

UNIVERSIDAD DEL ROSARIO



Transformality: The transition from informality to formality

Estudio aplicado (Trabajo de Grado)

Jorge Esteban Vásquez Gutiérrez

Bogotá

2021

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Glossary

Accelerators: Factors that facilitate the transformation from informality to informality.

Barriers: Factors that decelerate the transformation from informality to formality.

Informality: “Business activities that occur outside of formal institutional boundaries but within the boundaries of informal institutions” (Webb et al., 2014).

Transformality: Process of transformation from informality to formality.

Resumen

La informalidad es un término general para una variedad de actividades humanas no reguladas que pasan desapercibidas, estas se mantienen por encima o más allá de la ley o eluden diferentes leyes o regulaciones. Las empresas informales o las personas que no tienen acceso a los servicios gubernamentales pueden estar rodeadas de inseguridad laboral y malas condiciones de salud y seguridad, entre otros. De ahí que sea una prioridad de las organizaciones públicas o privadas, y de la sociedad en general, facilitar el proceso de transformación de la informalidad a la formalidad, algo que llamamos transformalidad. También es importante que los académicos comprendan mejor el proceso de transformalidad, que puede conducir a un mejor diseño de políticas e iniciativas para facilitarlos. El objetivo de este proyecto es desarrollar una revisión sistemática de la literatura (SLR) para comprender mejor el proceso de transformalidad. Específicamente, esta SLR busca explorar:

- Las barreras que desaceleran la transformación de la informalidad a la formalidad.
- Los aceleradores y factores de éxito (internos y externos) que facilitan la transformación de la informalidad a la formalidad.
- Características comunes de casos exitosos de transformación de la informalidad a la formalidad
- Características comunes de los casos fallidos de transformación de la informalidad a la formalidad.
- Condiciones en las que ocurre la transformación.

- El papel de la digitalización en la evolución de la informalidad a la formalidad y cómo las iniciativas informales se están transformando mediante el uso de tecnologías digitales.

Este proyecto tiene como objetivo responder a cuatro preguntas: ¿Cómo se ha definido la informalidad y la economía informal en la literatura? ¿Cuáles son las barreras y aceleradores involucrados en el proceso de transformalidad? ¿Cuáles son las características comunes de los procesos de transformación exitosos y no exitosos? ¿En qué condiciones se produce la transformalidad? ¿Cuál es el papel de la digitalización en el proceso de transformalidad? Para responder a las preguntas de la investigación, implementamos seis pasos iterativos e integradores siguiendo las recomendaciones proporcionadas por Omwuegbuzie & Frels (2016) y por Rousseau et al. (2008). La investigación es relevante porque busca encontrar aquellos aspectos que son claves en el proceso de formalización de las actividades comerciales informales. Además, la identificación de los elementos contextuales (externos) que influyen en la transformalidad pueden ayudar a los responsables a diseñar estrategias más específicas, eficientes y dependientes del contexto.

Palabras clave:

Transformalidad, informalidad, formalidad, desarrollo económico, mercados emergentes, impuestos, costos, gobernabilidad, aceleradores, barreras, economía.

Abstract

Informality is an umbrella term for a variety of unregulated human activities that go under the radar, stay above or beyond the law, or circumvent different laws or regulations. Informal firms or people may not have access to government services may be surrounded by job insecurity and weak conditions of health and safety, among others. Hence, it is a priority of public and private organizations, and the society at large, facilitate the process of transformation from informality to formality, something we call transformality. It is also important for scholars to better understand the transformality process, which can lead to a better design of policies and initiatives to facilitate transformality. The objective of this project is to develop a systematic literature review (SLR) to better understand the transformality process. Specifically, this SLR seeks to explore:

- The barriers that decelerate the transformation from informality to formality.
- The accelerators and success factors (internal and external) that facilitate the transformation from informality to formality.
- Common features of successful cases of transformation from informality to formality
- Common features of failed cases of transformation from informality to formality
- Conditions in which the transformation happens.
- The role of digitization in the evolution from informality to formality and how informal initiatives are transforming by using digital technologies.

This project aims to answer four questions: How has been informality and informal economy defined in the literature? What are the barriers and accelerators involved in the transformality process? What are the common features of successful and unsuccessful transformality processes? Under what conditions transformality occurs? What is the role of digitalization in the transformality process? To answer the research questions, we implement an iterative and integrative six-steps following the recommendations provided by Omwuegbuzie & Frels (2016) and by Rousseau et al. (2008). The investigation is relevant because it looks to find those aspects that are key in the formalization process of ongoing informal business activities. Moreover, identifying the contextual (external) elements that influence transformality, may help policy makers and practitioners design strategies more targeted, efficient and context dependent.

Keywords:

Transformality, informality, formality, economic development, emerging markets, taxes, costs, governance, accelerators, barriers, economy.

1. Introduction

The objective of this project is to develop a systematic literature review (SLR) to better understand the transformality process. In the context of this research transformality is the transformation process from informality to formality. Informality is defined as “business activities that occur outside of formal institutional boundaries but within the boundaries of informal institutions” (Webb et al., 2014). To reach this goal we divide the investigation in four questions.

First, what is informality according to several authors and what are its types?

- What is informal economy and what are its types? We seek to find out what informality consists of from the perspective of different authors. Simultaneously, we explore if different types of it can be found and if its classification is possible.
- Which are the elements that affect the transformation from informality to formality? We seek to answer what are those aspects that negatively or positively affect the transformality process, all this having into account the context in which informal activities occur.
- Which are the barriers or accelerators of the transformation from informality to formality? We seek to answer which aspects stop or prevent the transformality process. At the same time, we seek to explore those elements that catalyze transformality.
- Which are the common elements of successful cases of transformation from informality to formality? In this question we aim to understand in practice what are those aspects that

facilitate transformality. These are the common elements that we were able to find in different authors during the investigation.

- What is the role of digitization (use of digital platforms and applications) in the transformation from informality to formality? We seek to find out how the appearance of new technologies and their application in business models has affected the process of transformation from informality to formality.

The main objective is to answer the forementioned questions and for this is necessary to build a list of specific objectives that work together to reach this goal:

- Create a research equation for each of the questions.
- Analyze and choose articles relevant to the investigation.
- Deep reading of the chosen articles.
- Create a database with the chosen articles.

The methodology used is based on the recommendations provided by Onwuegbuzie & Frels (2016) and by Rousseau et al. (2008): 1) exploring beliefs and topics, setting the goal of the literature review and formulating a meaningful research question; 2) initiating the search and identifying relevant scope of research; 3) sorting and organizing information; 4) selecting/deselecting information; 5) analyzing and synthesizing information; and 6) synthesizing the findings. Moreover, we adapt and follow some of the guidelines proposed by Aguinis et al. (2020) to enhance the methodological transparency, implement audit trail Carcary (2009) to facilitate reproducibility and increase the trustworthiness, and implement the CORE approach—

critical examination, organization, reflection, and evaluation—Omwuegbuzie & Frels, (2016) to reduce biases during the analysis.

The work carried out is important because there is scarce information that looks to find out: What are the common elements that can be found in a successful process of transition from informality to formality? During the research we found that this is a topic in the informality review that requires more scholarly attention. We find relevant information that when classified and associated gives rise to common elements on transformality, and that must be investigated. This research seeks to compile those aspects that are of vital importance in the formalization process of any ongoing business activity, this with the main objective of better understanding the transition from informality to formality.

This research is also important because it provides hints on how the transformality process is carried out, in addition to showing us what are the fundamental differences that exist between formality and informality and with it the deepening of these themes in different contexts. At the same time, it helps us to understand which are those aspects that lead an economy to have informal or formal actors, with the identification of these aspects, we explore the phenomenon of informality from a practical perspective.

The world and humanity are in constant change and with them the economy also changes; that is why it is important to understand how new technologies affect the process of transformation from informality to formality. For this, a question was formulated that helps to solve this puzzle.

Informality occurs in all shapes and colors; it is necessary to understand that there is no place in the world where this phenomenon does not occur. That is why it is necessary to create a basic

understanding of what informality is. Due to the contextual differences, it is concluded that there is no universal solution that leads from informality to formality, however there are several public and private policies that can work together to address the problem.

2. Theory

2.1. Informality and informal economy

For Heintz (2012) the definition of informality depends on the perspective in which is looked upon, that can be the informal employment, the informal sector, the enterprise, and the economic activity. “The choice of how to characterize informality is not trivial. The selection of a particular entry point shapes the analysis of the prevalence of informality, its consequences, and the appropriate policy responses.” (Heintz, 2012, p. 5)

Informality also can be seen different depending on the cultural context in which happens according to Lin et al. (2015) the management in the west rely on legal contracts and explicit rules, while in the east they emphasize on social relationships and implicit rules.

Several authors define informality differently. According to Unni (2018), informality takes various forms in countries and new forms over time. With this perspective we can see that informality can be characterized in different ways and this varies depending on the context in which happens. For example: “The Informal or underground economy is understood as a series of activities that are classified within the informal sector of the economy. The phenomenon of informality has been present in the economy of developed and developing countries for decades.”(Lozano & Díaz, 2015, p.1) With this quote we will find one of the most relevant and repetitive aspect of the ongoing investigation that it will be about the level of development of the economies in the countries. And since the beginning we can understand that the informal economy can be found in all different countries even if these ones are the most developed.

According to Loayza (2016, p.1856), informality is term used to “describe the collection of firms, workers and activities that operate outside the legal and regulatory systems”. A general definition given by Ngumkeu & Okou (2021, p.4) states that informality “refers to the production of legal goods and services by firms and workers that do not comply with business or labor market regulations.”

About the informal economy we can find authors that seek to define in which situations the informal economy can happen: According to some authors “the informal economy consists of business activities that occur outside of formal institutional boundaries but within the boundaries of informal institutions” (Webb et al., 2014, p.1). We can also find how the informality affects the costs of a company; according to Bu & Cuervo (2020), the informality costs are the higher agency costs caused by a firm’s informal creation. Besides the informal categorization we can also find

the view of informalization in the employment markets. “The labor view of formalization is that the fundamental right of workers and entrepreneurs must be recognized.” (Unni, 2018, p.1)

Because of all the different kinds of informal economy that can be found there is general way to make or start a formalization process, Unni (2018) says that there is no one-size-fits-all policy. The informal economy surfaces as an opposite of the formal one: “The formal economy is seen as a thriving phenomenon that symbolizes development, advancement, and modernity, while its informal counterpart is defined as a traditional activity that indicates underdevelopment, backwardness, and pre-modernity.” (Huang et al., 2020, p.2)

2.2.Research on informality:

There are themes that are repeated in the articles investigated, because of this, they become relevant topics for the investigation and understanding of informality. An important characteristic of the human being is to seek well-being. This occurs many times through the implementation of immigration to seek better life opportunities for themselves and their families. Samaniego-Erazo (2020) says that measuring informality is a difficult task due to different factors that contributes to this one such as foreign immigration. Different authors have investigated the relationship of

immigration and informality putting in focus their relationship with the foreign direct investment (FDI): “Both FDI and immigration increase the informal sector, with the effect of immigration being relatively more robust.” (Goel et al., 2020, p.1)

According to Amin & Ahmad (2021) one of the main reasons why immigration contributes to informality is because of the persecution experienced by migrants; therefore, instead of taking a legal link with formality, they decide to subsist through informality.

The other common element found during the research is the economic development, which speaks to us about how much income and wealth can a country generate. If this is high, we can talk about a develop country but if it's low we talk about an underdeveloped one. According to Aad & Combs (2021) the managers decide to perform informal or formal businesses depending on how develop the markets are, the more developed it is, the easier it is to move in formality and the less in informality

For some authors like Amin & Ahmad (2021) the informal activities are an expression of backwardness and underdevelopment. It is believed that the economic development brings formality to the countries: “Most of development theories explained that with the economic development, economic activity also develops and will shift from the informal to the formal sphere.” (Amin & Ahmad, 2021, p.209). The development process is seen as a process of inclusion; Amin & Ahmad (2021) said that the development process engages a group of heterogenous people, with poverty being a common factor between them, they are associated with the informal sector because poor people often work in this one.

Nevertheless, it is impossible to delimit the informality to only one type of economy, because this can be found in all different type of societies. According to Omri (2020), the informal commercial activities are more than 30% worldwide and also the informal entrepreneurship can be found in all economies.

2.3.Elements that affect the transformation from informality to formality

In this section we look to find those contextual elements that affect the transformation from informality to formality. Papyrakis (2014) believed that volatile prices and uncertainty in an industry would create unemployment and people would be forced to derive their livelihoods from informal sectors. In the opposite position we got Aad & Combs (2021) saying that the stability pushes most economic activities to the formal economy where legal means become more important.

Amin & Ahmad (2021) said that the informal economy emerges from the exclusion of people in a capitalist society. This exclusion happens when diversity is perceived in a negative way: “A major cause of this backwardness and exclusion is ethnic diversity.” (Amin & Ahmad, 2021, p.210). A high degree of diversity can bring negative aspects into the social relationships making

the informality more prevalent. Alesina et al. (2003 in (Amin & Ahmad, 2021, p.209), for example, have identified a “high degree of ethnic heterogeneity as a negative factor on growth.”

According to Amin & Ahmad (2021), religion has a relationship with the level of informal transactions in the economy, countries with an eastern religion are associated with smaller shadow economies than the Christian ones. It also concludes that a close relationship between the dominant religion and the state are for countries with a lower share of economic activity in the informal sector.

The emerging economies rely on the informal sector to grow and generate employment “Entrepreneurship in the informal sector is an important part of the economic activity of most emerging economies, employing more than 50% of the workforce on average.” (Omri, 2020, p.278). The entrepreneurship happens in all economies, and it develops in different ways with their own characteristics, because of this Omri (2020) believe that people have failed to understand why entrepreneurship varies in time and space is because it is an interdisciplinary subject that covers a variety of areas.

Education has a high impact on the kind of entrepreneurship conducted. According to Omri (2020), the level of education is related to the kind of entrepreneurship apply, formal entrepreneurship is positively influenced by secondary and tertiary education, while the informal one is associated with tertiary. Omri (2020) also says that solid laws, transparent procedures and good governance are positively related to the national rates of formal entrepreneurship. But at the same time Ahmin & Ahmad (2021) states that regulation incentives the avoidance of civil responsibilities because of the high costs than this carries.

A high degree of unemployment makes the informal economy to push and grow because of the necessity of people: “Consider unemployment as a push factor leading people to operate in the informal sector, particularly when they are influenced by a stoppage, such as disappointment with their current job or job loss.” (Omri, 2020, p.282)

According to Ram et al. (2017) the informal economy occurs as consequence of advanced capitalism and the necessity of the micro-firms to decrease costs and sell their products below the correct price to increase their competitiveness. The foreign investment is also seen as pusher of the informal economy: “Findings also reveal that the increase in FDI inflows does have a positive effect on new business entry, while the increased competitiveness of foreign investors can boost entrepreneurs to engage in the informal sector.” (Omri, 2020, p.282)

According to Mughal & Schneider (2020), the informal sector contains unregistered production activities that harm the workers and the community but it happens because decreases the costs. The way policy is conducted will have an impact in the strength of the formal or the informal sector in the economy: “the informal sector burdens the exchequer by evading taxes and formal regulations. On the other hand, heavy burden of taxes, bribes and inflexible bureaucratic regulations in the formal sector are the driving factors for increasing informality.” (Mughal & Schneider, 2020, p.9) So the sector in which a business is performed can have relevance into his nature in the formality process. Mughal & Schneider (2020) said that in developing countries activities related to the primary commodities are outside of the formal sphere.

Gender can have an impact into the nature of the formalization process. According to Solis & Lenis (2019) the high rates of informality, flexibility, underemployment and lack of labor

protection are related to the over-representation of women. According to Huang et al. (2020) the informal economy is seen as a residual phenomenon that eventually would disappear with the modernization of the economies.

There are different perspectives that try to explain the reason behind the informal economy. According to Huang et al. (2020, p.3) “The neo-Marxist perspective, also called the structuralist perspective, views the informal economy as a byproduct of contemporary capitalist restructuring, rather than as a result of the formal economy’s inability to create sufficient jobs”. In this perspective it is believed that the informalization is a strategy of capitalism to maximize earnings and weaken the power of unions and the globalization is seen as the one in charge of the expansion of informality.

Taken into account this perspective Huang et al. (2020) believe that the informal economy is a result of excessive state regulation, which pushes people to engage in informal economies. Also Huang et al. (2020) says that there is a correlation between floating population and informal economy, the more the first the larger the last.

According to Xu & Lv (2021), tourism also has an impact on informal economies. Through a study about the relationships between tourism and the informal economy using a panel threshold technique involving 117 developed and developing countries Xu & Lv (2021, p. 20) found that “tourism always has a significant and negative impact on the informal economy, suggesting that tourism will always lead to a decrease in the formal economy, irrespective of how high the level of tourism development”. The authors also found that “that countries with the level of tourism development passed the threshold level, tourism will have more impact on the informal economy.

These findings reveal that too much tourism is not bad for informality, but instead, conducive to reduce informality.” (Xu & Lv, 2021, p. 20).

2.4.Barriers or accelerators of the transformation from informality to formality

In this investigation we look to find out which are the barriers or accelerators that affect the transformation from informality to formality. We can find that being a part of long supply chain affects the transformatization process by parts of this one being away of the formal part of the supply chain. According to Barnes et al. (2021, p.2), “The jobs that are created in the recycling sector of the waste economy are distributed along the value chains of the recycling industry. Recyclable material passes through many hands before eventually arriving at the formal sector recycling companies.”

At the same time these formal enterprises from the supply chain act out as an accelerator in the transformatization process by creating projects directed to this problem. According to Barnes et al. (2021, p.2), “BBCs play a key role in supporting many of these formal sector jobs by connecting the informal sector actors of the recycling economy with the more formal activities higher up in the hierarchy.”

According to Papyrakis (2014) the informal sector beneficiaries from the looting and exploiting of unprotected common resources, being the lack of regulation an accelerator. Abi Aad & Combs (2021) believes that a great part of the informal economy is conducted by formal business with the main goal of avoiding taxes and regulation. Other accelerator of the informal economy the costs, according to Aad & Combs (2021, p.5) “the informal economy grows when institutional voids make the formal economy costly”.

According to Amin & Ahmad (2021) the transmission of new knowledge and skills from migration of individuals generate innovation and expand the informal economy. Omri (2020) says that a well-functioning financial sector is capable of promoting entrepreneurship activity and new business registration. At the same time, it allows access to funding and technological infrastructure requires to engage in the formal sector. Omri (2020) states that the business in the informal sector can't be formal because lack of access to infrastructure and finance. Financial development is an accelerator for formality, according to Omri (2020, p.278), “Bugelsjik (2007) argues that financial development significantly boosts new business-registered ventures and dramatically reduces informal entrepreneurship by a lack of funding from bank.”

The type of governance can act as a barrier or an accelerator depending on if it's good or bad. According to Omri (2020) governance can modulate the effect of financial development in formal and informal entrepreneurships. Governance is related to financial development, Omri (2020, p.278), says “good governance is used as a policy variable that can enhance the financial sector for better entrepreneurship activity.”

According to Huang et al. (2020) the rapid urbanization has seen a growth in the informal sector. In this aspect we can find an accelerator in the projects supported by institutions, according to Alejo & Schoenecker (2020, p.477), “Recognizing the vulnerability of informal workers but also their potential to contribute to economic development, institutions like WIEGO and The World Bank suggest that cities support urban informal economies through initiatives like simplifying licensing procedures, education, and reduced fees.”

2.5.Common elements of successful cases of transformation from informality to formality:

In this category we try to find out what are those common elements that are common in the successful cases of transformation from informality to formality. A very important element that was found is the creation of policies that are directed to achieve the formalization in the business sector. According to Alejo & Schoenecker (2020), some important tool use by the policy makers in order to formalize the informal in the cities are the spatial and temporal exclusions. The regulation is an important aspect in the formalization process “formalization should encourage compliance of new or preexisting regulations by creating policies where there previously had been

none, and lowering licensing costs to encourage entrepreneurs to acquire licenses.” (Alejo & Schoenecker, 2020, p.478)

According to Omri (2020), innovation boosts new business registration, it is expected that it encourages formal entrepreneurship and discourages the informal ones. Another relevant aspect in the successful cases is the existence of a strong financial sector that can support the formalization process: “Several existing studies that have been carried out on economies with different levels of development agree that well-functioning financial sectors promote entrepreneurship activity and new business registration.” (Omri, 2020, p.278).

The most important and relevant aspect in the successful cases of transformality is the one that refers to the institutions in a country; is the most relevant because it is the base of a country and a social environment, at the same time the institutions are the ones in charge of creating policies directed to the transformalization process. According to Aad & Combs (2021), the informal and formal institutions have a big impact in the distribution of economic activity within a country. The most important set of rules are those created by the formal institutions; “Among a country’s complex institutional environment, political, regulatory and economic formal institutions are the most significant because they define the “rules of the game” by which businesses operate.” (Aad & Combs, 2021, p.4)

To explain the importance of the governance in the transformalization process several authors consider the case of Pakistan; Mughal & Schneider (2020, p.9), for example, posit that, in the case of Pakistan, a “combination of democratic and dictatorial regimes has created an environment

where policy inconsistency and complex bureaucratic formalities have led to a large informal sector.”

2.6. Role of digitization (use of digital platforms and applications) in the transformation from informality to formality.

Is well known that the businesses must be in constant change because of the fast technological developments in the world, in this context appears a vital element in the transformation process and this one is the role of digitization. According to Wang et al. (2019) the new social media has disrupted and change the traditional roles in commerce, now is harder to difference between consumers and producers, this has created changes in the cultural consumption and the way formal and informal business behave.

At the same time there is a cost of entry related to the technology in order to introduce it in the formal sector: “It also strengthens demand and upsurges the accessibility of funding for newly registered businesses and of the economic and technological infrastructure required to engage in the formal sector.” (Omri, 2020, p.278)

According to Nguimkeu & Okou (2021) the informal businesses don't use mobile phones because they don't have the need to do it, especially in the case of subsistence activities or that aren't susceptible to automation. At the same time the technological advance in the banking system and the way transactions are being made will have a positive impact in the transformation process: "retail electronic payment systems, virtual savings, and virtual credit supply platforms, the digitization process (that involves easy payment platforms and accessibility to markets) could allow informal markets in Sub-Saharan Africa to join the realm of formal transactions." (Nguimkeu & Okou, 2021, p. 14)

According to Roy & Khan (2021) it is believed that the digitization is a tool that benefits the formalization process, nevertheless this process can be considered unequal because the larger formal firms have the competitive advantage to be politically networked and with the possibility to engage in informal transactions that digitization cannot restrict. At the same time it is believed that this process can affect the low income firms: "However, it can also inadvertently lead to adverse outcomes for the poor in developing countries where many firms in the informal sector have low capabilities." (Roy & Khan, 2021, p. 1)

3. Methods

The first step used in the investigation process was to build different research equations to find the articles better suited for the investigation. We used three different search equations which were:

- TITLE-ABS-KEY (informality AND informal AND economy) AND (LIMIT-TO (SUBJAREA , "ECON") OR LIMIT-TO (SUBJAREA , "BUSI")) AND (LIMIT-TO (LANGUAGE , "English") OR LIMIT-TO (LANGUAGE , "Spanish"))
- TITLE (formality OR informality OR "informal economy") AND PUBYEAR > 2011 AND (LIMIT-TO (DOCTYPE , "ar")) AND (LIMIT-TO (LANGUAGE , "English") OR LIMIT-TO (LANGUAGE , "Spanish"))
- TITLE-ABS-KEY (formal OR informal AND digitization) AND (LIMIT-TO (OA , "all")) AND (LIMIT-TO (DOCTYPE , "ar"))

After looking the equations, we used the abstracts of the different articles to find those that matched the topics requirements of the investigation. Considering those abstracts the articles were selected from a review of more than 600.

After the selection of the articles, they were analyzed, for this process it was necessary read those articles independently and exhaustively. We took quotations from the articles that were relevant to the current investigation, at the same time when articles didn't had any relevant information they were discarded.

To see how information was gathered for the informality and informal economy see next figure (Figure 1):

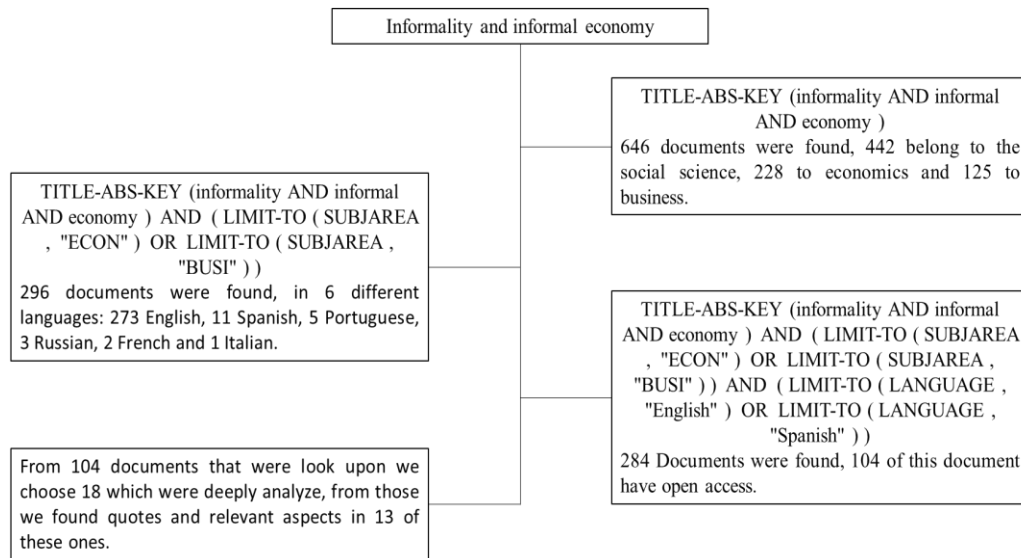


Figure 1. Selection process. Informality and informal economy.

Source: Author's own work.

To see how information was gathered for the transformation from informality to formality see next figure (Figure 2):

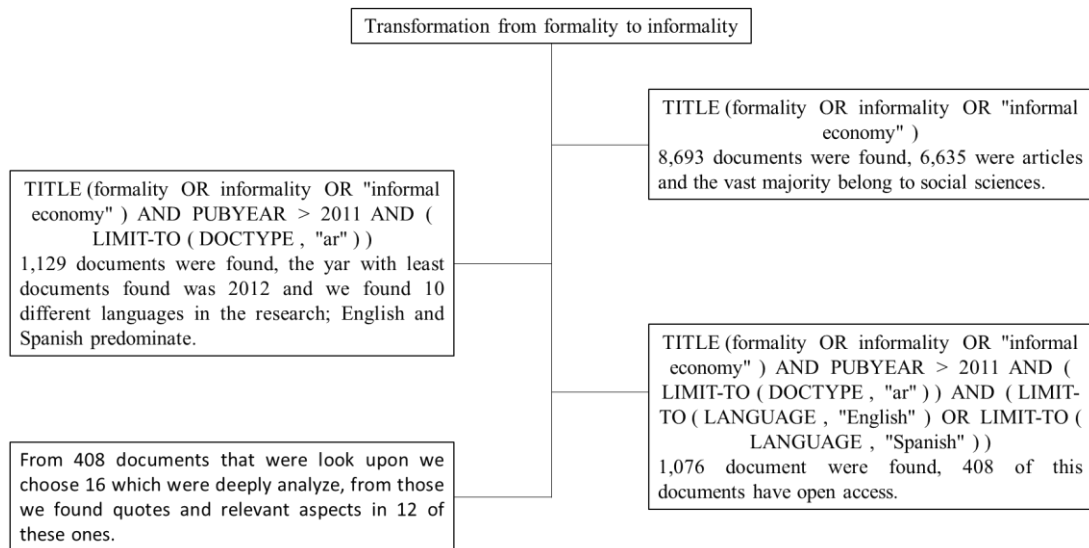


Figure 2. Selection process. Transformation from formality to informality.

Source: Author's own work.

To see how information was gathered for the role of digitization in the transformation from informality to formality see next figure (Figure 3):

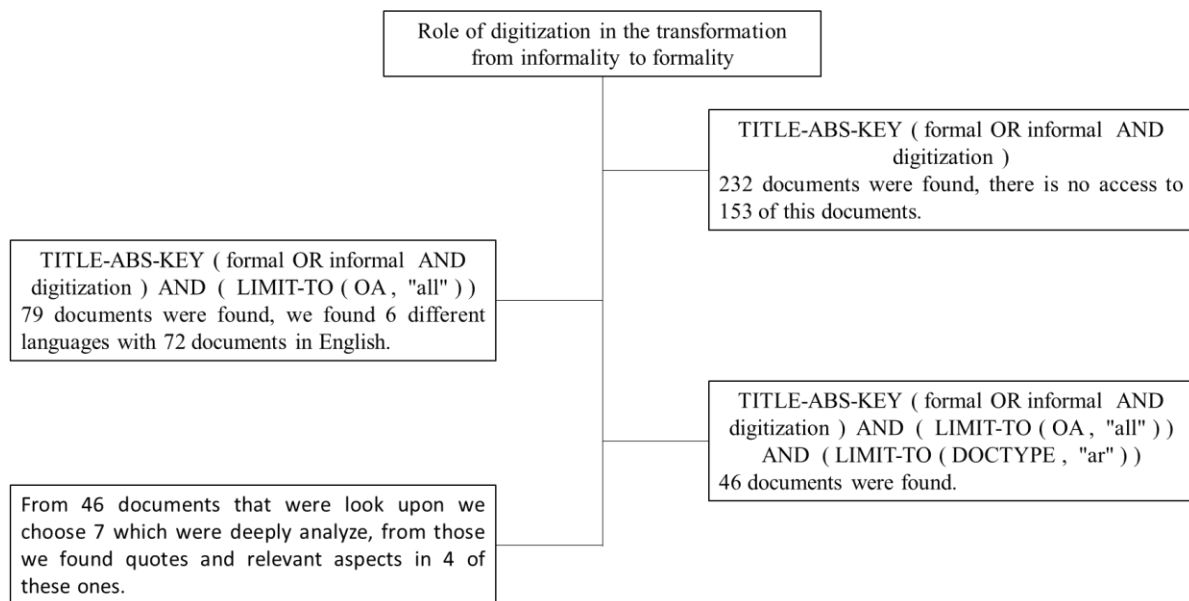


Figure 3. Selection process. Role of digitization in the transformation from informality to formality.

Source: Author's own work.

4. Results

4.1. Successful and unsuccessful cases of transformation from informality to formality

This table compiles 20 companies that went through a transformativity process. These firms were in Colombia. The aspects shown in the table are the name of the company, their contact information, if it was a successful case of transformation and why is that. An important aspect is that the cases found were only successful because of the lack of information about unsuccessful cases of transformation. Also, there is no specific information on how they make the steps from informality to formality. Table below (Table 1):

Name of the company	Website	Social media	Contact information	Successful or Unsuccessful	Why?	What contributed to the success or failure?
Café Tercer Acuerdo	https://disenounibague.wixsite.com/tercera-cuerdo?fbclid=IwAR3B2xK6v1sK61UDvEH4BApfmuf8IKq9RJ2EdVN2FSsrK4BIOsavgDuqoI	@terceracuerdo	321 9555417	Successful	Registered brand	Support from institutions such as universities
Chocopeneya	https://www.quanticaeducation.com/feria/chocopeneya	@chocopeneya	3123742791 e.molanor@gmail.com	Successful	Rural Youth Entrepreneurship led by young sons and daughters of cocoa producers who make up the Committee of cocoa producers in Agroforestry Systems of the Peneya Union - COPROPENEYA	Support from associations and institutions
Tabacos de El Salado	https://www.quanticaeducation.com/feria/tabacos-el-salado	-	3187871738 claudinathorres@gmail.com	Successful	From Growing tobacco to making cigars and selling them.	Support from associations and institutions

Mites artesanía	https://en.quanticaeducacion.com/feria/mites-artesantias	@mites_artesania	3193629864	Successful	From a traditional type of art to products that are expected to reach international markets	Support from associations and institutions
The Brown Ball	https://en.quanticaeducacion.com/feria/the-brown-ball	@thebrownball	304 360 5617 alejnoguera3206@gmail.com	Successful	Brown Ball is a project led by a former officer of the Armed Forces who works with cocoa-based products from areas affected by the conflict, being a strategy to promote these productive projects, and replace illegal economies.	Support from associations and institutions
Amativa	https://www.amativa.co/quienes-somos/	-	Info@amativa.co (+57) (8) 665 3117 (+57) 313 424 2659 - 320 370 0802	Successful	Started as an association that looks to help women from the country land victims of the conflict	Support from associations and institutions

Verde Jigua	https://en.quanticaeducation.com/feria/verde-jigua	-	3006296119 verdejigua@gmail.com	Successful	This is a collective undertaking that promotes solidarity, socially just, sustainable, and environmentally healthy economies. We are committed to building peace in the territory, decent work, improving the living conditions of our participants and the community in general.	Support from associations and institutions
Ágave y Mulié	https://en.quanticaeducation.com/feria/agave-y-mulie	@agavemulie e	3003029391 agavemulie@gmail.com	Successful	By promoting the tradition of fique processing and transformation, rescuing this tradition is promoting local practices that provide economic opportunities and community capacity building.	Support from associations and institutions
Café Kualí	https://en.quanticaeducation.com/feria/cafe-kuali	-	3145941582 paulaandrea zamora27@gmail.com	Successful	KUALI, produced by small farmers, victims of the armed conflict in Colombia.	Support from associations and institutions

Donde Javier	https://www.ccb.org.co/Fortalezca-su-empresa/Temas-destacados/Formalice-su-empresa/Testimonios-de-los-empresarios-que-han-dado-el-paso-a-la-formalidad	-	Javier Peña Meneses	Successful	The business has existed for more than 15 years but has recently been formalized	Support from associations and institutions
Negocio de ropa y accesorios	https://www.ccb.org.co/Fortalezca-su-empresa/Temas-destacados/Formalice-su-empresa/Testimonios-de-los-empresarios-que-han-dado-el-paso-a-la-formalidad	-	Donaldo Montoya Arias	Successful	The business is formalized because in this way penalties are avoided, and they obtain references to request financial credits.	Support from associations and institutions

Bolplásticaz	https://www.ccb.org.co/Fortalezca-su-empresa/Temas-destacados/Formalice-su-empresa/Testimonios-de-los-empresarios-que-han-dado-el-paso-a-la-formalidad	-	Samuel Sánchez	Successful	The business is formalized in order to work in legality	Support from associations and institutions
Ferretería	https://www.ccb.org.co/Fortalezca-su-empresa/Temas-destacados/Formalice-su-empresa/Testimonios-de-los-empresarios-que-han-dado-el-paso-a-la-formalidad	-	Delio Roberto Rodríguez Cárdenas	Successful	Already consolidated business that makes the decision to formalize	Support from associations and institutions

Establecimiento	https://www.ccb.org.co/Fortalezca-su-empresa/Temas-destacados/Formalicesu-empresa/Testimonios-de-los-empresarios-que-han-dado-el-paso-a-la-formalidad	-	Blanca Rubiela Peña	Successful	The business is formalized in order to stop operating anonymously, legally exist as a merchant and access credit.	Support from associations and institutions
o especializado en la reparación y el mantenimiento de vehículos automotores						
Cafeteria	https://www.ccb.org.co/Fortalezca-su-empresa/Temas-destacados/Formalicesu-empresa/Testimonios-de-los-empresarios-que-han-dado-el-paso-a-la-formalidad	-	Nicolás Giraldo Ramirez	Successful	Access to the benefits of the formal business	Support from associations and institutions

Agroveterinari a La Estancia	https://www.ccc.org.co/este-ano-la-ccc-apoyara-la-formalizacion-de-5-000-empresarios-en-el-pais/	-	Maritza Narváez Solís	Successful	Access to the benefits of the formal business	Support from associations and institutions
Negocio de Salsas	https://www.ccc.org.co/este-ano-la-ccc-apoyara-la-formalizacion-de-5-000-empresarios-en-el-pais/	-	Alba Nubia Gallego	Successful	Access to the benefits of the formal business	Support from associations and institutions
Arepas Las Delicias de Tati	https://www.ccc.org.co/este-ano-la-ccc-apoyara-la-formalizacion-de-5-000-empresarios-en-el-pais/	-	Aida Dinas Palacios	Successful	Access to the benefits of the formal business	Support from associations and institutions

Minutos	https://www.ccc.org.co/este-ano-la-ccc-apoyara-la-formalizacion-de-5-000-empresarios-en-el-pais/	-	Juan Carlos Alarcón	Successful	Access to the benefits of the formal business	Support from associations and institutions
Camelot	https://en.quanticaedu.com/feria/kasiwoluin	@kasiwoluin	3218715312 malvara24@gmail.com	Successful	Indigenous community that uses their ancestral knowledge in the development of products.	Support from associations and institutions

Table 1: Successful and unsuccessful cases of transformation from informality to formality.

Source: Author's own work.

4.2.Contextual elements that affect the transformation from informality to formality

This table shows those elements that demonstrates the context in which informality and formality occurs. It shows the authors, the name of the element, the definition of the element and the impact whether it's positive or negative. Table below (Table 2):

Author	Element that affects formality	Explanation	Does it affect her positively or negatively?
Elissaios Papyrakis	Volatile prices	Constant Changes in the prices.	Negatively
Amine Abi Aad - James G. Combs	Undeveloped economies	The lack of development in the economies allow the informality.	Negatively
Amine Abi Aad - James G. Combs	Emerging markets	New and underdevelopment markets.	Negatively
Amine Abi Aad - James G. Combs	Institutions	Rules of the game in which a business operates.	Positively
Amine Abi Aad - James G. Combs	Stability	There are no volatile contextual elements in the place where it happens.	Positively
Saqib Amin - and Nawaz Ahmad	Backwardness and Underdevelopment	Low Development.	Negatively
Saqib Amin - and Nawaz Ahmad	Exclusion	Exclusion of people from the develop markets.	Negatively
Saqib Amin - and Nawaz Ahmad	Ethnic economy	Immigrant and migrant groups of people.	Negatively

Saqib Amin - and Nawaz Ahmad	Avoidance of civil responsibilities	Not complying with social norms.	Negatively
Saqib Amin - and Nawaz Ahmad	Ethnic Diversity	Different groups of people.	Negatively
Saqib Amin - and Nawaz Ahmad	Being poor	Having low incomes.	Negatively
Saqib Amin - and Nawaz Ahmad	Religion	Religion in which a country act on.	Depends on the religion.
Anis Omri	Financial sector	Well functional financial sectors.	Positively
Anis Omri	Emerging economies	An emerging economy is based in informality.	Negatively
Anis Omri	Informality exists in all economies	Informality is 30% of the world economy.	Negatively
Anis Omri	Solid governance	Well written an executed institutions.	Positively
Anis Omri	Economic growth	Positive grow in an economy.	Positively
Anis Omri	Level of education	How far people go in the educational system.	Positively and negatively
Anis Omri	Foreign direct investment	Direct investment from other countries.	Positively and negatively
Anis Omri	Unemployment	People of working age who are not employed.	Positively and negatively

Monder Ram -Paul Edwards - Trevor Jones - Maria Villares-Varela	Advance capitalism	Micro firms that to compete sell their products below the equilibrium price.	Negatively
Khurrum S. Mughal, and Friedrich G. Schneider	Lower costs	lower costs due to the evasion of norms of the formal economy.	Negatively
Khurrum S. Mughal, and Friedrich G. Schneider	Activity sector	The economic sector in which an activity is carried out: agriculture, animal husbandry and production of primary commodities.	Negatively
Khurrum S. Mughal, and Friedrich G. Schneider	Regulation	Level of regulation in an economy.	Positively and negatively
Khurrum S. Mughal, and Friedrich G. Schneider	Developing countries	Countries that are in the process of development.	Negatively
Khurrum S. Mughal, and Friedrich G. Schneider	Volatile political environment.	Constant changes in a country political context.	Negatively
Cristina Vega Solis - , Héctor Fabio Bermúdez Lenis	Gender	Lack of representation of women in the formal sector.	Negatively

Gengzhi Huang, Desheng Xue and Bo Wang	Modernization perspective	Economic development.	Positively
Gengzhi Huang, Desheng Xue and Bo Wag	Neo-Marxist Perspective	The informal economy is seen as a byproduct of capitalism	Negatively
Gengzhi Huang, Desheng Xue and Bo Wang	Neoliberal Perspective	Informal economy is seen because of excessive state regulation.	Negatively
Gengzhi Huang, Desheng Xue and Bo Wang	Floating populations	Correlation between floating populations and informal economy.	Negatively
Richardson Kojo Edeme Chigozie Nelson Nkalu Ginika Edeh	Monetary policy	Economic policies that affect the prices in the formal sector.	Negatively

Table 2: Contextual elements that affect the transformation from informality to formality.

Source: Author's own work

4.3.Barriers or accelerators of the transformation from informality to formality.

This table shows those aspects that makes easier or harder the apparition of informality and formality. It is made of the authors, the name of the aspects, if it a barrier or an accelerator and the justification as a quote of the aspect. Table below (Table 3):

Author	Element	Barrier or accelerator
Elissaios Papyrakis	Stagnated sector	Accelerator Informality
Elissaios Papyrakis	Lack of alternative formal economic activities	Barrier Formality
Kirsten Barnes. Derick Blaauw. Rinie Schenck. Anmar Pretorius	Supply chain	Accelerator Formality
Kirsten Barnes. Derick Blaauw. Rinie Schenck. Anmar Pretorius	Institutions that look for integration	Accelerator Formality
Amine Abi Aad - James G. Combs	Avoid Taxes	Barrier Formality
Amine Abi Aad - James G. Combs	Risk exposure	Accelerator Formality

Amine Abi Aad - James G. Combs	Prevention-focus mindset	Accelerator Formality
Amine Abi Aad - James G. Combs	Social ties with formal institutions	Accelerator Informality
Amine Abi Aad - James G. Combs	Raise in formal economy cost	Barrier Formality
Saqib Amin - and Nawaz Ahmad	heterogeneous individuals	Accelerator Informality
Saqib Amin - and Nawaz Ahmad	Ethnic Diversity	Barrier Formality
Stuart Cunningham	Social network markets	Accelerator Formality
Anis Omri	Financial sector	Accelerator Formality
Anis Omri	Lack of access to finance	Barrier Formality
Anis Omri	Good governance	Accelerator Formality
Anis Omri	Bad governance	Barrier Formality
Anis Omri	High level of education	Accelerator Formality
Anis Omri	Low level of education	Barrier Formality
Anis Omri	Foreign direct investment	Accelerator Formality
Anis Omri	Foreign direct investment	Accelerator Informality
Anis Omri	Innovation	Accelerator Formality
Monder Ram -Paul Edwards - Trevor Jones -Maria Villares- Varela	Low the costs	Accelerator Informality
Monder Ram -Paul Edwards - Trevor Jones -Maria Villares- Varela	Regulation	Accelerator Formality

Monder Ram -Paul Edwards - Trevor Jones -Maria Villares- Varela	Regulation	Accelerator Informality
Gengzhi Huang, Desheng Xue and Bo Wang	Rapid urbanization	Accelerator Informality
Elizabeth Alejo and Amy Schoenecker	Support from institutions	Accelerator Formality
Elizabeth Alejo and Amy Schoenecker	Governance policies	Accelerator Formality

Table 3: Barriers or accelerators of the transformation from informality to formality.

Source: Author's own work

5. Conclusions

All authors have different definitions when we speak of informality, this makes it difficult to have a universal definition for this term; That is why it is necessary to make a contextual review of the place where informality occurs and a demographic investigation of the people who relapse into this phenomenon to survive. However, the vast majority of authors agree that informality occurs outside of formal institutions and contracts.

The topic of transformality from informality to formality couldn't be found on an explicit article or case of study that emphasizes about those aspects in which the transformality process occurs or how it happens. Nevertheless, we can find those contextual elements that are generally more related to the informal or formal sector, we were also able to understand those aspects that act out as a barrier or accelerator to formality and informality (there is no barrier for informality).

Contextual elements are those that are related to the social and institutional environment where the transformational process occurs. These may have a greater relationship with informal or formal activity. We find the following: Economic development (formal), emerging markets (informal), volatile prices (informal), institutions (formal), stability (formal), ethnic economy (informal), avoidance of civil responsibilities (informal), corruption (informal), religion (formal and informal), bad governance (informal), good governance (formal), low level of education (informal), high level of education (formal) and unemployment (informal). It was surprising to

find out that the religion has an important relevance in those countries with a tendency to informality or formality, in eastern countries where religion and state are closer informality is much lower than in Christian countries where the relationship between church and state is more demarcated.

When we talk about informality, we find that there are accelerators that allow it to exist, but we are unable to find barriers that prevent its operation. Accelerators of informality: Stagnated sector, social ties with formal institutions, heterogeneous individuals, foreign direct investment, low costs, regulation, rapid urbanization. In this order of ideas, we can say that there are multiple factors that enhance the appearance of informality but only one that can prevent it, these would be the policies that seek the development of formality. The only barrier to informality is the possibility of insertion into formality.

However, in the case of formality, it was possible to find elements that function as accelerators or barriers. Accelerators of formality: Institutions that look for integration, risk exposure, prevention-focus mindset, social network markets, financial sector, good governance, high level of education, foreign direct investment, innovation, and regulation. In barriers we can find: Lack of alternative formal economic activities, avoid taxes, raise in formal economy cost, ethnic diversity, lack of access to finance, bad governance, low level of education. It is relevant to say that there are aspects that can be in favor and against the transformativity, and example is the regulation that when is too much accelerates the informality but when doesn't exist is a barrier for formality.

Through research it was possible to demonstrate that the most relevant and important aspect for a successful case of transformation from informality to formality is the support of institutions, these must be formal and belong to any sector whether public or private.

If the policy makers want to succeed in the way they appoint the problem of informality they should try to make programs with the intention to bring new businesses to the formal sector, however, these programs should at the same time have the attractive potential of resting those aspects that attract people to stay in informality such as the low costs and the lack of taxes. At least in the beginning the policy should give all the positive of the formality and try to provide the benefits of the informal one.

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