

○ IMPROVING LABOUR INSPECTION AND ADDRESSING INFORMALITY

Implementing the Palestinian National Employment Strategy

○ Thematic Fiche 01

○ *Background*

While limited information is available on informality and the informal economy in the Occupied Palestinian Territory (OPT), it has been estimated that some 140,000 workers are employed in the informal sector. However, a large share of informal employment (59 per cent) is carried out by registered/ formal economic entities, accounting for a total of 205,500 jobs in 2008.¹ In Gaza, the increased levels of instability together with the persisting closure have further exacerbated informal employment. Generally speaking, the Palestinian labour market is characterized by high incidences of temporary, casual and seasonal employment and growing cases of informal employment, accompanied by high levels of poverty and severe decent work deficits. These characteristics weaken the overall economy, expose workers to poor and unsafe working conditions, and increase the risk to worst forms of child labour and school drop outs.

140,000
WORKERS
are employed in
the ***informal sector***

59% of informal employment is
carried out by registered/
formal economic entities

accounting for a total of

205,500 JOBS
in 2008

¹ The Occupied Palestinian Territory: An Employment Diagnostic Study / International Labour Organization, Regional Office for Arab States. - Beirut: ILO, 2018.

○ Main gaps

The main reasons behind the increasing informality include structural weaknesses in the private sector; lack of proper training for women and youth, driven in particular by the weak vocational technical sector and the lack of effective market-driven job preparedness programmes; weak tax monitoring and compliance; and lack of adequate SME-oriented financial services and poor linkages with the banking sector.



Weak/Low Productivity in the Private Sector

In the last decade, private sector employment opportunities have been concentrated in non-tradable services, including mainly low-productive retail trade, diminishing overall employment productivity. This inefficiency is driven by a structure that centres on small-scale and low productive activities, often taking place in local market-oriented informal establishments.



Inadequate Workforce Preparation

Youth, including in particular those with low skills or with no prior work experience, are often forced to accept employment in the informal economy as their only way out of unemployment or inactivity. It is estimated that half of all the youth in the private sector are informally employed. Quality TVET programmes and workforce preparation courses that are market-driven, along with equitable training opportunities for men and women are very much needed.



Lack of Enforcement

Tax departments have poor technical and institutional capacity to enforce tax compliance and verify the real value of taxable income, especially given the large size of the informal economy in the OPT. Reforms and capacity development initiatives are very much needed to enhance tax administration capacities with a view to encouraging registration and supporting formal job creation in the private sector.



Financial Service Integration

Enterprises in the informal sector do not deal with the banking sector, neither to access finance nor to open bank accounts. This weakens the financial sector, but also diminishes the ability of private enterprises (particularly in productive sectors) to grow and contribute to GDP. The incentives offered by banks are currently not enough to encourage increased involvement of such businesses with the banking sector.

Strategies implemented so far to address informality in the OPT have been limited in focus and implementation, targeting mainly taxes and labour inspection. These strategies, however, fail to take into account the various drivers of informality both at the macro- and micro- levels, and have consequently yielded limited results in promoting formal job creation and supporting workers' and establishments' transition from the informal to the formal economy.

○ Geography, Gender & Social Inclusion

Youth and women with higher education levels are more likely to be involved in informal employment, due to the lack of other formal job opportunities available to them. Lax regulatory enforcement creates a climate where women are often forced to leave the workforce once they marry or have children, because of employers' inadequate compliance with the Labour Law, including in relation to maternity protection and childcare support. In Gaza, **more than six out of every ten youth are informally employed**, lacking protection and decent working conditions.

More specifically, youth with higher education levels, particularly women, are more severely affected by low participation and high unemployment rates than their low-educated counterparts. TVET programmes targeting female workers, who have very low labour force participation rates, typically focus on gender segregated service fields with limited employment impact. While banks have been unable to entice informal enterprises to use their services, non-governmental programmes have been successful in reaching rural and marginal actors with financing.

○ Areas for Development

Informality in the labour market can be addressed by reducing the size of the informal sector and that of informal employment, including through:

- ▶ strengthening the labour inspection system;
- ▶ adopting a tax incentive package and minimizing registration fees and requirements for enterprises to encourage their shift to the formal sector;
- ▶ improving the working conditions of all workers and ensuring their access, in law and practice, to decent and equitable protection; and
- ▶ sensitizing workers, particularly youth, to their labour rights as stipulated by the law.

○ Risks & Challenges

Increased enforcement of tax compliance and enterprise registration can create social tension and should be accompanied by awareness-raising campaigns that highlight the risks and challenges faced by informal economy workers and enterprises, and the impact and repercussions of informality on the economy as a whole. Incentives for coming into compliance should be emphasized over punitive measures.

○ Desired Outcomes

1. The inspection system is strengthened to reduce informal employment, especially among women and youth, and to increase compliance with the Labour Law.

Capacity building will be provided to the Ministry of Labour (MoL) Inspection and Labour Protection Directorate General, to increase the efficacy of labour inspection and administration operations. The aim of this capacity building is to enhance the ability of this Directorate's staff to coordinate and lead joint inspection missions/ visits with different line ministries with relevant inspection responsibilities. Capacity building interventions will help enhance the human resource capability of the Inspection Directorate General by employing new labour inspectors and training the inspection teams in order to bridge the knowledge and skills gaps based on a well-defined training needs assessment. Financial resources will be used to strengthen the cadre of labour inspectors and provide transportation, equipment and devices needed to carry out responsibilities effectively and efficiently. Internal regulations and procedures will be reviewed and aligned with international labour inspection standards and global best practices. Special attention will be paid to expanding the scope and coverage of labour inspection to include informal enterprises with a high proportion of youth and women, and sectors with widespread incidence of child labour.

In coordination with relevant ministries, enterprises/sectors that demonstrate poor compliance with the Labour Law will be targeted so that their compliance increases gradually and in tandem with their capacities and sector conditions. Focus will be placed on immediate prosecution of grave violations detected by the Inspection Directorate. Relevant information will be exchanged with other law enforcement agencies. Necessary amendments will be adopted if penalties do not provide an effective deterrent to legislation on labour protection.

Indicators

- ▶ Percentage increase in the number of workers covered by inspection visits.
- ▶ Percentage increase in visited establishments with proven compliance with the Labour Law, by economic sector and aspects of compliance with the law.
- ▶ Percentage increase in the number of registered establishments in sectors that are predominantly informal.
- ▶ Percentage increase in inspection visits implemented in partnership between the MoL and other ministries/unions that have supervisory and/or representational duties of the respective sector and its workers.
- ▶ Percentage decrease in the number of workers (by sex) earning less than the minimum wage, by economic sector.

Thematic Fiche 01

Improving Labour Inspection and Addressing Informality
Implementing the Palestinian National Employment Strategy

- ▶ Percentage decrease in work injuries, by sector.
- ▶ Percentage reduction in child labour, by sector and gender.
- ▶ Number of working children (under the age 15) reintegrated into TVET and educational programmes.

2. Establishments are encouraged to transition to formal economy and workers and jobseekers sensitized to their labour rights.

The government will support surveys and studies to foster a deeper understanding of the factors that contribute to informal economy growth and provide needed information to better assess decent work deficits in the formal and informal economies. A key focus of these exercises will involve an analysis of the legal and institutional framework that helps enterprises survive in the informal economy. Where necessary, in close cooperation with the MoL, the Palestinian Central Bureau of Statistics will develop new tools to measure decent work deficits in periodic labour force surveys in order to (1) improve and develop labour inspection and administration programmes; (2) raise awareness about the negative impact of informal economy on workers' welfare and economic development; and (3) provide information needed to review employer and trade union structures and practices, ensuring that informal workers and entrepreneurs (need- and opportunity-driven entrepreneurs) take part in the labour market policy-making process.

Based on the results of these surveys and studies, the MoL will work in partnership with trade unions and employers' organizations to launch nationwide media and awareness-raising campaigns to publicize the negative impact of informal economy and encourage business transition to formalization. These campaigns will be paralleled by implementing a national programme to sensitize youth and women, in particular, about their labour rights. Ad hoc training and educational packages will be designed to be implemented in partnership with trade unions, employers' organizations, and relevant NGOs. These will be delivered through training workshops, educational handouts distributed to vocational and industrial school students, higher education institutions, and jobseekers who access employment offices at MoL district offices and the Palestinian Employment Fund.

Indicators

- ▶ Number of participants (by sex and age) in legal awareness and educational activities.
- ▶ Percentage increase of workers who receive their full rights as stipulated in the labour law.
- ▶ Percentage increase in formal enterprises out of the total number of establishments.
- ▶ Percentage increase in formal employment in enterprises.

○ Priority Investment Needed

\$495,000



for reducing
informal employment

particularly among
women and youth

\$375,000



for encouraging establishments
transition to formal status

and raising awareness among
workers of their rights.

