

The effectiveness of formalization policies in developing countries – Empirical results

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https://www.ilo.org/employment/Whatwedo/Publications/WCMS_734545/lang--en/index.htm

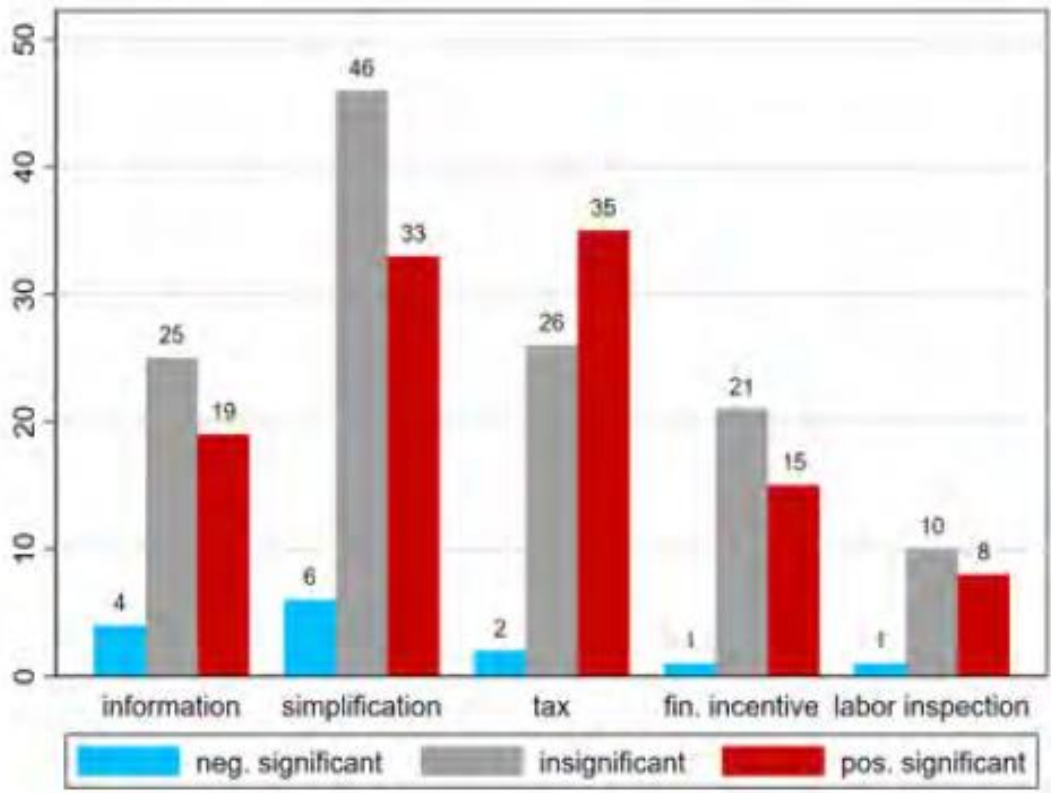
Data search and inclusion

- Search strings and data bases:
 - “Formalize”, “Formalization”, “Business AND Registration”, “Worker AND Registration”, “Labor AND Inspection”, and versions of those
 - SSRN, IDEAS, 3ie Repository, World Bank Open Knowledge Repository, NBER, IZA, CEPR, IDB, ILO, Google Scholar
 - Backward/forward citation search — Sequentially: title, abstract, full text assessment Inclusion criteria: — English language; quantitative impact assessment; statistical significance; intervention type; “switch-on” treatment

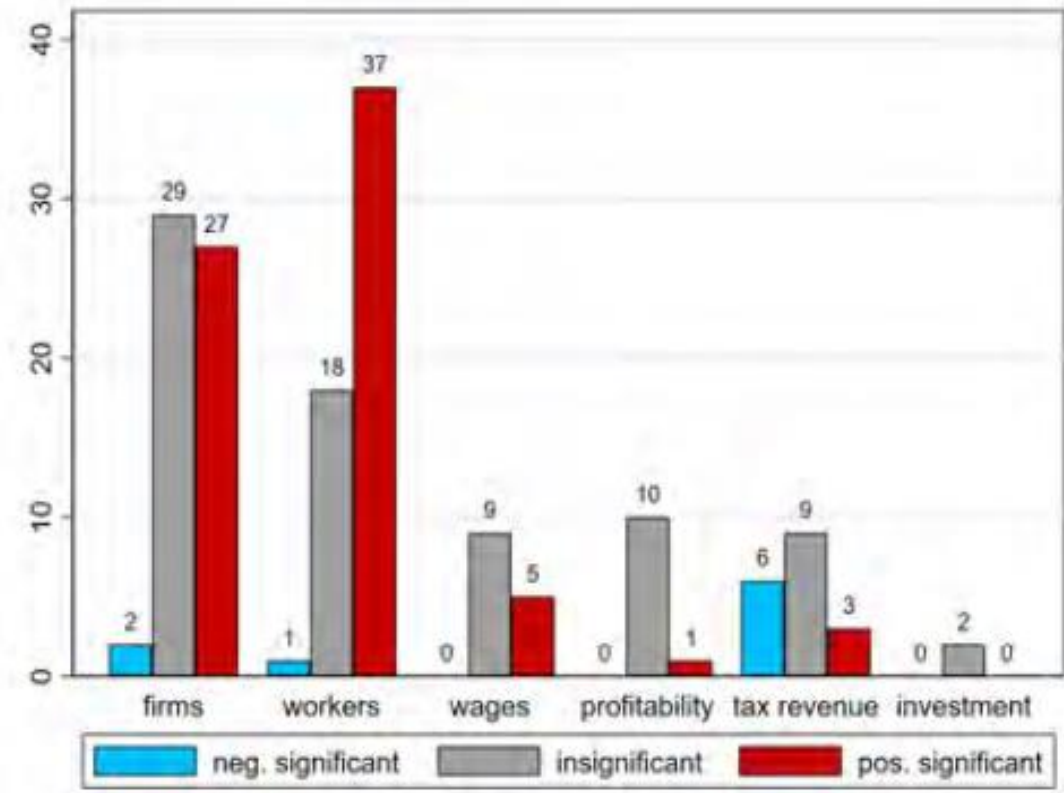
Data extracted

- Study characteristics: Country; authors; title; publication status (year; journal, if applicable)
- Intervention characteristics: Target and scope of the intervention: firms/workers/both; program or policy
- Outcomes: (i) firm registration probability, (ii) worker registration probability, (iii) wages, (iv) firm profitability, (v) tax revenue, (vi) investment
- Background characteristics: Labor market conditions at time of program operation

Sign and significance by intervention type and outcome



(a) Intervention type



(b) Outcome

Main conclusions

- Few impact studies (32 in this version of the paper). The majority in Latin America
- The effect of the interventions tends to be better in a favourable labour market context
- Tax incentives and information – in combination with other instruments – tend to have a positive impact
- Larger programmes are more effective than limited interventions
- Long-term effect may be more positive than the impact in the short term.

Other meta studies on informality

- Floridi, Dema and Wagner (2020)
 - 27 studies on business formalization.
 - They find that the firm formalization interventions had a positive and significant effect, but with a very small magnitude; moreover, this effect disappears, once the publication bias is taken into account.
 - Interventions that increase the benefits of formality tend to have more positive effects than cost reduction or enforcement measures.
 - The long-term effects tend to be more positive than the immediate impact.
 - Formalization in the form of general firm registration is easier to accomplish than the registration with tax authorities or social security.
 - Finally, small and medium firms are more likely to transit to formality than microenterprises.