopted this 'responsive regulation' approach, as has the UK's Her Majesty's Revenue and Customs authority.
- *Full toolbox operationalisation model* - this argues that citizens abide by the law either because they fear detection and fines due to the power of authorities (**enforced compliance**) or because they feel a commitment to be honest because they have trust in

the authorities (**voluntary cooperation**). When there is effective enforced compliance as well as high voluntary cooperation (i.e., both power and trust), the informal economy is small. When there is ineffective enforced compliance and little voluntary cooperation, the informal economy is more extensive (Alm and Torgler, 2011; Alm et al., 2012; Kastlunger et al., 2013; Khurana and Diwan, 2014; Kirchler et al., 2008; Kogler et al., 2015; Muehlbacher et al., 2011a, b; Prinz et al., 2013; Williams, 2014a; Williams and Horodnic, 2017).

The emergent evidence-base is that the concurrent use of voluntary and enforced compliance is the most effective approach (Horodnic and Williams, 2020; Kogler *et al.*, 2013, 2015; Williams and Horodnic, 2017). This recognition that both effective enforced compliance and high voluntary cooperation are essential for tackling the informal economy is not only being used more widely, exemplified in its adoption by 30 countries who are members of the European Platform Tackling Undeclared Work (Williams, 2016), but it is also resulting in the adoption of some innovative policy measures.

5.2 Improving sanctions

Many countries tackle the informal economy by increasing the costs of participation in informal work. One way in which this is achieved is by improving the penalties for those caught with the objective of either preventing participation in the informal economy and/or formalizing the informal economy. Table 7 maps whether full range of sanction measures are used.

Table 7. Range of sanctions used

	AZ	TS	UZ
Use of penalties and fines to deter participation in the informal economy	✓	✓	✓
Use of penalties to formalize the informal economy	✓	✓	x
Penalties for people or businesses who buy goods and services from the informal economy	x	✓	x
Use of non-compliance lists ('blacklists')	✓	x	x
Previous non-compliance excludes firms from bidding for public procurement contracts	✓	✓	✓
'Naming and shaming' lists	x	x	x

Most countries use penalties to deter participation in the informal economy. However, these simply deter participation. They do not facilitate formalization. To show how this can be achieved, Greece has designed a penalty system that facilitates formalization (see Box 12).

Box 12: Designing penalty systems to formalize the informal economy, Greece

To facilitate the formalization of work, Greece has redesigned its penalty system. The fine for employers is set at 10,500 euros for each informal employee. However, the employer can hire within 10 days the informal employee as a registered formal employee to decrease the fine by the following amounts:

- 7,000 euros if they hire the employee for 3 months;
- 5,000 euros if they hire the employee for 6 months, and
- 3,000 euros if they hire the employee for 12 months.

Outcomes

In 2017, before the new sanctions system, only 32% of detected informal workers were subsequently hired on a formal basis by the employer. Two-thirds of these were hired on a part-time basis and only one-third full-time.

For the period August 2018 - February 2019, since the new sanctions system has been introduced, 45% of detected informal employees have been hired by the employer, all of them on a full-time basis. Of those hired formally,

- 91% have been hired for 12 months,
- 3% for 6 months, and
- 6% for 3 months.

The innovative aspect of this penalty system, therefore, is that it is designed to facilitate the formalization of work, rather than simply to punish employers using the informal economy.

Source: <https://ec.europa.eu/social/BlobServlet?docId=22206&langId=en>

Few countries have so far applied penalties to citizens or businesses who buy goods and services from the informal economy. This is perhaps because it is assumed that it is difficult for a customer to know if the goods and services are being sold on an informal basis. However, there are cases where the customer is the instigator of informal transactions, such as when they ask, “how much for cash?”. There are also cases when it is sometimes obvious when a transaction is informal, such as when a supplier asks, “with or without a receipt?”. Whether and in what circumstances customers might be sanctioned is therefore perhaps worthy of at least some consideration.

Using non-compliance lists (“blacklists”) is also another means of sanctioning those who supply informal work, and these may or not be made public. Those on “non-compliance” lists can be further sanctioned by excluding them from bidding for public procurement contracts.

Finally, “naming and shaming” lists can be used. Shaming can be of two types: shaming that stigmatizes the offender and excludes them, or shaming followed by forgiveness and reintegration. Coricelli et al. (2014) show that when an offender is shamed but no attempt is made at reintegrating them, their non-compliance increases, whilst it decreases if they are reintegrated. Until now however, the former has been used, such as when “non-compliance” are used, but without re-integration measures.

Overall, however, most studies find that there is no significant correlation between increasing the level of penalties and the likelihood of participation in the informal economy (see Horodnic and Williams, 2020). This is because increasing penalties can break the social contract between citizens and the authorities, resulting in greater non-compliance (Murphy and Harris, 2007). However, this depends on the motivational postures of people. Selfish subjects react to higher penalties by reducing their informal work but fair-minded subjects act in the opposite manner, increasing their non-compliance. This explains the lack of overall effectiveness of using penalties. Therefore, penalties should be used only as a last resort and it should be explicitly stated that they are targeted at the minority who are non-compliant rather than used as a threat towards all the population (see Williams, 2014).

5.3 Improving the risks of detection

Many countries tackle the informal economy by increasing the costs of participation in the informal economy. Besides improving the perceived and/or actual sanctions, this is achieved by increasing the actual and/or perceived risks of detection. Table 8 lists the full range of detection measures and whether they are used.

Table 8. Range of detection methods used

	AZ	TS	UZ
Workplace inspections	✓	✓	✓
Joint inspections with other national inspectorates	x	✓	✓

Announced inspections	✓	✓	✓
Cross-border inspections	x	x	x
Registration of workers prior to first day at work	✓	x	x
Data matching and sharing to identify risky businesses	✓	x	x
Use data mining to determine risky businesses for inspection	✓	✓	x
Coordination of data mining and sharing across government departments	✓	✓	✓
Coordination of strategy on informal economy across government departments	✓	✓	✓
Use of complaint reporting tools (e.g. telephone hotlines)	✓	✓	x
Certification of business, certifying payments of social contributions and taxes	x	✓	✓
Notification letters	✓	✓	✓
Mandatory Identity Card (ID) in the workplace	x	✓	✓
Supply chain responsibility	✓	x	x

The next step is for AZ, KY, TS and UZ to consider what additional policy measures are required to improve the risk of detection.

Registration prior to the first day at work, for example, could be introduced in TS and UZ. Unless this is done, then during an inspection, employers and workers can claim that they have only just started work and have not yet registered.

So too could the use of data mining and matching to identify risky businesses be improved. Modern enforcement authorities are increasingly using data mining and matching to identify risky businesses for inspection, complementing the qualitative judgements based on the experience and local knowledge of inspectors (European Platform Tackling Undeclared Work, 2017). However, this requires the development of effective risk assessment tools to detect potentially non-compliant businesses (European Platform Tackling Undeclared Work, 2018). Such risk assessment of businesses using data mining and matching, moreover, can be used not only to help target inspections but also for preventative purposes, such as to target advice and support, awareness raising campaigns and notification letters (see Williams, 2018, 2019). Box 13 provides hyperlinks to two toolkits to help develop data mining and matching to identify risky businesses.

Box 13. Toolkits to improve data mining and matching to identify risky businesses

- [Practitioner toolkit on data mining for more efficient enforcement](#)
- [Practitioner toolkit on risk assessment for more effective inspections](#)

Across all countries, when decisions are being taken on policy initiatives, there is a need for evidence-based evaluation to assess their effectiveness at formalising the informal economy. To do this, enforcement authorities should conduct wherever feasible both ex-ante and ex-post evaluation of policy initiatives (see Box 14).

Box 14. Ex-ante and ex-post evaluation of policy initiatives

An enforcement authority can conduct a transparent and comprehensible ex-ante evaluation of specific policy initiatives undertaken. A standardised format (e.g. SWOT-analysis, counterfactual analysis) can be used which combines the results of ex-post evaluations (e.g. for comparable services) with rigorous theoretical reasoning on the likely effects of the specific design. High-quality ex-post evaluations take account of the integration of the policy initiative into the organisational practice (e.g. by defining responsibilities, communicating the goals of specific initiatives/services, providing guidelines/handbooks, defining performance indicators

etc.) and the practical provision of the policy initiatives. Thus, high-quality ex-post evaluations comprise an appropriate combination of implementation and impact analyses. Usually, implementation and impact analyses are combined in a way that allows the identification of differences in causal impacts conditional on differences of specific implementation “types”.

Furthermore, enforcement authorities can adopt the good practice of using pilot studies when introducing and evaluating the feasibility of new policy initiatives (see Box 15).

Box 15. Pilot studies

An enforcement authority can conduct pilot projects in cases where ex-ante evaluations do not provide evidence on positive results of a specific service/policy initiative. Pilot projects are used in a limited number of offices or with a limited number of customers (e.g., sectors) to gain experience/insights on the effects of such services/policy initiatives while minimising possible negative side effects. The effects of such pilot projects are evaluated rigorously using the above-mentioned combination of implementation and impact analyses. Furthermore, it is taken into account that results from pilot projects can suffer from (positive as well as negative) biases and that the extrapolation of the results from pilot projects to the organisation as a whole has to be done very carefully.

Adopting pilot studies facilitates the use of a “**test, learn and adapt**” evidence-based approach by enforcement authorities. Take, for example, a pilot project on the use of notification letters sent to businesses advising them to put their affairs in order. Following a first round of notification letters to test various formats (e.g. hard and soft letters, and following-up with inspections, emails and letters), the results can be analysed and lessons learned. The second round of such notification letters can then use what has been found to work in the previous round and experiment with small variants to further improve their effectiveness. For example, if hard notification letters sent by email accompanied with the announcement of an inspection are found to be effective, then the second round can experiment for instance with comparing stating and not stating a date for the inspection. Using this “test, learn and adapt” approach, a more effective use of notification letters can emerge.

Box 16 provides hyperlinks to a range of good practices for improving the risk of detection that are potentially transferable to AZ, KY, TS and UZ.

Box 16. Good practice examples for improving the risk of detection:

- [“Warned to Choose” notification letters initiative, Lithuania](#)
- [Cherry letters, Lithuania](#)
- [Notification Letters to companies, Spain](#)[Grey Economy Information Unit \(GEIU\), Finland](#)
- [Operational Departmental Committees against Fraud \(CODAF\), France](#)
- [National Anti-Fraud Office, Spain](#)
- [Estonian Register of Employment](#)
- [REVISAL digital register of employees, Romania](#)
- [The Incomes Register, Finland](#)
- [Declaration of Works and Checkin@Work: monitoring the chain of sub\(contractors\) in the construction industry to prevent undeclared work, Belgium](#)

- [MiningWatch: using data analytics for targeted inspections of social security fraud, Belgium](#)
- [Intelligence and analysis methods, Norway](#)
- [Joint and several liability in sub-contracting chains, Belgium](#)
- [Regulating subcontracting in the construction sector, Spain](#)
- [Monitoring contractor liability in the road transport sector, Finland](#)
- [Risk Analysis Tool of the Greek Labour Inspectorate](#)
- [Risk analysis to detect letterbox companies involved in tax debt schemes, Latvia](#)
- [The Road Traffic Control Information System – Assisting the detection of undeclared work, Greece](#)
- [Valtti- ID card Service, Finland](#)
- [Inspections of private households as places of employment: Ireland](#)

5.4 Improving the ease and benefits of operating formally

In recent years, it has been recognised that besides increasing the actual and/or perceived costs of operating in the informal economy, governments can also increase the benefits of operating in the formal economy, to reduce the net benefits for businesses of engaging in the informal economy. Table 9 lists the full range of incentive measures and whether they are used.

Table 9. Range of incentives used

	AZ	TS	UZ
Supply-side measures (i.e., to stimulate suppliers to operate in the formal economy)			
Simplify procedures for complying to existing regulations (e.g., easier registration procedures; simplify forms; reduce duplication)	✓	✓	✓
Society-wide amnesties	✓	✓	x
Individual-level amnesties for voluntarily disclosing informal economic activity	x	✓	x
“Formalisation” advice to start-ups	✓	✓	✓
“Formalisation” support services to existing businesses	✓	✓	x
Targeted Value-Added-Tax (VAT) reductions	✓	✓	x
Provide free record-keeping software to businesses	x	x	x
Provide fact sheets on record-keeping requirements	✓	x	x
Provide free advice/training on record-keeping	✓	✓	x
Gradual formalisation schemes	✓	✓	x
Initiatives to ease transition from unemployment into self-employment	✓	✓	✓
Initiatives to ease transition from employment into self-employment	✓	✓	✓
Access to free marketing	✓	✓	x
Demand-side measures (i.e., to encourage purchasers to buy goods and services from the formal economy)			
Service vouchers	✓	x	x
Targeted direct tax incentives (e.g., income tax reduction/subsidy)	✓	✓	x
Targeted indirect taxes (e.g., VAT reductions)	✓	✓	x
Initiatives for customers to request receipts (e.g., Lottery for receipts)	✓	x	x

This reveals that AZ uses most of these incentives, except individual-level amnesties, as does TS whilst far fewer are used in UZ.

Given the current impact of COVID-19 on AZ, KY, TS and UZ, one way forward is to use a voluntary disclosure/individual-level amnesty initiative to enable those who voluntarily disclose to the state authorities their past informality to access the short-term financial support being made available to formal businesses and to have the penalties waived (or reduced) that would have applied for their informality, if they are compliant in the future. This access to the short-term financial support being made available would act as a “carrot” to attract them to register and start to make the transition to formality. There are several options for such a voluntary disclosure scheme:

- Disclosure could be with or without penalty for past non-compliance.
 - If penalties are used, the level of the penalty could be on a sliding-scale reduced by set amounts depending on whether the employer agrees to employ the undeclared or under-declared worker on a (full-time) declared basis for at least 3, 6 or 12 months.
- The scheme could be universal, or it could be targeted at:
 - specific sectors, such as:
 - Tourism industries;
 - Construction sector;
 - Personal and household services, or
 - Agriculture.
 - specific population groups or types of informality, such as:
 - Undocumented migrant workers;
 - Seasonal workers;
 - Unregistered employed;
 - Informal self-employed workers;
- Access to the temporary financial support could be offered as an incentive to come out of the shadows, or not offered.
 - Access to such short-term support could be conditional on the business offering the undeclared workers voluntarily disclosed a declared contract (or the under-declared worker a full-time contract) for at least x months, or not.

Box 17 presents a voluntary disclosure initiative offered in Kosovo* during the current pandemic.

Box 17. Voluntary disclosure initiative, Kosovo*⁵

Aim: To formalise the informal economy, employers who voluntarily disclose that they previously employed unregistered employees are provided with access the short-financial financial assistance available during the 2020 coronavirus pandemic, if they employ the workers on a formal contract for at least one year.

Description: In Kosovo*, a cross-government group established an operational plan with 15 measures. Measure 14 of this operational plan provides financial support of €130 per month per employee for two consecutive months providing businesses put workers on contracts of at least one year. The Kosovo tax authority has offered businesses access to this short-term support if they voluntarily disclose that they employed unregistered workers, and they then employ the workers on formal contracts for at least one year.

Evaluation: On May 6, the Finance Minister Besnik Belsemi reported that 10,597 new employees have so far registered, which is an increase of 2.6% in total official employment (Bami, 2020). This provides a tentative indication of the potential impacts and effectiveness of this voluntary disclosure scheme.

⁵ This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.

In KY, this amnesty could offer access to the temporary tax exemptions for SMEs offered under the third package of economic measures, whilst in TS the anti-COVID measures of financial support to SMEs could be offered. In UZ, meanwhile, such entrepreneurs who register could be offered the same interest subsidies as formal businesses, temporary reduced social contributions for individual entrepreneurs, the postponed payment of property and land taxes, the extended moratorium on tax audits, and delayed tax declarations for 2019 income taxes (IMF, 2020).

Box 16 provides hyperlinks to a range of good practice supply-side initiatives that make it easier or beneficial to engage in declared work.

Box 16. Good practice examples of improving the ease and benefits of operating formally

Supply-side incentives

- [Mini-jobs, Germany](#)
- [Employment Contract for Short-term Seasonal Agricultural Work in Bulgaria](#)
- [Simplified employment act, Hungary](#)
- [Certified Cash Registers initiative, Slovenia](#)
- [Quality seal in the light transportation sector, Austria](#)
- [Quality Agricultural Work Network, Italy](#)
- [Tax Percentage Calculator & Gross Income Calculator \(Veroprocenttilaskuri & Bruttopalkkalaskuri\), Finland](#)
- [Online Self-Inspection Tools for Employers and Employees, the Netherlands](#)
- [Employee sharing /joint employment in agriculture, Finland](#)

Demand-side incentives

- [Receipts Lottery, Romania](#)
- [Household Service Vouchers \(Dienstleistungsscheck\), Austria](#)
- [Service vouchers in Belgium \(Titres services\)](#)
- [Universal Service Employment Voucher \(Chèque emploi service universel - CESU\), France](#)
- [Enterprise vouchers in seasonal agriculture \(Vrijednosni kuponi za sezonski rad u poljoprivredi\), Croatia](#)
- [Boligjob Plan: using tax-rebates to promote the declaration of work, Denmark](#)
- [Tax relief for domestic service work \(ROT and RUT\), Sweden](#)

5.5 Education and awareness raising

There has been recognition that undeclared work is not always a purely rational economic decision. Non-compliance often results from a lack of trust in the state and/or a lack of understanding of the benefits of compliance (see Williams, 2017) and a lack of horizontal trust in others. Education and awareness raising campaigns can therefore play a key role in promoting the transformation of undeclared into declared work. Table 10 provides a list of the wide range of education and awareness raising initiatives used.

Table 10. Range of education and awareness raising initiatives used

<i>Fostering commitment to formality</i>	AZ	TS	UZ
Campaigns to inform suppliers of informal work of the risks and costs of working in the informal economy	✓	✓	✓
Campaigns to inform suppliers of informal work of the benefits of formalising their work (e.g., informing them where their taxes are spent)	✓	✓	✓
Campaigns to inform users of informal work of the problems of purchasing goods and services from the informal economy	x	x	✓
Campaigns to inform users of informal work of the benefits of formal work (e.g., informing citizens of the public goods and services they receive with the taxes collected)	x	✓	✓
Normative appeals to businesses to operate on a formal basis	✓	✓	✓
Measures to improve the degree to which customers of the enforcement agencies believe they have been treated in a respectful, impartial and responsible manner	✓	✓	✓
Measures to improve labour, tax and/or social security law knowledge	✓	✓	✓
Public information on the work and achievements of the enforcement authorities	✓	✓	✓

To enable a more effective use of education and awareness raising, Box 17 provides useful advice on how to do so from EU-OSHA when conducting campaigns in the field of safety and health at work, but which are easily applied to marketing campaigns on the benefits of declared work.

Box 17. Planning an awareness raising campaign: a step-by-step guide

- Deciding objectives.** Before you develop the specific message of your campaign, and the necessary supporting arguments, you need to have a clear goal in mind. [Read more](#)
- Choosing a title.** To have a chance at making an impact on the people you want to reach, your title should be as short and simple as possible and relevant to your target audience. [Read more](#)
- Selecting the audience.** Knowing your target audience and age range will determine your campaign and the tools needed. [Read more](#)
- Timing.** Timing is a key factor in any campaign, both in terms of when to launch the campaign and the campaign duration. [Read more](#)
- Geographic area.** Choose which sectors, population groups, occupations or geographic area will be included. [Read more](#)
- Message.** Think carefully about the main campaign message and what you are trying to communicate through your campaign. [Read more](#)
- Branding your campaign.** A catchy slogan, a striking logo and campaign branding can be used to grab your audience’s attention. [Read more](#)
- Reaching your audiences.** Most campaigns involve several media, from press releases and magazine articles to posters and direct mail shots. [Read more](#)
- Define** your expected results. Communication is most effective when it is related to something practical and tangible.

Source: <http://toolkit.osha.europa.eu/how-to-run-a-campaign/plan-your-campaign/>

Box 18, meanwhile, provides a summary of good practices when designing awareness raising campaigns.

Box 18. Key features of good practice in designing awareness raising campaigns

- **Begin with the end in mind**
 - Set clear goals on what you want to achieve
 - What do you want people to understand or do as a result of the campaign?
- **Plan**
 - Have a clear strategy
 - With SMART objectives to measure success
 - Get key stakeholders on board
 - Take a holistic approach, combining and sequencing the campaign with other policy measures
 - Agree timing, budgets, roles, etc.
- **Select and understand your audience(s)**
 - Demographics, age, gender
 - Population, employers, employees, migrant workers
 - Geographic area, sectors
- **Collaboration works**
 - From a single lead to 80 partners
 - Wide range of stakeholders can be valuable multipliers
 - Think who is best to deliver the message?
- **Grab attention with key message**
 - Clear/simple
 - Focus on positive messages
 - Creative – personal stories work
 - Have a call to action
 - Multilingual
- **Branding your campaign**
 - Grab your audience's attention
 - Use a logo, memorable branding
- **Reaching your audience**
 - Use few core channels which are audience-appropriate
 - Regular flow of activities, create highlights
 - On-going evaluation to keep on track
- **Sustainability**
 - Quick wins or longer term behavioural change?
 - Take a wider perspective e.g. with training for inspectors
 - Continuous reinforcing of messages key
 - Funding an issue so one-off campaigns a feature

Indicators of effectiveness

- **Outputs - indicators measuring actions and tactics:**
 - Meetings, events, participants, people trained
 - Publications, news articles, number ads
 - Social media statistics, views, shares, likes
 - Number of complaints from employees rise
 - Inspections, fines, voluntary regularisations
 - Funds recovered
 - Awards

- Outcomes – final results of the campaign:
 - Improved unacceptability of undeclared work among target group, which is a proxy for changes in behaviour
 - Improved understanding of benefits of declared work
- How to measure?
 - Surveys and independent evaluations
 - Existing employer surveys could be used with additional questions

Box 19 provides hyperlinks to an array of good practices. These include information services (e.g., in Ireland’s Workplace Relations Commission) to provide advice to businesses and workers, as well as targeted marketing campaigns.

Box 19. Good practice examples of education and awareness raising initiatives

- [“Infoline” – operated by the Information and Customer Services Unit \(ICS\) at the Workplace Relations Commission \(WRC\), Ireland](#)
- [Awareness campaign about bogus self-employment, Ireland](#)
- [Assistance on the Spot – providing support to companies to avoid violations of labour legislation with respect to bogus self-employment, Czechia](#)
- [National Contactcentre of the Federal Labour Inspection of the Belgian Federal Public Service Employment, Labour and Social Dialogue, Belgium](#)
- [“UDW – It’s bad for you, harmful for all” campaign, Portugal](#)
- [Student@work Campaign, Belgium](#)
- [National Awareness Raising Campaign: Grey Economy-Black Future \(Harmaa talous - musta tulevaisuus -viestintäkampanja\), Finland](#)
- [National Awareness Campaign “Stop undeclared work – Stop Moonlighting” \(Kampanja Stop radu na crno – stop neprijavljenom radu\), Croatia](#)
- [“I spit on it” awareness raising campaign \(Man uzsplaut\), Latvia](#)
- [#Fraudoff! \(#Atkrabies!\), Latvia](#)
- [Information campaign to raise awareness of labour law among workers and employers, Hungary](#)
- [Consultation with the State Labour Inspectorate via Facebook Messenger, Lithuania](#)
- [“Chain Approach” – raising awareness in the cleaning sector, Netherlands](#)
- [National Awareness Raising Campaign – Before you undertake work, Poland](#)
- [Awareness raising campaign on undeclared and unhealthy work, Sweden](#)
- [Virtual Reality Films, Sweden](#)

Attention is also drawn to the current EU-wide **#EU4FairWork** which can be accessed via this hashtag on Twitter, LinkedIn and Facebook.

An alternative smaller campaign launched by Masters-level Marketing students in Romania is **#Students4FairWork**, again on Twitter, LinkedIn and Facebook. Both campaigns provide many

examples of the type of messaging that can be used in such campaigns, and many examples of messages that are transferable to AZ, KY, TS and UZ.

However, care needs to be taken with messaging in education and awareness raising campaigns because employers, workers and citizens use **neutralisation techniques (NTs)** to justify their actions and neutralise their guilt (see Table 11).

Table 11. Examples of neutralisation techniques used by those engaged in deviant behaviour to justify their actions

Technique	Definition	Author
Denial of responsibility	The individual is not personally accountable for the actions but some external factors outside their control.	
Denial of injury	Deviant behaviour is justified as no party has directly suffered because of it.	Sykes and Matza (1957)
Denial of victim	Behaviour resulted in injuries but the violated parties deserved what happened to them.	
Appeal to higher loyalties	Deviant behaviour is necessary to actualise a higher order ideal or value.	
Condemning the condemners	Deviant behaviour is deflected as individuals who condemn the behaviour engage in similar disapproved activities.	
Defence of necessity	Behaviour was necessary as individuals had no choice under the circumstances.	Minor (1981)
Claim of normalcy	Behaviour cannot be perceived as wrong because everybody engages in such activities.	
Denial of negative intent	The behaviour is justified as it was not supposed to cause any harm to anyone.	Henry (1990)
Claim of relative acceptability	Blame is deflected as other people are much worse.	
Denial of the necessity of the law	Individuals engage in illegal activities because the laws are unfair and unjust.	
Claim of entitlement	Individuals have the right to engage in any desired behaviour and gain the benefits of it.	Cromwell and Thurman (2003)
Justification by comparison	The behaviour is still preferable to even worse behaviours the individual could engage in.	
Justification of Postponement	Individuals suspend the assessment of morally questionable behaviour to a later time	
One-Time Usage	The individual intends to use the product only in a single occasion and therefore behaviour is acceptable.	Rosenbaum, Kuntze and Wooldridge (2011)
First-Time, Only-Time Crime	This is the first and only time that the individual engages in the specific deviant behaviour.	
Outsmart the System	The individual feels pride for outsmarting the system.	

Source: Apostolidis and Haeussler (2018: Table 1)

Campaigns seeking to transform informal work into declared work need to overcome these neutralisation techniques (or rationalisations) that those engaged in this deviant behaviour use to justify their actions and neutralise their guilt (Apostolidis and Haeussler, 2018; McKercher, Weber and du Cros, 2008). If they do not, then the campaigns will not be effective in eliciting behaviour change.

For example, the **denial of responsibility** rationale is apparent among suppliers of informal work when they interpret the publicity about the negative impacts of informal work to be directed at others, who could be bigger players than them, rather than them. This means that campaigns should advertise the extent of non-compliance among the average supplier of informal work (in the realm being targeted) so that people will not view their own activity as ‘minor’ compared with others.

Similarly, there is the **denial of injury** rationale. The suppliers can deny that their informal work has had negative impacts on others and rationalise their non-compliant behaviour by asserting that without them participating in informal transactions, customers would have had to pay a higher price or would have been unable to afford to receive the services provided. This may therefore require examples of the common ways in which customers suffer by purchasing informal rather than declared goods and services.

There is also the **denial of victim** neutralisation technique. The suppliers may accept the negative impacts of their informal work but believe that the victims deserve it. This may require that campaigns provide human stories of individual victims.

Alternatively, there can be an **appeal to higher loyalties**. The supplier of informal work may justify their actions in terms of some alternative set of loyalties or social order, believing that this justifies their actions, such as that they are doing it for the benefit of their own family rather than society. This can be countered by showing how these ‘higher loyalties’, such as their family, can be also negatively affected by those supplying informal work.

Related to this, there is the **condemnation of condemners** mind-set. The suppliers of informal work may assert that the law, the lawmakers and law enforcers are to blame for an unjust system, and believe that the community to which they have a sense of belonging should not succumb to these formal rules and that this makes informal work a socially legitimate activity. To tackle this requires for example stories of the 'progress' being made towards a 'just' system and the significant benefits of them operating on a declared basis to be highlighted.

A final example is the **defence of necessity** normalisation method. The supplier of informal work may justify their actions to be the outcome of personal circumstances, such as that they cannot access fully declared employment, or that they engage in self-employment in the informal economy out of necessity and as a survival practice. This may require for example that information is provided to such suppliers on any organisations, resources and/or procedures that they can access so that they do not have to engage in informal work out of necessity.

Given these different ways in which those engaged in non-compliant behaviour rationalise their actions, awareness raising campaigns need to ensure that these possibilities are not open to participants by pursuing the campaign messaging tactics mentioned.

5.6 Modernising formal institutions

It is likely that education and awareness raising campaigns, which seek to change attitudes towards informal work, will only be successful if there is a change in formal institutions. Where there is a lack of trust in government or a lack of belief by citizens, workers and businesses in the formal institutions, it is arguable that attitudes will not change. Therefore, to better align civic morality (about the acceptability of informal work) with the laws and regulations, it is not just attitudes of citizens, workers and employers that needs to change. The formal institutions themselves also need to change so that there is greater trust in them.

Firstly, this requires the modernisation of enforcement authorities and secondly, the structural transformation which changes the conditions associated with higher levels of informal work.

Modernising enforcement authorities

To improve trust in government and prevent participation in the informal economy, it is necessary to modernise enforcement authorities by making them more customer-friendly and approachable. Citizens often do not adhere to the formal rules, and there is thus a breakdown in the social contract between government and its citizens, due to a low level of trust in government. A modernisation of governance is thus one way forward. At least three institutional reforms are required:

- **Procedural justice** must be improved, which here refers to the authorities treating citizens in a respectful, impartial and responsible manner and thus shifting away from a "cops and robbers" approach and towards a service-oriented approach;
- **Procedural fairness** must be enhanced, which refers to citizens believing that they pay their fair share compared with others; and
- **Redistributive justice** needs improving, which relates to whether citizens believe that they receive the goods and services they deserve given the taxes they pay.

Improving procedural justice

Procedural justice refers to whether citizens view the government as dealing with them in a respectful, impartial and responsible manner (Murphy, 2005). If citizens view government institutions as treating them in a poor manner, the evidence is that they are more likely to engage in non-compliant behaviour (Murphy *et al.*, 2009). Leventhal (1980) thus proposed the following

six rules for how governments should interact with citizens to improve the perceived level of procedural justice:

- The consistency rule - procedures should be consistently applied across all people and over time; nobody should be more favoured, or disadvantaged compared with others;
- Bias suppression rule - egoistic intentions and prejudice on the part of the decision-makers must be avoided;
- Accuracy rule - all relevant sources of information should be exhausted, in order that decisions are based on well-founded evidence and information;
- Correctability rule - the possibility that decisions made can be adjusted or revised in the light of evidence;
- Representativeness rule - the interests and opinions of all stakeholders and individuals involved should be considered; and
- Ethicality rule - procedures should be in accord with the prevailing moral and ethical values.

Others additionally consider the importance of interpersonal interactions. Compliance rates are significantly higher when people are treated politely, with respect and dignity, are given a say, and have genuine respect shown for their rights and social status (Gangl *et al.*, 2013).

However, if they believe that they are being treated unfairly or unreasonably, such as by inspectors showing disrespect for them, or they believe that taxes are collected and being used to support the interests of powerful private interests who have captured the state, this results in a lack of trust and lower compliance rates (Murphy, 2008). There is thus a need for enforcement authorities to treat citizens with respect and dignity. The overarching goal is to improve the trust and confidence of citizens in public administrations.

Improving procedural fairness

Procedural fairness refers to whether citizens feel that they are being treated in a fair manner relative to others and that they pay their fair share compared with others. Those who perceive that they receive procedurally fair treatment are more likely to trust the authorities and to adhere to the formal rules (Murphy, 2005). The fairness of the tax system is one of the most important determinants of whether they do so (Molero and Pujol, 2012).

Conversely, if they perceive that they are not receiving fair treatment, non-compliance increases (Bird *et al.*, 2006). As Molero and Pujol (2012) find, where there is grievance either in absolute terms (e.g., they feel taxes are too high or public money wasted) or grievances in relative terms (e.g., there is a lack of horizontal trust and a belief that others are cheating), non-compliance is the outcome. Indeed, they justify their non-compliance using their perceptions of the activities of others. If informal work is viewed as widespread, this justifies their non-compliant behaviour. This has important implications. **If governments publicise that informal work is rife, they create the conditions for widespread grievance and thus even wider participation in informal work** by those who might not otherwise have done so.

Improving redistributive justice

Redistributive justice refers to whether the population believe they receive the goods and services deserved given the taxes that they pay (Richardson and Sawyer, 2001). Taxes are the price the population pays for the public goods and services that government provide. The question is whether the price corresponds to the perceived value of these goods and services (i.e., whether it is "just"). The less the tax system is seen as just, the more likely they will be to operate informal and to break the social contract with the state. To improve compliance therefore, the compliance

system must be just. **Governments thus need to educate the population about where their taxes are spent and why social security and labour laws prevail.** When they do not know, or do not fully understand what public goods and services are provided with their taxes, compliance is lower. In recent years therefore, many governments have begun to pursue education and awareness raising initiatives.

Structural transformation: institution-building

In institutional theory (Baumol and Blinder, 2008; Denzau and North, 1994; North, 1990), institutions are defined as the rules of the game that prescribe what is socially acceptable and govern behaviour. In all societies, two types of institution exist:

- formal institutions (i.e., laws and regulations) that set out the legal rules of the game and prescribe “state morale”, and
- informal institutions, which are the unwritten socially shared rules about what is acceptable so far as citizens, workers and entrepreneurs are concerned, and prescribe “civic morale” (Denzau and North, 1994; Helmke and Levitsky, 2004).

From this institutionalist perspective, formal work adheres to the formal institutional prescriptions set out in the laws and regulations. Informal work, in contrast, occurs outside of formal institutional prescriptions but adheres to the norms, values and beliefs of informal institutions (Godfrey, 2011; Kistruck *et al.*, 2015; Siqueira *et al.*, 2016; Webb *et al.*, 2009; Welter *et al.*, 2015; Williams and Gurtoo, 2017; Williams, 2017), while criminal activity takes place outside both the formal institutional prescriptions as well as the socially shared rules of what is acceptable.

In recent years, this institutional approach has made major advances in explaining the prevalence of the informal economy. The informal economy has been shown to be more prevalent when the failings of formal institutions lead to the formal “rules of the game” (state morale) differing to what citizens view as socially acceptable (civic morale) (Dau and Cuervo-Cazurra, 2014; Godfrey, 2015; Webb *et al.*, 2009; Williams and Shahid, 2016; Williams *et al.*, 2017). The greater is this non-alignment of state morale and civic morale in an economy, the greater is the prevalence of the informal economy (see Williams, 2017). As Williams (2017) outlines, these formal institutional failings are of four types:

- (i) **formal institutional inefficiencies, or resource misallocations by formal institutions** - these result from either the lack of modernisation of government organisations (i.e., the lack of procedural and distributive justice and fairness) and/or due to formal institutions acting in a corrupt manner to protect or maximise economic rents for elites, or when state capture occurs by such elites, resulting in the majority not receiving a fair share in return for their contributions, or suffering from overly burdensome taxes, registration and licensing regulations and costs;
- (ii) **formal institutional voids and weaknesses** - which institutional voids and weaknesses lead to informality and which do not has been subject to much debate. The majority view the informal sector to result from exclusion from the formal sector because of too little state intervention, but others view participants in the informal sector as voluntarily deciding to exit the formal sector because of too much state interference;
- (iii) **formal institutional powerlessness** - expressed in not only a lack of capacity to enforce policies (Webb *et al.*, 2009) but also in terms of a lack of ability to incentivise adherence to the formal rules. From this perspective, power means the ability to get somebody else to do something that they were not before going to do, in the way in which you want them to do it. Formal institutions lack power because they are unable to encourage businesses, workers and citizens to adhere to the formal rules (i.e., the

laws and regulations) using either enforced compliance (i.e., “sticks” and “carrots”) or voluntary compliance, and/or

- (iv) **formal institutional instability and uncertainty** – due to for example continuous changes in the formal “rules of the game” (Levitsky and Murillo, 2009; Williams and Shahid, 2016) about what is acceptable, which leads to rejection of the continuously changing formal rules of the game by the population in favour of their own more stable unwritten socially shared rules.

Without formal institutional power, for example, an integrated whole-of-government approach towards formalising the informal economy is unlikely to have any major impact if the relevant institutions do not possess the necessary mandate and resources. If an understaffed and under-resourced tax authority starts working together with an understaffed and under-resourced labour inspectorate that has a mandate curtailed by a multi-year or sector-specific moratorium on conducting inspections, their cooperation is unlikely to make a major contribution to formalising the informal economy. Similarly, if the enforcement authorities only have a legal competency to conduct inspections, then it will be difficult to join-up operations related to education and awareness raising and other preventative actions.

Table 12 reports the association between formal institutional failings and the prevalence of the informal economy. To evaluate whether a significant bivariate correlation exists between the level of informality and these formal institutional conditions, Spearman’s rank correlation coefficient is used due to the non-parametric nature of the data.

Table 12. Formal institutional conditions associated with informality

	No. of countries	Share of informal employment in total employment (total)	Share of informal self-employment ¹⁾ in total informal employment	Share of informal employees in total informal employment
I. FORMAL INSTITUTIONAL RESOURCE MISALLOCATIONS AND INEFFICIENCIES				
<i>1. Lack of modernisation of government</i>				
Reliability of police services	100	-0.553***	-0.028	0.062
Efficiency of government spending	100	-0.198**	-0.238**	0.146
<i>2. Formal institutions acting in a corrupt manner</i>				
Irregular payments and bribes	100	-0.743***	-0.094	0.235**
Diversions of public funds	100	-0.441***	-0.148	0.169*
Favouritism by gov. officials	100	-0.280***	-0.137	0.127
Corruption Perceptions Index	110	-0.747***	-0.081	0.159
Control of Corruption	111	-0.741***	-0.071	0.163
Corruption (doing business)	100	0.525***	0.052	-0.133
% of firms expected to give gifts in meetings with tax officials	86	0.571***	0.074	-0.138
% of firms expected to give gifts to public officials ‘to get things done’	85	0.420***	0.286***	-0.293***
II. FORMAL INSTITUTIONAL VOIDS AND WEAKNESSES				
GDP per capita	110	-0.890***	-0.177*	0.358***
Human Development Index (HDI)	111	-0.925***	-0.127	0.300***
Social Progress Index (SPI)	100	-0.929***	-0.132	0.304***
Burden of government regulation	100	0.008	-0.138	0.058
No. of procedures required to start a business	100	0.373***	-0.126	0.044
Time required to start a business	100	0.409***	-0.153	0.068
Inefficient government bureaucracy	100	-0.477***	-0.020	0.171*
Tax rates	100	-0.275***	0.195*	-0.177*
Tax regulations	100	-0.452***	0.021	0.007
Restrictive labour regulations	100	-0.654***	-0.099	0.292***
Total tax rate	100	0.043	0.110	-0.044
Tax revenue to GDP ratio	56	-0.294**	0.132	-0.127
Total expenditure (% of GDP)	61	-0.703***	0.227*	-0.049
Taxes on goods & services (% of revenue)	99	0.059	0.094	-0.173*

Revenue (excluding grants)	101	-0.647***	0.110	0.016
Tax revenue	100	-0.446***	0.166*	-0.082
Social contributions (% of revenue)	97	-0.711***	0.017	0.074
Expense of government as a % of GDP	100	-0.688***	0.107	0.029
Poverty gap at national poverty lines (%)	56	0.416***	0.310**	-0.259*
Poverty gap at \$1.90 a day	107	0.791***	0.121	-0.283***
GINI index	107	0.503***	-0.154	0.154
III. FORMAL INSTITUTIONAL POWERLESSNESS				
Rule of Law	111	-0.781***	-0.040	0.163*
Government Effectiveness	111	-0.827***	-0.127	0.256***
Regulatory Quality	111	-0.821***	-0.044	0.186*
Public trust in politicians	100	-0.289***	-0.113	0.079
IV. FORMAL INSTITUTIONAL INSTABILITY AND UNCERTAINTY				
Policy instability	100	0.031	0.075	-0.107
Government instability/coups	100	0.063	-0.031	0.027
Transparency of government policymaking	100	-0.412***	-0.188*	0.231**

¹⁾ Employers and own-account workers combined

Significant at *** p<0.01, ** p<0.05, * p<0.1.

Strength of the Spearman's correlation coefficient: 0.00-0.19 very weak, 0.20-0.39 weak, 0.40-0.59 moderate, 0.60-0.79 strong, 0.80-1.0 very strong.

Reinforcing the finding of a multitude of studies (e.g., Horodnic and Williams, 2020; Lapeyre and Williams, 2020; Williams, 2017, 2019; Williams and Horodnic, 2020), Table 12 displays that informal work is more prevalent when there are:

- Greater formal institutional resource misallocations and inefficiencies manifested in:
 - A lack of modernisation of government (measured by the reliability of police services and the efficiency of government spending)
 - Greater levels of corruption (indicated by multiple indicators of both perceived and actual levels of corruption)
- Greater formal institutional voids and weakness manifested in:
 - Lower levels of development (measured using GDP per capita, the Human Development Index and Social Progress Index);
 - Burdensome regulations;
 - Lower (not higher) tax rates;
 - Lower government expenditure and lower expenditure on social contributions;
 - Higher levels of poverty
- Greater formal institutional powerlessness manifested in:
 - Lower levels of perceived rule of law, government effectiveness, regulatory quality and public trust in politicians; and
- Greater formal institutional instability and uncertainty manifested in:
 - low transparency of government policymaking.

These results therefore support the view that wider structural transformation is required to address the level of informal work. To transform informal work into formal work, countries therefore need to:

- Reduce formal institutional resource misallocations and inefficiencies by:
 - Modernising government such as improving the reliability of services and the efficiency of government spending;
 - Reducing corruption;
- Tackle formal institutional voids and weakness by:
 - Increasing GDP per capita;
 - Improving the dimensions of human development, including a long and healthy life, being knowledgeable and have a decent standard of living;

- Improving the dimensions of social progress, including basic human needs, rights and education;
- Rising (not lowering) tax rates;
- Increasing government expenditure and especially expenditure on social contributions, and
- Reducing the depth and incidence of poverty.
- Reduce formal institutional powerlessness by:
 - Improving the perceived rule of law, government effectiveness, regulatory quality and public trust in politicians; and
- Reduce formal institutional instability and uncertainty by:
 - Improving the transparency of government policymaking.

Obviously, many of these structural transformations are well beyond the scope of enforcement authorities. It is precisely for this reason that a whole government approach is required in which a high-level coordinating body takes responsibility for the overall strategy for tackling informal work. It is only a high-level coordinating body at the top of government, and including all social partners, that can take many of the decisions necessary to tackle these structural conditions that determine the prevalence of the informal economy.

6. CONCLUSIONS AND RECOMMENDATIONS

This final section provides an evaluation of the progress of Azerbaijan, the Kyrgyz Republic, Tajikistan and Uzbekistan on each of the above components of a strategic integrated approach and the next steps they both wish to take and are required to make progress. It also sets out some recommendations for South-South cooperation and triangular cooperation and peer learning.

6.1 A Road Map for the four countries: next steps

To develop an integrated strategy to make the transition to formality, all four countries need to make progress on three issues:

- Fully applying the strategic objective of formalizing the informal economy;
- Developing a whole government coordinated approach, and
- Implementing the full range of direct and indirect policy tools.

Formalizing the informal economy as a strategic objective

All four countries need to fully apply the strategic objective of formalising the informal economy by developing a national strategy based on this strategic objective, setting targets that measure the magnitude of the transition from informality to formality, and implementing this national strategy. To make further progress:

- AZ has already fully adopted this strategic objective in its national strategy and the goal now is to implement the national strategy to achieve this.
- TS reports that the decision has been taken to implement this. A national strategy based on this strategic objective now needs to be developed, targets set that measure the transition to formality, and the national strategy implemented.
- UZ reports that discussion is taking place. For further progress to be made, this strategic objective could be placed in the section on the informal economy in the National Employment Strategy due to be adopted by the end of 2020, and also included as part of the national social protection strategy to be developed by April 2021 where some aspects of access to social protection and extension of social insurance to workers in informal economy will be addressed, and the government is intending to re-examine its social

insurance system. Targets can then set that measure the transition to formality, and this national strategy implemented.

Developing a whole government coordinated approach

Cross-government coordinated strategy

In all four countries, a high-level single body could be developed responsible for the national strategy and setting targets. AZ has a single body, although different departments are responsible for each aspect. Meanwhile, TS has a single body responsible for the national strategy and one set of national targets common across government. In UZ, each department is responsible for each aspect, with some shared targets across government departments in both AZ and UZ. To make further progress:

- The next step in AZ is to consider where further horizontal cross-cutting shared targets could be used to promote further joined-up cooperation between departments, and where this is so, there might be common/joint monitoring and evaluation and reporting to further promote coordination.
- TS could similarly consider using horizontal cross-cutting shared targets to foster further joined-up cooperation between departments, and common/joint monitoring and evaluation and reporting to further promote coordination
- In UZ, a cross-government coordinating body could be developed which will produce a national strategy and targets as well as oversee its implementation. This strategic body should involve the social partners.

Coordinating operations across government

To facilitate greater cooperation on operations, authorities in all four countries could set a target of achieving a share of all its operations as joint or concerted operations. This should include joining-up not only inspections but also preventative activities (e.g., education, information and advice) and involve working with social partners as well as other state authorities. To make further progress:

- In AZ, joint operations with other national organisations is a clearly defined strategic objective, and a target has been set for the proportion of all operations which are joint or concerted operations with other national organisations. Ensuring that such targets are also applied to preventative activities (e.g., education, information and advice initiatives) and that targets are set for the proportion of such operations which involve social partners is now required. There might also be common/joint monitoring and evaluation and reporting to further promote cooperation.
- In TS, joint operations with other national organisations as a clearly defined strategic objective is being discussed and a decision has been taken to set a target for the proportion of all operations which are joint or concerted operations with other national organisations. This strategic objective and these targets now need to be formulated and put into operational plans and implemented. There might also be common/joint monitoring and evaluation and reporting to further promote coordination.
- In UZ, joint operations with other national organisations as a clearly defined strategic objective is being discussed and setting a target for the proportion of all operations which are joint or concerted operations with other national organisations is also being discussed. This strategic objective and these targets now need to be formulated and put in operational plans and implemented. There might also be common/joint monitoring and evaluation and reporting to further promote coordination.

Cross-government coordination on data mining, matching and sharing

In all four countries, there is a need for all state authorities to establish electronic databases (e.g., case management records, employment registers, business registers) that have real-time up-to-date data collected in a cost effective manner (e.g., making the employer responsible for updating registering/deregistering an employee prior to the first day of work/on the last day of work). These databases need to be inter-operable with the databases of other state authorities and Ministries so that data can be shared electronically, and bilateral and multilateral agreements established for the sharing of data. A final consideration is whether to establish a central unit providing the data analysis function for all enforcement authorities and Ministries.

In AZ there is full electronic access to all relevant data in other authorities' databases, whilst in UZ there is access to some data of other enforcement authorities and in TS the enforcement authority receives printouts of data from other enforcement authorities. On data analysis, no country has one central unit that holds the data and does the analysis for all enforcement authorities. Instead, the TS enforcement authority can directly analyse some relevant databases from other agencies whilst in AZ and UZ the enforcement authority receives data from other enforcement authorities that can be imported into their databases. To make further progress on data mining, sharing and analysis:

- The next step in AZ is firstly, to establish risk assessment system in order to improve detection and prevention by integrating the needed data of relevant public authorities and secondly, to consider whether there could be one central unit that does the analysis for all enforcement authorities.
- In UZ, there is a need firstly, to ensure that the labour inspectorate has access to relevant data from all other enforcement authorities and secondly, to consider whether there could be one central unit that does the analysis for all enforcement authorities.
- In the labour inspectorate in TS, there is a need firstly, to develop a database in-house that collects micro-level data which can be used to detect informality, secondly, to ensure that this is inter-operable with databases in other government departments so that data can be exchanged electronically, and thirdly, to consider whether there could be one central unit that does the analysis for all enforcement authorities.

Improving the involvement of social partners

To improve social partner involvement, the first step in all state authorities in all four countries is:

- to identify the social partners (e.g., trade unions, employer federations);
- to identify for each social partner their role and relevance for the various services of the state authority (e.g., referrals, exchange of information, detection, prevention, joint inspections), and
- the level (national, regional, local) at which each of these relationships is sought, including at the level of the overall coordinating body.

Having identified the relevant social partners and their roles, the second step is to build these partnerships with the social partners. This requires:

- staff to be allocated with the objective of partnership building at the various levels of the enforcement authority;
- the specific activities and contributions expected from these employees who have the objective of partnership building to be specified; and
- the challenges to partnership building at various levels addressed and solutions sought.

The third step is to manage these partnerships by:

- involving them in all relevant phases of the strategic management and service provision process;

- developing transparent agreements with clearly defined responsibilities;
- systematically monitoring and evaluating the outcomes of the partnership arrangements, and
- sharing the monitoring/evaluation results with the partners.

Social partners in all four countries similarly need to consider the same above steps for their own partnership building, namely: the identification of the state authorities/groups of authorities/overall coordination body they wish to build partnerships with and for what purpose; how they will build these partnerships, and the management of these partnerships. They could also consider the tools and measures they are going to use.

In AZ, it is asserted that nearly all these steps have been taken whilst this is less the case in TS and UZ. In UZ, there is a perception of greater involvement by the employer federation than by the trade union confederation. In consequence, in all four countries, all state authorities and social partners should establish as a priority to evaluate whether each of the above three steps to plan, build and manage partnerships has been undertaken in all institutions and if not, to encourage them to do so.

Implementing the full range of direct and indirect policy measures

All four countries need to ensure that the full range of policy measures are being used to formalise the informal economy. Deterrence policy measures are appropriate to reduce the informal economy but when one is seeking to formalise the informal economy and encourage the transition to formality, “carrots” are also required to make the transition to formality easier and beneficial. So too are initiatives to improve trust and change attitudes to informality.

Across all countries, there is a need for greater evidence-based evaluation of policy measures to assess their effectiveness at formalising the informal economy. To do this, enforcement authorities should conduct wherever feasible both ex-ante and ex-post evaluation of policy initiatives. Furthermore, pilot studies should be conducted when introducing and evaluating the feasibility of new policy initiatives and a “test, learn and adapt” evidence-based approach adopted.

Implementing more effective sanctions

Penalties are used in all countries responding to deter participation in the informal economy. However, the sanctions simply deter participation. They do not facilitate formalization. It is recommended that a sanctions system is introduced, exemplified by the sanctions system of the Hellenic labour inspectorate in Greece, which encourages the transition to formality by reducing the fines if the employer employs the worker on a formal contract.

Improving the risk of detection

Workplace inspections are a fundamental and necessary means of detecting risky businesses. Beyond this fundamental necessity, a next step is for AZ, KY, TS and UZ to consider what additional policy measures are required to improve the risk of detection:

- Registration prior to the first day at work could be introduced in TS and UZ. Unless this is done, then during an inspection, employers and workers can claim that they have only just started work and have not yet registered.
- So too should steps be taken to improve the use of data mining and matching to identify risky businesses in all countries, including the improvement of risk assessment and the

greater use of the results of risk assessment in not only the selection of inspections but also to decide on the recipients of “notification letters” to “nudge” changes in behaviour.

Improving the ease and benefits of engaging in the formal economy

AZ uses most of the incentive measures available, except individual-level amnesties, as does TS whilst far fewer are used in UZ. It is therefore recommended that UZ and TS explore the feasibility of using a wider range of incentive measures to encourage the transition to formality.

Given the current impact of COVID-19 on AZ, KY, TS and UZ, particular encouragement is given to using a voluntary disclosure initiative to enable those who voluntarily disclose to the state authorities their past informality to access the short-term financial support available to formal businesses and to have the penalties waived (or reduced) that would have applied for their informality, if they are compliant in the future. This would act as a “carrot” to attract them to register and start to make the transition to formality.

Implementing education and awareness raising campaigns

Although all countries responding to the survey state that education and awareness raising initiatives are used, encouragement is given to:

- provide greater information, advice and education on formalisation, and in particular to consider the array of methods that might be used to do this, such as “call centres” using easily understood scripted language responses to frequently asked questions (FAQs), and
- developing an evidence-based approach to the identification of targets, messaging and communication channels of awareness raising campaigns.

Modernising enforcement authorities

To improve trust in government and prevent participation in the informal economy, it is necessary to modernise enforcement authorities by making them more customer-friendly and approachable. At least three institutional reforms are required:

- **Procedural justice** must be improved, which here refers to the authorities treating citizens in a respectful, impartial and responsible manner and thus shifting away from a “cops and robbers” approach and towards a service-oriented approach;
- **Procedural fairness** must be enhanced, which refers to citizens believing that they pay their fair share compared with others; and
- **Redistributive justice** needs improving, which relates to whether citizens believe that they receive the goods and services they deserve given the taxes they pay.

There is also a need for the high-level body established to coordinate the transition to formality to recognise that structural transformation is required to achieve this. All four countries need to:

- Reduce formal institutional resource misallocations and inefficiencies by:
 - Modernising government such as improving the reliability of services and the efficiency of government spending;
 - Reducing corruption;
- Tackle formal institutional voids and weakness by:
 - Increasing GDP per capita;
 - Improving the dimensions of human development, including a long and healthy life, being knowledgeable and have a decent standard of living;
 - Improving the dimensions of social progress, including basic human needs, rights and education;
 - Raising (not lowering) tax rates;
 - Increasing government expenditure and especially expenditure on social contributions, and

- Reducing the depth and incidence of poverty.
- Reduce formal institutional powerlessness by:
 - Improving the perceived rule of law, government effectiveness, regulatory quality and public trust in politicians; and
- Reduce formal institutional instability and uncertainty by:
 - Improving the transparency of government policymaking.

6.2 Recommendations for South-South and triangular cooperation and peer learning

- The role of ILO and its experts has been to facilitate discussion to enhance policy dialogue and identify and disseminate good practices. The lesson from this project has been that providing a clear outline of what is meant by an integrated strategic approach for the transition to formality, and breaking it down into its component parts, has facilitated structured discussion on each component and enabled participants to clearly identify the next steps required on each aspect.
- The ILO and its experts have played an important role in facilitating a multi-stakeholder approach by (i) highlighting how an integrated strategic approach necessitates multi-stakeholder participation and (ii) setting out for each stakeholder a process they can use for identifying, building and managing partnerships and identifying the next steps they need to take to more effectively move towards a multi-stakeholder approach in their own organisations.
- To ensure countries work as equal partners, and ensure equality and horizontality, the lesson from this project is that the breaking down of the integrated strategic approach made it clear that different countries were at different stages on each component and sub-component. It is also essential for the ILO expert to highlight the similar level of progress of many Northern countries.
- Discussing the challenges in making progress on each component and seeking tips from countries that had made more progress on how to overcome these barriers facilitated a process of peer learning. It also made peer learning and participatory approaches systematic throughout the process.

REFERENCES

- Acs, Z., Desai, S. Stenholm, P. and Wuebker, R. (2013). Institutions and the rate of formal and informal entrepreneurship across countries. *Frontiers of Entrepreneurship Research*, 35(15), pp. 1-24.
- Allingham, M. and Sandmo, A. (1972). Income tax evasion: a theoretical analysis. *Journal of Public Economics*, 1(2), pp. 323-338.
- Alm, J. and Torgler, B. (2011). Do ethics matter? tax compliance and morality. *Journal of Business Ethics*, 101, 635-51.
- Alm, J., Kirchler, E., Muelhbacher, M, Gangl, K., Hofmann, E., Kogler, E. and Pollai, M. (2012). Rethinking the research paradigms for analyzing tax compliance behaviour. *CESifo forum*, 10, 33-40.
- Alm, J., Sanchez, I. and De Juan, A. (1995). Economic and non-economic factors in tax compliance. *Kyklos*, 48, pp. 3-18.
- Apostolidis, C. and Haeussler, S. (2018). Sea, sand and shadow economy – consumer acceptance of shadow hospitality in Greece. *Hospitality & Society*, 8(3), pp. 205-227.

- Autio, E. and Fu, K. (2015). Economic and political institutions and entry into formal and informal entrepreneurship. *Asia Pacific Journal of Management*, 32(1), pp. 67-94.
- Bami, X. (2020). Kosovo business complain government's support package falls short. *Balkan Insight*, available at: <https://balkaninsight.com/2020/05/14/kosovo-businesses-complain-governments-support-package-falls-short/>
- Baumol, W.J. and Blinder, A. (2008). *Macroeconomics: principles and policy*, Cincinnati, OH: South-Western Publishing.
- Bird, R., Martinez-Vazquez, J. and Torgler, B. (2006). Societal institutions and tax effort in developing countries. In J. Alm, J. Martinez-Vazquez and M. Rider (eds.), *The Challenges of Tax Reform in the Global Economy*. New York: Springer, 283-338.
- Braithwaite V. (2009). *Defiance in taxation and governance: resisting and dismissing authority in a democracy*. Cheltenham: Edward Elgar.
- Coricelli, G., Rusconi, E. and Villeval, M-C. (2014). Tax evasion and emotions: an empirical test of re-integrative shaming theory. *Journal of Economic Psychology*, 40 (1), 49-61.
- Cromwell, P. and Thurman, Q. (2003). The devil made me do it: Use of neutralizations by shoplifters. *Deviant Behavior*, 24(6), 535-550.
- Dau, L.A. and Cuervo-Cazurra, A. (2014). To formalize or not to formalize: entrepreneurship and pro-market institutions. *Journal of Business Venturing*, 29, 668-86.
- De Wispelaere, F. and Pacolet, J. (2017). *Data Mining for More Efficient Enforcement: a learning resource*. European Platform Tackling Undeclared Work, Brussels.
- Denzau, A.T. and North, D. (1994). Shared mental models: ideologies and institutions. *Kyklos*, 47, pp. 3-30.
- European Commission (2016). *Decision (EU) 2016/344 of the European Parliament and of the Council of 9 March 2016 on establishing a European Platform to enhance cooperation in tackling undeclared work*. Brussels: European Commission.
- European Platform Tackling Undeclared Work (2017). *Data mining for more efficient enforcement: a practitioner's toolkit*, available at: <https://ec.europa.eu/social/BlobServlet?docId=18826&langId=en>
- European Platform Tackling Undeclared Work (2018). *Toolkit on Risk Assessments for more efficient inspections as a means to tackle undeclared work*, available at: <https://ec.europa.eu/social/BlobServlet?docId=20862&langId=en>
- Gangl, K., Muehlbacher, S., de Groot, M., Goslinga, S., Hofmann, E., Kogler, C., Antonides, G. and Kirchler, E. (2013). "How can I help you?": perceived service orientation of tax authorities and tax compliance. *Public Finance Analysis*, 69 (4), 487-510.
- Godfrey, P.C. (2011). Toward a theory of the informal economy. *Academy of Management Annals*, 5(1), pp. 231-277.
- Godfrey, P.C. (2015). Introduction: why the informal economy matters to management. In: P.C. Godfrey, ed., *Management, society, and the informal economy*. London: Routledge, pp. 1-20.
- Hasseldine, J., Hite, P. James, S. and Toumi, M. (2007). Persuasive communications: tax compliance enforcement strategies for sole proprietors. *Contemporary Accounting Research*, 24(1), pp. 171-194.
- Helmke, G. and Levitsky, S. (2004). Informal institutions and comparative politics: a research agenda. *Perspectives on Politics*, 2(6), pp. 725-740.

- Henry, S. (1990). *Degrees of deviance: Student accounts of their deviant behaviour*. Salem: Sheffield Publishing.
- Horodnic, I. and Williams, C.C. (2020). Tackling undeclared work in the European Union: beyond the rational economic actor approach. *Policy Studies*, <https://doi.org/10.1080/01442872.2019.1649384>
- ILO (2015). *Recommendation No. 204 concerning the Transition from the Informal to the Formal Economy*. Geneva: ILO.
- ILO (2016). *Diagnostic report on tackling undeclared work in Greece*. Geneva: ILO.
- ILO (2017). ILO Approach to strategic compliance planning for Labour Inspectorates, https://www.ilo.org/labadmin/info/public/fs/WCMS_606471/lang--en/index.htm
- ILO Global Commission on the Future of Work (2019) *Work for a Brighter Future*, ILO, Geneva, available at: https://www.ilo.org/wcmsp5/groups/public/---dgreports/---cabinet/documents/publication/wcms_662410.pdf
- IMF (2020). *Policy responses for COVID-19*. Available at: <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>
- Job, J., Stout, A. and Smith, R. (2007). Culture change in three taxation administrations: from command and control to responsive regulation. *Law and Policy*, 29(1), 84-101.
- Kastlunger, B., Lozza, E., Kirchler, E. and Schabmann, A. (2013). Powerful authorities and trusting citizens: the slippery slope framework and tax compliance in Italy. *Journal of Economic Psychology*, 34 (1), pp. 36-45.
- Khurana, P. and Diwan, U. (2014). A comparison of psychological factors for tax compliance: self-employed versus salaried people. *International Journal in Management and Social Science*, 2 (3), pp. 107-24.
- Kirchler, E. (2007). *The economic psychology of tax behaviour*. Cambridge: Cambridge University Press.
- Kirchler, E., Hoelzl, E. and Wahl, I. (2008). Enforced versus voluntary tax compliance: the 'slippery slope' framework. *Journal of Economic Psychology*, 29, pp. 210-225.
- Kistruck, G. *et al.* (2015). The double-edged sword of legitimacy in base-of-the-pyramid markets. *Journal of Business Venturing* 30(3), pp. 436-51.
- Kogler, C., Batrancea, L., Nichita, A., Pantya, J., Belianin, A. and Kirchler, E. (2013). Trust and power as determinants of tax compliance: testing the assumptions of the slippery slope framework in Austria, Hungary, Romania and Russia. *Journal of Economic Psychology*, 34, pp. 169-180
- Kogler, C., Muelbacher, S. and Kirchler, E. (2015). Testing the 'slippery slope framework' among self-employed taxpayers. *Economics of Governance*, 16, pp. 125-141.
- Lapeyre, F. and Williams, C.C. (2020). Designing effective policy and coordination frameworks for transition to formality. In Islam, I. and Lapeyre, F. (eds.) *Transition to Formality and Structural Transformation: Challenges and Policy options*, pp. 22-61. Geneva: ILO. Available at:
- Leventhal, G. S. (1980), 'What should be done with equity theory? new approaches to the study of fairness in social relationships', in K. Gergen, M. Greenberg and R. Willis (eds.), *Social Exchange: advances in theory and research*, New York: Plenum Press, 27-55.

- Levitsky, S. and Murillo, M.V. (2009). Variation in institutional strength. *Annual Review of Political Science*, 12(1), 115-133.
- McKercher, B., Weber, K. and du Cros, H. (2008). Rationalising Inappropriate Behaviour at Contested Sites. *Journal of Sustainable Tourism*, 16(4), 369-385.
- Minor, W. (1981). Techniques of neutralization: A reconceptualization and empirical examination. *Journal of Research in Crime and Delinquency*, 18(2), 295-318.
- Molero, J.C. and Pujol, F. (2012). Walking inside the potential tax evader's mind: tax morale does matter. *Journal of Business Ethics*, 105, 151-162.
- Muehlbacher, S., Kirchler, E. and Schwarzenberger, H. (2011b). Voluntary versus enforced tax compliance: empirical evidence for the 'slippery slope' framework. *European Journal of Law and Economics*, 32, pp. 89-97.
- Muehlbacher, S., Kogler, C. and Kirchler, E. (2011a). *An Empirical Testing of the Slippery Slope Framework: The Role of Trust and Power in Explaining Tax Compliance*. Vienna: University of Vienna Department of Economics Working Paper.
- Murphy, K. (2005). Regulating more effectively: the relationship between procedural justice, legitimacy and tax non-compliance. *Journal of Law and Society*, 32 (4), 562-89.
- Murphy, K. (2008). Enforcing tax compliance: to punish or persuade? *Economic Analysis and Policy*, 38 (1), 113-35.
- Murphy, K. and Harris, N. (2007). Shaming, shame and recidivism: a test of re-integrative shaming theory in the white-collar crime context. *British Journal of Criminology*, 47, 900-17.
- Murphy, K., Tyler, T. and Curtis, A. (2009). Nurturing regulatory compliance: is procedural fairness effective when people question the legitimacy of the law? *Regulation and Governance*, 3, 1-26.
- North, D.C. (1990). *Institution, institutional change and economic performance*. Cambridge: Cambridge University Press.
- Pau, A. (2005a), 'Kümme asutust ja organisatsiooni alustavad ümbrikupalgavastast ühisvõitlust'. Estonian Tax and Customs Board, press release, 14.01.2005, available at <http://www.emta.ee/?id=2222> (accessed 11 May 2014).
- Pau, A. (2005b), 'Ühisavaldus ümbrikupalkade vastasest koostööst'. Estonian Tax and Customs Board, press release, 18.01.2005, available at <http://www.emta.ee/?id=2228> (accessed 11 May 2014).
- Prinz, A., Muehlbacher, S. and Kirchler, E. (2013). The slippery slope framework on tax compliance: an attempt to formalization. *Journal of Economic Psychology*, 40 (1), pp. 20-34.
- Richardson, M. and Sawyer, A. (2001). A taxonomy of the tax compliance literature: further findings, problems and prospects. *Australian Tax Forum*, 16(2), pp. 137-320.
- Rosenbaum, M.S., Kuntze, R. and Wooldridge, B.R. (2011). Understanding unethical retail disposition practice and restraint from the consumer perspective. *Psychology & Marketing*, 28, 29-52.
- Siqueira, A.C.O., Webb, J.W. and Bruton, G.D. (2016). Informal entrepreneurship and industry conditions. *Entrepreneurship Theory and Practice*, 40(1), pp. 177-200.
- Sykes, G.M. and Matza, D. (1957). Techniques of neutralization: A theory of delinquency. *American Sociological Review*, 22(6), 664-670.

- Torgler, B. (2003). To evade taxes or not: that is the question. *Journal of Socio-Economics*, 32, pp. 283-302.
- Torgler, B. (2007). Tax morale in Central and Eastern European countries. In: N. Hayoz and S. Hug, Eds., *Tax evasion, trust and state capacities: how good is tax morale in Central and Eastern Europe?* Bern: Peter Lang, pp. 155-186.
- Torgler, B. (2011). *Tax morale and compliance: review of evidence and case studies for Europe*. World Bank Policy Research Working Paper 5922. Washington DC: World Bank.
- Vare, T. (2006), 'Ümbrikupalka makstakse vähem', available at: http://www.ti.ee/index.php?article_id=809&page=54&action=article (accessed 12 January 2012)
- Webb, J.W., Tihanyi, L. Ireland, R.D. and Sirmon, D.G. (2009). You say illegal, I say legitimate: entrepreneurship in the informal economy. *Academy of Management Review*, 34(3), pp. 492-510.
- Welter, F., Smallbone, D. and Pobol, A. (2015). Entrepreneurial activity in the informal economy: a missing piece of the jigsaw puzzle. *Entrepreneurship and Regional Development*, 27(5-6), pp. 292-306.
- Wenzel, M. (2002). The impact of outcome orientation and justice concerns on tax compliance: the role of taxpayers' identity. *Journal of Applied Psychology*, 87, pp. 639-645.
- Williams, C.C. (2014). *Confronting the shadow economy: evaluating tax compliance and behaviour policies*. Cheltenham: Edward Elgar.
- Williams, C.C. (2016). *Developing a Holistic Approach for Tackling Undeclared Work: background paper*. Brussels: European Commission. Available at: https://www.researchgate.net/publication/311354713_Developing_a_Holistic_Approach_for_Tackling_Undeclared_Work_background_paper
- Williams, C.C. (2017). *Entrepreneurship in the Informal Sector: an institutional perspective*. London: Routledge.
- Williams, C.C. (2018). *Elements of a preventative approach towards undeclared work: an evaluation of service vouchers and awareness raising campaigns*, available at: <http://ec.europa.eu/social/BlobServlet?docId=19526&langId=en>
- Williams, C.C. (2019). *Preventative approaches for tackling undeclared work, focusing upon tax rebates and notification letters*, available at: <https://ec.europa.eu/social/BlobServlet?docId=21461&langId=en>
- Williams, C.C. and Gurtoo, A. (2017). The institutional environment of entrepreneurship in developing countries: an introductory overview. In: C.C. Williams and A. Gurtoo (Eds.), *Routledge handbook of entrepreneurship in developing economies*. London: Routledge, pp. 13-16.
- Williams, C.C. and Puts, E. (2017). *2017 Platform Survey Report: organisational characteristics of enforcement bodies, measures adopted to tackle undeclared work, and the use of databases and digital tools*, European Commission, Brussels. <https://ec.europa.eu/social/BlobServlet?docId=18747&langId=en>
- Williams, C.C. and Horodnic, I.A. (2017). Evaluating policy approaches for tackling undeclared work in the European Union. *Environment and Planning C: Politics and Space*, 35(5), pp. 916-936.

Williams, C.C. and Shahid, M. (2016). Informal entrepreneurship and institutional theory: explaining the varying degrees of (in)formalisation of entrepreneurs in Pakistan. *Entrepreneurship and Regional Development*, 28(1-2), pp. 1-25.

Williams, C.C., Martinez-Perez, A. and Kedir, A.M. (2017). Informal entrepreneurship in developing economies: the impacts of starting-up unregistered on firm performance. *Entrepreneurship Theory and Practice*, 41(5), pp. 773–799.