

# Is no employment better than self-employment? The story of how Romania managed to create a class of ‘invisible’ and forgotten workers<sup>1</sup>

## Abstract

Romania has been, for the past decade, not only the country with the highest in-work poverty among EU member states, but – unlike most of the others – also a country with a steadily growing welfare polarisation of the workforce. This article aims to explain why Romania still finds itself in this situation. The article documents the increasing differences in exposure to poverty and social exclusion between employees and the self-employed and points to the mix of factors responsible. Unlike most European countries, where a certain gap between employees and non-employees is the result of the flexibilisation of the labour market, in Romania this appears rather to be the result of a unique inherited structure of employment alongside an inadequate package of social and fiscal measures which has kept and further pushed the self-employed into informality. Thus, Romania is still searching for a policy solution that would allow the existing self-employed to become ‘visible’ in the formal economy and for a diversification of forms of employment. Finally, the article explores the possibilities for a reversal of the current trend.

**Keywords:** Polarisation of the employed population, self-employment, social protection of the workforce, fiscal policies, employment structure

## Introduction

The article aims at explaining why, 12 years after Romania adopted a series of changes to address the effects of the 2008/09 economic crisis, and despite constant improvements over this period, Romania still has the highest in-work poverty, material deprivation and social exclusion across EU Member States.

The starting point of the analysis is the observation that there is a significant division among the employed population in terms of their wellbeing and that this division is determined by employment status. A closer look at the dynamic of welfare/poverty indicators among employees, on the one hand, and the self-employed, on the other, reveals a considerable gap between these two categories which has

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widened steadily since 2010. This makes Romania unique among all other EU countries, as the contrast between employees and the self-employed is not only more striking compared to other EU countries, but the observed trend of a deepening of the gap between the two categories stands in opposition to developments in the EU.

Thus, explaining high in-work poverty in Romania requires a redefinition of the problem and an understanding the roots of the widening gap between employees and the self-employed. In most European countries, a certain gap between employees and non-employees is the result of a flexibilisation of the labour market – that is, of an increase in atypical and non-standard forms of employment, and thus of a certain modularisation of work – but in Romania the diversification of forms of employment has been rather marginal in terms of accounting for the precarity in living conditions of the self-employed. Furthermore, the gap appears to be rather the result of the mix between a unique inherited structure of employment and a social protection and fiscal system which has largely ignored the self-employed and even pushed them into informality. Thus, contrary to other European countries, which face the problem of how better to protect workers in new forms of employment, Romania is still searching for a policy solution that will allow both for the existing self-employed to become ‘visible’ in the formal economy and for the diversification of types of employment.

Despite some timid fiscal and social protection reforms, the current legislative framework still does not provide any positive incentive for many of those who are informally employed to switch into formal employment, as the costs associated with ‘buying’ visibility and social protection are still too high to do so. Even though during the Covid-19 pandemic Romania adopted, for the first time, social protection measures directly targeting non-standard workers and the self-employed, the polarisation of the employed population continued to increase.

Finally, the proposed explanation aims to put the social implications of the deepening division of the workforce into a different light, revealing the effects on the wellbeing of the employed population of Romania’s missed opportunities to articulate adequate policy responses to a distorted employment structure and a changing economic environment. The article further proposes some directions for intervention to improve the chances of reversing this trend.

The first section defines the paradoxical situation in which Romania’s employed population finds itself and its unique character compared to other European countries. It will also briefly explain why poverty/welfare indicators are used to assess the wellbeing of those in employment. In contrast to other approaches to the wellbeing of the self-employed, which focus on the precarity of work and prosperity, the proposed approach focuses on precarity from work (Blake et al. 2021), as well as on the risks of poverty and deprivation.

The second section briefly reviews the main characteristics of the employed population and the dynamic of the employment structure over the past twelve years (2010-2022) as a means of contextualising the analysis and identifying the structural roots of the gap in wellbeing between employees and other categories of people in employment. The third section describes the gap between employees and the

self-employed by using an indicator that reflects the relative difference in exposure to poverty and deprivation risks and captures the dynamics of this gap.

The fourth section proposes a possible explanation for the increasing polarisation in welfare among the employed population by analysing the impact of the major social, fiscal and labour market reforms undertaken since 2010 and of Romania's institutional and administrative capacity to carry out social reforms.

Finally, the paper explores some strategic directions in which the current trend may be reversed.

The novelty of this proposed approach resides in the slightly different way of looking at the wellbeing of the employed population through the lens of the differences and gaps in welfare indicators. For this purpose, an indicator reflecting the relative differences in welfare indicators is used throughout the article. Stressing precarity in work instead of the precarity of work allows the articulation of an explanation which focuses mainly on fiscal and social policy reforms rather than on labour market reforms and legislation.

Stating the problem: the struggle to see what is in front of our noses<sup>2</sup>

An impressive amount of literature has been generated over the past 20 years to identify and define the new types of employment which have emerged as a result of the flexibilisation of labour markets and, further, to address the challenges posed by these to social protection systems across Europe, including in Romania (Addison and Surfield 2009; Hipp et al. 2015; Ilie and Preoteasa 2017; Behrendt et al. 2019; Tamayo and Tumino 2020). This is especially so under the extraordinary social and economic circumstances generated by the Covid-19 pandemic and the Russian-Ukrainian war (Jerg et al. 2021; Pop 2021a; De Becker et al. 2022; Schoukens and Weber 2022). These studies have also provided detailed and comprehensive literature reviews on atypical work and the precarity of work, one of the most used concepts in relation to newly emerged forms of employment (Blake et al. 2021). Precarity of work links the discourse on atypical work to politics, proposing strategies to address not only the social protection challenges but also the rights associated with the stability and safety of atypical work (Neilson and Rossiter 2008).

As a result of all the debates around atypical employment and its effects on the content of work and workers' wellbeing, the European Council formulated in 2019 a recommendation on access to social protection for workers and the self-employed (EC 2019) while, in 2021, the International Labour Organization launched a policy resource package for extending social security to workers in the informal economy (ILO 2021).

Unlike in other European countries, the diversification of atypical employment in Romania was marginal and non-standard forms of employment were very slow to emerge due to the fiscal and labour legislation which, contrary to its intentions (Guga 2016), rather created disincentives to the emergence of atypical and non-standard

2 A reference to the statement 'to see what is in front of one's nose needs a constant struggle' in George Orwell's 1946 essay, 'In front of your nose' (available at <https://www.orwellfoundation.com/the-orwell-foundation/orwell/essays-and-other-works/in-front-of-your-nose/>).

forms while suffocating those already present in the labour market. While the proportion of employees among the employed population in Romania is lower compared to other European countries, most of these are in standard employment whereas those in non-standard employment (part-time contracts, temporary contracts) are marginal (Ilie and Preoteasa 2017; Pop 2021a).

Furthermore, forms of atypical employment other than seasonal work in agriculture and construction, self-employment in subsistence agriculture and the unpaid work of family members in agricultural activities or small family businesses (e.g. short-term contracts, piecemeal work in the gig economy, platform work, home-based/remote work and temporary agency work) have been slow to emerge in Romania compared to other European countries. Precarious forms of rural employment (Preoteasa 2015; Ilie and Preoteasa 2017; Ilie 2021) and bogus self-employment have been the main forms of atypical employment, especially in the aftermath of the 2008 economic crisis (Williams and Horodnic 2017; Pop and Urse 2017; Pop 2021a). In addition, a high proportion of the employed, both employees and the self-employed, have been working informally or quasi-informally in sectors affected by seasonality; the informal/quasi-informal sector in Romania was approximated at 37% of the labour force in 2011 (Voinea and Albu 2011).<sup>3</sup> However, the Covid-19 pandemic increased the need to address these employment forms, putting additional pressure on governments.

Thus, working outside an individual contract of employment<sup>4</sup> in Romania is associated with activities related to subsistence agriculture, traditional trades and crafts, domestic work and with activities traditionally affected by seasonality as those in the construction sector or hospitality industry.

Many of the policy analyses (Pop and Urse 2017; Pop 2018; World Bank 2018) and articles (Ghenta 2017; Preoteasa 2015; Preoteasa et al. 2017; Ilie 2021) which point to the critical situation faced by the self-employed population in Romania also attempt to identify some of the factors associated with this precarity in terms of living conditions. The risks of poverty, material deprivation and social exclusion have been preponderantly associated with three factors:

- a. precarious work among rural residents, preponderantly occupied in subsistence agricultural activities (Preoteasa 2015; Pop 2018), as a result of an inherited employment structure (Ilie 2021) or of lacking economic and educational opportunities (World Bank 2018)
- b. low level of educational attainment (Ghenta 2017; Ilie and Preoteasa 2017; Pop 2018)

3 No systematic and reliable assessment of the amplitude of the informal sector has been done since 2011.

4 According to the Romanian legislation (i.e. the labour code), an employee is defined as a person entering a relationship with an employer, for whom s/he willingly agrees to carry out work activities in exchange for a salary, a relationship which is formalised through an individual contract of employment.

- c. other vulnerabilities on the labour market such as being either too young or too old, Roma (Ilie and Preoteasa 2017) or disabled (ANDPD and World Bank 2020).

The increase in the informal sector and the impoverishment of these workers is also the direct effect of inadequate policies, or the simple lack of them, addressing the challenges for workers who are not employees. The failure to address the challenges of an economy undergoing an accelerated alignment process to European and global economic realities threw many of the self-employed into the underground economy, replacing rights, social protection and rewarding work with uncertainty and inadequate pay.

Thus, for most European countries, it makes sense to place the focus of the debates on atypical work on regulations regarding the content and quality of work, and on establishing rights for workers to increase shared prosperity for all employees in a rapidly diversifying economic landscape. Unlike these, the focus of studies on atypical work in Romania needs to shift towards solutions which would create incentives for getting the self-employed (and other non-employees) out of the informal or quasi-formal sector, and to do this without impoverishing them. This would create the premises and the opportunities for stability and prosperity.

Hence, the decision in this article is to focus on the risks of poverty and deprivation, and on precarity from work, rather than on prosperity and the precarity of work. A focus on the precarity of work diverts attention from wellbeing to rights and shifts the emphasis of the required intervention from policies to politics (Neilson and Rossiter 2008). A focus on poverty is also supported by the studies cited by Tamayo and Tumino (2020) showing a widening poverty gap between non-standard and standard workers, with high heterogeneity across countries among the poverty rates of non-standard workers. Moreover, a 2017 study on income and the performance of social policies in Romania (Ilie 2017) points out that being an employee is associated with a lower risk of poverty, including the risk of severe poverty, as well as a higher positive impact of social transfers on the person's welfare. The poverty indicator approach will thus also allow an assessment of the differential impact of social transfers on various categories of employed people.

Romania has, over the past twelve years,<sup>5</sup> been the country with the highest in-work poverty rates<sup>6</sup> across EU Member States while the Romanian employed population scores worse than its European counterparts, with substantially lower income

5 This article covers the period from 2010 to 2021/22 as it allows analysis of the policy responses both to the 2008/09 economic crisis and to the challenges posed by the Covid-19 pandemic.

6 Eurostat: EU-SILC survey (ilc\_iw01) (the data source for the conclusions of this article); working population aged between 18 and 64.

levels alongside higher at risk of poverty, material deprivation<sup>7</sup> and social exclusion rates. The median income of the Romanian employed population was, in 2021, 3.6 times lower than that at EU level, and the lowest across all European countries.<sup>8</sup> Similarly, the risk of poverty rate<sup>9</sup> among the employed population has been the highest across EU across the past decade. In 2021, 15% of all those employed in Romania were at risk of poverty, a proportion 1.7 times higher than the EU average. The same holds true for the severe material deprivation rate which, in 2021, was three times higher than the EU average and the highest across all European Member States.

Even so, the overall situation of employed people in Romania has, regarding the risks of poverty, material deprivation and social exclusion, improved over the past decade. Many policy reports outline the positive developments in this time in the overall situation of the employed population (World Bank 2015; Romanian Government 2022). The statutory minimum gross wage increased by 430% in nominal terms between 2010 and 2022, with a slightly lower increase in the statutory minimum net wage of 331%. Consequently, between 2010 and 2021, the median overall income level of the employed population increased by 157% while the risk of monetary poverty decreased by about 15%. The material deprivation rate and the severe material and social deprivation rate decreased more substantially, by 55% and 43% respectively.

The overall improvement in the welfare situation of the employed is also reflected in an increased affordability to carry out certain social activities. Thus, the proportion of people who cannot afford to participate in leisure activities, get together with friends or family at least once a month, replace worn-out clothes, spend money on themselves or who cannot afford an internet connection for personal use at home decreased significantly.<sup>10</sup> Finally, the risk of poverty or social exclusion, a combined

7 When referring to material deprivation, the article takes into account two combined indicators for which data broken down by activity status are available: (a) material deprivation, an indicator reflecting a significant state of economic strain and lack of durables at household level (see the Eurostat definition at:

[https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Material\\_deprivation](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Material_deprivation;);

and (b) severe material and social deprivation, which reflects the affordability of selected, basic goods, services or social activities, a mix of necessary and desirable items, as defined by Eurostat at: [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Severe\\_material\\_and\\_social\\_deprivation\\_rate\\_\(SMSD\)](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Severe_material_and_social_deprivation_rate_(SMSD)).

8 Eurostat: EU-SILC survey (ilc\_di05); data reflect the employed population aged between 16 and 64.

9 Eurostat: EU-SILC survey (ilc\_li04); data reflect the employed population aged between 16 and 64 years.

10 Eurostat: EU-SILC survey (ilc\_mdcs10b, ilc\_mdcs11b, ilc\_mdcs12b, ilc\_mdcs06b, ilc\_mdcs07b).

indicator of monetary poverty, material deprivation and work intensity within the household,<sup>11</sup> decreased by 31% between 2015 and 2021.

The improvement rates have been far higher than the EU average for all welfare and poverty indicators although less so the severe material and social deprivation rate, which decreased about the same as the overall decrease at EU level. In particular, the median income level of the employed population has increased by a rate seven times higher than the overall EU population, while the decreasing risk of monetary poverty is the reverse of the trend at EU level. Finally, both material deprivation and the at risk of poverty or social exclusion indicators improved at a rate double that across the EU.

Thus, when looking at the overall picture, the monetary and material situation of the employed, even though it remains the worst in Europe, has improved significantly during the past decade and at rates higher than those in other EU countries. Most of the studies mentioned above, which assess the situation of the employed population in Romania, point to these positive developments and the relative improvements in the situation of the self-employed (Preoteasa 2015; Ilie and Preoteasa 2017; Ilie 2021). Meanwhile, other studies emphasise, in contrast, the differences between rural and urban development and their impact on shared prosperity (World Bank 2018) or out-migration (Mitrică et al. 2019), but they do not further acknowledge the deepening of these differences and their roots.

Thus, a focus on individual/group vulnerabilities or, alternatively, on the inequalities between rural and urban areas diverts attention from the high and increasing polarisation between employees and non-employees, both as an explanation for the high rates of in-work poverty, social and material deprivation and exclusion, and as a hint for the direction of corrective policy interventions.

Despite these positive trends, which reflect mainstream reality, monetary inequality has remained extremely high over the entire period and is among the highest across the EU, signalling a polarisation in the welfare of the population. A close look at the main poverty and welfare indicators indeed highlights the polarisation of the workforce, explaining why Romania continues to rank first regarding in-work poverty while wages are spiralling. Employees have, over this period, gained the upper hand: an important and steadily widening gap in monetary and material welfare, current and prospective social protection entitlements and opportunities. In contrast, the ‘employed other than employees’ have mostly been forgotten as fiscal and social legislation has only allowed them to access entitlements while increasing the probability that they fail to fulfil their fiscal obligations. The precarious situation of the Romanian employed population reflects the significant impoverishment and material deprivation among non-employees, i.e. both the self-employed and unpaid contributing family members (Pop 2018).

The next section provides a short overview of Romania’s still distorted structure of employment and profiles the self-employed and unpaid contributing workers. This

11 However, the proportion of people living in households with very low work intensity among the employed population, both employees and non-employees, is lower than the EU average (EU-SILC survey, `ilc_livhl_12n`).



reveals the inherited structural division, the constrained choices of those taking up self-employment and the limited diversification and level of atypical employment in Romania.

The challenges faced by Romania differ to some extent from those of western European economies. Structural factors such as underdeveloped rural economies, a lack of adequate reforms in agriculture, low administrative capacity especially at local level and, last but not least, unevenly developed reforms in social security (Pop 2017; 2018; 2023) provide a specific context which results in new challenges because of the overlap between emerging forms of employment and the inherited, already divided employment structure. Thus, Romania has to confront the necessity of addressing the issues of the past while, at the same time, having to deal with the issues of the present and the near future.

That government have, during the past twelve years, avoided both sets of challenges has only deepened the polarisation of the workforce. The emigration of a part of the workforce, the less obvious passage of a segment of non-employees into the realm of the unseen and the increase in inequality are some of the consequences. High levels of monetary inequality and of an inequality of opportunities represent a significant threat to a country since ‘societies that are more equal produce more sustainable economic growth and demonstrate greater political stability’ (Stiglitz 2020).

### Brief overview of the main characteristics of the Romanian workforce

This section aims to provide a brief overview of the dynamics of the employment structure, the main changes in the size of the workforce and of the characteristics of the two segments which are the focus of the proposed analysis: employees and non-employees, the latter including both the self-employed and unpaid contributing family workers.<sup>12</sup> While not claiming to provide a detailed picture of the evolutions which have taken place over the past decade, this section points out some of the processes which are most relevant to the proposed explanation for the high and increasing polarisation in the wellbeing of the workforce.

More detailed analyses on these topics for Romania can be found in a series of research/policy papers (Preoteasa 2015; Guga 2016; Pop 2018; Pop and Urse 2017; Guga 2019) and academic articles (Ilie and Preoteasa 2017; Ilie 2021). All these provide a more coherent and complete picture of the workforce in Romania.

- 12 Throughout this article the term ‘self-employment’ is used in reference to own-account workers (with or without employees) and does not include the category of unpaid contributing family members, as some statistical indicators used by Eurostat deploy similar terminology. Both these categories – i.e. own-account workers (with or without employees) and contributing family members – fall under the broad category of ‘employed except employees’, or ‘non-employees’.



## Changes in size and structure of employment

The employment structure in Romania presents some particularities compared to the overall employment structure of the EU space.<sup>13</sup> During 2010-2020, the proportion of employees in Romania was significantly lower than the EU average while the proportions of own-account workers (i.e. self-employed without employees) and unpaid contributing family members were significantly higher (see Table 1). However, over the past 12 years the differences have faded; in 2021, the structure of Romanian employment approximated the structure at overall EU level, although with a persisting distortion among young employees (aged 15-25). In one year alone, during the pandemic, the structure of employment changed radically as the number of non-employees decreased drastically, more than it had decreased in the previous ten-year period. Thus, in 2021, the number of own-account workers decreased by 32% compared to 2020 while the number of unpaid contributing family workers decreased by 60%.

Table 1 – Romania and the EU: employment structure, population aged 15 to 64 (%)

	2010		2019		2020		2021	
	EU28	RO	EU28	RO	EU27	RO	EU27	RO
Employees	84	68	86	78	86	78	86	85
Employers	4	1	4	1	4	1	4	1
Self-employed without employees (own account workers)	10	19	10	14	9	14	9	10
Contributing family members	1	12	1	7	1	7	1	3

Source: Eurostat database, LFS lfsa\_egaps

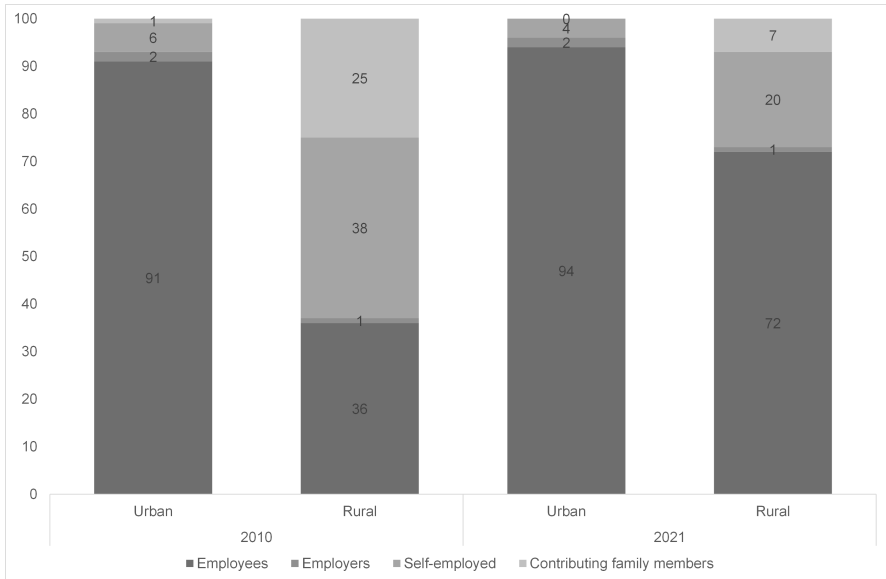
Another peculiarity of the Romanian labour market is that the employment structure in rural areas is significantly different to that in urban areas. While these differences have diminished over the past 12 years, they still persist. Employees prevail among the urban employed while contributing family members and own-account workers are concentrated in rural areas. In 2021, employees made up 94% of the urban employed, while the proportion of employees in rural areas was just 73%. Two out of three employees are urban residents, while three out of four own-account workers and 96% of contributing family members are rural residents.<sup>14</sup> Overall, the share of non-employees in the rural employed population was, in 2021, 4.5 times

13 All EU aggregate indicators consider the country composition for the particular year for which the indicator is calculated. Thus, indicators for 2010 refer to the EU27, while indicators between 2013 and 2019 reflect a 28-strong Member State structure. Starting in 2020, indicators reflect the new, 27-country composition of the EU.

14 Institutul Național de Statistică (INS; National Institute of Statistics), TEMPO-online database; Labour Force Survey (AMG\_1102).

higher than that among the urban employed (Chart 1), with a slightly higher ratio among the young employed.

Chart 1 – Romania 2010 and 2021: employment structure by professional status and residential area (workers aged 15-64)



Source: Tempo-online, AMG110.

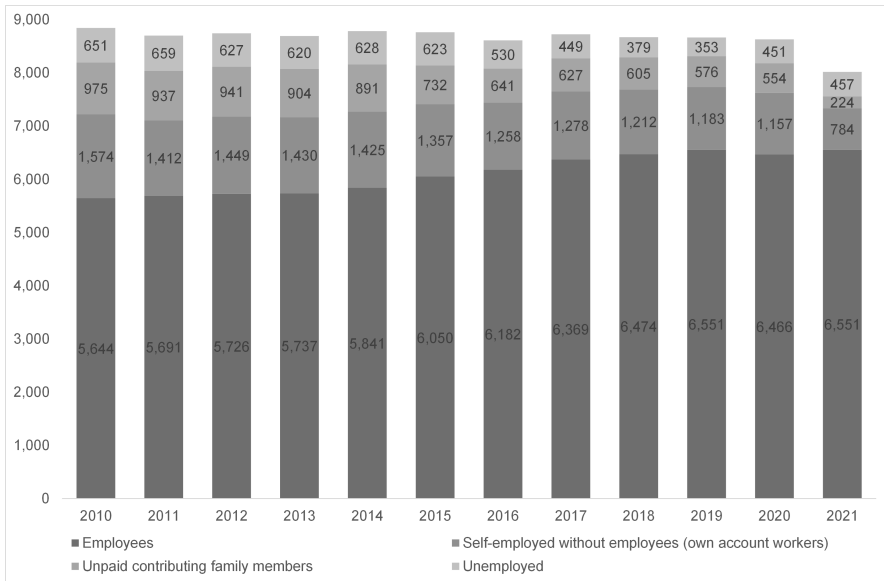
The Covid-19 pandemic not only altered drastically the structure of employment but also determined a sizable fall in the number of the employed population. Overall, since 2010, the number of the employed has remained rather constant: an increase in the number and proportion of employees resulted in a decrease in the number and proportion of own-account workers, and contributing family members, in both rural and urban areas. During 2021, the employed population decreased by 7% in that year alone, reflecting a significant decrease among non-employees which was not matched by an increase of that magnitude in the number of employees (Chart 2).

Approximately 60% of the population who quit employment during 2021 went to swelling the ranks of inactive persons. The inactivity rate increased by 12% in one year, reaching 34.4%, reversing the decreasing trend over the previous ten years (Chart 3). Romania has, over the past 12 years, had one of the highest inactivity rates across the EU and was one of the two countries in which inactivity increased during 2021. In absolute terms, 359 000 people aged between 15 and 64 became inactive. Inactivity also increased among young people and this resulted in a further increase in young people not in education or training, of 22% in that one year;<sup>15</sup> in 2021,

15 Eurostat: Labour Force Survey, edat\_lfse: the increase was even higher in rural areas.

1.5 million young people, i.e. three in four people aged between 15 and 24, were inactive. Thus, young people who exited the labour market during the pandemic did not enrol in education or training but increased the numbers of the stay at home, inactive population.

Chart 2 – Active population in Romania (000), 2010-2021



Source: Eurostat database (lfsa\_agan, lfsa\_egaps, lfsa\_ugan, lfsa\_igaww).

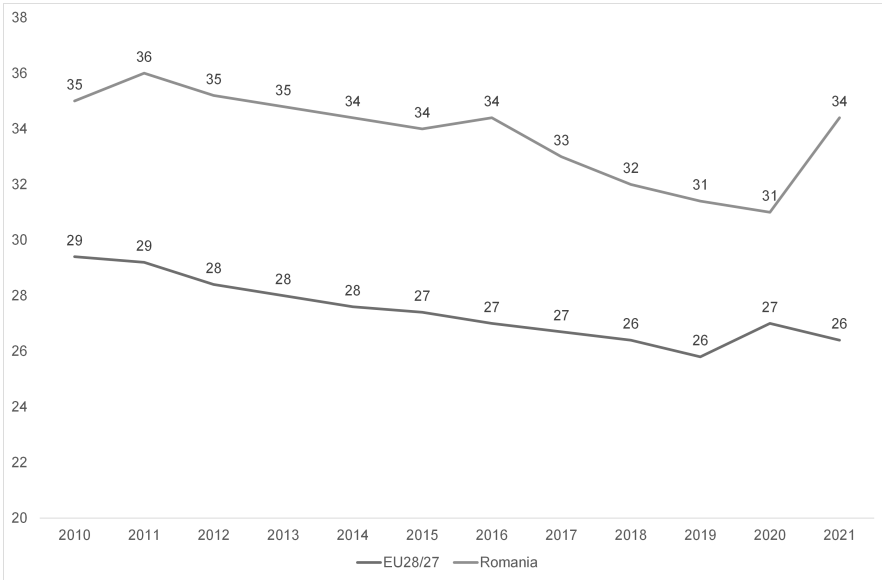
However, the employment structure by itself does not say anything about the quality of employment, employment opportunities or the wellbeing of the two main segments of the workforce, i.e. employees and non-employees. The following subsection focuses on the structure of these two segments, with a special emphasis on the structure of the population of non-employees. This provides a better insight for understanding the nature of the polarisation in wellbeing and the deepening of the differences between the two segments of the workforce.

## Brief profiles of employees and non-employees

### Employees

Despite a decrease in the total employed population over the past 12 years (2010-2022), the number of employees has increased by 18%, with a far more spectacular increase, of 56%, in rural areas. At the end of the third quarter of 2022, 86% of all those employed in Romania between the ages of 15 and 64 (i.e. about 6.5 million people) were employees holding an individual contract of employment (Table 2). In 2022, about two-thirds of employees were living in urban areas whereas

Chart 3 – Romania and the EU: inactivity rates (workers aged 15-64), 2010-2021



in 2010 the share was higher with three in four employees being urban.<sup>16</sup> Almost one quarter of employees are working in manufacturing industry, followed by services and retail/wholesale industries, while about one-fifth are in public administration, education and healthcare. Finally, among all employees, in December 2021, 18% of those on full-time contracts and 77% of those on part-time ones were registered with Casa Națională de Pensii Publice (CNPP; National Pension Institute) on salaries equal to or below the statutory minimum gross wage. Overall, therefore, about one-quarter of employees are receiving formal work incomes at the level of the minimum gross wage or below.

Regarding educational attainment, employees tend to have upper secondary education and a lower proportion of low-educated persons than the EU average<sup>17</sup> (i.e. about half the proportion at EU level in 2021). However, the proportion of people with higher education among employees in Romania, standing at a little over one-quarter, is lower than the EU average (Table 3).

### Non-employees

The numbers of own-account workers and contributing family workers has decreased significantly since 2010, respectively by 50% and 77% (Table 2). In 2021, the number of the self-employed was 860 600, of which 783 800 were own-account

16 INS: TEMPO-online database; Labour Force Survey (AMG\_1102).

17 According to European classification, i.e. less than primary, primary and lower secondary education (levels 0-2).

workers, a group which is, overall, only 12% of the number of employees (Table 2). The proportion of households headed by own-account workers decreased from 20% in 2010 to 10% in 2021.<sup>18</sup>

According to survey data, more than three quarters of own-account workers were, in 2021, rural residents and most of these were working in agriculture, forestry or fish farming (i.e. 58% compared to 80% in 2010), followed by construction which employed 18% of own-account workers (up from 9% in 2010). The profile of the sectors in which the self-employed work changed significantly (see also Ilie 2021).

Table 2 – Romania: employment by professional status, area of residence and activity (%)

	2010	2020	2021
<b>Employees</b>			
Number	5,648,607	6,495,852	6,584,381
Rural residents	26	33	35
Agriculture, forestry and fishing	2	3	3
Manufacturing	26	23	23
Construction	8	9	9
Services and retail/wholesale	16	19	19
Transportation and storage	7	7	8
Professional, scientific and technical activities	2	3	3
Public administration, education and health services	21	18	18
<b>Own-account workers</b>			
Number	1,850,057	1,312,591	826,504
Rural residents	84	82	77
Agriculture, forestry and fishing	80	71	58
Manufacturing	1	2	3
Construction	9	13	18
Services and retail/wholesale	3	3	5
Transportation and storage	2	2	4

18 Eurostat: Household Budget Survey (hbs\_car\_t311).

	2010	2020	2021
Professional, scientific and technical activities	1	2	2
Public administration, education and health services	0	1	1
<b>Contributing family members</b>			
Number	1,095,035	614,797	233,938
Rural residents	96	95	96
Agriculture, forestry and fishing	98	98	97
Manufacturing	0.3	0.3	0.2
Construction	0.4	0.3	0.8
Services and retail/wholesale	0.7	0.3	1.1
Transportation and storage	0.0	0.1	0.2
Professional, scientific and technical activities	0	0	0
Public administration, education and health services	0	0	0

Regarding occupation, half of own-account workers were, in 2021, skilled agricultural, forestry or fishery workers, a proportion more than three times higher than at EU level.<sup>19</sup> A mere 5% of all the self-employed (aged 15 to 64 years) in Romania were professionals, managers, technicians or associate professionals compared to 43% at EU level. Other prevalent occupations among own-account workers are craft, related trades and elementary occupations. Thus, own-account workers in Romania are still employed predominantly in subsistence agriculture.

The segment of unpaid contributing family workers has significantly shrunk since 2010 (i.e. by 77%), when this category represented one-third of all contributing family members right across Europe. In 2021, of about 223 000 unpaid workers, a little over one-fifth was young people and 96% were rural residents. Almost all were working in agriculture (97%) (Table 2).

The self-employed are lower educated, with one-third having no or only low educational attainment levels, a proportion which was, in 2021, almost double that of the EU average (Table 3). Overall, the share of low educated people among all non-employees in Romania has been, over the entire period, double that in the EU while the proportion of non-employees with tertiary education was four to eight times lower than in the EU (Table 3). As expected, contributing family members

19 Eurostat: Labour Force Survey; self-employed aged 15 to 64 years, by occupation (lfsa\_es-gais).

have the lowest educational capital, with a majority having basic education and none with higher education.

Summing up, most non-employees are living in rural areas and are involved in subsistence agriculture – forestry, farming or fishing – followed by construction, wholesale and retail services, and transportation and storage. Their occupational structure is indicative of the high proportion of low-educated non-employees. While their number has decreased over the last decade, from almost 3 million people in 2010 to about 1.1 million in 2021, the number of employees did not increase accordingly, indicating that part of this workforce segment became inactive, joining the ranks of the potential migrant workforce.

Over the past twelve years, the structure of employment has changed significantly as the share of employees has increased and the number and proportion of self-employed – both own-account workers and contributing family members – has decreased. As the differences between rural and urban employment structures have faded, the discrepancies between employees and non-employees have continued to increase. Differences in occupational status and educational level are not only significant but have deepened in this period. Most non-employees are rural residents, unskilled workers, employed in agriculture and have a low to average level of educational attainment.

Being a rural resident and having a low level of education is also associated with low employment opportunities as rural economies are rather underdeveloped. Thus, meagre employment opportunities in most rural areas and a legislation that mostly ignored the self-employed has consolidated the gaps between the rural and the urban workforce and this has come, over the past decade, to represent a barrier to significant improvements in the welfare of this category of the employed population. Despite the noticeable changes in employment and in labour market composition, positive developments have been slow to emerge, thus leaving behind a significant proportion of the workforce. The depth and nature of the gaps between employees and the self-employed will be explored in the next section.

Table 3a – Romania: employment status by level of educational attainment (%)

	2010	2020	2021
<b>Lower than primary, primary and lower secondary (levels 0-2)</b>			
All employed	22	16	12
Employees	8	8	8
Self-employed (own account workers with and without employees)	46	39	34
Contributing family members	64	58	55
All non-employees	52	45	38



	2010	2020	2021
<b>Upper secondary and post-secondary non-tertiary education (levels 3-4)</b>			
All employed	61	62	65
Employees	69	66	66
Self-employed (own account workers with and without employees)	50	53	55
Contributing family members	35	42	45
All non-employees	44	49	53
<b>Tertiary education (levels 5-8)</b>			
All employed	16	22	23
Employees	23	26	26
Self-employed (own account workers with and without employees)	4.8	7.8	11.3
Contributing family members	1	1	0
All non-employees	3	6	9

Table 3b – EU28/27: employment status by level of educational attainment (%)

	2010	2020	2021
<b>Lower than primary, primary and lower secondary (levels 0-2)</b>			
All employed	21	16	16
Employees	20	16	15
Self-employed (own account workers with and without employees)	26	19	18
Contributing family members	46	36	32
All non-employees	27	20	19

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	2010	2020	2021
<b>Upper secondary and post-secondary non-tertiary education (levels 3-4)</b>			
All employed	49	48	47
Employees	50	48	48
Self-employed (own account workers with and without employees)	46	44	45
Contributing family members	47	52	53
All non-employees	46	45	45
<b>Tertiary education (levels 5-8)</b>			
All employed	29	36	37
Employees	30	36	37
Self-employed (own account workers with and without employees)	28	37	37
Contributing family members	7	12	14
All non-employees	26	35	36

Source: Eurostat, Labour Force Survey (lfsa\_egaed, lfsa\_eegaed, lfsa\_esgaed)

## The division of the workforce: gaps in welfare/poverty indicators between employees and the self-employed

As shown above, over the past twelve years, i.e. between 2010 and 2021, the monetary and material situation of the employed population has improved overall. The steady increase in the number of employees, along with the spiralling of the statutory minimum wage during this period, has, to some extent, been accountable for these developments which improved the ability to face certain risks but without necessarily the improving the prosperity of the employed. However, these developments did not lift Romania from being among the poorest and most deprived EU countries across the period; the levels of monetary and material deprivation have been significantly higher among the Romanian employed population, compared to the EU average, except for the risk of monetary poverty among employees (Table 4).

The self-employed and unpaid family workers have been continually at a disadvantage compared to Romanian employees and to the self-employed in other EU Member States during this period. For example, median income levels were, in 2021, 3.3 times lower among employees and 8.5 times lower among non-employees compared to their EU counterparts. The proportion of employees exposed to material and social deprivation was, in 2021, between two and three times higher than the EU average, while the differences among non-employees were even greater: almost one-third of non-employees in Romania were exposed to material deprivation and

more than half to severe material and social deprivation, compared to 5% and 9% respectively at EU level. Finally, the proportion of non-employees at risk of poverty or social exclusion was larger even than this, reaching 71% in 2021, a proportion more than five times higher than among Romanian employees and about three times higher than the EU average for non-employees.

The impact of economic developments, policy responses and legislative changes as regards employees has been significantly different to that for the self-employed and unpaid family workers. Overall, the situation of employees has improved at a higher pace compared to that of non-employees (Table 4). For example, the material deprivation rate decreased among employees 1.7 times more rapidly than among non-employees while the severe material and social deprivation rate decreased 2.7 times faster.

Table 4a – Romania: main poverty indicators by employment status, 2010-2021

	Employees		Employed other than employees	
	2021	Change 2010-2021	2021	Change 2010-2021
Median equivalised net income (16-64 years), euros	6,731	149	2,152	86
At risk of poverty rate (16-64 years), %	4.6	-16	62.4	18
Material deprivation rate (18-64 years), % [1]	7.2	-61	29	-36
Severe material and social deprivation rate (16-64 years), % [2]	19.6	-49	56	-18
Persons at risk of poverty or social exclusion (18-64 years), % [3]	13.1	-41	70.6	-1
Persons who cannot afford to get together with friends or family (relatives) for a drink or meal at least once per month, % [2]	11.1	-52	34	-22
Persons who cannot afford to participate regularly in a leisure activity, % [2]	22.1	-51	54.3	-20
Persons who cannot afford to spend a small amount of money each week on themselves, % [2]	22.7	-44	53.6	-21
Persons who cannot afford to replace worn-out clothes with new (not second-hand) ones, % [2]	12.1	-36	41.9	10
Persons who cannot afford an internet connection for personal use at home, % [2]	4.2	-76	25.9	-42

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	Employees		Employed other than employees	
	2021	Change 2010-2021	2021	Change 2010-2021
Self-reported unmet needs for medical examination due to high costs, too far to travel or long waiting list (16-64 years), % [4]	1.6	-52	5.1	-42

Table 4b – EU: main poverty indicators by employment status, 2021

	Employees	Employed except employees
Median equivalised net income (16-64 years), euros	22,170	18,246
At risk of poverty rate (16-64 years), %	6.8	22.5
Severe material deprivation rate (18-64 years), % [1]	3.8	4.6
Material and social deprivation rate (16-64 years), % [2]	7.1	8.5
Persons at risk of poverty or social exclusion (18-64 years), % [3]	9.0	24
Persons who cannot afford to get together with friends or family (relatives) for a drink or meal at least once per month, % [2]	4.3	4.9
Persons who cannot afford to participate regularly in a leisure activity, % [2]	8.5	9.3
Persons who cannot afford to spend a small amount of money each week on themselves, % [2]	7.4	9.3
Persons who cannot afford to replace worn-out clothes with new (not second-hand) ones, % [2]	4.5	4.7
Persons who cannot afford an internet connection for personal use at home, % [2]	1.2	2.3
Self-reported unmet needs for medical examination due to high costs, too far to travel or long waiting list (16-64 years), % [4]	1.4	2.6

Notes: 1: 2010-2020; 2: 2014-2021; 3: 2015-2021; 4: 2010-2016

Source: Eurostat SILC (ilc\_di05, ilc\_li04, ilc\_mddd 12, ilc\_mdspd01, ilc\_peps02n, ilc\_mdsp10b, ilc\_mdsp11b, ilc\_mdsp12b, ilc\_mdpu06b, ilc\_mdpu07b)

In fact, monetary poverty even increased among non-employees (by 18%), while it decreased among employees (by 16%). The risks of poverty faced by employees are lower than those faced by the overall EU population of employees. However, while the proportion of Romanian employees at risk of poverty has been, throughout the period between 2010 and 2021, lower than the proportion at EU level, the risk of

poverty among the self-employed was consistently between 2.5 and 3 times higher. In 2021, about two-thirds of the self-employed were at risk of poverty compared to less than 5% of employees. In fact, what discriminates even more, and what creates an advantage in terms of monetary wealth among the Romanian employed population, is the level of educational attainment. The risk of poverty among the Romanian employed with tertiary education was, over the last twelve years, between 2.5 and 6.3 times lower than among the overall EU employed population educated to this level.<sup>20</sup>

Thus, despite the decrease in the number of self-employed and unpaid workers, and the overall improvement of the situation of employed people, the most concerning trend over the past decade is the deepening of the gap between employees and non-employees, chiefly the self-employed. Due to the particularities of the labour market in Romania, differences in educational attainment level, occupation, activity sector and residential area result in differences in the welfare of the employed. The gaps<sup>21</sup> in all the main poverty indicators between employees and non-employees have increased, as the monetary and material situation of these categories have improved at different rates (Table 5). This has resulted in a consistently growing polarisation in the poverty exposure and material deprivation of working people. The main triggers for these divergent developments are the labour market, social and fiscal policies which have been addressed to the self-employed, especially in the aftermath of the economic crisis of 2008/09 and in response to the Covid-19 pandemic.

The steady increase in relative differences in the poverty indicators between employees and the self-employed in Romania is not mirrored at EU level. On the contrary, across the EU, the differences between these two labour market segments have decreased over the last twelve years (Table 5).

Table 5 – Romania and EU: gaps in main poverty indicators between employees and the employed other than employees, 2010-2021

	<b>Romania</b>	<b>EU</b>
Median equivalised net income (16-64 years), euros	66 / 76 (+)	19 / 18 (<)
At risk of poverty rate (16-64 years), %	266 / 380 (++)	177 / 176 (<)
Material deprivation rate (18-64 years), % [1]	105 / 190 (+)	37 / 21 (-)
Severe material and social deprivation rate (16-64 years), % [2]	65 / 138 (++)	31 / 19 (-)

- 20 Eurostat: EU-SILC survey, ilc\_li07; data refers to the population with tertiary education aged between 18 and 64.
- 21 Throughout this article, the gap is calculated as the difference in the values of the indicator for the two categories as a proportion of the average value of the entire population. For example, the gap in poverty between employees and non-employees is calculated as the difference in the poverty rates of these two categories expressed as percentages of the poverty rate of all employed.

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Persons at risk of poverty or social exclusion (18-64 years), % [3]	142 / 243 (++)	120 / 135 (+)
Persons who cannot afford to get together with friends or family (relatives) for a drink or meal at least once per month, % [2]	71 / 149 (++)	13 / 14 (<=)
Persons who cannot afford to participate regularly in a leisure activity, % [2]	44 / 114 (++)	22 / 9 (-)
Persons who cannot afford to spend a small amount of money each week on themselves, % [2]	56 / 108 (++)	27 / 25 (-)
Persons who cannot afford to replace worn-out clothes with new (not second-hand) ones, % [2]	80 / 167 (++)	29 / 26 (-)
Persons who cannot afford an internet connection for personal use at home, % [2]	110 / 261 (++)	76 / 79 (+)
Self-reported unmet needs for medical examination due to high costs, too far to travel or long waiting list (16-64 years), % [4]	119 / 140 (+)	50 / 80 (+)

EU27: 2010-2012; EU28: 2013-2019; EU27: 2020-2021. Notes: 1: 2010-2020; 2: 2014-2021; 3: 2015-2021; 4: 2010-2016. The signs in brackets indicate the direction and the strength of change.

Source: Eurostat SILC (ilc\_di05, ilc\_li04, ilc\_mddd12, ilc\_mdssd01, ilc\_peps02n, ilc\_mdss10b, ilc\_mdss11b, ilc\_mdss12b, ilc\_mddu06b, ilc\_mddu07b)

The exposure to monetary poverty among non-employees was, in 2021, 14 times higher than among employees, the highest ratio in the entire 2010-2021 period. The relative difference in poverty exposure between these two categories peaked in 2021, when the gap in poverty reached 360%, thus two times higher than the gap in material deprivation (Table 5). Overall, the gaps in poverty indicators have increased significantly. Compared to 2014, when this data first became available, the differences between employees and non-employees regarding the affordability of undertaking some social activities and making some personal spending doubled. In contrast, the gaps in all poverty indicators at EU level decreased over the same period. The employed other than employees are at a significant disadvantage not only compared to employees or their EU counterparts but also compared to other categories of people of working age: i.e. the inactive population and those who are unemployed. Their relative position is also worse than people who are not employed at all or who count among the inactive population regarding the incidence of material deprivation.

Thus, despite the improvements to the material and monetary situation of the employed over the past decade, their exposure to poverty and to material and social deprivation is far higher than that of the entire EU working age population. In fact, it places Romania at the top of the list of the poorest working age population in the EU. In addition, the gaps between employees and non-employees, chiefly the self-employed, have widened even more over this period, thus pointing to a steady impoverishment of all the self-employed and of unpaid contributing family workers.

## The possible causes of high polarisation: fiscal, labour and social protection policies and the institutional context of social reforms

The decreasing number of the self-employed and contributing family members between 2010 and 2020 corresponds, more or less, to a similar increase in the number of employees (with a net loss of 2% of the employed population). This suggests that, during this period, a significant number of those in employment but who were not employees sought a more stable form of employment, migrating from self-employment status to that of employee. However, the sizable decrease in the number of own-account workers and contributing family members during the pandemic (a decrease of respectively 37% and 62% in the single year of 2020) was also accompanied by a substantial decrease in the activity rate, from 45.5% in 2020 to 41.2% in 2021. During the pandemic, many self-employed people, unable to enter formal employment, simply increased the ranks of the inactive population.

### Legislative definitions of self-employment and non-standard work forms

The fiscal code (Law No. 227/2015) defines several categories of self-employment, based on the way income is earned and the type of income. Accordingly, the self-employed can be either:

- a. authorised private persons, individuals, enterprises or family enterprises, registered as such at the chamber of commerce
- b. persons carrying out liberal professions (physicians, lawyers, public notaries, architects, actors, etc.)
- c. persons receiving an income from author rights.

In addition, the category of unskilled day labourers who undertake occasional activities is regulated by special laws;<sup>22</sup> the sectors where irregular/seasonal activities are the rule are also regulated alongside this category.

An important difference operated by the fiscal legislation is between dependent and independent self-employment. From the perspective of social protection entitlements and rights, dependent workers are assimilated with the status of an employee, with the beneficiary of the work being required to pay the equivalent employer contributions. However, compared to a regular employee (holding an individual contract of employment), the dependent self-employed have no compulsory insurance against unemployment and employment stability is not guaranteed.

According to the methodological norms of the fiscal code, to be considered an independent worker, the work must fulfil at least four of the following seven criteria:

1. the provider of services has the liberty to choose the place, schedule and way of performing the activity
2. the provider must have the liberty to provide services to more than one client if they choose to do so
3. the risks are individually taken by the service provider
4. activities are performed using mainly the means and capital of the provider

22 Regulated by Law No. 52/2011, as amended by Law No. 132/2019.



5. activities are performed using solely the physical or intellectual capacity of the provider
6. the provider is part of a professional association/body regulating the standards of the profession
7. the provider has the liberty to undertake activities alone or with other hired personnel.

As self-employment status does not create too many responsibilities for the beneficiary of the work, many employers prefer the self-employed to employees, especially during states of economic crisis or instability. There is evidence in Romania pointing to employers dismissing their employees only to switch their status to self-employed with the working relationship continuing (Williams and Horodnic 2017). This happened in the aftermath of the 2008/09 economic crisis but, as a result of several public debates on the subject, the fiscal code was amended and dependent work regulated. However, the number of dependent workers is not made publicly available. A survey on self-employment carried out by the INS (2018) shows that only a very small proportion of employees have switched to self-employment at the request of the employer.

Another category, on the border between employees and the self-employed, is the category of those working for temporary work agencies. Temporary agency work in Romania grants all the social rights awarded under a standard employment contract and was used extensively in the aftermath of the economic crisis: between 2011 and 2015 the number of agency employees increased by 250% (Guga 2016), also as a result of the lack of regulation regarding the salaries granted to employees by temporary agencies. Currently, the use of agency workers is strictly regulated concerning the length of contract, the reasons for use and the payment conditions (Law No. 209/2015): a temporary contract cannot exceed 24 months in length although it can be extended up to 36 months; however, it cannot be used to replace workers participating in strikes and the payment must be similar for equivalent work under a standard employment contract.

Finally, the legal status of a fixed-term contract (as opposed to an open-ended one) is defined by the labour code as ‘exceptional’ and permitted only under certain circumstances: as a replacement for a temporarily inactive employee on an open-ended contract; in respect of seasonal activities or the temporary expansion of activities; for the hiring of a person vulnerable on the labour market; or for hiring one with fewer than five years to go before reaching pension age.

According to one report on atypical work in Romania, 310 out of 716 registered temporary agencies were not fulfilling the requirements for functioning on the labour market in 2015 and about 10% were under the suspicion of Agenția Națională de Administrare Fiscală (ANAF; National Agency for Fiscal Administration) for labour tax evasion (Guga 2016). In December 2022, no fewer than 1391 temp agencies were registered with Registrul național de evidență a agenților de muncă temporară autorizați (National register of temporary work agents).<sup>23</sup> Even so, the proportion

23 Ministerul Muncii și Protecției Sociale (MMPS; Ministry of Labour and Social Protection): [http://www.mmuncii.ro/j33/images/Documente/Munca/Reg\\_Nat\\_31122022.pdf](http://www.mmuncii.ro/j33/images/Documente/Munca/Reg_Nat_31122022.pdf).

of people employed on temporary contracts is still low, ranging between 0.8% and 1.2% of all in employment across the entire period between 2010 and 2020; this places Romania at the top of the list of EU Member States with the lowest proportion of fixed-term contracts. In 2021, the proportion increased to 2%, still six times lower than the EU average, keeping Romania among those countries with the lowest proportions of temporary workers.<sup>24</sup>

In Romania, fixed-term contracts are restrictive and the current costs associated with them are equivalent – from an employer perspective – to those of an open-ended contract. Whereas until 2018 employers were not responsible for the social contributions of agency workers, responsibility for the payment of social contributions has since then been transferred to the employer, thus making temporary contracts less appealing and, consequently, the incentive to hire agency workers or personnel on fixed-term contracts is rather low.

Nevertheless, the data suggests that neither has formal self-employment been a viable option for an important part of the employed population. This is also supported by the data on part-time work<sup>25</sup> and informality. While the proportion of part-time workers among employees has varied over the entire period between 0.2% and 0.4%, compared to between 18% and 20% at EU level, the share of part-time workers among own-account workers is considerably higher (i.e. between 1.5 and 2 times higher) than the EU average. This has happened despite the continuing decrease in overall numbers over the period between 2010 and 2021. It is especially true for skilled workers in agriculture, among whom the proportion of part-time workers is double that of the EU average (i.e. 26% compared to 13%).<sup>26</sup> Thus, in 2021, at least one in five own-account workers worked part-time. However, this should be seen mostly as an impediment rather than as a choice: the proportion of Romanian involuntary part-time workers has been constantly at least double that of the EU average reaching, in 2021, two-thirds of part-time workers, the highest proportion among all EU Member States.<sup>27</sup>

Undeclared work was, until 2017, only vaguely regulated by the labour code but it was then re-defined (GEO No. 53/2017) to accommodate different situations adjacent to the simple absence of a formal, written individual contract of employment signed at least one day before work starts: working without the contract being registered with the national registry at least one day before work starts; working during periods when the contract has been suspended; and working during hours not envisaged by part-time contracts. Consequently, the number of people in employment carrying out undeclared work, as revealed by the regular inspections of *Inspekția Muncii* (the Labour Inspectorate), exploded: in 2017, no fewer than 34 167 people

- 24 Eurostat: Labour Force Survey (lfsi\_pt\_a); data reflect the employed population aged between 15 and 64.
- 25 Eurostat: Labour Force Survey (lfsa\_eftpt); data reflect the population aged between 15 and 64 years.
- 26 Eurostat: Labour Force Survey (lfsa\_epgais); data reflect the population aged between 20 and 64.
- 27 Eurostat: Labour Force Survey (lfsa\_eppgai); data reflect the population aged between 20 and 64.

were found to be working illegally. However, the numbers have now decreased, reaching a low of 2244 workers in September 2022.<sup>28</sup> Over the entire period, the number of employers found to be using undeclared work has varied between 2100 and 5000.

However, informal work is not limited to undeclared work. A significant proportion of own-account workers are still working informally. While the number of these ‘invisible workers’ is not easy to assess, it can be approximated by the difference between those who declare themselves as self-employed (i.e. employers and own-account workers, according to the Labour Force Survey<sup>29</sup>) and those who are enrolled in the social insurance system (i.e. the public pension system).<sup>30</sup> On this basis, only about 22% of all the self-employed were ‘visible’ in the social protection system in 2021, a proportion which had increased from just 12% in 2019, most probably as a result of policy responses to the Covid-19 pandemic. Another proxy for the share of own-account workers in the formal economy is to compare the number of registered professionals in Registrul Comerțului (the National Trade Register) with the number of self-declared own-account workers. In 2021, 55% of own-account workers, and amounting to 43% of all self-employed, were registered as independent professionals; of these, even fewer were enrolled in the pension system.

This is the result of fiscal policies over the last few decades which have discouraged self-employment but also non-standard work after 1989. Part-time and temporary work contracts are scarce among employees, while part-time is a constrained choice, associated mostly with informal self-employment.

### Fiscal and social protection measures and their differential impact on the welfare of the employed population

Social protection is available to the employed population mainly through three social insurance systems: the public pension and invalidity social insurance system; the healthcare insurance system; and the work insurance system, with its three subcomponents: (i) unemployment; (ii) sickness and maternity; and (iii) occupational illnesses and work accidents. An additional non-contributory benefit – child rearing leave and benefit – provides further protection to the formally employed population; the latter, although not insurance-based, is conditional upon gainful, declared employment.

This section provides a brief overview of the inequities built into the social protection system and the impact this has on self-employed and non-standard workers. Three thematic country reports by the European Network of Social Protection provide a full description of the legislative framework and the challenges faced by the various categories of the employed population previous to and during the Covid-19 pandemic (Pop and Urse 2017; Pop 2019; Pop et al. 2021). Thus, the

28 MMPS Statistical Bulletin, Work Conditions; available at: <https://mmuncii.ro/j33/index.php/ro/transparenta/statistici>.

29 Eurostat: Labour Force Survey (lfsa\_egaps).

30 CNPP; data available at: <https://www.cnpp.ro/indicatori-statistici-pilon-i>.

following analysis aims at pinpointing the main challenges which have resulted in a deepening of the gap in welfare between employees and the self-employed.

The social protection system in Romania grants differentiated access to social benefits and entitlements to employees<sup>31</sup> and the self-employed. First, not all social insurance benefits are accessible to the self-employed. Second, the costs associated with being insured at the same level as a full-time employee are higher for the self-employed and also for part-time employees. Third, there are no fiscal incentives for the self-employed to enter the social insurance system. Last, but not least, even if they declare their income for taxation purposes, the incentive to declare actual income – thus, to obtain a higher than minimum insurance level – is extremely low. Some of the policy measures which led to this situation are discussed further below (see also Pop and Urse 2017).

Table 6 – Rules regarding access to, and costs of social protection by employment type, 2023

	Social insurance (public pension system)	Health insurance	Work insurance
Employees [1]	<p><b>Access:</b> compulsory, by default, through employers</p> <p><b>Contributions in respect of CAS</b> (Contribuția de asigurări sociale; Social Insurance Fund (public pensions)):</p> <p>25% of gross salary, of which 3.75% go to the second pension pillar (the statutory private pension component) payable by the employee</p> <p>+ 4% of gross salary, for extraordinary work conditions, payable by the employer [2]</p> <p>+ 8% of gross salary, for special work conditions, payable by the employer [2]</p> <p><b>Exceptions:</b></p> <p>Employees in construction and agriculture pay reduced</p>	<p><b>Access:</b> compulsory, by default, through employers</p> <p><b>Contributions in respect of CASS</b> (Contribuția de asigurări sociale de sănătate; Social Health Insurance Fund):</p> <p>10% of gross salary, payable by the employee</p> <p>The minimum contribution level is 10% of the SMW</p>	<p><b>Components:</b></p> <p>Unemployment</p> <p>Work accidents and occupational illnesses</p> <p>Sickness and maternity</p> <p><b>Access:</b> compulsory, by default, payable by the employer</p> <p>Contribution: 2.25% of the gross wage fund, distributed as follows:</p> <p>15% to the wage guarantee fund (12% in 2022)</p> <p>20% to the unemployment fund (17% in 2022)</p> <p>5% to the work accidents and professional disease fund (2% in 2022)</p> <p>40% to the health insurance fund for sickness and maternity leave (22% in 2022)</p> <p>20% to the state budget (47% in 2022)</p>

- 31 Under the Romanian legislation, an employee is a ‘person holding an individual contract of employment or who finds himself in a contractual relationship with an employer for whom and under whose authority they work and who benefits from all the legal rights and the stipulations or collective work agreements’ (labour code: Law No. 53/2003).

	<b>Social insurance (public pension system)</b>	<b>Health insurance</b>	<b>Work insurance</b>
	<p>CAS contributions between 2019 and 31 December 2028. These are exempted of 3.75% of gross salary, equivalent to the contribution to the second person pillar. Thus, employees who, based on their age, would have been required by law to contribute to the private pension fund are no longer required to, unless they voluntarily opt-in</p> <p><b>Insurable income:</b> <b>Minimum insurable income</b> is the SMW; if the employee works part-time or income falls below the SMW, the difference between the actual social contribution and the contribution corresponding to the SMW is supported by the employer.</p> <p><b>Maximum insurable income</b> is the monthly equivalent of five average salaries (gross)</p>		
Self-employed	<p><b>Access:</b> Compulsory, based on income declaration, only for those who earn at least 12 x SMW annually Those in employment earning lower than this level are <b>not required</b> to enrol but can opt in (at the lowest rate, corresponding to SMW per month) <b>CAS contributions:</b> 25% of gross income; however, the self-employed can choose, within some limits,</p>	<p><b>Access:</b> Compulsory, conditional on income level: only for those earning the equivalent of 6 x SMW annually. The self-employed earning less than this level are not required to pay but can opt in. <b>Contribution levels:</b> 10% of 6 x SMW annually, for those with an equivalent annual income of 6-12 x SMW 10% of 12 x SMW annually for those with equivalent annual</p>	<p><b>Access:</b> Not compulsory. Voluntary opt-in for unemployment insurance and/or sickness insurance with a minimum insurable income equivalent to one month's SMW. Enrolment is conditional on being insured for pension and enrolled in the healthcare insurance system. <b>Contribution level:</b> According to the percentage allocated to each component,</p>

	Social insurance (public pension system)	Health insurance	Work insurance
	level of insurable income <b>Insurable income</b> <b>Minimum insurable income</b> is equivalent of 12 x SMW for those earning equivalent of 12-24 x SMW per year; or the equivalent of 24 x SMW for those earning more than 24 x SMW per year. <b>Maximum insurable income</b> is monthly equivalent of 5 average salaries (gross)	income of 12-24 x SMW 10% of 24 x SMW annually, for those with an equivalent annual income of 24 or more x SMW	modifiable through the state budget law annually. Minimum level corresponds to a percentage of the monthly SMW

Notes: 1: includes all employees in standard and non-standard work forms, as well as all those in employment who are assimilated, in terms of level rights to employees, as temporary agency workers and dependent self-employed workers, as defined by the fiscal code (Law 227/2015 and its methodological norms, GD 1/2016). 2: for the definition of special and extraordinary work conditions, for which employers are required to contribute on a supplementary basis, see Law No. 263/2010 on the social insurance system. SMW = statutory minimum wage (i.e. per month).

Source: fiscal code (Law No. 227/2015); Social insurance and public pension system (Law No. 263/2010); Work insurance (GD 70/2017).

Depending on their work history, employees have full access by default to all benefits and rights associated with the three main social insurance systems (see Table 6). That is, all employees are automatically enrolled with all insurance systems, as employers have the responsibility to register employees and to withhold all the associated social contributions, despite all contributions being almost entirely the responsibility of the worker since 2018.

While access to benefits – invalidity, unemployment, sickness/maternity leave and indemnities, etc. – is not restricted to any category of employee, low-income part-time employees were, over the entire period, at a disadvantage compared to full-time employees; employees with incomes below the level of the statutory minimum wage (SMW), due to part-time work, were subjected to fiscal burdens corresponding to a full-time SMW in order to secure minimum social benefits. This represents a higher effective taxation rate compared to full-time minimum wage employees. The problem was corrected in 2020 but, in July 2022, an emergency ordinance (GD 16/2022) which amended the fiscal code reversed the situation. However, the 2022 amendment stipulates that the difference between the actual level of contribution, corresponding to the real income of the person and the minimum contribution level, corresponding to a full-time statutory minimum wage, should be supported by the employer and not by the employee. Shifting the responsibility of the over-burden to the employer has created a disincentive for employers to hire part-time workers.

Over the past decade, this over-burden was considered by the government to be an adequate response to, and a possible solution for, curbing the grey economy as many employers had been hiring employees part-time formally and were paying them extra, for a full-time schedule, informally ('envelope workers'). The measure proved ineffective at addressing informality, yet it did have a negative impact on the flexibility of the labour market.

A temporary measure, implemented between 2019 and December 2028, has decreased the social contribution rate, from 25% to 21.25% for all employees in construction and agriculture. This reduction of 3.75 percentage points in the social insurance contribution corresponds to that part of the contribution which was supposed to go towards the statutory funded private pension fund (pillar II). It is aimed at creating an incentive for employees and the self-employed in sectors with traditionally high levels of informality to enrol in the public pension system. However, the measure comes at the expense of the pillar II component of the system. While it may be viewed as a facility by many workers in these sectors, it does decrease their chances of a decent pension later. In addition, its power to bring informal workers into the formal economy is questionable.

The self-employed, unlike employees, are not automatically insured unless they voluntarily enter a contractual relationship with the CNPP (the Pensions Institute) and/or Casa Națională de Asigurări de Sănătate (CNAS; National Health Insurance Institute) and declare their income; thus a minimum social contribution is imputed. The level of the minimum social contribution for the self-employed is set at the same level as for employees, corresponding to the SMW. Hence, for the self-employed with an annual income below 12 times the SMW (most of whom are also part-time workers), this represents a significant barrier to entering the formal economy. While the self-employed earning less than the equivalent of 12 times the SMW annually are not required to enrol in the social insurance system,<sup>32</sup> opting in is a more expensive solution for this low-income segment. Not only does the state not assume any responsibility for this employment segment but, on the contrary, it creates an even higher entry barrier for those who might consider insuring voluntarily by setting the minimum contribution at the level of the statutory minimum wage.

Furthermore, while there is an obligation to pay social contributions for those with an annual income equivalent to or higher than 12 times the SMW, the amount of income to be insured is a free choice. Therefore, most self-employed workers who pay contributions are insured at the level of the statutory minimum wage (the minimum insurable income). For example, in December 2021, 93% of those who entered voluntarily into a contractual relationship with the CNPP were insured at the minimum level. Starting from 2022, the fiscal code<sup>33</sup> increased the minimum insurable income to 24 times the SMW per year for those who earn, annually, a net income which is equivalent to or higher than this same level. However, the amendment does not create an incentive for the self-employed to insure higher incomes but, rather, it might create the incentive to under-declare income.

32 The level of income is lowered to 6 x SMW annually for healthcare insurance; see Table 6.

33 Government emergency ordinance 16/2022 amending the fiscal code.



On top of all these, to benefit from sickness and maternity indemnities, the self-employed must voluntarily enrol and pay a contribution which, in the case of employees, is paid by the employer. Moreover, in order to be able to enrol, the self-employed must pay first social contributions to CNPP and to CNAS. Contributions which are normally supported by employers in the case of employees represent additional costs for the self-employed. Thus, to access the benefits associated with sickness and unemployment, the self-employed must pay the contribution out of their own pockets.

While in principle the self-employed have access to unemployment insurance, even fewer self-employed workers are insured against unemployment since it is rather unappealing due to the weak level of protection it provides to the unemployed: Romania has a single level of unemployment benefit which is inadequate, granted only for a very limited period (depending on the length of the work history of the beneficiary) and, additionally, is means-tested (Pop et al. 2021). Moreover, unemployment programmes were poorly effective over the decade to 2020, despite the many measures which increased the number of segments they targeted.

Contributing family members, i.e. the unpaid employed, have an even more limited access to social insurance benefits than the paid self-employed. While they can opt to enter a contractual relationship with the CNPP, the high cost of doing so represents an important barrier for this category. The same holds true for healthcare insurance, although this category of worker can be insured in the healthcare system through another working member of the family; that is, as a dependent. While there are no data available on the proportion of contributing family members covered by any of the social insurance routes, their number is probably insignificant, with the most accessible insurance system being that for healthcare.

Finally, to gain access to the generous child rearing-leave and benefit (which is followed by an insertion stimulus after re-entering the labour market), the self-employed must provide proof of gainful work for at least 12 months during the last 24 (this is the equivalent of part-time work at the level of the SMW). While the eligibility conditions for the benefit are not restrictive, they do grant access only to those self-employed who have declared income, i.e. working in the formal economy. As shown above, the level of informality among the self-employed remains very high, thus representing a significant barrier to accessing the benefit for many of those who are in employment but not as employees. However, the benefit can be claimed by either of the two parents, thus increasing access to it for those households with at least one formally employed parent.

In conclusion, most of the self-employed are not covered by social insurance for pensions, healthcare, unemployment and sickness. Only about one in five of the self-employed is insured in the public pension system or in the healthcare system. Even fewer are insured against sickness and close to none against unemployment. Those who are insured opt for insurance coverage corresponding to the minimum wage. Not only has the state not adopted any measure targeting specifically self-employed people, but the fiscal code systematically discourages them from entering the formal employment system and protecting themselves against future risks.

That the low-income self-employed are left to get by without any social protection and that the state has not put in place any measure to create effective incentives for those working informally to become ‘visible’ under the social protection system has created an important mass of employed people who are prone to migration. In fact, until 2020, no social protection measure targeting either specifically or exclusively the self-employed had ever been implemented.

### Measures to support the self-employed during the Covid-19 pandemic

Romania was one of the few countries which put in place a series of social protection measures for the employed at the beginning of 2020, right at the onset of the Covid-19 pandemic. Most of the response measures aimed at protecting the employed and preventing unemployment. And, for the first time in the history of social protection in post-communist Romania, measures were adopted which targeted specifically the self-employed.

Job retention measures had a significant impact on work-related income stability and on unemployment during the Covid-19 pandemic, yet most of these were focused on employers and employees, and only marginally on the self-employed category. Nevertheless, two important temporary measures, ending in December 2021, were adopted early in the pandemic which targeted, explicitly, the self-employed:

- a. an indemnity for economic activity temporarily suspended as a result of the pandemic, equivalent to the indemnity for ‘technical unemployment’ granted to those in employment; a similar indemnity was granted to the self-employed in respect of the periods during which economic activities were suspended
- b. a compensatory indemnity for reduced working time arising from restrictions on economic activities during the pandemic.

Both benefits covered certain categories of the self-employed (Table 7) and, in both cases, the level of benefit was calculated as a percentage of the national average gross salary (either 75% or 41%), in comparison to employees, for whom the level of benefit was calculated as a percentage of actual salary but with an upper cap equal to the benefit granted to the self-employed.

Own-account workers represented, in 2021, 11% of the employed population. A maximum of 16% of these in 2020, but 25% in 2021, had enrolled in the social insurance system, thus becoming ‘visible’ in the formal economy and acquiring access to benefits. The number of the self-employed who directly benefited from these social protection measures during 2020 represented 11% of all self-declared own-account workers (survey data) and 66% of all those enrolled in the social insurance system.

Table 7 – Number of beneficiaries of temporary measures during the Covid-19 pandemic targeting the self-employed, by type of self-employment, 2020 and 2021

	Temporary indemnities		Compensatory indemnity	
	2020	2021	2020	2021
People with income from copyright and related rights	5,565	6,106	-	1,466
Lawyers	6,027	1	996	1,192
Co-operative members	8,044	137	1,065	1,765
Other professionals	77,770	5,936	22,807	29,135
Persons with sports activity contracts, of which:		-	n/a	n/a
Public	4,056	122	n/a	n/a
Private	2,526	63	n/a	n/a
Day labourers	n/a	n/a	8,908	6,797
Total	103,988	12,365	33,776	40,355
Total number of gainful own-account workers (LFS; 15 years and over)	1,312,591	826,504	1,312,591	826,504
Maximum no. own-account workers registered with the social insurance system	208,669	206,144	208,669	206,144
Self-employed registered with the social insurance system, as % of all own-account workers	16	25	16	25
Beneficiaries as % of total no. of own-account workers	8	1	3	5
Beneficiaries as % of registered own-account workers	50	6	16	20
Expenditure on social protection of the self-employed, as % of all expenditure on social benefits	4.7	0.9	0.7	3.4

Source: Ministerul Muncii și Protecției Sociale: Buletin statistic în domeniul muncii și protecției sociale (Statistical bulletin in the field of work and social protection), available at: <https://mmuncii.ro/j33/index.php/ro/transparența/statistici/buletin-statistic>.

Some measures intended to help those in employment cope with the crisis generated by the pandemic worked by increasing the level of sickness benefits and the duration of child-rearing benefit and then the insertion stimulus; however, these measures only benefited those among the self-employed who were already insured. The other measures did not cover the self-employed at all; for example, the benefit

granted to parents with children below the age of 12 during school lockdown periods; this was solely directed towards employees (Pop et al. 2021).

Overall, while the self-employed continued to be disadvantaged compared to employees during the pandemic, they also benefited from targeted social protection measures for the first time, a first in the Romanian social protection landscape. Contributing family members were mostly ignored during Covid-19 as the emphasis of the government's interventions was formal, gainful employment. Contributing family members, many of them at risk of poverty, were only targeted in the sense of means-tested benefits for low-income households. However, the effectiveness of these measures supporting low-income households was rather low both before and during the pandemic, with inadequate benefit levels and no activation component.

The institutional and administrative roots of inequalities between employees and the self-employed

A 2019 European Council Recommendation on access to social protection for workers and the self-employed, adopted as part of the European Pillar of Social Rights (EC 2019), points out the importance of providing outreach and accessible information on existing rights and benefits, and of simplifying the process of accessing these, to achieve an equitable social protection system.

The topic is even more relevant for Romania as governments have, during the past decade, significantly improved the legislative framework in the field of social protection while omitting to put adequate operational norms in place to ensure effectiveness and ignoring the importance of information provision. Fractured institutional arrangements, inconsistent incentive structures, complicated and over-bureaucratic application processes, a lack of information and weak administrative capacity are some of the main causes which have led to good policies and programmes failing. The primary legislative framework in the field of social protection has developed rapidly, catching up with that of traditional European democracies, but the methodological/operational norms for its implementation have been systematically decoupled from the actual institutional and administrative reality.

The importance of the provision of information on social protection rights and on how to access existing benefits has been ignored for decades as most benefits were, in the context of a traditional social insurance system, designed to serve mostly employees, were accessed by default and mediated by employers and trade unions. Analysis of the European social policy network (Pop 2023) highlights the uneven development of information channels regarding social protection benefits for workers and the self-employed against the background of low administrative and institutional capacity and a low level of digitalisation. Information is still provided inconsistently across public institutions, at national as well as at local level. Some institutions have developed at a rapid pace their capacity to provide consistent and effective information on social benefits that can easily reach those entitled to them, while others have put in place platforms to provide individualised, customised information. Examples of online accessible and personalised information channels, established over the past ten years, are the information systems developed to manage

and optimise processes in healthcare provision, the information system regarding fiscal obligations and the system for verifying social insurance pension entitlements.

However, these systems do not cover all information needs on social benefits or all areas of social protection. In addition, they are all currently still at an early stage in their development and not fully functional, with availability limited to verification purposes despite, in some cases, a relatively large number of active users.<sup>34</sup> Onsite information displayed by public institutions (with low involvement of other service providers) is still the main source of information, with online information only selectively available while the nature of the information provided varies from one institution to another. The quality of information also varies across institutions and is mostly problematic. Stability of information channels, awareness raising regarding them and a more standardised and simplified provision of information are issues that are still only inadequately addressed, creating barriers to the effective access to benefits, especially for non-employees who are cut-off from the information provided by employers or trade unions (Pop 2021a). Another important barrier as regards the self-employed are the complicated, over-bureaucratized procedures regarding the application for and the provision of social benefits (Pop 2023).

The Covid-19 pandemic has had a positive impact on both the digitalisation of information and the simplification of the provision of social benefits. Many programmes were launched during 2020-2022 to optimise information and provision processes, with the most impressive information systems and platforms being put in place in the healthcare insurance system (e.g. SIGMA SMART for the management of access to medical forms, referrals and technologies; and eDES for the integration of healthcare providers).<sup>35</sup> Reforms in the digitalisation of information and the optimisation of provision processes are ongoing as part of Romania's PNRR (National Recovery and Resilience Plan) commitments to make functional the governmental cloud and Sistemul Național de Interoperabilitate (SNI; National Interoperability System) (Romanian Government 2021).

But despite all the efforts to improve administrative and institutional capacity to optimise information flows and the provision of social benefits, the self-employed are still disadvantaged by the lack of outreach-oriented information channels. The only information and awareness campaigns put in place by the Romanian government for the self-employed since 2010 specifically targeted migrant communities; these focused on the rights of migrant workers in other European Union Member States. This is so even despite the need for targeted awareness and information campaigns for all vulnerable groups in the labour market having been acknowledged, not least by a synthesis report on the position across EU Member States (Spasova et al. 2021).

34 Ghișeul.ro, the digital site for tax collection, now has over 1.9 million active users and has conducted more than three million transactions since January 2022.

35 According to the 2021 Annual Activity Report of CNAS, the National Health Insurance Institute.

## Restoring equity by navigating the perks and caveats of the social protection framework

The significant decrease in the number of self-employed people in Romania over the last twelve years, and especially during the pandemic, has not been the result of a change in, or diversification of, forms of employment due to the flexibilisation of the economy or to an increase in labour force mobility. On the contrary, self-employment has decreased due to legislative constraints and disincentives (enforced through the labour code and fiscal regulations), the lack of local economies and a low mobility of the workforce. The self-employed have faced, over the entire period between 2010 and 2021, the highest levels of poverty and material deprivation among all the categories of the population of working age and have meagre prospects for future improvements in their welfare. The self-employed, most of whom are unskilled workers with a preponderantly low level of educational attainment, are affected by under-employment, are facing employment instability and are working, in a high proportion, in the informal economy.

While this situation has multiple structural roots which are beyond the scope of this article to address, a change in the mindset, and the perspective, of the social protection system could significantly improve the situation for the self-employed.

First, employment programmes were supposed to increase access to the labour market and combat under-employment for all, especially the most vulnerable groups. However, these proved highly ineffective over the twelve years to 2022 and lacked a strong activation component. The linkage between education and the labour market remains weak and the administrative capacity to manage and match the demand for and supply of the labour force is low. While the number of employment programmes increased significantly and diversified during this period, they are still reliant on work subsidies and financial stimuli and less on activation, the increase of employability and the continuing development of labour market skills. In addition, most employment subsidies and financial stimuli are directed toward employers and employees, completely side-stepping the self-employed. On top of this, employment programmes do not provide an adequate incentive to employers to seek subsidies and take up the financial stimuli which are available; applying, gathering the documentation and providing regular reports are mostly complicated, time-consuming processes; and, in many cases, the conditionality in respect of benefiting from these programmes are so restrictive that the costs outweigh the benefits (Pop 2018).

A shift of focus towards increasing the employability of marginal groups on the labour market and supporting diversified employment forms through programmes able to reach out effectively would substantially benefit the self-employed and could result in an increase in paid employment. This would redirect institutional attention to activation and sustainable labour market integration. Moreover, creating positive incentives for (continuing) education, rather than imposing this as a punitive conditionality for accessing unemployment and social assistance benefits for low-income households (such as the minimum income guarantee), could benefit sustainable employment. Currently, the indicators based on which the effectiveness of employment programmes is assessed are oriented rather to the short-term, emphasising the number of 'processed' beneficiaries or of people gaining employment as an immediate

output. Thus, monitoring and assessing systems becomes crucial as these set the benchmarks which guide further actions.

A second major direction for intervention is the stimulation of formal employment rather than penalising informal employment. Over the past ten years before the onset of the Covid-19 pandemic, all the efforts of successive governments to combat informality focused on the legal accountability of employers and employees. It was mainly a punitive strategy that proved rather ineffective as the disincentives embedded in the labour code and the fiscal legislation to bend informality outweighed the penalties put in place. The fiscal legislation does not create adequate incentives for the self-employed to declare their income, as the costs of buying social protection are higher than those paid by employees. One example in this regard is the 2022 law that seeks to regulate domestic activities (e.g. housekeeping, gardening, cooking, minor repairs, etc.) with work vouchers. The law was welcomed as an important attempt to curb informality and became part of the social reforms proposed by the PNRR. However, as with many other good laws in Romania, its effectiveness depends on its operational norms. Currently, issuing, accessing and transacting domestic work vouchers as a payment method for domestic services imposes high costs both on service beneficiaries and service providers (Pop 2022).

It is clear that it is crucial in combating informality to create adequate positive incentives for employers to hire formally and for the self-employed to invest in their own future protection (e.g. via fiscal credits, subsidised contributions and increased access to, and support via, social assistance benefits). A reward-based strategy, instead of a punitive one, could ensure effective take-up by an important segment of people in employment who, otherwise, in the absence of any future perspectives on welfare, will continue to look abroad for more stable and rewarding work.

Finally, information on social benefits and how to access these, along with simplified procedures to apply for and receive social benefits, are fundamental for the self-employed who are not covered by default by social benefits and who do not receive information through employers. There is no information strategy currently in place to address the heterogeneous category of the self-employed. However, simplification through the digitalisation of procedures regarding applying for and providing social benefits has been a priority for the last five years. As shown above, it was the Covid-19 pandemic that precipitated the positive developments that we can see. A focus on the specific needs of the various categories of the self-employed remains important when tailoring information strategies and simplification procedures.

In conclusion, the precarious situation of the self-employed in Romania is rooted in both a distorted employment structure inherited from the socialist past and in faulty labour market, social protection and fiscal policies and reforms. Thus, this situation is not primarily the result of the diversification of forms of employment as a result of labour market flexibilisation; it is rather the result of labour market and fiscal measures which have suffocated the emerging practice of self-employment and increased the precarity of those who are currently self-employed.

Despite some improvements over the past ten years in the wellbeing of the overall employed population, the situation of the self-employed is deteriorating constantly, resulting in a deepening of the gap in welfare between employees and



non-employees. To counteract this trend towards a steady polarisation of the workforce, a change of mindset at the level of labour market, social and fiscal policies is needed. Thus, a shift from a punitive legal framework towards an empowering one, to create opportunities and positive incentives for the most vulnerable segments of the workforce to enter the formal economy and invest in their future, has become crucial.

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