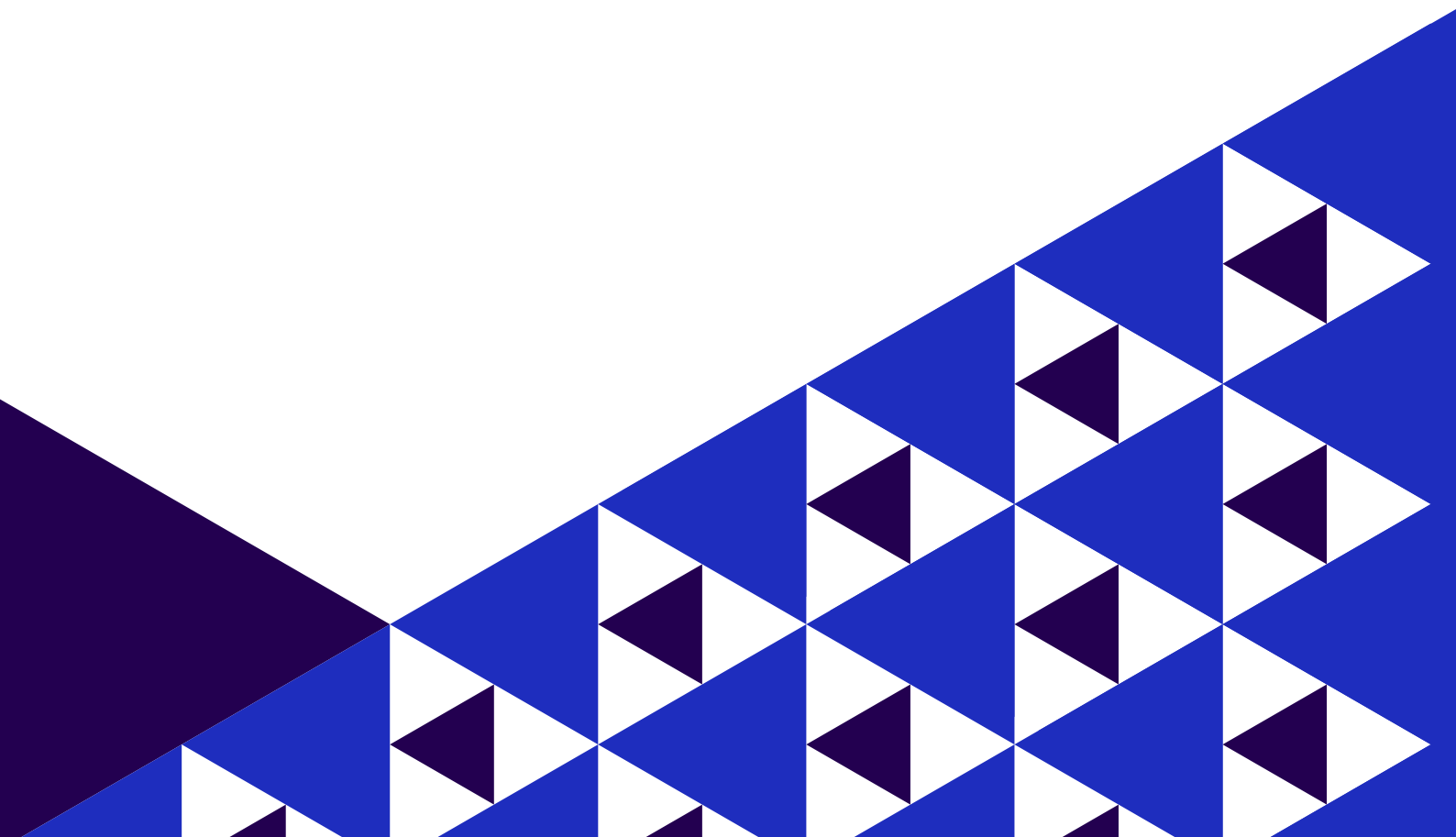




# ► Innovative approaches to addressing informality and promoting the transition to formality for decent work

International Labour Conference  
113th Session, 2025



Report VI

▶ **Innovative approaches  
to addressing informality  
and promoting the transition  
to formality for decent work**

Sixth item on the agenda

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## ► Introduction

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### Background

1. The informal economy is a major feature of the world of work. While there are marked differences among countries and regions, all economies are affected. Over 2 billion workers globally are in informal employment, representing nearly 58 per cent of total employment worldwide. The figures range from 13 per cent in high-income countries to close to 90 per cent of workers in low-income countries. <sup>1</sup> At the same time, up to 80 per cent of enterprises <sup>2</sup> are currently operating in the informal economy. <sup>3</sup>
2. This widespread informality presents significant challenges for the realization of workers' rights – including the fundamental principles and rights at work and access to adequate social protection – and working conditions. It also undermines the rule of law, hinders productivity and has a negative impact on the development of sustainable enterprises, public revenues and governments' scope of action – particularly with regard to economic, social and environmental policies – the soundness of institutions and fair competition in national and international markets.
3. Formalization is clearly recognized as a key objective within the Sustainable Development Goals, particularly Goal 8 on decent work and economic growth, and is mentioned under target 8.3. It is also a critical factor in advancing the achievement of several others, including Goal 1 (No Poverty), Goal 5 (Gender Equality), Goal 10 (Reduced Inequalities), Goal 16 (Peace, Justice and Strong Institutions) and Goal 17 (Partnerships for the Goals).
4. For most people, working in the informal economy is not a choice, but a consequence of a lack of opportunities in the formal economy, low income and the absence of other means of livelihood. Progress towards formalization has been impeded by factors such as weak governance, restrictions on freedom of association and on the effective recognition of the right to collective bargaining, an inadequate environment for sustainable enterprises, inadequate regulation, and under-resourced and ineffective compliance and enforcement systems.
5. Informality deprives people of opportunities to access decent work and develop their full human potential, including their creativity, productive capacity and entrepreneurial spirit. This lack of opportunity also threatens their livelihoods and is often passed down from one generation to the next, perpetuating a cycle of poverty and inequality.
6. Supporting the transition of workers and economic units from the informal economy to formality requires policymakers to recognize the complex and heterogeneous nature of the informal economy and its drivers. The transition to formality calls for the implementation of coordinated and coherent measures that are adapted to the specific characteristics, circumstances and needs of informal economy workers and economic units and are responsive to regional, national and local contexts.
7. The Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204), was the first international standard that directly addressed the informal economy in its entirety. Its

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<sup>1</sup> ILO, "SDG indicator 8.3.1. – ILO Modelled Estimates", ILOSTAT database, accessed 5 February 2025.

<sup>2</sup> In this document, "enterprises" is used as an equivalent to "economic units", which is the term used in the Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204).

<sup>3</sup> ILO, *Women and Men in the Informal Economy: A Statistical Update*, 2023, 24.

adoption in 2015 was of strategic importance to the world of work, as it provides guiding principles and policy guidelines to support the transition to formality. It emphasizes the need for a rights-based approach and context-specific integrated strategies that promote gender equality and non-discrimination and are founded on freedom of association and social dialogue, and highlights the role of employers' and workers' organizations.

8. Accelerating progress on the transition to formality, in line with Recommendation No. 204, is fundamental to addressing some of the root causes of decent work deficits. Ensuring that no one is left behind also means reducing decent work deficits in the informal economy while creating the foundations that enable individuals and economic units to move out of informality.
9. The policy debate on the transition to the formal economy, including the prevention of informalization, is at a critical crossroads. Despite enhanced efforts and growing capacities at the national level, along with emerging opportunities from the digital revolution and productive engagement through supply chains, transitioning to formality remains a significant challenge.
10. This stems, in part, from the protracted difficulty of many governments to significantly and sustainably address the root causes of informality and foster inclusive structural changes towards sustainable development and decent work. It also results from prevailing conflicts and crises and the COVID-19 pandemic, which led to widespread loss of jobs and livelihoods across the world. The challenges of formalization are also intensifying in the face of structural challenges such as climate change, resource scarcity and care requirements associated with population ageing.
11. While a growing number of countries have a proven record of developing effective legal and policy frameworks for formalization with sustained efforts for policy coherence and coordination, others have only recently embarked on similar paths or are considering doing so. There is substantial demand from policymakers and employers' and workers' organizations at the country level for evidence-based, innovative approaches and good practices on effective policy and coordination frameworks for facilitating the transition to the formal economy.
12. Against this backdrop, at its 347th Session (March 2023), the Governing Body of the ILO decided <sup>4</sup> to include on the agenda of the 113th Session of the International Labour Conference (2025) an item for a general discussion on innovative approaches to tackling informality and promoting transitions towards formality to promote decent work. This discussion by the Conference, ten years on from the adoption of Recommendation No. 204, will review innovative approaches that have the potential for constituents to accelerate and scale up the operationalization of Recommendation No. 204, with the support of the Office.

## About this report

13. This report provides a background for the discussion of the International Labour Conference on innovative approaches and good practices to addressing informality, in order to identify further action and priorities at the global, regional and country levels, and to enable the ILO and its constituents to better support successful action to promote the transition to formality, including by preventing informalization.
14. The report also helps to build on the evidence base of innovative approaches and good practices for the transition to formality. It complements a mapping exercise in each ILO region to identify and analyse what works and under what conditions. This work, and the knowledge produced for

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<sup>4</sup> ILO, *Minutes of the 347th Session of the Governing Body of the International Labour Office*, GB.347/PV(Rev.), para. 58(b). See also, *Agenda of the International Labour Conference*, GB.347/INS/2/1.

and through regional knowledge-sharing forums, are accessible on a platform developed by the ILO and its International Training Centre. Together, these efforts provide a wealth of relevant information to support the design and implementation of effective pathways to formality.

- 15.** The report is organized into three chapters. Chapter 1 introduces the concept of informality, reviews recent trends and drivers, and examines major policy efforts, both within and outside the ILO, to address informality and promote the transition to formality. Chapter 2 focuses on innovative approaches and good practices, with particular emphasis on establishing the preconditions for the successful design and implementation of integrated approaches to address informality and promote formalization and on recognizing the multi-dimensional aspect of informality and its causes. Finally, Chapter 3 reviews key lessons learned and sets the basis for the development and implementation of an action plan, including roles and responsibilities, for making significant and sustained progress towards formalization.

## ► Chapter 1. What is informality, what drives it and what is being done?

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### 1.1. Informality and formalization: What they mean and why they matter

#### 1.1.1. Guidance on what the informal economy and formalization mean

16. Under the Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204), the term “informal economy” refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements and does not cover illicit activities. In 2023, the 21st International Conference of Labour Statisticians adopted a resolution concerning statistics on the informal economy,<sup>5</sup> which contains a statistical definition and provided further support for defining and measuring informality and understanding the diversity within the informal economy (box 1).
17. From this perspective, formalization of enterprises means bringing them under regulation, with both the advantages and obligations it entails. This includes extending fiscal, labour and social security regulations to all enterprises without exception and ensuring that they are legally recognized and registered and that they comply with legal requirements. For independent workers, the formal status of their enterprise determines whether the workers themselves are in informal employment. For employees, the transition to formality means securing adequate labour and social protection. Depending on the situation, this may involve one or more of the following actions: extending legal coverage to those currently excluded or insufficiently protected; ensuring an adequate level of legal protection; and strengthening compliance with laws and regulations. Moving activities from the informal to the formal economy requires a full legal declaration, coverage under the law and effective protection.<sup>6</sup>
18. Formalization can be pursued through three complementary channels, which are the objectives of Recommendation No. 204: (i) facilitating the transition of workers and economic units from the informal to the formal economy, while ensuring respect for workers’ fundamental rights and ensuring opportunities for income security, livelihoods and entrepreneurship; (ii) promoting the creation, preservation and sustainability of enterprises and decent jobs in the formal economy and the coherence of macroeconomic, employment, social protection and other social policies; and (iii) preventing the informalization of jobs within the formal economy. Moreover, the Recommendation highlights that formalization is not an objective in and of itself, but rather is a necessary condition to achieve a wide range of economic, employment, environmental and social goals. The ILO’s theory of change on the transition from the informal to the formal economy provides guidance on the main pathways for the transition to formality of workers and economic units. It recognizes that while some workers and economic units can be formalized in the short term, for others, the only realistic possibility is to reduce decent work deficits and vulnerabilities in the informal economy to create the enabling conditions for a sustainable transition to the formal economy in the medium or long term.

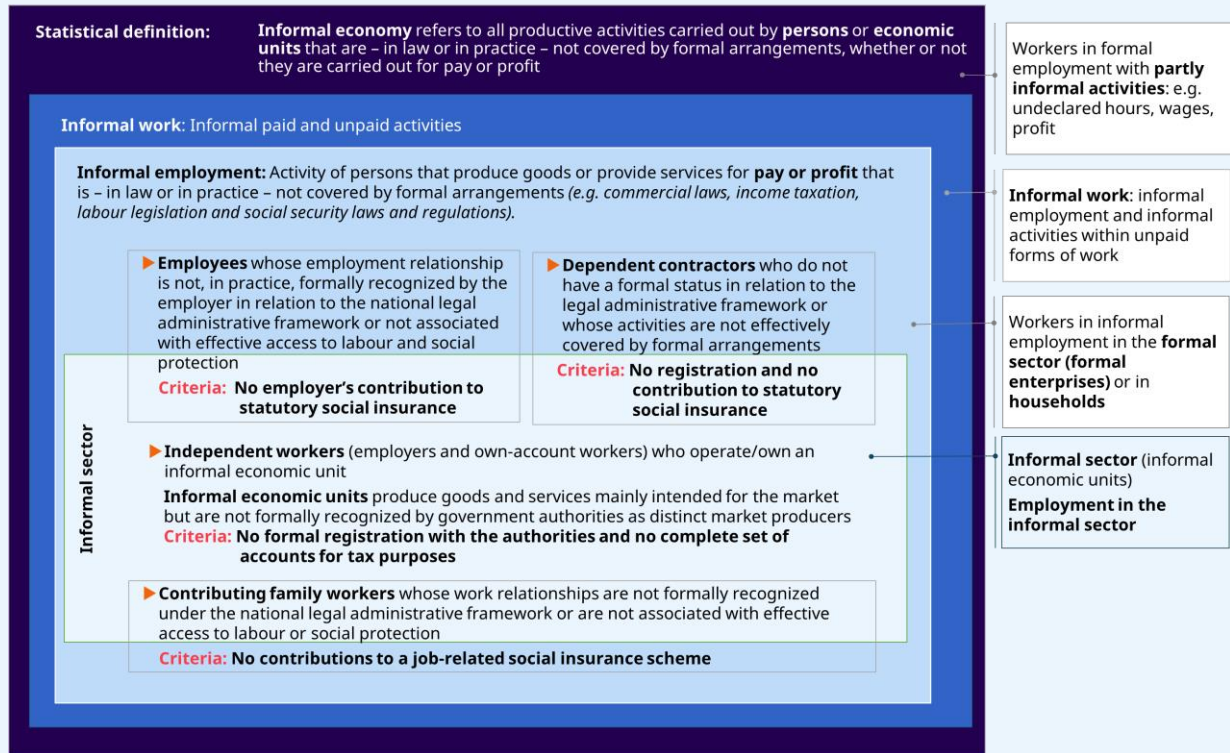
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<sup>5</sup> ILO, [Resolution concerning statistics on the informal economy](#), ICLS/21/2023/RES. I (October 2023).

<sup>6</sup> ILO, [“Transition from the Informal to the Formal Economy – Theory of Change”](#), 2021, 1.

### ► Box 1. The informal economy: From policy guidance to a statistical definition

**Recommendation No. 204:** **Informal economy** refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements and does not cover illicit activities



The **informal economy** (navy blue box) is defined statistically as all informal productive activities of persons or economic units, whether or not they are carried out for pay or profit. This overarching concept encompasses all the other interrelated concepts of informal work, informal employment and informal sector. **Informal work** (medium blue box) recognizes informality in relation to the different forms of work, including **informal employment** or work for pay or profit (lighter blue box) and unpaid forms of work such as informal own-use production work, informal volunteer or trainee work. **Informal employment** refers to any activity for pay or profit that is – in law or in practice – not covered by formal arrangements. Persons in informal employment can work in the **informal sector** (informal economic units, lightest blue box) or outside of the informal sector. All independent workers who own or operate an informal economic unit are in informal employment. By contrast, dependent workers (employees, dependent contractors and contributing family workers) can be in informal employment in the informal sector or outside of the informal sector (that is, in the formal sector or household own-use and community sector). By definition, all persons in the informal sector (whether dependent or independent workers), are in informal employment. In addition, some persons (top right) may carry out activities that are partly informal while being in formal employment, such as undeclared profit or undeclared hours.

Source: ILO, Resolution concerning statistics on the informal economy, ICLS/21/2023/RES. I (October 2023).

19. Recommendation No. 204 also recognizes that effective formalization strategies should involve integrated approaches and coordination among various actors and policy areas to address the complexity and multiple drivers of informality, with particular emphasis on those who are especially vulnerable to the most serious decent work deficits in the informal economy. It recognizes the diversity of characteristics, circumstances and needs of workers and economic units in the informal economy and, as such, the diversity of integrated strategies needed for the transition to formality. Such strategies may be national, local or sectoral and may address specific groups of workers and economic units or forms of informality. To build consensus and chart a path towards the design, implementation and monitoring of tailored policies for formalization, appropriate diagnostics are needed.

**20.** The resolution concerning statistics on the informal economy is aligned conceptually with informality as set out in Recommendation No. 204. It provides further support to constituents in defining and measuring informality and understanding the diversity within the informal economy. This comprehensive statistical framework provides guidance on measuring activities in the informal economy and monitoring progress towards formalization. It covers the different dimensions of informality and, through the introduction of an indicator framework,<sup>7</sup> supports the creation of evidence-based policies that are responsive to the diversity within the informal economy. The resolution supports the development of tailored policies and measures that consider country-specific contexts and the heterogeneity among workers and economic units. Together, the Recommendation and the resolution provide ILO constituents with a common understanding of what the informal economy is and sheds light on some of its drivers and consequences, all with the aim of supporting the design of policies and programmes to support the transition to formality.

### 1.1.2. Why the transition to the formal economy is important

- 21.** The informal economy is one of the structural barriers to advancing social justice. It hinders progress in reducing inequality and ensuring decent work for all, including the realization of the fundamental principles and rights at work. Its pervasive nature restricts access to opportunities for better working and living conditions and undermines efforts towards inclusive and sustainable development.
- 22.** The transition to formality is a condition for achieving inclusive, adequate and effective labour protection<sup>8</sup> as well as comprehensive and adequate social protection for all workers.<sup>9</sup> By transitioning to the formal economy, workers gain access to better working conditions, including in the areas of wages, working time, occupational safety and health, and maternity protection. They also gain access to adequate and comprehensive social protection to cover contingencies related to illness, maternity, unemployment, employment injury, disability, old age and survivorship, which enhances their financial security and quality of life. Labour and social protection not only safeguard individual workers in terms of working conditions, income security, violence and harassment at work, and occupational safety and health, but also contribute to a more resilient and productive workforce and a more just and peaceful society.
- 23.** Formalization of enterprises is a transformative process that not only drives economic growth, decent work and fair competition but also lays the foundation for sustainable development by boosting productivity, strengthening compliance with legal and regulatory frameworks and raising the quality standards of goods and services. This transition needs, but also fosters, an enabling environment for the creation of decent and productive employment opportunities. Critically, the formalization of enterprises is a prerequisite for the formalization of employment and decent jobs for all workers engaged in informal economic units. Formal enterprises are better positioned than informal enterprises to access essential resources, including financing, advanced technologies, broader markets and skills development programmes to enhance their productivity and competitiveness.
- 24.** As countries expand their formal economies, they unlock the potential of a more skilled, resilient and productive workforce. This leads to sustained wage growth, improved working conditions and reduced inequality, ultimately enhancing social cohesion and stimulating broader economic dynamism. Formalization also benefits society by expanding the scope of action of governments, notably through increased public revenues and strengthened rule of law. It enhances the capacity

<sup>7</sup> ILO, “Contextualizing Informality: The Informal Economy Indicator Framework”, ICLS/21/2023/Room document 5 (2023).

<sup>8</sup> ILO, [Resolution concerning the second recurrent discussion on labour protection](#), ILC.111/Resolution IV, 2023.

<sup>9</sup> ILO, [Resolution concerning the second recurrent discussion on social protection \(social security\)](#), ILC.109/Resolution III, 2021.

of States to provide access to public services for everyone and to ensure appropriate redistribution through social transfers and tax systems. Distributing rights and obligations more equitably among members of society and reducing inequalities, including gender inequality, fosters fairer and more inclusive societies. This helps to build trust in government institutions, which in turn further encourages formalization and the culture of formality.

25. The process of formalization is also central to a just transition and the protection of vulnerable communities against the negative impacts of climate and environmental change on their livelihoods, in line with the guiding principles for a just transition for all. Context-specific employment services, skills development and access to finance and land for those in the informal economy can strengthen their capacities and willingness to adopt more sustainable practices. As economic units and workers move towards emerging green and blue sectors such as renewable energy, or greening their current sector, formalization will be key to supporting further access to technological change, skills development and finance for transformative change; otherwise, there will be a heightened risk of social unrest.<sup>10</sup>
26. Formalization is essential for ensuring that everyone gains from technological developments. Not only can technology, in particular digitalization, support formalization, but once formalized, enterprises and workers can also better leverage technology, such as digital tools and platforms, to enhance productivity and innovation and to access more secure and decent jobs and adequate incomes.

## 1.2. Informality in numbers

### 1.2.1. Incidence and trends

27. The informal economy accounts for close to 6 out of 10 workers and 8 out of 10 enterprises in the world.<sup>11</sup> Depending on the region, it contributes between 15 and 35 per cent of total gross domestic product.<sup>12</sup> Moreover, informality is widespread and persistent (figures 1 and 2). At the global level, informality has been gradually declining over the past two decades, but progress remains slow. As of 2024, informal employment represented just under 58 per cent of total employment, compared to 62 per cent in 2004.<sup>13</sup> Given the pace of growth in population and employment, the numbers of workers in informality continues to rise, and reached over 2 billion in 2024.
28. The marginal reductions in informality have been uneven across regions. The downward trend has been driven mainly by Asia and the Pacific (particularly East and South-East Asia) and to a lesser extent Europe and Central Asia. In East Asia and South-East Asia and the Pacific, the reductions in informality are largely attributed to structural changes in the labour market, where the share of agricultural employment has decreased alongside an increase in employment in industry and services. This has been accompanied by a growing proportion of employees, who are less exposed to informality than independent workers.<sup>14</sup> In contrast, the downward trend observed in Europe is largely a result of targeted measures aimed at reducing informality, particularly undeclared work.

<sup>10</sup> Intergovernmental Panel on Climate Change (IPCC), *Climate Change 2023: Synthesis Report*, 2023, 101.

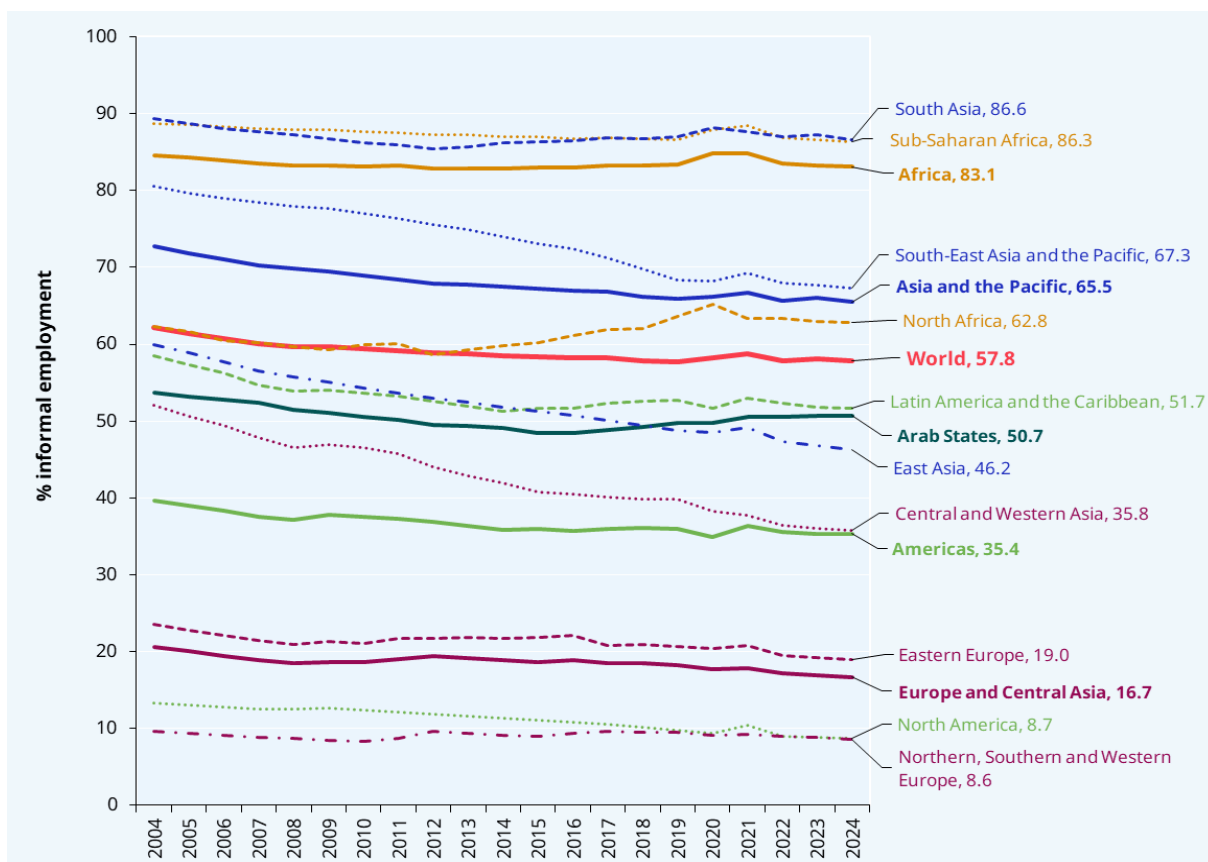
<sup>11</sup> ILO, *Women and Men in the Informal Economy: A Statistical Update*, 15, 24.

<sup>12</sup> World Bank Group, *The Long Shadow of Informality: Challenges and Policies*, 2021; Corinne C. Deléchat and Leandro Medina, "What Do We Know About the Informal Economy?", in IMF, *The Global Informal Workforce: Priorities for Inclusive Growth*, 2021.

<sup>13</sup> ILO, "SDG indicator 8.3.1. – ILO Modelled Estimates", ILOSTAT database, accessed on 5 February 2025.

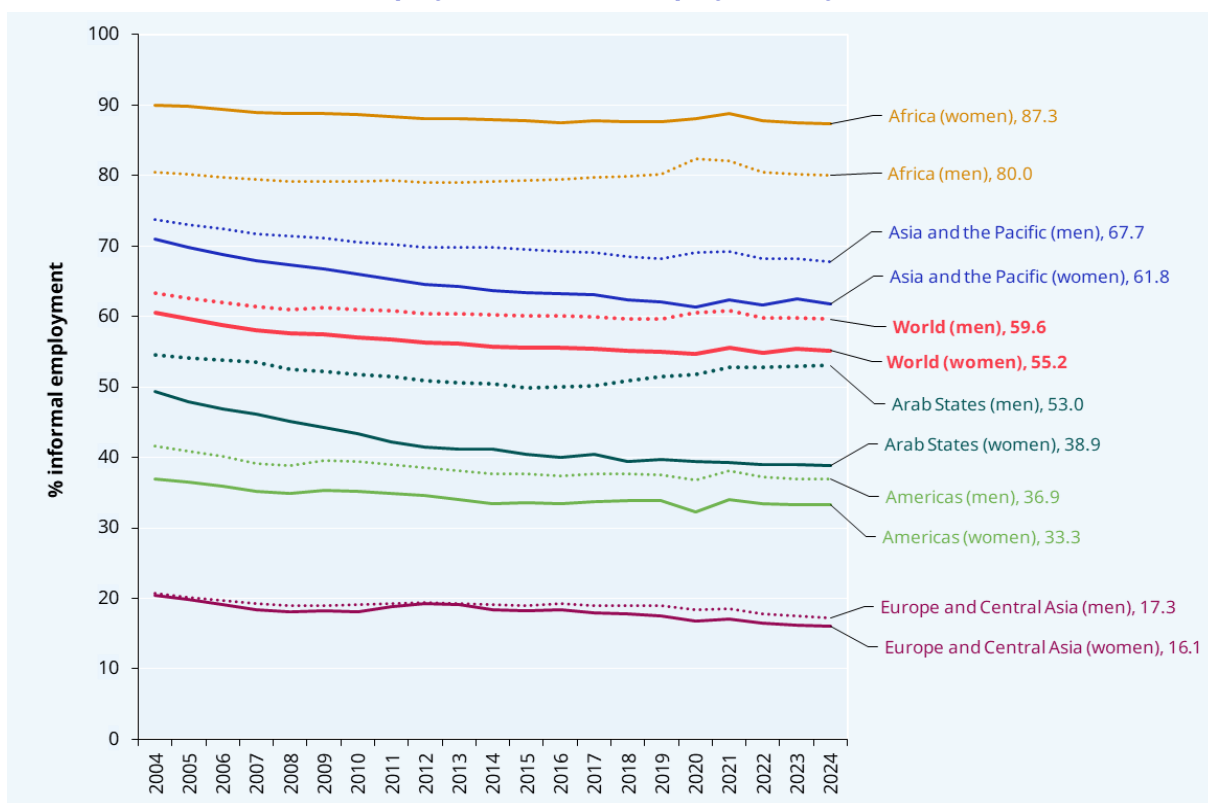
<sup>14</sup> ILO, *Women and Men in the Informal Economy: A Statistical Update*, 36.

► **Figure 1. Share of informal employment in total employment (%), 2004–24**



Source: ILOSTAT modelled estimates, [SDG indicator 8.3.1](#). For more information on the sectoral composition of total, formal and informal employment, along with key sector characteristics, see the [Informality Dashboard](#).

► **Figure 2. Share of informal employment in total employment by sex (%), 2004–24**



Source: ILOSTAT modelled estimates, [SDG indicator 8.3.1](#).

## 1.2.2. Disparities within and across regions and countries

29. While more prevalent in low- and middle-income countries, the informal economy exists in all parts of the world,<sup>15</sup> including in high-income countries. The level and structure of informality across and within countries are largely driven by the degree of economic, social and institutional development, as well as the resulting overall structure of the economy and composition of employment. In particular, a national or regional labour market structure that is dominated by certain sectors or employment statuses more susceptible to informality can help to explain the overall prevalence and patterns of informality.
30. Countries can be categorized in four broad groupings.<sup>16</sup> The first shows pervasive informal employment, mainly in agriculture, relying primarily on own-account workers and contributing family workers. Some 70 per cent of countries in this group are in sub-Saharan Africa, followed by South and South-East Asian countries. All are low- and lower-middle-income countries that have rates of informal employment exceeding 80 per cent of total employment. In most of these countries, agriculture – including subsistence farming – accounts for the majority of informal employment, with the rural economy making up more than 70 per cent of informal jobs. Employment statuses deemed particularly vulnerable (own-account workers and contributing family workers) account for nearly 80 per cent of informal employment, and informal micro and low-productivity economic units with fewer than five workers absorb close to 9 out of 10 workers. Nearly 6 in 10 informal workers have, at best, a primary level of education, and more than 50 per cent live below the poverty threshold of US\$3.65 (in purchasing power parity) per person per day.
31. The second group consists primarily of middle-income countries from nearly all regions but with an overrepresentation of Asia and the Pacific. Informal employment accounts for between 40 per cent and 80 per cent of total employment. Agriculture still employs a significant share of informal workers (over 35 per cent), but nearly 1 in 3 informal workers is employed in the industrial sector. Non-salaried workers continue to make up more than half of informal workers, particularly in agriculture and services, and predominantly in African countries. However, more than 4 out of 10 informal workers are employees, many of whom are employed in the manufacturing sector. This is especially the case in South-East Asia, where a significant share is employed in formal enterprises, including as part of supply chains. One third of workers have no formal education or only primary education, and 1 in 10 lives below the poverty threshold of US\$3.65 (in purchasing power parity) per person per day (a proportion that reaches over one third in South-East Asia and the Pacific and more than half in sub-Saharan Africa).
32. In the third group of countries, which includes an equal share of upper-middle-income and high-income countries, 1 in 4 workers is informally employed. Countries in Latin America and the Caribbean, the Arab States and, to some extent, Asia and the Pacific are overrepresented. Nearly 6 out of 10 informal workers are employees, with one third of them employed in formal enterprises. Microenterprises of fewer than five workers, including own-account workers, absorb less than 40 per cent of informal employment. The services sector provides 60 per cent of informal employment, followed by industry (more than 1 in 5 informal workers). Over 70 per cent of workers have a secondary or higher level of education, and yet, in this group, as in the previous one, nearly 1 in 10 informal workers lives below the poverty threshold of US\$3.65 (in purchasing power parity) per person per day.
33. The last group comprises high-income countries and a few upper-middle-income countries. Up to 90 per cent of the countries are in Europe and Central Asia. The informal employment rate is

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<sup>15</sup> For additional information see ILO, “[Detailed regional statistical profiles of informality](#)”.

<sup>16</sup> Typology of countries based on the data set developed for the ILO publication *Women and Men in the Informal Economy: A Statistical Update*, 2023.

slightly over 1 in 10 workers. Half of these workers are employees, over 60 per cent of whom are employed in formal enterprises, typically as undeclared workers. However, self-employed workers also make up a significant share of informal employment, including disguised self-employed workers, genuine own-account workers and owners of small, unregistered units. The services sector accounts for nearly two thirds of informal jobs and 1 in 5 informal jobs is in industry, notably the construction sector. In this last group, secondary or higher education is the norm. Nearly 1 in 4 informal workers lives below the relative poverty threshold (60 per cent of median income), compared to 14 per cent of formal workers.

### 1.2.3. Groups most exposed to informality: Common trends across regions and countries

34. Despite major differences among regions and countries, some categories of workers and types of enterprises are more exposed to and impacted by informality than others in most contexts. Own-account workers are more than twice as likely to be in informal employment compared to employees. Yet, employees in temporary employment are five times more likely to be in informal employment than employees in open-ended full-time employment and are almost as exposed to informality as own-account workers. Informality of both enterprises and workers decreases as the size of the enterprise increases. Similarly, some sectors are consistently the most at risk of informality: agriculture, domestic work<sup>17</sup> and construction. In addition, certain sectors, such as tourism and construction, are particularly prone to informal employment within formal enterprises, often associated with a high proportion of seasonal, temporary or daily workers. Home-based work and work in non-fixed places of work or more generally in non-professional fixed visible premises are more likely to be informal.<sup>18</sup>
35. Women are more exposed to informality than men in the majority of countries, although not at the global level. Women also tend to be overrepresented among more vulnerable segments of informality, for example, domestic workers, home-based workers<sup>19</sup> and contributing family workers. Both younger and older workers tend to have higher informality rates than core-age workers. Workers with disabilities tend to have higher informality rates than persons without disabilities (70 per cent as opposed to 58 per cent).<sup>20</sup> Indigenous peoples are 20.0 percentage points more likely to be in informal employment than the non-indigenous population.<sup>21</sup> In countries with available information, the average incidence of informal employment is 3 percentage points higher for the foreign-born population than for the native-born population (it is 7 percentage points higher for non-citizens than for workers who are citizens of the country in which they live).<sup>22</sup> Higher levels of education lead to lower levels of informality everywhere. Conversely, the informal economy also tends to absorb workers with lower levels of education.
36. Despite these differences, most workers in the informal economy face more pronounced decent work deficits and vulnerabilities. Globally, informal wage workers earn on average 56 per cent of formal workers' wages. Men in informal jobs earn 58 per cent of men's wages in formal jobs, while

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<sup>17</sup> More than 80 per cent of the world's 75.6 million domestic workers – of whom 76 per cent are women – are in informal employment, twice the share of other employees. ILO, *Making Decent Work a Reality for Domestic Workers: Progress and Prospects Ten Years after the Adoption of the Domestic Workers Convention, 2011 (No. 189)*, 2021, 189.

<sup>18</sup> ILO, *Women and Men in the Informal Economy: A Statistical Update*, 42.

<sup>19</sup> In low- and middle-income countries, most home-based workers are women. In 2019, 92 per cent were in informal employment compared with 88 per cent of men. ILO, *Working from Home: From Invisibility to Decent Work*, 2021, 55.

<sup>20</sup> ILO, *Leaving No One Behind: Building Inclusive Labour Protection in an Evolving World of Work*, ILC.111/Report V, 2023, para. 37.

<sup>21</sup> ILO, *Implementing the ILO Indigenous and Tribal Peoples Convention No. 169: Towards an Inclusive, Sustainable and Just Future*, 2019, 85.

<sup>22</sup> OECD, *Informality and Globalisation: In Search of a New Social Contract*, 2023, 74.

women earn only 52 per cent compared to their counterparts in the formal economy.<sup>23</sup> Considering all employment statuses and sources of income at the household level, informal workers are twice as likely to be poor than formal workers.<sup>24</sup>

### 1.3. Drivers of informality

37. The drivers of informality are multifaceted and interrelated and transcend different dimensions of the world of work and beyond. Their relative importance differs greatly between countries, workers and economic units as well as sectors. Drivers of informality can also be cross-cutting, related to a wide set of manifestations of informality, or specific to particular groups of workers or categories of economic units. The main drivers of informality include:
38. **High levels of poverty and inequality**, which have multiple effects on the capacity of workers and enterprises to operate in the formal economy. For example, a lack of income security, characterized by low, irregular and unpredictable income, force individuals to adopt short-term coping mechanisms rather than long-term strategies. Little or no capital, often symptomatic of low productivity, limits the capacity of economic units to be economically viable and to afford the costs associated with operating in the formal economy. While informality is acknowledged as a driver of inequality,<sup>25</sup> conversely, inequality also drives informality. For many people, inequality means the inability to access opportunities to strengthen their capacity and to progress, which compels them to operate in the informal economy.
39. **The inability of the economy to generate sufficient formal jobs and formal business opportunities**, in particular through structural change and inclusive growth, can push people into the informal economy not by choice but as a consequence of a lack of opportunities in the formal economy and a lack of other means of livelihood.
40. **A high prevalence of sectors and forms of employment more exposed to informality** often means that a country's level of informality is high. For instance, countries with large agricultural sectors have a higher rate of informality. When employment statuses or contractual arrangements more exposed to informality, such as own-account workers or temporary employment, represent a significant share of employment at the national or sectoral levels or within certain occupations, it impacts the nature and overall levels of informality.
41. **Weak public institutions and inadequate regulatory frameworks**, such as laws and regulations that exclude specific groups of workers or categories of economic units, are by definition a cause of informality. When legal coverage exists, weak compliance systems, including inspectorates operating with insufficient resources, inadequate capacity and limited coverage, undermine the application of the law, which also drives informality. Complex regulatory and tax requirements, excessive costs and burdensome registration procedures create significant barriers to formalization, especially for micro and small enterprises and household employers of domestic workers, both of which have limited financial, administrative and human resources. In addition, as a consequence of inadequate or incompatible public services or procurement procedures, micro and small enterprises in the informal economy often lack access to public procurement processes and to essential government support services.
42. **A lack of transparency and accountability of public institutions** – often associated with poor governance and, in some cases, corruption – not only results in inefficiencies and ineffective service delivery but also erodes trust in formal systems. Informality is deeply influenced by the

<sup>23</sup> ILO, *Women and Men in the Informal Economy: A Statistical Update*, 41.

<sup>24</sup> Using the relative poverty line of 60 per cent of the median household income. ILO, *Contextualizing Informality: The Informal Economy Indicator Framework*, 43–44.

<sup>25</sup> ILO, *Resolution concerning inequalities and the world of work*, ILC.109/Resolution XVI, 2021, points 18 and 23(d).

relationship between institutions and the people they serve, grounded in the mutual obligations (rights and duties) between citizens and the State.

43. **A lack of institutional cross-sectoral policy coordination across different levels of government** leads to fragmented and inconsistent policy implementation, which further increases inefficiencies in addressing the interrelated root causes of informality.
44. **A low level of productivity** limits the capacity of informal economic units to be economically viable, bear the costs of formalization, compete in formal markets and create formal, productive employment. This particularly concerns micro and small enterprises, including the numerous own-account workers, which often operate in a low productivity trap. They lack access to essential resources such as land, credit, technology and market opportunities, which inhibits their capacity to invest, scale up operations and move out of informality. The challenges are compounded by a lack of property rights, clear entitlements to use assets for production, or even basic legal documentation such as birth certificates.
45. **Discrimination and gender inequality** are also significant drivers of informality, in particular discrimination against women, young people, migrants, older workers, indigenous and tribal peoples, persons living with or affected by HIV or AIDS, persons with disabilities and specific occupational groups, such as domestic workers. These groups often face systemic barriers to accessing education and skills development, formal jobs and social protection and to expressing their views and defending their rights. Social and cultural norms further limit their participation in the formal economy. For instance, women may be constrained by unpaid care responsibilities, while racial or ethnic discrimination may exclude individuals from specific jobs or sectors.
46. **A lack of representation and access to social dialogue of those in the informal economy** undermines the effectiveness of policy measures related to addressing informality and facilitating the transition to formality. To design and implement policies and legislations that effectively address informality and facilitate the transition to formality, it is essential to consult informal economy workers and economic units. In practice, those in the informal economy do not always enjoy freedom of association or they face practical obstacles to forming representative organizations. When such organizations do exist, they are often excluded from formal processes of social dialogue. In recent years, employers' and workers' organizations have made progress in including in their rank those in the informal economy and building alliances with them to ensure that their voice is heard in social dialogue processes. Yet, the majority of those in the informal economy still lack representation in social dialogue processes.
47. **A low level of education and skills** restricts upward mobility and hinders informal workers' ability to access formal employment opportunities. A low level of education can be driven by many factors, including child labour and some of the above-mentioned drivers of informality.
48. **Environmental and other crises** can contribute to pushing workers and economic units into the informal economy and increasing informalization risks. Climate change and environmental degradation can cause long-term disruptions to livelihoods, migration from climate-affected rural areas to cities or from affected countries to others which can lead to informality. Climate-induced shocks create immediate disruptions by destroying infrastructure, enterprises and jobs in the formal economy, pushing workers into informality as a survival strategy, while economic instability may discourage investment in formalization. More generally, in conflict-affected and fragile situations<sup>26</sup> or in crisis contexts, a large part of the population often has no alternative to operating in the informal economy to secure livelihoods.
49. **Repercussions of certain transformations in the world of work** driven by technological innovations, demographic shifts, environmental and climate change and globalization may

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<sup>26</sup> ILO, *Employment and Decent Work in Situations of Fragility, Conflict and Disaster*, 2016.

facilitate the growth of forms of employment and categories of enterprises associated with a relatively high risk of informality. For instance, the pressure to remain competitive in the global market leads some enterprises to outsource or subcontract parts of their operations. Such practices can encourage the proliferation of microenterprises, including own-account workers, both of which are at higher risk of informality than employment in larger enterprises. Furthermore, public institutions often struggle to adapt to the rapid pace of these changes.

50. In some contexts, **criminal violence and extortion** create a climate of insecurity and an environment in which the rule of law is not respected, weaken trust in institutions and discourage economic units and workers from formalizing. Networks based on trafficking of all kinds often use the most brutal forms of violence to impose control over local resources and territories, which heavily impact those in the informal economy and the opportunities to move out of informality.
51. **Perceived advantages of operating in the informal economy** may lead some people to deliberately avoid or exit the formal economy for the purpose of evading taxation and the application of social and labour laws and regulations.
52. **Specific drivers that relate to particular and identifiable groups of workers or categories of economic units.** Domestic workers, for instance, face specific issues related to broadly held misperceptions that domestic work is not “real” work, that the home is not a workplace and that members of households are not employers. Migrant workers and refugees face additional drivers and practical challenges when seeking formal employment due to their migratory status, nationality, duration of stay or work permit, recruitment process, sector of employment, or the lack of recognition of their skills or qualifications. Moreover, tensions between immigration and labour law may prevent them from entering into formal employment, while discrimination, a lack of representation and organization, and limited awareness and realization of labour and social protection rights can exacerbate these difficulties.

## 1.4. ILO guidance and action on formalization

### 1.4.1. Tripartite agreements since 2015

53. Since the adoption of Recommendation No. 204, the ILO has consistently highlighted the fact that the informal economy is a significant barrier to decent work and social justice. Informality and the transition to formality have increasingly been included in international labour standards, in conclusions of general and recurrent discussions and in declarations adopted by the International Labour Conference. After 2019 and the COVID-19 crisis, calls to promote the transition to formality evolved to an urgent need to accelerate it. At the same time, there has been increasing recognition that, for some workers and economic units, reducing decent work deficits and vulnerabilities in the informal economy is a necessary step to enter the formal economy. The emphasis on the importance of preventing informalization has also gained greater prominence since 2020.
  - (a) In 2017, the Employment and Decent Work for Peace and Resilience Recommendation, 2017 (No. 205), referred to the need to encourage the transition to formality to promote peace, prevent crises, enable recovery and build resilience.
  - (b) At the 107th Session of the Conference (2018), the conclusions of the second recurrent discussion on social dialogue and tripartism<sup>27</sup> emphasized the need to strengthen the capacity of the most representative organizations of employers and workers to include in their ranks, according to national practice, representatives of membership-based

<sup>27</sup> ILO, [Resolution concerning the second recurrent discussion on social dialogue and tripartism](#), ILC.107/Resolution III, 2018, point 5(a).

representative organizations of workers and economic units from the informal economy to enable them to engage effectively in tripartite and bipartite social dialogue, negotiate and implement agreements and influence policies in line with Recommendation No. 204.

- (c) In 2019, the ILO Centenary Declaration for the Future of Work recognized the extent of informality, emphasized the critical importance of formalization to ensure adequate protection for all workers and noted the need to ensure effective action to achieve the transition to formality. That same year, the Violence and Harassment Convention (No. 190) and Recommendation (No. 206), 2019, confirmed that both standards apply to the informal economy, recognized that workers in the informal economy disproportionately face greater risks and exposure, and called on Member States to take appropriate measures to prevent violence and harassment against them.
- (d) The 2021 Global Call to Action for a human-centred recovery from the COVID-19 crisis that is inclusive, sustainable and resilient underlined the need to accelerate the transition to formality. The same year, the conclusions of the general discussion on inequalities and the world of work<sup>28</sup> called for the acceleration of the transition to formality as a condition for reducing poverty and inequalities, while recognizing the particular relevance of preventing informalization, notably in times of crisis.
- (e) Also in 2021, the conclusions concerning the second recurrent discussion on social protection (social security)<sup>29</sup> called for urgent efforts to guarantee universal access to comprehensive, adequate and sustainable social protection, make social protection systems more inclusive and effective as enablers of formalization, and coordinate social protection with employment policy and other social and economic policies to facilitate the transition to the formal economy.
- (f) In 2022, the conclusions of the general discussion on decent work and the social and solidarity economy recognized the social and solidarity economy as a pathway to formality, the crucial role of its entities in facilitating the transition to formality, and the importance of supporting its workers and economic entities in addressing the root causes of informality.<sup>30</sup>
- (g) In 2023, the Quality Apprenticeships Recommendation, 2023 (No. 208), encouraged Member States to promote access to quality apprenticeships as a means of facilitating formalization and to recognize relevant prior learning, including when it is acquired in the informal economy. Also in 2023, the conclusions concerning the second recurrent discussion on labour protection identified informality as one root cause of exclusion from labour protection, and called for efforts to accelerate support for the transition to formality and from insecure to secure work.<sup>31</sup> In the same year, the conclusions of the general discussion on a just transition towards environmentally sustainable economies and societies for all<sup>32</sup> urged governments, in consultation with social partners, to develop integrated strategies to transition to the formal economy, particularly in sectors highly impacted by environmental and climate change, and related response measures.

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<sup>28</sup> ILO, Resolution concerning inequalities and the world of work, ILC.109/Resolution XVI, 2021, point 23(d).

<sup>29</sup> ILO, Resolution concerning the second recurrent discussion on social protection (social security), ILC.109/Resolution III, 2021, points 13(c), (d) and (g) and 17(c).

<sup>30</sup> ILO, [Resolution concerning decent work and the social and solidarity economy](#), ILC.110/Resolution II, 2022, points 6(f) and 9(e) and (j).

<sup>31</sup> ILO, Resolution concerning the second recurrent discussion on labour protection, ILC.111/Resolution IV, 2023, points 21 and 22(b).

<sup>32</sup> ILO, [Resolution concerning a just transition towards environmentally sustainable economies and societies for all](#), ILC.111/Resolution V, 2023, point 21(n).

- (h) In 2024, the conclusions of the recurrent discussion on fundamental principles and rights at work<sup>33</sup> underscored the urgency of accelerating formalization efforts in alignment with Recommendation No. 204 for realizing fundamental principles and rights at work. The same year, the conclusions of the general discussion concerning decent work and the care economy highlighted the importance of macroeconomic and employment policies aimed at creating decent jobs, particularly by formalizing informal care jobs and preventing the informalization of formal ones. It also emphasized – consistent with Recommendation No. 204 – the importance of investing in making high-quality, affordable, adequate and accessible care services available to all workers, including workers in the informal economy and as a means to support their transition to formality.<sup>34</sup>
54. To follow up on the outcomes of the Conference, the Governing Body of the ILO has adopted strategies and action plans for addressing the root causes of informality while supporting or accelerating the transition to formality, including by extending protection to the informal economy.<sup>35</sup>
55. In addition, a wide range of sectoral meetings and the conclusions and policy guidelines they have produced have emphasized the importance of facilitating the transition to formality to promote sustainability and decent work at the sectoral level, including in sectors such as arts and entertainment, agri-food, aquaculture, building materials, road transport, tourism and urban passenger transport.<sup>36</sup>

## 1.4.2. Direct support to constituents

56. Over the past decade, the ILO has implemented or supported numerous global, regional and country-specific initiatives to facilitate the transition to the formal economy. The ILO's formalization efforts have involved multifaceted approaches, including improving statistical measurement, research, methodological development, capacity-building and policy-level reforms, and the promotion of social dialogue. This has included enhancing the statistical capacity, producing diagnostic studies, and developing and supporting the implementation of formalization strategies, formalization academies, knowledge-sharing forums, innovative tools and capacity-building. Between 2016 and early 2024, the ILO supported over 75 diagnostic studies of the informal economy – either comprehensive or focusing on various sectors, vulnerable groups of workers or enterprises – while emphasizing social dialogue and tripartism, and involving governments, trade unions, employers' organizations and civil society in the formalization process. Additionally, over 20 rapid assessments were carried out during the COVID-19 pandemic to understand its impact on informal economy workers and economic units. More than 60 comprehensive or targeted formalization strategies or action plans were developed by constituents with the support of the ILO during this period.
57. The ILO supported over 60 Member States in promoting and facilitating the extension of social and labour protection to informal economy workers. This assistance included efforts to advance formalization, raise awareness, strengthen institutions and address barriers to effective access to protection, including formalizing economic units for those in the informal sector. In nearly

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<sup>33</sup> ILO, [Resolution concerning the third recurrent discussion on fundamental principles and rights at work](#), ILC.112/Resolution IV, 2024, point 17(i).

<sup>34</sup> ILO, [Resolution concerning decent work and the care economy](#), ILC.112/Resolution V, 2024, point 30(c) and (k).

<sup>35</sup> Such strategies and action plans include: the [Revised plan of action on social dialogue and tripartism for the period 2019–23 to give effect to the conclusions adopted by the International Labour Conference in June 2018](#), GB.335/INS/3(Rev.); the [Follow-up to the Resolution Concerning Inequalities and the World of Work \(2021\): Comprehensive and Integrated ILO Strategy to Reduce and Prevent Inequalities in the World of Work](#), GB.346/INS/5; [ILO Strategy on Decent Work in Supply Chains](#), GB.347/INS/8; and the [Global Strategy on Occupational Safety and Health 2024–30 and Plan of Action for Its Implementation](#), GB.349/INS/8.

<sup>36</sup> For more information on the outcomes of sectoral meetings, see “[Past Sectoral Meetings](#)” on the ILO website.

50 Member States, the ILO also supported the formalization of economic units, notably through capacity-building activities, including at the local level. Through more than 100 interventions between 2016 and 2023, the ILO supported employers' and workers' organizations by strengthening their capacity to understand the needs of informal economy workers and economic units, to raise awareness and carry out advocacy, and to develop and expand services and membership for those in the informal economy, and by assisting them in efforts to support the transition to formality, including by preventing informalization.

58. ILO support is often aimed at women and vulnerable groups, including owners of and workers in microenterprises, refugees and migrants, as well as home-based workers and domestic workers. For example, the ILO has supported the promotion of formalization of domestic workers in around 60 countries,<sup>37</sup> guided by the Domestic Workers Convention, 2011 (No. 189). These efforts have been supported by the development of global products, leading to a consolidated sectoral approach to formalizing domestic work, based on country-level practices.<sup>38</sup>
59. Digital tools have been increasingly used to simplify access to information, registration processes and compliance. The COVID-19 pandemic strengthened the focus on areas such as leveraging technology for formalization. The ILO organized several global academies and knowledge-sharing forums to facilitate knowledge exchange and enhance Member States' capacity to promote the transition to formality. Key publications<sup>39</sup> and innovative tools<sup>40</sup> have been developed to further support formalization activities in countries and regions and to position the ILO as a leader within the multilateral system.
60. Formalization of the informal economy was one of the areas of critical importance in the Programme and Budget for 2014–15 and became the subject of a dedicated policy outcome in the Programme and Budget for 2016–17 and for 2018–19. It has been included in most, and then all, policy outcomes since 2020–21. With a few exceptions, the targets have been achieved, and often exceeded. A high-level evaluation of the ILO's strategy towards formalization<sup>41</sup> found that, while the efforts undertaken were commendable, they were just the beginning of a process that required greater focus on further developing, adapting, disseminating and implementing actions on formalization. Nonetheless, the overall performance of the ILO's work on formalization of the informal economy was found to be satisfactory. The evaluation considered that the policy outcomes were underfunded and that, overall, the activities and products were managed in a cost-efficient manner. It emphasized that, while steps have been taken towards formalization, this is a long-term objective that requires more sustained focus. The report did, however, call for improved coordination among governments, international organizations and stakeholders in the formalization process.
61. The Office conducted a synthesis review of evaluation reports of ILO interventions that have contributed directly or indirectly to the promotion and implementation of Recommendation No. 204 covering 2018 to the first quarter of 2024.<sup>42</sup> It highlighted significant progress in advancing formalization through multi-dimensional approaches including worker and enterprise formalization and actions to reduce decent work deficits in the informal economy through, among

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<sup>37</sup> ILO, *Leaving No One Behind*, para. 194.

<sup>38</sup> ILO, *The Road to Decent Work for Domestic Workers*, 2023, 39–47.

<sup>39</sup> For example, ILO, *Interactions between Workers' Organizations and Workers in the Informal Economy: A Compendium of Practice*, 2019; and the *Women and Men in the Informal Economy* series, which provided for the first time a global and regional overview of informal employment.

<sup>40</sup> For example, the policy resource package on *Extending Social Security to Workers in the Informal Economy. Lessons from International Experience* and the *Informality Dashboard* to support the development of sectoral formalization approaches.

<sup>41</sup> ILO, *Independent High-level Evaluation: ILO's Strategy and Actions Towards the Formalization of the Informal Economy, 2014–18*, 2019.

<sup>42</sup> ILO, "Synthesis Review of the ILO Formalization Interventions Undertaken Between 2018 and 2024", forthcoming.

other factors, the extension of social protection, improved occupational safety and health, and strengthened organization and representation of informal economy workers and economic units. Strong governance, institutional capacity and cross-sectoral collaboration, particularly through tripartite mechanisms, were also central to success. Interventions were particularly impactful when they combined policy development, capacity-building and sector-specific strategies, relying on evidence-based approaches and integrating social dialogue to address systemic barriers and promote inclusivity. The review also revealed a number of challenges to improved outcomes towards formalization, including political instability, poor governance, weak institutional capacity, cultural resistance and limited awareness of regulatory requirements.

- 62.** The ILO has also taken action on the transition to the formal economy within regional forums. The ILO Regional Office for Latin America and the Caribbean originally launched the Programme for the Formalization of Informality in Latin America and the Caribbean (FORLAC) in 2013, and relaunched it as FORLAC 2.0 for 2024–30. In 2019, the 14th Africa Regional Meeting adopted the Abidjan Declaration entitled *Advancing Social Justice: Shaping the future of work in Africa*. It called for an implementation plan containing comprehensive measures for removing policy and regulatory barriers to formalization, in line with Recommendation No. 204. In 2021, the ILO, in close collaboration with the African Union, launched the Africa Regional Social Protection Strategy 2021–25 aimed at accelerating the extension of social protection coverage, including to workers in the informal economy, to achieve the Sustainable Development Goals. In 2022, the 17th Asia and the Pacific Regional Meeting adopted the Singapore Statement, in which pursuing collective and determined efforts to promote and accelerate a smooth, sustained transition from the informal to the formal economy, guided by Recommendation No. 204, was highlighted as a priority. In 2024, the African Union, with technical support from the ILO, adopted a ten-year strategy on the social and solidarity economy, with a particular focus on the transition from the informal to the formal economy.

## 1.5. Actions beyond the ILO and ILO partnerships

- 63.** The mandate and activities of many international and regional organizations within the multilateral system and of some civil society organizations have a meaningful impact on workers and economic units in the informal economy and the transition to formality. Moreover, their activities related to the informal economy have increased dramatically at the international, regional and national levels.

### 1.5.1. United Nations

- 64.** At its 53rd session (2023), the Human Rights Council considered the Report of the Special Rapporteur on the rights to freedom of peaceful assembly and of association<sup>43</sup> on advancing those rights for workers in the informal economy. The report also acknowledged those workers' vulnerable position as a result of the pandemic.
- 65.** The Second World Summit for Social Development, which is due to take place in Qatar in November 2025, will address an array of pressing social challenges, emphasizing the importance of inclusive social policies that ensure that no one is left behind, in particular vulnerable groups in the informal economy.
- 66.** Various UN entities, such as the Department of Economic and Social Affairs (UNDESA), the UN Economist Network, the Economic and Social Commission for Asia and the Pacific (UNESCAP) and the United Nations Development Programme (UNDP) have significantly expanded their work

<sup>43</sup>UN General Assembly, *Advancing the Rights of Freedom of Peaceful Assembly and of Association of Workers in the Informal Economy*, A/HRC/53/38/Add.3 (2023).

on informality.<sup>44</sup> The Report of the UN Secretary-General, *Our Common Agenda*,<sup>45</sup> recognizes the unique challenges faced by informal workers. In it, the Secretary-General calls for a new social contract, underscores the need to extend protections and benefits to informal economy workers, and emphasizes the need for road maps for integrating these workers into formal economies.

## 1.5.2. Other international and regional bodies

67. The G20 Summit in Italy in 2021 and in Brazil in 2024 both highlighted the need to reduce workplace inequalities and secure social protection for all workers, including those in the informal economy.
68. Regional initiatives reflect a similar emphasis on addressing informality. For example, the Vientiane Declaration<sup>46</sup> adopted in 2016 by the Association of Southeast Asian Nations (ASEAN) underscores that the transition from informal to formal employment is essential to promoting decent work in South-East Asia. In Europe, the European Labour Authority plays a key role in supporting Member States of the European Union (EU) in addressing undeclared work through the European Platform for Tackling Undeclared Work, in which the ILO participates as an observer. Additionally, the Employment Working Group of the BRICS countries (Brazil, Russian Federation, India, China and South Africa) has set priorities to promote decent work and close the skills gap in the informal economy, further highlighting a shared interest in addressing informality worldwide.
69. Several publications dedicated to informality by other UN entities and international and regional organizations such as the Economic Commission for Latin America and the Caribbean (UNECLAC), the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD) and the World Bank,<sup>47</sup> some of which are joint publications or include contributions from the ILO,<sup>48</sup> reflect this heightened interest.
70. Organizations such as the Friedrich-Ebert-Stiftung, Women in Informal Employment: Globalizing and Organizing (WIEGO), HomeNet international and StreetNet International have been vital advocates for informal workers, including by creating support networks and pushing for formal recognition and protection of these workers. Joint activities have been developed with the ILO over the past ten years. For example, WIEGO and the ILO have an ongoing policy dialogue and collaboration, in particular on the development of statistics on the informal economy and several joint publications and briefs referring to the situation of informal economy workers, including specific groups such as domestic workers<sup>49</sup> and home-based workers.<sup>50</sup> Perception surveys among informal economy workers in six countries in sub-Saharan Africa were also undertaken by

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<sup>44</sup> See, for instance, UN Economist Network, “Transforming the Informal Economy to Leave No One Behind”, policy brief, 2024; UNDESA, “A Changing World of Work: Implications for the Social Contract”, Policy Brief No. 94, 2021, and “Responses to the COVID-19 Catastrophe Could Turn the Tide on Inequality”, Policy Brief No. 65, 2020; and UNDP, “Informal Economy Data Explorer”, 2022.

<sup>45</sup> UN Secretary-General, *Our Common Agenda*, 2021.

<sup>46</sup> ASEAN, “Vientiane Declaration on Transition from Informal Employment to Formal Employment towards Decent Work Promotion in ASEAN”.

<sup>47</sup> See, for instance, World Bank Group, *The Long Shadow of Informality: Challenges and Policies*, 2021; Laís Abramo, *Policies to Address the Challenges of Existing and New Forms of Informality in Latin America*, UNECLAC, 2022; OECD, *Informality and Globalisation*; and Corinne C. Deléchat and Leandro Medina, “What Do We Know About the Informal Economy?”, in *The Global Informal Workforce*, IMF, 2021.

<sup>48</sup> See, for instance, OECD and ILO, *Tackling Vulnerability in the Informal Economy*, 2019; OECD/ILO/UNDP, *Informality and Structural Transformation in Egypt, Iraq and Jordan: A Framework for Assessing Policy Responses in the MENA Region*, 2024.

<sup>49</sup> Florence Bonnet, Françoise Carré and Joann Vanek, *Domestic Workers in the World: A Statistical Profile*, Statistical Brief No. 32 (WIEGO, 2022).

<sup>50</sup> Florence Bonnet et al., *Home-Based Workers in the World: A Statistical Profile*, Statistical Brief No. 27 (WIEGO, 2021).

the Friedrich-Ebert Stiftung, the German Institute of Development and Sustainability and the ILO.<sup>51</sup>

### 1.5.3. Fostering collaboration and the role of the ILO

71. Collectively, these initiatives from major international and regional bodies show a commitment and increased policy attention to reducing vulnerabilities and promoting inclusivity in the informal economy. In this context, the ILO has a pivotal role in enhancing the coherence of actions in this policy area and fostering complementarities within the multilateral system, international financial institutions and civil society organizations to provide appropriate fiscal space, financing and support to address the root causes of informality and informalization.
72. At the global level, initiatives such as the Global Coalition for Social Justice and the UN Global Accelerator on Jobs and Social Protection for Just Transitions provide opportunities to promote, strengthen and mainstream the ILO's approach to supporting the transition to formality – in line with Recommendation No. 204 and based on social dialogue – within the UN and the multilateral system more broadly. These global initiatives view the transition to formality as a transformative process for advancing social justice, decent work and universal social protection, including through Decent Work Country Programmes and UN Sustainable Development Cooperation Frameworks. Both initiatives promote multilateral cooperation and partnerships with international financial institutions to accelerate progress towards achieving the Sustainable Development Goals.
73. The ILO has also engaged in partnerships at the regional level. For instance, in collaboration with the UNECLAC, the European Commission and the Development Bank of Latin America, the ILO has established a strategic alliance to design and implement a joint programme entitled “Transition to the Formal Economy with an Emphasis on Increasing Productivity and Improving Working Conditions in Priority Economic Sectors in Latin America and the Caribbean”.
74. At the country level, following the UN reform and the new role of United Nations country teams of coordinating UN agencies' interventions at the country level, the ILO has engaged in awareness-raising efforts with UN resident coordinators about the guiding principles and policy guidelines of Recommendation No. 204. The ILO has a critical role to play within UN country teams in coordinating integrated multi-agency interventions targeting workers and economic units in the informal economy.

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<sup>51</sup> Rudolf Traub-Merz et al. (eds), *A Majority Working in the Shadows: A Six-Country Opinion Survey on Informal Labour in Sub-Saharan Africa* (Friedrich-Ebert-Stiftung, 2022).

## ► Chapter 2. Innovative approaches and good practices

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### 2.1. Prerequisites

- 75.** To address informality significantly and sustainably, an integrated and coherent approach is critical. For such an approach to be effective, lessons learned since the adoption of Recommendation No. 204 in 2015 have shown that the following four pillars could be considered to be prerequisites: (i) good governance and an adequate regulatory framework combined with political will and commitment; (ii) organization, voice and representation of workers and economic units in the informal economy and inclusive social dialogue; (iii) an enabling environment for sustainable enterprises to make productive and full employment a reality; and (iv) better working and living conditions through the transition to formality and leaving no one behind.

#### 2.1.1. Good governance and an adequate legal and regulatory framework combined with political will and commitment

- 76.** Supporting the transition to the formal economy often requires adopting new policies and reforms, including institutional reforms, to enhance coherence, mobilizing a broad range of actors, and establishing mechanisms for working together. These changes demand strong political will and a commitment to act, which should be reflected in the allocation of adequate budgetary resources for the transition to formality.

#### An adequate legal and regulatory framework

- 77.** Ensuring an adequate legal and regulatory framework entails the adoption, review and enforcement of national laws and regulations or other measures. This is necessary to ensure that all categories of workers and economic units have appropriate coverage and protection. This can involve extending legal coverage and providing an adequate level of legal protection to all workers and economic units regardless of the size of enterprise, sector, employment status or contractual arrangements, and ensuring that laws are not only enacted but also implemented in practice. Ensuring compliance with laws requires good governance and incentives as well as effective deterrents and enforcement systems, including labour, social security and tax inspectorates that operate with sufficient resources, capacity and authority, and apply their mandates equally to all workers and workplaces in all sectors.
- 78.** To be adequate, the framework should establish clear, coherent and enforceable policies, laws and regulations to ensure that workers enjoy rights and protections and to create an enabling environment for sustainable enterprises to foster productivity, inclusive growth and productive employment. Adherence to international labour standards, particularly the fundamental and governance Conventions, is a core component of this prerequisite. Additionally, the legal and regulatory framework should remain relevant over time and be adaptable to changing circumstances, including being able to prevent the informalization of the formal economy. Social dialogue and the effective participation of employers' and workers' organizations in designing and monitoring such a framework are instrumental to its relevance, fairness, effectiveness and sustainability.
- 79.** New technologies, including digital technologies, are potentially powerful means for improving and strengthening compliance systems. Among other factors, they can facilitate registration and

compliance procedures and provide effective deterrents and enforcement tools based on artificial intelligence, data mining and the interoperability of databases from various national bodies.

### Accountable institutions

80. Accountability of institutions depends on factors such as institutional integrity, transparency, responsiveness, equitable service delivery and inclusive governance structures. All of these contribute to ensuring that institutions have the capacity to deliver and make a difference in people's lives through the fair application of policies and efficient and effective use of resources. Regular audits, independent evaluations, robust monitoring systems and impact evaluations, and anti-corruption initiatives enhance institutional integrity and trust in institutions. Clear and open communication about the benefits, requirements and processes associated with formalization contribute to strengthening transparency and compliance. Importantly, institutions are better positioned to adopt or adapt policies, measures and interventions that are responsive to the situation of those directly concerned by informality or at risk of informalization when they actively engage with workers and employers, including those operating in the informal economy. All of these factors strengthen people's trust in public authorities and help to address key concerns about moving out of informality.

### Governance mechanisms

81. Social dialogue is instrumental in ensuring that policies address informality and the transition to formality efficiently. Tripartite mechanisms and consultations with employers' and workers' organizations should be encouraged when identifying and establishing the nature and characteristics of the informal economy, preparing action plans and developing policies targeting a particular group of workers or economic units.
82. Integrated policy frameworks able to address the diversity in the informal economy and the multiple drivers of informality and informalization – some of which go beyond the world of work – require coordinated action between different ministries, levels of government and other public bodies. They also require close consultation and participation of the employers' and workers' organizations concerned and appropriate representation of those in the informal economy. Effective institutional coordination prevents fragmentation and fosters complementarities and coherence. Experience shows that the ministries and public bodies responsible for labour, social protection, enterprise development, finance and the economy, welfare, rural development, industry and the social and solidarity economy are typically the main public contributors to and actors in the formalization process. They could naturally play a leading role in supporting the coordinated development of policies and strategies. Factors that can contribute to fostering coordination include establishing a legal basis for working together as a key step in institutionalizing a cross-government coordination mechanism.

### Evidence-based policymaking and awareness-raising

83. A comprehensive understanding of the characteristics of the informal economy, its root causes and barriers to formalization in the national context, including for specific groups as relevant, is critical to providing governments with the knowledge required to design – through social dialogue – effective policies and programmes to address informality and prevent informalization. This includes, but is not limited to, the use of diagnostic tools, rapid assessments, labour market impact assessments, perception surveys and typologies and other approaches to analyse the size, composition and diversity of the informal economy. The application of behavioural science can further enhance the knowledge and evidence base by identifying the underlying psychological,

social and economic factors that influence behaviours related to the informal economy.<sup>52</sup> Additionally, spatial analysis can uncover geographic patterns of informality and support landscape approaches to design pathways to formality.

84. Supporting evidence-based policymaking, including through the monitoring of trends within and across countries in terms of the transition to formality, requires a robust data and statistics infrastructure, allowing for the compilation and analysis of informality statistics, following the guidance of the International Conference of Labour Statisticians in this area.
85. A strong evidence base also helps to build consensus on strategies and can encourage collective action. Moreover, it is a key element in encouraging or strengthening political will and commitment. Raising awareness highlights the benefits of formality but also fosters a collective drive to develop and implement more informed and effective solutions.

### 2.1.2. Organization, voice and representation of workers and economic units in the informal economy and inclusive social dialogue

86. The second prerequisite is for workers and economic units to have the possibility to express their views and defend their interests when decisions that concern them are taken. Indeed, organization, voice and representation of workers and economic units in the informal economy is fundamental to effective social dialogue on informal economy issues and key to ensuring that their concerns are heard and integrated into policy design and implementation.

#### Informal economy workers and economic units are organized

87. As stated in Recommendation No. 204, workers and economic units in the informal economy enjoy freedom of association and the right to collective bargaining, including the right to establish and, subject to the rules of the organization concerned, to join organizations, federations and confederations of their own choosing. Ensuring that those in the informal economy enjoy these enabling rights in law and in practice is essential for the realization of all other fundamental principles and rights at work and for supporting the transition to formality.

#### Inclusive social dialogue

88. Policy measures related to addressing informality and facilitating the transition to formality should be based on effective social dialogue. As workers and economic units in the informal economy are directly concerned by these measures, their views should be considered.<sup>53</sup> Including them at an early stage of the policy design and implementation phase will enhance the effectiveness of such measures. Given the role of representative employers' and workers' organizations in social dialogue institutions and processes, these organizations can play a critical role in ensuring that the views of those in the informal economy are taken into account. This usually involves the organizations establishing relationships with those in the informal economy. In practice, such relationships take various forms. At times, representative employers' and

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<sup>52</sup> Behavioural science is recognized as one of the five competencies that the UN Secretary-General has called on UN entities to develop to meet the challenges of the future under UN 2.0; see UN, "[The Secretary-General's Guidance Note on Behavioural Science](#)", undated.

<sup>53</sup> This is acknowledged for example with regard to employment policies by the Employment Policy Convention, 1964 (No. 122), Article 3 of which stipulates that "representatives of the persons affected by the measures to be taken, and in particular representatives of employers and workers, shall be consulted concerning employment policies".

workers' organizations extend membership to those in the informal economy. In other cases, they provide services or form alliances to address specific issues or seize some opportunities.

89. Representing workers and economic units in the informal economy is often a challenge for employers' and workers' organizations. However, considering the magnitude of the informal economy in some countries, it also provides the organizations with an opportunity to increase their membership base and their ability to speak on behalf of all workers and economic units, in both the formal and the informal economy. They may do so by demonstrating the benefits of membership, notably through delivering practical, tangible and affordable services that meet the needs of workers and economic units in the informal economy, such as access to social security benefits, markets, business development services, education and skills development, and inclusion in collective bargaining.
90. The social and solidarity economy can also support these efforts, as workers and economic units in the informal economy can organize themselves into new or existing entities. Cooperatives, associations, mutual societies, foundations, social enterprises, self-help groups and other entities operating in accordance with the values and principles of the social and solidarity economy have emerged in a number of different contexts to advocate for their rights and interests. These models can help bridge the gap between the informal and formal economies by providing workers and economic units in the informal economy with complementary structures that promote solidarity, mutual support and shared decision-making.

### 2.1.3. An enabling environment for sustainable enterprises to make full and productive employment a reality

91. Promoting an enabling environment for sustainable enterprises is critical to supporting the transition from the informal to the formal economy and to generating vital productivity gains to make progress towards higher per capita incomes and decent work for all. However, such efforts must be complemented by measures to ensure that workers and enterprises are able to benefit from formalization and that the gains are shared equitably and sustainably.

#### Structural transformation to promote inclusive growth

92. Efforts to support the transition from lower-productivity sectors, often characterized by a high prevalence of informality, to higher-productivity activities as well as within-sector transformation are critical to reducing informality, creating productive employment and promoting inclusive growth. This structural transformation is especially relevant in some contexts and for some forms of informality. Its success depends on a wide range of complementary measures.<sup>54</sup> These include cross-cutting macroeconomic, industrial and sectoral, education, investment, trade and productive development policies that promote a shift of economic activities and output towards higher-productivity sectors of the economy and the modernization of priority sectors. Complementary gender-responsive and inclusive measures, including ensuring wide and fair access to digital and finance infrastructures, skills development, enhanced working conditions and social protection, are necessary to produce an enabling productivity ecosystem and to ensure that workers are able to take advantage of new opportunities in the formal economy.

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<sup>54</sup> Iyanatul Islam and Frédéric Lapeyre (eds), *Transition to Formality and Structural Transformation: Challenges and Policy Options* (ILO, 2020).

## An enabling environment for sustainable enterprises

93. Simplifying regulatory processes, compliance and tax regimes and strengthening the non-fiscal benefits of running a formal enterprise reduce obstacles to formalization and help to prevent the informalization of formal enterprises. They are also necessary for creating an environment where informal economic units are incentivized to formalize and to take advantage of productivity-enhancing opportunities such as technological change and enhanced access to supply chains. This is particularly relevant for upgrading micro and small enterprises, supporting the development of, and participation in, sustainable supply chains.<sup>55</sup> This will enable enterprises to be competitive, to innovate and to grow, thereby kickstarting structural transformation and promoting access to the broader economic and social advantages associated with formalization.
94. Quality and accessible business development, skills development and financial services as well as sectoral dialogue and coordination are crucial to ensuring meaningful linkages between enterprises and policy levels for sustained productivity growth. The development and adoption of new technologies not only promises to boost productivity and ease formalization by facilitating and streamlining registration and compliance (for economic units and workers) but can also enhance access to supply chains, improve working conditions, create new market opportunities and stimulate strong growth and sustainability, for example, in the blue or green economy.
95. Productivity growth is complex and determined by a wide range of factors at the national, sectoral and enterprise levels. A virtuous circle between productivity and decent work – where higher productivity leads to improved working conditions and higher per capita income, which, in turn, boosts productivity – is essential to achieving social justice. An enabling productivity ecosystem for decent work must be accompanied by measures based on social dialogue to ensure a fair distribution of these gains, particularly for vulnerable workers and marginalized communities. It also requires some economic units to obtain recognition of their existing property rights and a means of formalizing them.

### 2.1.4. Better working and living conditions through the transition to formality and leaving no one behind

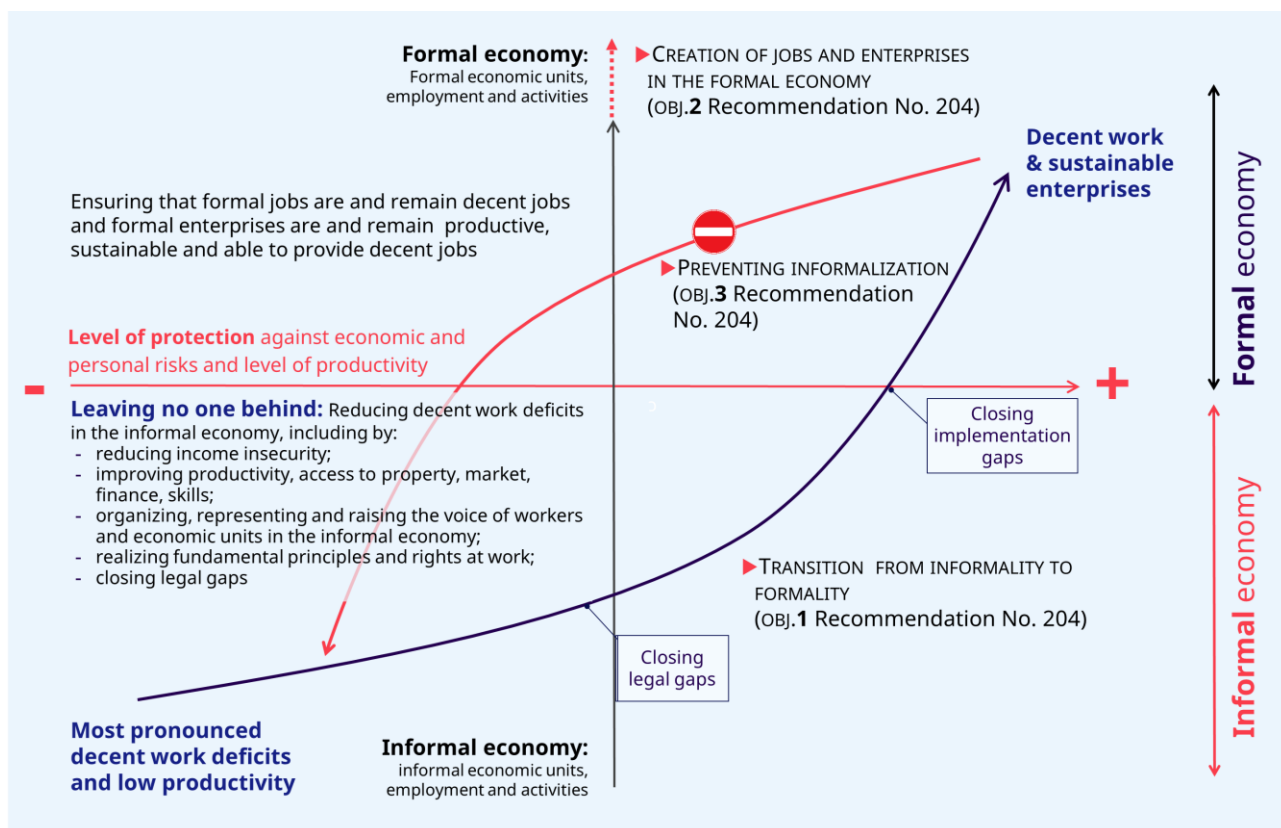
96. The transition to the formal economy is a condition for achieving some key outcomes, including access to decent work. Yet, for many in the informal economy, entering the formal economy is not a realistic possibility in the near future. Ensuring that no one is left behind implies recognizing that for some workers who are too far removed from formality, the priority is to urgently address the most critical decent work deficits they face. Reducing such deficits and other vulnerabilities, such as income insecurity, are enabling factors for the transition to formality. For example, providing workers in the informal economy with basic social protection reduces their exposure to poverty, income insecurity and exclusion from healthcare services, which enables them to move away from day-to-day coping mechanisms and to seize income opportunities and invest in longer-term strategies that the transition to formality most often requires.
97. Figure 3 illustrates the different situations of workers and economic units with regard to formality and levels of protection and productivity. It highlights possible trajectories from the most critical situation – marked by the most pronounced decent work deficits, vulnerabilities and low

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<sup>55</sup> International production of goods is increasingly organized through supply chains. By 2020, up to 70 per cent of international trade involved the participation of multiple countries in the production of one single product. However, countries with high levels of informality are unable to fully benefit from these supply chains. OECD, *Informality and Globalisation*, 116.

productivity in the informal economy (bottom left) – towards the optimal situation – decent work and sustainable enterprises in the formal economy (top right).

► **Figure 3. Improving living and working conditions through formalization and as an enabler for formalization**



98. Reducing decent work deficits in the informal economy is of particular relevance for those who are most vulnerable to the most serious decent work deficits, including women, young people, migrants, older people, indigenous and tribal peoples, persons living with HIV or affected by HIV or AIDS, persons with disabilities, domestic workers and subsistence farmers. The decent work deficits that have to be addressed vary among groups of workers and their circumstances. For example, for some, it is necessary to tackle systemic discriminatory practices that restrict access to formal employment, perpetuate cycles of disadvantage and hinder economic mobility as well as access to decent work opportunities.
99. Similarly, the capacities of some micro and small enterprises to move to formality in the longer term can be enhanced by addressing some of the basic obstacles they face to progress, which might include access to property and securing a safe workplace, and other factors that enhance productivity while operating in the informal economy.
100. The fundamental principles and rights at work apply to everyone. The realization of these rights in practice cannot and should not depend on a transition to formality, but should instead support and facilitate this transition. At whatever stage in the journey towards formality, workers and economic units organizing so that they have a collective voice is crucial for making progress.
101. Finally, ensuring that formal jobs are and remain decent jobs and that formal enterprises are sustainable, including through increased productivity and fair competition, remain overarching objectives. These are among the expected outcomes of formalization and act as incentives for

formalization. By contrast, decent work deficits in the formal economy are an incentive for informalization.

## 2.2. Innovative approaches and good practices

- 102.** A number of recent innovative approaches and good practices at the country level have the potential to accelerate the transition of economic units, workers and related activities from the informal to the formal economy. Examples are provided to illustrate three categories of innovative approaches identified:<sup>56</sup> (i) approaches to operationalize certain aspects referred to in Recommendation No. 204 that are still insufficiently addressed; (ii) approaches that have gained prominence since the adoption of Recommendation No. 204; and (iii) approaches not yet sufficiently exploited by the ILO.
- 103.** Rather than representing an exhaustive inventory, the practices and thematic areas selected aim to reflect the diversity within the informal economy across different potential policy avenues and regions. One approach may be innovative in certain contexts but not necessarily in others. Many practices seek to highlight the integration of interventions that combine several policy areas, including as part of approaches targeting specific categories of workers, economic units or sectors. Other practices focus on more targeted actions. While some examples could fit under different themes, each has been presented under the most relevant entry point.

### 2.2.1. Strengthening political commitment, building trust and promoting a culture of formality

- 104.** Good governance is crucial for effective policymaking, as it fosters informed social dialogue and trust in public institutions, and ensures that policies are equitable, sustainable and based on solid evidence. This, coupled with efforts to raise awareness of the evidence on the benefits of formalization, can promote a culture of formality.

#### Tripartite social dialogue and formalization strategies

- 105.** One of the most prominent means to ensure political commitment towards promoting a culture of formality is to develop formalization strategies that lead to concrete and adequately resourced action plans, with appropriate monitoring and evaluation mechanisms. A number of such strategies have been developed, including in Cambodia, Costa Rica, Côte d'Ivoire, the Dominican Republic, Greece,<sup>57</sup> Kyrgyzstan, Nepal, Senegal<sup>58</sup> and Viet Nam. Some countries, such as Uruguay, illustrate a path towards formality through a sequence of complementary policies forming an integrated approach (box 2).

<sup>56</sup> ILO, *Agenda of the International Labour Conference*, GB.347/INS/2/1, Appendix I, section 3.

<sup>57</sup> ILO, *Roadmap for Fighting Undeclared Work: A 3 Year Plan for Fighting Undeclared Work*, 2016.

<sup>58</sup> Government of Senegal, *Stratégie nationale intégrée de formalisation de l'économie informelle (SNIFEI) et Plan d'actions opérationnel de transformation du secteur informel (PAOTSI): SNIFEI 2022–2026*, 2022.

## ► Box 2. Uruguay's integrated policies promoting the transition to formality

For over two decades, Uruguay has been committed to promoting the transition to the formal economy for jobs and economic units through a broad range of integrated and complementary measures.

In 2009, Law 18.566 on **collective bargaining** established the Tripartite Superior Council, sectoral wage councils and bipartite negotiation. Compliance with the agreements reached in the wage councils was high.

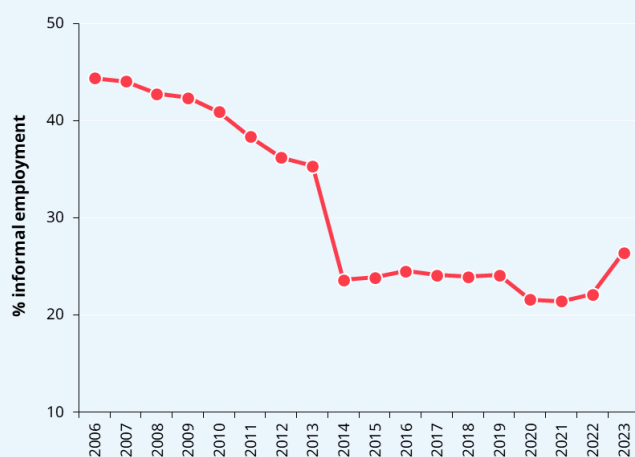
In 2007, a **tax reform** was adopted that provided greater equality, improved efficiency and encouraged investment and job creation. Additionally, social security contributions were unified for all economic sectors.

In 2008, a series of reforms to expand **social protection** for vulnerable groups and to strengthen job retention during economic downturns, including through modifications to the unemployment insurance scheme, contributed to incentivizing the formalization of employment while preventing informalization, especially for low-wage workers.

Several initiatives to formalize specific **vulnerable groups**, notably domestic workers and independent entrepreneurs, were also carried out over the years. Domestic workers were incorporated into collective bargaining and a law regulating their working conditions (hours, rest, unemployment insurance, severance pay and so on) was enacted.

In 2001, a **simplified contribution and tax scheme**, Monotributo, was created to include street vendors in the formal system. In 2007, the inclusion of low-income sectors and small economic units, including own-account workers, was established by law. Furthermore, in 2011, a new scheme was launched aimed at including the most vulnerable people in the formal economy (Monotributo Social). By the end of 2023, more than 55,000 workers were members of the Monotributo scheme, around 4.2 per cent of the total number of social security contributors.

### ► Trends in the share of informal employment in Uruguay (2006–23)



Between 2000 and 2014 informality shrank rapidly from almost 45 per cent to around 25 per cent, then remained flat until 2019, before falling again. By 2022, informal employment was 22.1 per cent of total employment, the smallest share in Latin America. In 2023, however, there was a notable increase in informality that merits monitoring.

Source: ILO calculation based on Continuous Household Survey.

Sources: ILO/FORLAC, *Reduction of Informal Employment in Uruguay: Policies and Outcomes*, 2014; Verónica Amarante and Marcela Gómez, *El proceso de formalización en el mercado laboral uruguayo* (UNECLAC, 2016); Asesoría General en Seguridad Social, *Monotributo en Uruguay: Actualización*, 2024.

- 106.** Approaches are most effective and sustainable when their design and implementation is overseen by a tripartite structure that represents the views and interests of the world of work, including those of the informal economy. For example, in Viet Nam, a task force of diverse stakeholders, including government, social partners, academia and non-governmental organizations, was established in 2021 to coordinate efforts towards formalizing the economy. Similarly, in Zimbabwe, a Technical Working Group on the Informal Economy – bringing together 40 representatives of government, the private sector, academia, research institutions, workers' and employers' organizations and informal economy associations – was established to enhance

the coordination of actions related to the National Formalization Strategy and promote inclusive governance. In Senegal, the creation of a steering committee by decree, alongside a technical committee, enabled the involvement of 71 entities in developing the National Integrated Strategy for the Formalization of the Informal Economy. The steering committee is comprised of one representative from the Office of the President, nine representatives from sectoral ministries, key social partners and representatives from informal economy organizations.

107. In the Dominican Republic, a Tripartite Executive Board was established that is led by the Ministry of Labour with the participation of other ministries and key institutions to oversee an experimental public policy approach to promote the transition to the formal economy. The approach aims to convert the principles of ILO Recommendation No. 204 into a practical tool for action that seeks to facilitate the design and implementation of formalization strategies.
108. In other instances, strategies on formalization were developed by leveraging existing tripartite mechanisms to provide oversight (including in Costa Rica, Greece, Nepal and South Africa). For example, in Nepal, the Central Labour Advisory Council – the country’s formal tripartite dialogue mechanism on labour and employment matters – played a critical role in setting in motion the current National Action Plan on Formalization that was adopted in 2023 (box 3). Similarly, in South Africa, a working group under the auspices of the tripartite National Economic Development and Labour Council was created to examine the issue of informality.

### ► Box 3. Nepal’s National Action Plan on Formalization

Nepal’s National Action Plan on Formalization is an initiative aimed at addressing the challenges faced by both workers and economic units in the transition from the informal to the formal economy, with a particular emphasis on women.

The Ministry of Labour, Employment and Social Security established a tripartite working group with representatives from employers’ and workers’ organizations, various ministries (including the Ministry of Industry, Commerce and Supplies and the Ministry of Finance), the National Planning Commission and the National Statistics Office to conduct a diagnostic study on informality. The study supported the development of a tripartite-led national strategy and action plan that outlines 18 major activities, with 52 sub-activities. This was complemented by a range of reforms and measures to facilitate access to social protection, notably for workers in the informal economy. As a result, over 660,000 new workers registered with the social security fund.

The tripartite working group is currently developing a National Strategy on Formalization.

Source: ILO, “Background paper on Innovative Approaches to Formalization”, ILO Asia and the Pacific Tripartite Regional Knowledge Sharing Forum, forthcoming, box 7.

## Importance of evidence-based policies

109. Efforts to improve the evidence base of policies and programmes to support the transition to formality have taken several forms. A growing number of countries have incorporated the recommended criteria associated with the resolution of the 21st International Conference of Labour Statisticians on the informal economy in their national surveys, notably labour force surveys or equivalent household surveys. While the frequency of surveys varies considerably across countries, among those sharing their microdata with the ILO, 85 could identify workers in informal employment in 2015. By 2024, this number had risen to more than 130. These data on informal employment are harmonized and therefore comparable across countries and regions.
110. Of equal importance are enterprise-based surveys and censuses to support and monitor the transition of economic units to formality. Generally, these are fewer and less frequent, but have

been leveraged recently in a number of countries, including Chile, Colombia, India, Kenya, Malaysia, Mexico, Mongolia and Viet Nam. Importantly, given the prevalences of microenterprises within the informal economy, some countries, mostly in Latin America (for example, the Plurinational State of Bolivia, Chile, Colombia, Costa Rica, Mexico and Peru), have carried out surveys focused on smaller enterprises. Others, such as Chile, Colombia, Costa Rica, Malaysia and most French speaking African countries have undertaken surveys (including mixed surveys in Africa) specifically targeting informal economic units.

- 111.** Countries have often resorted to carrying out rapid assessments, notably during periods of crisis. During the COVID-19 pandemic, these assessments<sup>59</sup> were often focused on examining particular issues not typically covered by regular survey instruments, for instance pandemic-related effects at the sectoral level, such as those conducted in Côte d'Ivoire, India, Mongolia,<sup>60</sup> Nepal, Senegal<sup>61</sup> and Togo.
- 112.** To respond to the complexity and multifaceted nature of informality, comprehensive and participatory diagnostic studies that combine quantitative and qualitative information and entail a deeper examination of the causes and drivers of informality have been carried out, often in an effort to foster consensus among the various actors concerned and provide a first step towards the development of a coordinated and integrated strategy. For instance, in Nepal<sup>62</sup> and Senegal,<sup>63</sup> the inclusive diagnostic process and a comprehensive report identified and analysed the extent, diversity, consequences, factors, characteristics, causes and circumstances of informality, which led to a national strategy and action plan. In some instances, a comprehensive assessment of informality was carried out (including in Tajikistan and Zimbabwe), whereas in others, the focus was on specific sectors (such as in Algeria, Côte d'Ivoire, Honduras, Lebanon,<sup>64</sup> Madagascar and the Occupied Palestinian Territory), particular forms of informality (for example, the informal sector in Cameroon<sup>65</sup> and undeclared work in Greece<sup>66</sup>), or specific categories of workers (including domestic workers and home-based workers in Pakistan, and refugee and host community workers and enterprises in Uganda<sup>67</sup>). The ILO is also increasingly using behavioural science to assist in diagnosing behavioural drivers of formal and informal employment (including in Argentina, Colombia, Guatemala and Zambia).

## E-formalization initiatives

- 113.** Technologies are playing a growing role in various aspects of formalization processes. Governments are notably leveraging digital technologies to generate administrative efficiencies in public policies and procedures to promote formalization through what are known as e-formality

<sup>59</sup> ILO, *Rapid Assessment of the Impact of COVID-19 on Enterprises and Workers in the Informal Economy in Developing and Emerging Countries: Guidelines*, 2020.

<sup>60</sup> ILO, Ministry of Labour and Social Protection of Mongolia and Research Institute of Labour and Social Protection, *The State of Informal Employment in Mongolia: Survey Report*, 2021.

<sup>61</sup> ILO, *Étude de l'impact de la Covid-19 sur les entreprises et travailleurs de l'économie informelle au Sénégal*, 2020.

<sup>62</sup> ILO, *Diagnostic Report on the Extent, Circumstances, Causes, Factors and Nature of Informality in Nepal*, 2022.

<sup>63</sup> ILO, *Diagnostic de l'économie informelle au Sénégal*, 2020.

<sup>64</sup> ILO, *Diagnostic Analysis of Informality in Agriculture, Agri-Food, and Construction*, 2024.

<sup>65</sup> ILO, *Diagnostic sur la formalisation des entreprises et de leurs travailleurs au Cameroun*, 2017.

<sup>66</sup> ILO, *Diagnostic Report on Undeclared Work in Greece*, 2016.

<sup>67</sup> ILO, *Diagnosis on Informality in Targeted Intervention Areas of the PROSPECTS Programme in Uganda*, 2021.

policies.<sup>68</sup> Electronic initiatives that are being used to address the transition to formality can take many forms, and include:

- (a) initiatives to improve the probability of detection, such as: e-registers of workers and businesses; advanced data mining tools to detect and prevent informality and non-compliance; smart identity cards; electronic complaint reporting tools; data-driven notification (“nudge”) letters; and certified cash registers;
- (b) initiatives to improve the ease and benefits of operating formally, such as: making formality easier using online e-registration of businesses and workers; pre-filling tax returns; using entrepreneurial accounts to simplify tax payments; online tax calculators and online tax behaviour rating tools; receipt lotteries; initiatives to incentivize electronic payments and deter or limit cash payments; and social label e-initiatives to encourage the purchase of formal goods and services;
- (c) initiatives for education and awareness-raising, such as: electronically announced advisory inspections; use of social media messenger services to provide advice and support; apps to allow citizens to evaluate the impact of their participation in the informal economy; simulation of social security entitlements; and an array of online videos, virtual reality films, interactive games and quizzes to inform either suppliers or purchasers of the benefits of formality and costs of informality.<sup>69</sup>

The examples below illustrate some of the ways technology is being used to promote compliance.

- 114.** Governments adopting more transparent digital financial transactions can benefit formalization. For example, the adoption of digital wage payments – through bank accounts, mobile money accounts or prepaid cards – and the digitization of payroll processes can also foster formalization, particularly among micro, small and medium-sized enterprises (MSMEs). The ILO’s Global Centre on Digital Wages for Decent Work, in collaboration with employers’ organizations in Indonesia, Peru and the Philippines, has explored how streamlining digital payroll systems and wage payments can facilitate labour formalization and improve contributions to social security from an enterprise perspective.<sup>70</sup> In India, government initiatives focused on promoting individual identification, digital payment systems and access to affordable banking and financial services for workers highlight the role that public policies can play in leveraging digital wage systems to foster transparency, improve efficiency and potentially accelerate the formalization of employment practices.<sup>71</sup> Similarly, in Vanuatu, the Ministry of Finance and Economic Management launched a member payment system using a mobile app (M-Vatu) to support access to social security.
- 115.** One area of focus is how technologies are helping to streamline labour inspection and detect undeclared work – an issue of particular concern in Europe and Central Asia. The European Platform Tackling Undeclared Work shares good practices among European countries, including: national strategies that take an inter-ministerial or cross-agency approach to fraud and undeclared work (for example, France and Norway); leveraging algorithms to send targeted letters to businesses flagged for potential violations (for example, Spain); predictive modelling (for example, Albania, Belgium, Norway); and an information hotline (for example, Ireland).

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<sup>68</sup> Juan Chacaltana, Fernanda Bárcia de Mattos and Juan Manuel García, *New Technologies, e-Government and Informality*, ILO Working Paper 112, 2024, 11.

<sup>69</sup> Colin C. Williams, *Formalization of the Informal Economy: An e-Government Approach* (SpringerBriefs in Economics, Springer, 2023).

<sup>70</sup> For more information, see ILO, “Global Centre on Digital Wages for Decent Work”.

<sup>71</sup> See ILO, *Scaling Up Digital Wages: Lessons and Challenges from India’s Enabling Environment*, 2024.

116. In Spain, the challenges of under-declared and disguised employment relationships were addressed using data matching, which involves large-scale comparisons of records from sources such as the Tax Agency and the Social Security Treasury. In 2018, the labour inspectorate developed an anti-fraud tool that uses data analysis and integrated databases to detect subjects who show signs of fraud and selects them for the development of planned actions. Inspection is carried out in two stages: a communication is first sent to those potentially in breach of labour regulations, including non-declaration, and, if the business is unresponsive, an inspection may be carried out. From 2021 to 2024, more than 830,000 contracts were transformed into open-ended contracts. Almost two thirds were achieved only through the communication. Additionally, around 77,000 employment relationships were formalized, and more than €1 billion was recovered. Currently, the Ministry of Labour is adding new features built on artificial intelligence to strengthen the anti-fraud tool with additional data.
117. Similarly, Albania's labour inspectorate employs a sophisticated and interpretable machine learning method, the Associative Classification, to plan action to combat undeclared work. A recent evaluation showed that it improves the accuracy of predicting undeclared work by 30 per cent compared to previous methods.
118. In the Republic of Korea, the application of data analytics to the information and digital systems captured by the Electronic Civil Petition System and the information system of the labour inspectorate has informed and improved its decisions on which workplaces to inspect.<sup>72</sup>
119. In Argentina, the Inspector Digital app<sup>73</sup> allows inspectors to identify workers and employers of each company in real time, verify the labour record, detect violations and apply penalties for non-compliance. If there is a debt in contributions, an alert is generated and the estimated debt and fine is indicated. The innovative element of the use of a digital application in labour inspection lies in the automation and centralization of the entire inspection process, which significantly reduces costs and processing time, from the notification of the order to the delivery of results. It also allows the number of inspections to be increased and facilitates the regularization of the labour situation of workers in Argentina more efficiently and effectively.

### Awareness-raising campaigns

120. Campaigns to raise awareness about the benefits of formalization can help to promote and support the development and implementation of strategies, as well as facilitate knowledge exchange and sensitization. Some countries have taken a broad-based approach to raising awareness. For example, in Tajikistan, a mobile theatre promotes the message "Step out of the shadow! Work formally". Awareness-raising activities on Recommendation No. 204 were initially quite broad but have become more targeted, emphasizing specific activities and interventions. For example, in Afghanistan, Pakistan, the Philippines and Sierra Leone, nationwide campaigns have focused on educating entrepreneurs about the benefits of formalization and the processes involved. Other countries, such as Bangladesh, the Republic of Korea and Singapore, have engaged with small businesses to promote the benefits of formality to citizens and society. In other instances, awareness-raising efforts have focused on workers in certain sectors (for example, the tannery sector in Senegal, construction in Kyrgyzstan and domestic work<sup>74</sup> in countries including Argentina, Brazil, Mexico, Paraguay, South Africa, Uruguay and Zambia), other specific categories of workers (for example, refugees in Türkiye), and specific forms of informality

<sup>72</sup> Sriani Kring and Sara Elder, *Digital Solutions and Formalization: E-formalization Case Study on the Republic of Korea* (ILO, 2022), 15.

<sup>73</sup> See ILO, "Digital inspector (INDI) in Argentina", 2019.

<sup>74</sup> ILO, *Making Decent Work a Reality for Domestic Workers*, 213–214.

(for example, undeclared work in Greece, Latvia and the Netherlands). The Global Coalition for Social Protection Floors and its over 130 members representing trade unions and civil society advocate for extending social protection to workers in the informal economy, as a means to achieve inclusive, equitable and sustainable development.<sup>75</sup>

121. As part of the Social Dialogue for Formalization and Employability in the Southern Neighbourhood (SOLIFEM) project, the ILO and the Federation of Egyptian Industries launched a competition entitled Recognizing Sustainable Champions for Formalization Practices in Egypt. The initiative honours companies that have successfully integrated formalization and sustainability into their core business operations and that discourage the unethical practices often associated with informal work arrangements.

### Areas for improvement

122. In many countries, there is still a lack of the integrated strategies and coordinated implementation mechanisms needed to address informality and support formalization. For instance, capable tripartite structures that are responsible for oversight and coordination for formalization efforts could be encouraged and enhanced. Strong, organized tripartite entities can ensure coordination and coherence across different levels of government and cooperation between the relevant bodies and authorities. A legal basis for such a coordination mechanism can also help in this regard.
123. Too many countries still lack the necessary infrastructure to capture the insights on informality that are needed to drive evidence-based policy decisions and to monitor progress. These countries are encouraged to put in place measures to strengthen their statistical foundations, analytical capacity and ability to monitor progress and evaluate impact. At the same time, they should promote regular interactions between data producers and users, including policymakers. The associated benefits extend well beyond issues related to formality. Countries are also encouraged not only to conduct diagnostic studies of informality but also to ensure that they are translated into strategies, tailored policies and interventions that are responsive to the diversity in the informal economy.
124. There is a need to improve implementation. To ensure the sustainability of formalization efforts, financial and human resources must be dedicated to establishing and maintaining effective implementation mechanisms capable of supporting long and complex formalization processes, which often exceed the duration of a political mandate. In many instances, institutional capacity to develop and deliver quality support and services will need to be built.
125. Finally, while new technologies, in particular digitalization and artificial intelligence, offer immense potential that could revolutionize compliance and enforcement systems, challenges such as limited infrastructure, lack of expertise in artificial intelligence, and data privacy concerns remain. Policymakers should invest in improving digital access, training, robust governance and infrastructure to fully harness these tools while mitigating their risks. Awareness campaigns should be accompanied by the removal of other behavioural barriers to formal employment. This will serve to build institutional trust, helping to reinforce accountability and formalization efforts.

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<sup>75</sup> For more information, see [www.socialprotectionfloorscoalition.org](http://www.socialprotectionfloorscoalition.org).

## 2.2.2. Organization, voice, representation of workers and economic units in the informal economy and facilitating access to effective social dialogue

### General considerations

126. Innovative approaches are needed to ensure that workers and economic units in the informal economy have a voice in the policies and programmes intended to address informality and support the transition to formality. In this respect, representative employers' and workers' organizations can play an essential role in bringing the views of those in the informal economy into social dialogue processes to ensure inclusive and participatory decision-making.
127. Recommendation No. 204 calls on competent authorities to give effect to the provisions of the Recommendation by making use of "tripartite mechanisms with the full participation of the most representative employers' and workers' organizations, which should include in their rank, according to national practice, representatives of membership-based representative organizations of workers and economic units in the informal economy". Yet, to date, membership of informal economy workers and economic units in representative employers' and workers' organizations remains far too low.
128. In practice, workers and economic units in the informal economy have often taken the initiative to create their own organizations, in a variety of forms, exercising their right to freedom of association. Some of these organizations not only represent workers and economic units but also belong to the social and solidarity economy and are engaged in a variety of economic, social and environmental activities. Most of these organizations have no access to social dialogue processes.
129. To overcome this gap in representation and lack of access to social dialogue, representative employers' and workers' organizations in some countries have engaged with those in the informal economy in various ways. Some have extended membership to informal economy workers and economic units, while others have raised awareness about the benefits of organizing and supported them in organizing. Some have provided services that contribute to strengthening relationships and encouraging membership. In other instances, the representative organizations have built alliances with those in the informal economy to jointly defend common views and interests in social dialogue processes. Finally, in some countries, governments or other public authorities have engaged directly in dialogue with representative organizations of those in the informal economy.
130. While formalization is a progressive process, so too is the establishment of organizations that represent informal economy workers and economic units, including their access to social dialogue. Workers in certain sectors with high rates of informality have succeeded in participating directly in social dialogue after decades of organizing efforts, facilitated by international labour standards.

### Organization and representation of informal economy workers and economic units

#### Workers and economic units in the informal economy create their own organizations

131. In Cambodia, the Independent Democracy of the Informal Economy Association, including tuk-tuk drivers, taxi drivers, moto-taxi drivers, street vendors and workers in small restaurants, was formally recognized by the Ministry of the Interior in 2006. It is affiliated with the International Domestic Workers' Federation and the International Transport Federation. It has successfully organized associations of workers in the informal economy, conducted workshops and

campaigned for social protection coverage, and offers education, awareness-raising and dispute resolution services to address abuses and improve working conditions for informal workers.<sup>76</sup>

- 132.** In Argentina, the Platform Workers Association has organized delivery workers in the platform economy. The formation of the union was supported by various sectoral trade unions and social movement groups organizing informal economy workers. Early efforts to organize platform workers were through groups on a messaging app, eventually leading to the establishment of the union. Since it was registered by the Ministry of Labour in 2018, it has organized and trained platform workers, engaged in policy advocacy and judicial cases, and advocated for improved working conditions.<sup>77</sup> In Thailand, a group of riders in the platform economy formed an organization that provides legal advice and lobbies the platform to provide accident insurance.<sup>78</sup>
- 133.** In Mali, artisanal gold miners have organized into cooperatives to improve working conditions and mitigate child labour.<sup>79</sup> Similarly, in Kenya, the Machakos Cooperative Union illustrates that informal workers organized in cooperatives have better access to markets and can bargain collectively.<sup>80</sup> In Brazil, entities in the social and solidarity economy provide home-based workers with pathways to formalization through collective support structures that integrate workers into legal frameworks and formal supply chains.<sup>81</sup> Other examples include the Cooperative Society of Solid Waste Collectors of Mbeubeuss-Bokk Diom in Senegal<sup>82</sup> and the KATIK Social Cooperative in Türkiye,<sup>83</sup> which have empowered workers through better working conditions and social protection.
- 134.** At times, organizations of informal economy workers and economic units have also federated at the international level or received support from international civil society actors. For example, HomeNet International, a global network, represents over 1.3 million home-based workers from 71 organizations across 30 countries. The network includes a variety of membership-based organizations, including trade unions and associations. It also leverages the social and solidarity economy to facilitate formalization for home-based workers in the informal economy. For example, in Cambodia,<sup>84</sup> it supports initiatives in the social and solidarity economy, such as self-help groups and cooperatives, which empower home-based workers to access social protection, advocate for policy inclusion and improve working conditions. Another example is the International Alliance of Waste Pickers, a union of 50 organizations representing more than 460,000 waste pickers across 34 countries, which promotes their social and economic inclusion, strengthening their organizations. The Alliance advocates for laws and public policies that involve waste pickers in decision-making, aiming to improve their working conditions, build capacity and recognize their work as an occupation.
- 135.** Domestic workers started by creating their own organizations, most of which eventually became unions. Meanwhile, employers of domestic workers, some of which are households and others

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<sup>76</sup> ILO, *Compendium of Practice*, 49–51.

<sup>77</sup> ILO, *Compendium of Practice*, 72–73.

<sup>78</sup> Kriangsak Teerakowitkajorn, “Stories from Below: Organic Leaders and Dilemmas of Grassroots Organizing in Thailand”, *Asian Labour Review*, 26 March 2023.

<sup>79</sup> ILO, *Developing and Regularising Cooperatives in Mali’s Artisanal Gold Mining Sector*, 2024.

<sup>80</sup> HomeNet International, *Machakos Co-operative Union – Helping Kenyan Home-Based Workers’ Groups Grow Stronger*, 2022.

<sup>81</sup> HomeNet International, *The Social and Solidarity Economy: Creating Opportunities and Fostering Solidarity Amongst Home-Based Workers in Brazil*, 2022.

<sup>82</sup> ILO, “A First Step Towards Improving Working Conditions of Waste Pickers in Senegal”, 27 September 2019.

<sup>83</sup> ILO, “ILO Promotes Decent Work for Waste Pickers in Türkiye”, 13 May 2024.

<sup>84</sup> HomeNet International, *Home-Based Workers in Cambodia Build their Livelihoods Together*, 2022.

are service providers, have also created organizations to represent their interests. Employers of domestic workers have organized into three types of groupings: (1) groups representing employers in social dialogue (for example, Brazil (São Paulo), France, Italy, Zambia); (2) civil society organizations that have gained recognition as the representative of household employers (for example, Argentina, Uruguay); and (3) advocacy groups that are not formally recognized for bargaining or policy purposes (for example, the United States of America).<sup>85</sup> Organizations of employers of domestic workers have played a crucial role in formalizing domestic work by providing standard contracts, access to social insurance, administrative support, legal advice and dispute resolution, and through research and awareness-raising. At the EU level, organizations of employers of domestic workers have formed two federations, the European Federation for Family Employment and Home Care (representing family employers) and the European Federation for Services to Individuals (representing service providers), which, together with the European Federation of Food, Agriculture and Tourism Trade Unions and UNI Europa, have called for the recognition of social dialogue and strengthened collective bargaining capacity for the social partners.<sup>86</sup>

### Supporting informal economy workers and economic units in organizing

- 136.** Representative organizations of employers and workers have also carried out awareness-raising campaigns targeting workers in the informal economy on the benefits of organizing and their rights and responsibilities. For example, in Benin, the Confederation of Autonomous Trade Unions and the National Union of Workers' Unions have raised awareness among informal economy workers on occupational health and safety by providing training and creating health committees within specific subsectors, such as for hairdressers, tailors, weavers, traders and dry cleaners, and within communities. In Kenya, the Kenya Union of Hair and Beauty Workers has raised awareness among informal economy workers about their health and social protection rights through on-site health services and sensitization on enrolling with the National Hospital Insurance Fund.
- 137.** In the Dominican Republic, trade unions created the Asociación Mutual de Servicios Solidarios as a "virtual employer" to facilitate the inclusion of self-employed workers in social security. In Zimbabwe, the Zimbabwe Chamber of Informal Economy Associations is working with the National Social Security Agency to design a social security scheme for workers in the informal economy. Similarly, Indonesia's Confederation of Indonesia Prosperity Trade Unions has campaigned for universal health coverage and the inclusion of informal workers in social security schemes.<sup>87</sup>
- 138.** Some representative organizations of employers or workers have also been the target of awareness campaigns on organizing or providing services to informal economy workers and economic units. For example, in the United Republic of Tanzania, the Trade Union Congress of Tanzania and the Zanzibar Trade Union Congress hold capacity-building workshops for their leaders and members on how to extend coverage and protection of workers in the informal economy and on, among other subjects, how to promote and defend their fundamental rights, including their rights to freedom of association and collective bargaining.

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<sup>85</sup> ILO, *Making Decent Work a Reality for Domestic Workers*, Chapter 10.

<sup>86</sup> For further information on the social dialogue efforts of the EU social partners representing the domestic work sector, see European Federation for Family Employment and Home Care, "PHSDialogue", and European Federation of Food, Agriculture and Tourism Trade Unions, "PHS Social Partners kick off project to strengthen collective bargaining", 7 July 2023.

<sup>87</sup> ILO, *Compendium of Practice*, 47, 55, 92.

- 139.** In Burundi, after achieving recognition of representatives of the informal economy, the National Federation of Transport, Social and Informal Workers and the Confederation of Trade Unions of Burundi have focused on raising awareness and providing training programmes for trade union activists to strengthen their negotiating skills and to engage in social dialogue at the local, provincial and national levels in order to improve workers' working conditions and livelihoods.

## Pathways for workers and economic units in the informal economy to participate in social dialogue

### Access of organizations of informal economy workers and economic units to social dialogue through or in collaboration with representative organizations of workers and employers

- 140.** Several trade unions and employers' organizations have extended membership to workers in the informal economy, including in Argentina, Brazil, Burundi, Chile, Colombia, Costa Rica, Ghana, Indonesia, Malawi, Peru, Philippines, Senegal, Uganda, Uruguay and Zimbabwe.<sup>88</sup>
- 141.** One strategy is to revise the internal structures of representative organizations and then to recruit individual members, groups or associations from the informal economy into their existing sectoral organizations. In Peru, the National Workers' Confederation recently adopted new statutes to include workers from the informal economy. The Trade Union Congress of the Philippines changed its constitution in 1987 to include the informal economy. It also lobbied for the National Health Insurance Act of 2013, which mandates health benefits for informal economy workers.<sup>89</sup> In Nepal, informal economy workers represent close to half of the members of the General Federation of Nepalese Trade Unions, with a significant proportion of own-account workers from various sectors and occupations (including trekkers, rickshaw pullers, agricultural and transport workers, street vendors and homeworkers). The Federation and affiliated unions provide services related to registration of unions, consultations between street vendors and municipalities, and awareness-raising on legislation, trade unionism and labour rights through the trade union school.
- 142.** Representative organizations of employers and workers have also built alliances with informal economy workers and economic units and their organizations, or with public authorities, to encourage formalization. In Indonesia, the Employers' Association of Indonesia introduced small enterprises to a large member company, which helped them expand into new markets and transition to formality.<sup>90</sup>
- 143.** In Zimbabwe, a group of 22 informal traders' associations established the Zimbabwe Chamber of Informal Economy Associations, which is affiliated with the Zimbabwe Congress of Trade Unions. The Chamber provides workers in the informal economy with a platform for policy engagement, including dialogue and negotiations with local authorities. It was instrumental in the dialogue and consultations that resulted in a draft national plan to encourage the transition to formality.<sup>91</sup>

<sup>88</sup> ILO, *Compendium of Practice*.

<sup>89</sup> ILO, *Organizing Informal Economy Workers into Trade Unions: A Trade Union Guide*, 2019, 44–45.

<sup>90</sup> International Organisation of Employers, *Innovative Approaches and Good Practices to Drive Formalisation*, 2024, 9.

<sup>91</sup> ILO, *Compendium of Practice*, 47–48.

## Direct access of organizations representing informal economy workers and economic units to social dialogue

- 144.** The Self-Employed Women’s Association (SEWA), a trade union affiliated with the International Trade Union Confederation, actively participates in social dialogue at various levels to advocate for the rights and needs of self-employed informal workers, particularly women. The aim is to improve members’ livelihoods through a dual strategy: organizing poor women workers in the informal economy into a union and promoting women-owned cooperatives to empower them. It strives to ensure that its members have access to work security, income security, food security and social security, including healthcare, childcare and housing.
- 145.** The Namibia Informal Sector Organisation (NISO) negotiates and intervenes with government departments and municipal authorities to address challenges faced by informal economic units and workers concerned. NISO is a key stakeholder in national discussions concerning the informal economy (box 4).

### ► Box 4. Namibia Informal Sector Organisation

The Namibia Informal Sector Organisation is dedicated to building the capacity of those in the informal economy in Namibia. It focuses on representing and developing informal economic units by recognizing the legitimacy of informality, assisting economic units willing to transition from informality to formality, and addressing the concerns of small formal enterprises struggling with regulatory compliance.

NISO conducts focus group discussions, engaging with key industry experts and organizing validation workshops to gather inputs directly from those in the informal economy. Additionally, it emphasizes participatory governance, advocating for inclusive and transparent policymaking that involves meaningful consultation and the active involvement of informal economy representatives. In 2021, it developed a self-regulatory code of conduct and operational guidelines for the informal economy \* through the participation of the government, Social Security Commission, local authorities, law enforcement agencies, civil society, trade unions, the Namibian Employers’ Federation, informal traders, development partners and State-owned enterprises (Namibia Agronomic Board).

NISO is encouraging the establishment of informal economy forums at the national, regional and local levels. It is also an active member of the National Working Group on Informality, established in 2023 to coordinate the diagnostic study of informality in Namibia, serving as the foundation for the development of a formalization strategy.

\* NISO and Friedrich-Ebert-Stiftung, *Code of Conduct for the Namibian Informal Economy: Breaking New Grounds*, 2021; *Operational Guidelines for the Code of Conduct for the Namibian Informal Economy*, 2022.

- 146.** South Africa has institutionalized social dialogue by establishing the tripartite National Economic Development and Labour Council (NEDLAC). It invites a range of associations representing informal workers, such as the South African Waste Pickers Association and an organization of taxi drivers, conductors and washers, to participate in policy discussions and debates on informality.
- 147.** Despite legal barriers and widespread informal employment, domestic workers have successfully organized in unions globally, leading to the founding of the International Domestic Workers Federation, which now represents over 669,000 workers across 90 affiliates in 69 countries. These are unions that evolved from small, self-organized groups. A pivotal tool in their growth has been the Domestic Workers Convention, 2011 (No. 189), which calls on ratifying Member States to consult “with the most representative organizations of employers and workers and, where they exist, with organizations representative of domestic workers and those representative of employers of domestic workers” when adopting laws and policies concerning the sector. As a result, domestic workers’ organizations have directly participated in social dialogue in many countries. Where both domestic workers’ organizations and employers’ organizations exist,

collective bargaining agreements have been negotiated, thereby improving wages and working conditions, and promoting formalization. For example, in São Paulo, Brazil, a historic agreement in 2017 (which was renewed in 2021) included provisions such as a higher minimum wage, regulated rest periods, proof of salary payments, deadlines for compensation, and access to social insurance through monthly employer contributions.

### Areas for improvement

- 148.** Far too few workers and economic units in the informal economy have access to social dialogue and the opportunity to participate in and influence policies that directly affect them.
- 149.** The affiliation of informal economy workers and economic units with representative organizations as the main channel for access to dialogue as stated in Recommendation No. 204 remains very limited. This is especially true for own-account workers, who are neither employees nor employers and represent close to half of all those in the informal economy.<sup>92</sup>
- 150.** Many employers' and workers' organizations willing to reach out to those in the informal economy face a number of difficulties in extending membership or providing services to them. Depending on the circumstances and the categories of workers, such difficulties can result from the dispersion of informal economy workers and economic units and their limited contributory capacity. It may also stem in part from a lack of interest or willingness of some of them to join, as well as from differences in terms of the sectors in which they operate and the services and support they require, or from the fact that the structure and objectives of representative organizations mean that they cannot easily extend their traditional activities to cover issues of the informal economy. In some cases, employers' and workers' organizations lack the institutional and financial capacities to effectively represent the voice of those in the informal economy or to provide services that meet their needs and expectations. In others, some concerns related to unfair competition may limit incentives to engage more fully with informal economic units.

### 2.2.3. Structural transformation, sectoral policies and productivity to promote inclusive growth and decent work

- 151.** Formalizing enterprises and enhancing productivity play a central role in supporting the transition to formality. The enterprise formalization ecosystem is a dynamic network of institutions, actors and processes working together to support the transition of economic units from informal to formal status, prevent the informalization of formal enterprises and enhance their capacity to provide formal jobs, paving the way for economic inclusion, regulatory compliance and sustainable growth.

#### Facilitating registration and ongoing compliance

- 152.** Formalizing an enterprise, its activities and employees can be cumbersome, especially for micro and small enterprises, where the opportunity cost is significant and the benefits far from obvious.
- 153.** In some cases, the financial sector can provide persuasive incentives for enterprises to formalize. For example, the ILO worked with the Africa Agriculture and Trade Investment Fund to promote sustainable investments in African agriculture,<sup>93</sup> ensuring compliance with social and environmental regulations through its due diligence process. These efforts, accompanied by

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<sup>92</sup> ILO, *Women and Men in the Informal Economy: A Statistical Update*, 19.

<sup>93</sup> For more information, see ILO, "[Sustainable Investments in African Agriculture](#)".

technical assistance to smallholder farmers, led to increased productivity, higher and more stable incomes, registration with social security schemes and formalization. New technologies are also helping to foster compliance. For instance, in Brazil, the e-Social digital accounting system is seamlessly integrated with other data systems related to labour, tax and social security contributions and it streamlines and simplifies the reporting processes, thereby seeking to improve compliance of enterprises with labour laws and supporting the formalization of employees.

- 154.** New digital technologies are also facilitating business registration. For example, several countries have made important strides in the development of a single portal to facilitate the registration process for businesses and workers (for example, the Special Legal Regime for Micro and Small Enterprises in Cabo Verde, a one-stop shop programme for the fishing industry in the Philippines, and a Single-Point Service Centre in Thailand). In other cases, e-government platforms were developed to streamline business registration during the pandemic, for example in Benin and Bhutan.
- 155.** In Nigeria, for instance, the government adopted digital tools to streamline the workers' compensation process and digitalized the tax system, reducing the average time required to file and pay taxes by over 50 per cent.<sup>94</sup>
- 156.** In some cases, efforts to streamline registration and compliance are combined with support to businesses to help them navigate the various complexities and reduce the opportunity costs associated with registration. For example, in Egypt, the Chamber of Engineering Industries is leading an effort to support enterprises through the registration and licensing process. In Ghana, the Ghana Enterprises Agency oversees and stimulates development among MSMEs. Following the onset of the COVID-19 pandemic, it set up a registration point in the Accra Metropolitan Assembly City Hall to encourage formalization by reducing the time required to register to approximately 30 minutes. In Chile, Mi Pyme Cumple (My SME Complies) forms strategic alliances with institutions such as universities and provides advice and concrete tools to MSMEs so that they can comply with current legislation and become formal.
- 157.** Similarly, in a number of countries, such as The Gambia,<sup>95</sup> Guatemala and Lebanon, employers' organizations have developed online formalization platforms and helpdesks to raise awareness among enterprises and entrepreneurs of the benefits of formalization and to provide access to resources that will facilitate their formalization process. In Honduras, the Formaliza tu negocio (Formalize Your Business) programme implemented by the Chamber of Commerce and Industry of Tegucigalpa provides training, technical assistance, legal advice and a cost simulator, all through an online platform.
- 158.** Countries have also adjusted tax schemes as a way to reduce any disincentives to formalization. This has taken the form of simplifying tax regimes (for example, a simplified tax regime, called Monotributo, used in countries such as Argentina, Mexico and Uruguay; the Special Legal Regime for Micro and Small Enterprises (REMPE) in Cabo Verde; and India's efforts to streamline tax through the introduction of a Goods and Services Tax) and simplifying taxes for certain categories of enterprises (for example, Indonesia's tax law amendment to simplify tax rates and reduced filing and payment frequency for independent service providers). Other countries, such as South Africa and Thailand, have introduced tax amnesty schemes (as well as reducing rates) to encourage enterprises to formalize, notably for micro and small enterprises.

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<sup>94</sup> IOE, *Innovative Approaches and Good Practices to Drive Formalisation*, 7.

<sup>95</sup> For more information, see ILO, "[Business Formalization: Gambia Moves Towards Business Formalization](#)".

**159.** Simplified legal statuses can also support the formalization process, especially for micro and small enterprises. For example, in Morocco, the “auto-entrepreneur” status introduced the possibility to create an enterprise or formalize a professional activity in a simplified manner. Similarly, a common approach in Latin America is the creation of a simplified corporate structure, such as the “Sociedad por Acciones Simplificada” in Colombia and Ecuador, that makes the process of incorporating a business more accessible and cost-effective, especially for small enterprises.<sup>96</sup>

### Responsible business conduct and the role of enterprises in promoting formality

**160.** Multinational enterprises can and should play an important role in promoting the transition to formality, as stated in the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration).<sup>97</sup> They can provide access to markets and promote technology and skills transfers.<sup>98</sup> Consideration, however, must be given to how this may create strong competition, which may push local suppliers and workers into informality.<sup>99</sup>

**161.** For instance, in Thailand, two multinational enterprises have collaborated to reduce illegal, unreported and unregulated fishing. In particular, the introduction of digital technologies such as digital traceability and e-logbooks to their subcontractors has supported efforts to reduce illegal activities, enhance compliance with regulations and improve processes in the industry, while indirectly encouraging formalization. They have taken a sectoral approach to improving working conditions and lessening the environmental impact of the Thai fishing sector.<sup>100</sup>

**162.** In the south of the Democratic Republic of the Congo, a project to promote the formalization of artisanal miners, who often work in dangerous conditions with limited safety procedures, was initiated in January 2018 by a multinational commodities trading and logistics company, a mining company, a formal cooperative for artisanal and small-scale mining and an international non-governmental organization. The project aimed to transition informal artisanal miners to a formal status (as subcontractors registered in the cooperative) and provided geological information, mechanized assistance, training – including to women on higher-paying, male-dominated occupations – safety equipment and amenities. The project led to improved productivity, reduced corruption, better working conditions, and increased income and gender equality, with female miners earning 2.5 times more than their counterparts working outside the project site.<sup>101</sup>

**163.** In Indonesia, the ILO and the parent company of a multinational clothing brand joined forces in 2019 to strengthen social protection and employment services, in particular supporting the adoption of an unemployment insurance scheme, thus helping to prevent informalization.<sup>102</sup>

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<sup>96</sup> Gabriel Rizza Ferraz, *Addressing Informality through Simplified Enterprise Forms and a Special Legal Status: Research Report*, Donor Committee for Enterprise Development, 2023, 10.

<sup>97</sup> Article 21 of the MNE Declaration states that “Governments should develop and implement an integrated policy framework to facilitate the transition to the formal economy, recognizing that decent work deficits are most pronounced in the informal economy. Multinational and other enterprises should also contribute to this aim.”

<sup>98</sup> ILO, “*Formalization of SMEs in Supply Chains in Latin America: What Role for Multinational Enterprises?*”, Thematic policy brief, 2016, 17.

<sup>99</sup> OECD, *Informality and Globalisation*, 113.

<sup>100</sup> ILO, “The role MNEs can play in efforts towards formalization of economic units and workers in their supply chains: Innovative approaches, challenges and opportunities”, forthcoming.

<sup>101</sup> ILO, “The role MNEs can play”.

<sup>102</sup> ILO, “*Unemployment Protection in Indonesia: Quality Assistance for Workers Affected by Labour Adjustments (UNIQLLO) – Final evaluation*”, Evaluation Summary, 2021.

## Enhancing productivity, promoting sectoral policies and enterprise growth

- 164.** One of the most significant shifts from low-productivity agriculture-based informal employment (often by own-account and contributing family workers) to higher-productivity manufacturing-based formal wage employment took place in Viet Nam. Informality fell by more than 10 percentage points in the last decade, driven by deeper trade integration and the rise of export-oriented manufacturing (for example, garments and electronics) through the expansion of foreign investment and supply chains. This was complemented by investments in education and training to enable the workforce to take up these new opportunities and transition to quality, formal employment; at the same time, the social security system was reformed to extend its coverage.
- 165.** While recognizing the need to address the cross-cutting drivers of informality, an increasing number of countries have taken a more targeted, integrated sectoral approach. In Ecuador, the *Emprende Turismo* programme promotes the creation and formalization of high-potential enterprises in the tourism sector.<sup>103</sup> It provides support to innovative projects via business plan competitions, consulting, training and access to fixed-rate financing. To participate, companies must be up to date with their social security contributions and have no tax debts. Corporate and small business applications increased from 60 in 2018 to 1,009 in 2023, mainly in the food, lodging, tourism operations and entertainment sectors.
- 166.** In the Solomon Islands, an initiative was launched in 2023 to support the formalization of informal economic units in the cocoa sector through the establishment of a sectoral action platform. The primary goal is to create an environment that encourages inclusive growth, job creation and the adoption of formal business practices.<sup>104</sup>

## Expanding access to supply chains, improving working conditions and supporting the transition to formality

- 167.** An ongoing initiative in Sri Lanka aims to promote financial and economic integration in post-conflict areas by employing a market systems approach to enhance livelihoods. The project connects a private sector company that uses seaweed – as both an input to production and for final consumption – with remote seaweed-harvesting workers. The company, whose focus is the export market, provides training and additional capacity-building, such as support in opening bank accounts for the workers, in exchange for preferential pricing on the seaweed, which benefits both parties, as there is no broker.
- 168.** The *Towards Fair and Sustainable Global Supply Chains: Promoting Decent Work for Invisible Workers in South Asia* project<sup>105</sup> was implemented in India, Nepal and Sri Lanka between 2018 and 2022. It targeted home-based workers, subcontractors and MSMEs within the informal economy in the lower tiers of global supply chains in an effort to strengthen governance and improve living and working conditions. In Zimbabwe, the *Anchor Enterprise* programme is a rural economic empowerment model that targets the improvement of rural livelihoods through shared prosperity by strengthening the capacity of the producers and market actors to participate effectively in the governance of the supply chains in which they operate.<sup>106</sup> In other instances,

<sup>103</sup> ILO, *Innovative Approaches to Promoting the Transition to Formality in Latin America and the Caribbean: Background guide for the Regional Tripartite Knowledge Sharing Forum*, 2024, 50.

<sup>104</sup> ILO, “*Action Plan for Formalization in the Solomon Islands Takes Shape*”, 19 July 2023.

<sup>105</sup> For more information, see ILO, “*Background paper on Innovative Approaches to Formalization*”, ILO Asia and the Pacific Tripartite Regional Knowledge Sharing Forum, forthcoming, box 6.

<sup>106</sup> ILO, “*The Anchor Enterprise: An Intervention Model for Achieving More Inclusive Value Chains: A Case from Zimbabwe*”, 2021.

multinational enterprises have helped to encourage formalization through compliance efforts. The Better Work programme is one example that integrates compliance with sectoral approaches and uses supply chains as an entry point to promote decent work for the garment and footwear sectors (box 5).

► **Box 5. Multinational enterprises working together to drive formalization of workers through compliance and better working conditions in the garment and footwear sectors**

Launched in 2007 as a partnership between the ILO and the International Finance Corporation, the Better Work programme aims to improve working conditions and business performance in the global apparel industry.

The programme operates in 11 countries, covering over 2,000 factories and 3.4 million workers, 69 per cent of whom are women. By integrating the ILO's tripartite approach alongside partnering with global supply chain actors, such as brands, retailers and manufacturers, the programme stands out as a unique governance mechanism in the apparel sector. Globally, brands play a critical role by using programme data to identify non-compliance, drive sustainable improvements in the supply chains where they source, and influence the business practices of the companies at the top of the supply chain that have a large influence over the sector.

As a result, in Indonesia non-compliance with written work agreements fell from 74 per cent to 4 per cent over the last decade. In Haiti, this figure dropped from 13 per cent to 0 per cent. Since the programme's launch in Jordan, non-compliance with employer social security contributions has decreased from 33 per cent to 11 per cent. These improvements have supported progress towards formalization.

- 169.** Similarly, the Supply Chains for a Sustainable Future of Work project <sup>107</sup> provides technical support through the development of tools and initiatives designed to enhance the capacities of employers' and workers' organizations and other stakeholders in supply chains, for example, in coffee (Colombia), rubber (Malaysia) and mining (Namibia). In Colombia, one good practice is the use of executive committees that facilitate social dialogue and help to identify and resolve bottlenecks that limit the promotion of decent work and productivity in the coffee supply chain. By taking a sectoral approach and focusing on supply chains, this serves as a crucial entry point for advancing full, productive employment and decent work, particularly in sectors where informality is prevalent.

### Ensuring adequate and appropriate skills training

- 170.** The ILO Skills for Prosperity programme in the Philippines was designed to have a significant impact on informal workers through several key initiatives. By focusing on inclusive skills development, the programme improved access for marginalized groups, including unemployed women, youth, indigenous peoples and rural communities. Demand-driven training ensured that the skills imparted were aligned with local industry needs, thereby enhancing individuals' employability. Public-private partnerships were established to foster collaboration among government agencies, local governments, the private sector and civil society, by facilitating skills development and dedicated financing for those in informal employment.
- 171.** Recognition of skills, especially for migrant workers and refugees, is essential to accessing quality, formal employment. In Colombia, the Public Employment Service can direct migrants and refugees to entities that support the recognition of their experience and skills. In Jordan, the United States and the EU funded the ILO Recognition of Prior Learning scheme, which allowed

<sup>107</sup> For more information, see ILO, "Decent Work in Global Supply Chains: Supply Chains for a Sustainable Future of Work".

both Jordanians and non-Jordanians, including Syrian refugees, to have their skills recognized. This recognition provided access to an occupational licence and made them eligible for a work permit. It included trade-specific and supplementary training, as well as mentoring and work-based feedback prior to the assessment decision based on performance. This large-scale pilot has paved the way for the current institutionalization of recognition of prior learning under the Technical and Vocational Skills Development Commission.<sup>108</sup>

## Areas for improvement

- 172.** The persistently high share of agriculture, in particular, in informal employment globally (more than one third<sup>109</sup>) signals a slow pace of structural transformation both within and across sectors. The absence of a more dynamic and productive ecosystem is having spillover effects on other aspects of development, such as low adoption of technology and limited improvements in productivity, which hinder further progress in reducing informality.
- 173.** At the same time, large companies, notably multinational enterprises, could play a more significant role in promoting formalization by encouraging and supporting the enterprises they engage with, particularly the micro and small enterprises within their supply chains, to transition to the formal economy and create decent jobs. This approach should focus on incentivizing compliance with regulations, improving working conditions, providing access to markets, technology and skills, and advocating for an enabling environment for formalization.
- 174.** The absence of an integrated and coherent approach is particularly glaring in the context of structural transformation. Efforts to enhance productivity within sectors and stimulate growth in high-productivity sectors must be accompanied by a range of complementary measures, including education and training support, adequate income security and access to social protection, to ensure that any gains from increased productivity are shared fairly.

## 2.2.4. Improving working and living conditions, securing human and labour rights, and leaving no one behind

### Paying special attention to the most vulnerable

- 175.** Leaving no one behind as part of the transition to formality means paying special attention to those who are especially vulnerable to the most serious decent work deficits in the informal economy, which is one of the guiding principles of Recommendation No. 204.
- 176.** In India, the Employment-Linked Incentive scheme was introduced to promote formal job creation by offering financial subsidies to employers in the formal economy who hire youth and first-time employees, particularly younger workers entering the job market. Announced in July 2024 as part of the Union Budget for the 2024–25 fiscal year, the initiative is closely tied to enrolment in the Employees' Provident Fund Organisation, which ensures that new hires benefit from essential social security protections.
- 177.** Strengthening the capacity of public employment services to cater to the needs of migrant workers and refugees can enhance their opportunities to access quality jobs in the formal economy. For instance, in Colombia, the Ministry of Labour created the Employment without Borders information and guidance portal, which provides information on processes, regulations

<sup>108</sup> ILO, "Note on the Findings of a Tracer Study of RPL Beneficiaries in Jordan", research brief, 2022.

<sup>109</sup> ILO, *Women and Men in the Informal Economy: A Statistical Update*, 25.

and guidance to facilitate the search for employment in Colombia to the migrant and refugee population from the Bolivarian Republic of Venezuela and to employers who have hired or will hire foreign workers.

- 178.** Migrant workers with an irregular status are particularly vulnerable to forced labour and other exploitative practices. Regularization programmes can facilitate migrant workers' access to formal jobs and social protection.<sup>110</sup> Countries such as Costa Rica have taken significant steps to regularize and formalize migrants in at-risk sectors by requiring all workers to have a contract and make social security contributions.<sup>111</sup> In Thailand, Migrant Worker Resource Centres assist undocumented migrant workers from Cambodia, the Lao People's Democratic Republic and Myanmar to regularize their status under government amnesties.
- 179.** Since the adoption of ILO Convention No. 189, many countries have recognized domestic work as work and brought domestic workers under their labour law – a first and necessary step towards formalization.<sup>112</sup> For example, in Thailand, in April 2024, the Ministry of Labour issued a new ministerial regulation under the Labour Protection Act which extended to domestic workers the right to the minimum wage, an eight-hour workday, overtime pay and maternity leave, among other rights and protections.<sup>113</sup>
- 180.** In Cambodia, the Social Protection and Public Financial Management programme funded by the EU has enabled the development of a national disability identification system. This has helped to ensure that, with the introduction of a cash transfer programme for persons with disabilities, they actually receive much-needed financial support. This initiative has contributed to increasing income security and reducing their reliance on informal and often lower-paying jobs.
- 181.** Another approach to supporting the transition to formality for vulnerable populations is through entrepreneurship development. For example, the Women as Financially Independent Rural Actors (WAFIRA) project promotes the economic empowerment of women seasonal migrant workers from rural communities in Morocco. This approach mixes elements such as financial education and entrepreneurship development with personal development. Women participating in the project also receive support in registering for social security. A training and coaching pathway was developed and tested, including a series of specific digital tools, such as videos on administrative procedures for women entrepreneurs and podcasts on entrepreneurship, financial education and personal development<sup>114</sup> in the local Moroccan dialect. This pathway will become the cornerstone of the new entrepreneurship offer from the Public Employment Services in Morocco for returning seasonal migrants.
- 182.** Promoting entrepreneurship within the social and solidarity economy seeks to empower the most vulnerable by fostering the pooling of resources, collective organization and improved access to markets, means of production, finance and social protection. To facilitate formalization, the ILO's Our.COOP training programme – including Think.COOP and Start.COOP –<sup>115</sup> has been adapted to meet the needs of different target groups (such as refugees and host communities), and tailored to specific sectors (such as agriculture and the care economy) and supply chains (such as mining,

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<sup>110</sup> ILO, *Protecting the Rights of Migrant Workers in Irregular Situations and Addressing Irregular Labour Migration: A Compendium*, 2022, 28, 38.

<sup>111</sup> ILO, *Making Decent Work a Reality for Domestic Workers*, 217.

<sup>112</sup> ILO, *Making Decent Work a Reality for Domestic Workers*, Chapter 3.

<sup>113</sup> ILO, "2024 Thai Regulations on Domestic Work: Are You Following the Law?".

<sup>114</sup> See videos on administrative procedures for women entrepreneurs and podcasts on entrepreneurship, financial education and personal development.

<sup>115</sup> See ILO, "SSE: Education and Training".

cocoa and coffee). These tools have been used by workers in the informal economy and their organizations, including home-based workers, street vendors, and delivery and transport workers. Financial entities in the social and solidarity economy, such as savings and credit cooperatives, can also facilitate access to financial services for workers and economic units in the informal economy.<sup>116</sup>

### Sectoral approaches for reaching specific groups of workers

**183.** The prevalence, distribution and characteristics of the informal economy vary according to sectors within the same country. In addition, each sector tends to be subject to specific drivers, such as norms and perceptions in domestic work or seasonality in agriculture. While diversity also exists within sectors, there are some common concerns and the opportunity to leverage pre-existing sectoral structures. Countries often have specific sectoral policies and regulations, including bargaining agreements. Organizations of employers and workers are often structured around sectors, as are many member-based organizations in the informal economy, notably through social and solidarity economy entities. While the cross-cutting drivers of informality cannot be overlooked, sectoral approaches alone may have a limited impact on such drivers.

### Making decent work a reality for domestic workers

**184.** The sectoral approach to formalizing domestic work tackles the main drivers of informality in the sector: domestic workers' partial or complete exclusion from labour and social security laws, inadequate institutional capacity to regulate the sector, and societal beliefs that domestic work is not real work. To address legal exclusion, many countries have extended coverage by amending the thresholds for minimum working time, employment duration or earnings. For example, in 2013, Colombia adopted Decree No. 721, which provided for the social insurance registration of domestic workers working part-time and for multiple employers; as a result, the number of registered domestic workers increased from 9,000 to nearly 90,000 in 2014.<sup>117</sup> To close implementation gaps, formalization strategies include simplifying registration and contributions, incentivizing formal employment, raising awareness, strengthening institutional capacity to address violations, including by establishing and training dedicated teams at the labour inspectorate, and encouraging behavioural change.<sup>118</sup> For example, in Costa Rica in 2017, the Social Security Fund, in collaboration with other public institutions and through social dialogue, introduced a plan to increase registration with social security by reducing contribution rates for workers and employers, including through subsidies. This enabled workers to be registered with multiple employers, registration and payments to be digitized, and compliance to be promoted through inspections, sanctions and an extensive awareness-raising campaign.

### Supporting the transition to formality in the agricultural sector in North Macedonia

**185.** In North Macedonia, the share of informal employment in agriculture fell by 39 percentage points between 2014 and 2023.<sup>119</sup> A range of coordinated policies contributed to this decline. Firstly, simplified tax regimes, such as the presumptive taxation scheme and the simplified VAT system for agricultural producers, were introduced. In addition, the Agricultural Subsidy Programme provides financial incentives and subsidies to agricultural businesses, provided that the enterprise

<sup>116</sup> ILO, *Financial Mechanisms for Innovative Social and Solidarity Economy Ecosystems*, 2019, 5.

<sup>117</sup> Reported in an ILO gap analysis in ILO, *Making Decent Work a Reality for Domestic Workers*, 207.

<sup>118</sup> For a complete set of examples of these approaches, see Chapter 9 of ILO, *Making Decent Work a Reality for Domestic Workers*.

<sup>119</sup> ILO, "Informality Dashboard".

is formally registered and adopts formal employment practices, including the hiring of seasonal or occasional workers under formal contracts, while fulfilling tax and social contribution obligations.<sup>120</sup> Furthermore, the agricultural modernization programmes provide farmers with access to advanced technologies, including through financial support and technical assistance. Furthermore, the Rural Development Programme 2014–20 provided subsidies for investments in agricultural machinery and irrigation systems, among others.

## Inclusive labour protection that leaves no one behind

### Occupational health and safety and preventing and addressing violence and harassment

- 186.** Even before a safe and healthy working environment became a fundamental principle and right at work, Recommendation No. 204 called on Members to take immediate measures to address the unsafe and unhealthy working conditions that often characterize work in the informal economy.
- 187.** According to the latest global estimates, close to 2 million workers in the informal economy die every year due to occupational accidents and diseases.<sup>121</sup> However, the availability of occupational safety and health (OSH) initiatives targeting the informal economy remains limited due to numerous barriers, including cost, time, accessibility and fragmentation of efforts. Adopting a collective and coordinated approach has proven effective in integrating OSH and facilitating the transition to formality. For example, in Pakistan, a mobile training unit equipped with OSH tools travels to industrial sites across Punjab province to provide on-site training and testing.<sup>122</sup>
- 188.** In Chile, to overcome enforcement limitations, the National Directorate for Labour can request permission to enter a household to verify compliance with domestic work regulations. If access is denied, the employer is required to appear before the Labour Inspection Office and may face fines for non-compliance. This strategy has also been effective in other countries, including Uruguay. In Côte d'Ivoire, the labour inspectorate established strategic compliance planning in the cocoa, construction and commerce sectors, covering OSH, child labour and formalization. Through this planning, labour inspectors adopted a collaborative and coordinated effort with traditional and non-traditional stakeholders, who can support the specific interventions in the informal economy, such as communications and visibility.
- 189.** A programme of the ILO Vision Zero Fund supported the Secretariat of Agriculture and Rural Development in Mexico to integrate OSH training and advisory services into the tomato and pepper supply chains. In Madagascar, enhanced coordination between employers, local authorities and occupational health services in the lychee sector resulted in the extension of OSH services to some of the most vulnerable workers in the informal economy, including seasonal workers. Such coordination enabled a significant number of seasonal lychee workers (many of whom are women) to gain access to occupational health services.
- 190.** Informal economy workers often face heightened risks of violence and harassment due to insufficient legal recognition, lack of regulation, and isolated work arrangements. Marginalization, discrimination and stigma exacerbate their vulnerability, obstruct reporting of

<sup>120</sup> Government of North Macedonia, "Agricultural Development".

<sup>121</sup> Jukka Takala et al., "Global-, Regional- and Country-level Estimates of the Work-related Burden of Diseases and Accidents in 2019", in *Scandinavian Journal of Work, Environment & Health*, 50(2): 73–82.

<sup>122</sup> ILO, *Improving Safety and Health in Micro-, Small and Medium-Sized Enterprises: An Overview of Initiatives and Delivery Mechanisms*, 2020, 31.

cases of violence and harassment, and hinder prevention and response efforts. In recent years, steps have been taken to enhance prevention and protection. For instance, labour law protections on violence and harassment have been extended to informal workers in India and South Africa. In France, Mexico and the Philippines, laws addressing violence and harassment in public spaces, including streets, ensure greater protection for informal workers. Some countries, such as the Philippines, have strengthened remedial mechanisms by granting informal workers the right to seek support from the relevant authorities when filing complaints related to gender-based violence and harassment. Other countries, for example Grenada, have included informal workers in relevant national policies, such as the national OSH policy. Many countries have also launched awareness-raising campaigns and training programmes.<sup>123</sup>

- 191.** Social partners are contributing to strengthening protection from violence and harassment. In Nigeria, with the support of the Nigeria Labour Congress, informal market workers have adopted a code of conduct and formed a task force to raise awareness about gender-based violence and harassment in the Mile12 market.<sup>124</sup> In Kenya, flower-growing farms and other agricultural and industrial producers have to comply with codes of conduct.<sup>125</sup> Cooperatives have also contributed to this effort. In 2019, the International Cooperative Alliance adopted a Declaration on Decent Work and Against Harassment, committing to a zero-tolerance approach. In Brazil, cooperatives have helped waste pickers to improve their income, negotiate with authorities and enhance safety, legal protection, and violence prevention.<sup>126</sup>

### Access to labour protection through formalization

- 192.** Informality remains a major obstacle and one of the root causes preventing the achievement of inclusive, adequate and effective labour protection for all workers. The transition to formality is a prerequisite to ensure such protection.
- 193.** Addressing legal gaps in coverage, where they exist, is the first step towards the transition to formality. To address legal gaps, several countries have extended labour laws and social security laws to categories of workers and enterprises originally excluded, including through specific legislation protecting groups such as domestic workers,<sup>127</sup> homeworkers,<sup>128</sup> migrant workers<sup>129</sup> or those in small economic units. Where legal coverage does exist, progress towards formality requires ensuring compliance. Compliance can be promoted by a coordinated set of actions, including: simplifying registration and reporting procedures; introducing incentives for joining the formal economy; setting corrective measures; raising awareness of rights and obligations and the benefits of formality; strengthening deterrence measures; applying sanctions; and promoting a “culture of formalization” that implies transparency and trust and thus relies on strengthened effectiveness and efficiency of institutions while harnessing the opportunities offered by new technologies.<sup>130</sup>

<sup>123</sup> ILO, *Violence and Harassment in the World of Work: A Guide on Convention No. 190 and Recommendation No. 206*, 2021, 44–45.

<sup>124</sup> ILO, *Violence and Harassment in the World of Work: Trade Union Initiatives, Strategies and Negotiations since the adoption of the Convention on Violence and Harassment (No. 190) and Recommendation (No. 206)*, 2019, 2024, 42.

<sup>125</sup> ILO, “Preventing and Addressing Violence and Harassment in the Informal Economy” (forthcoming).

<sup>126</sup> ILO, *Guide on Convention No. 190 and Recommendation No. 206*, 45.

<sup>127</sup> See paras 181 and 186 above; and ILO, *Making Decent Work a Reality for Domestic Workers*, Part II.

<sup>128</sup> ILO, *Working from Home: From Invisibility to Decent Work*, 2021, Chapter 6.

<sup>129</sup> See ILO, *Protecting the Rights of Migrant Workers in Irregular Situations and Addressing Irregular Labour Migration*, Part 2.

<sup>130</sup> ILO, *Leaving No One Behind*, para. 141 and section 2.8.

**194.** Many countries have adopted criteria for distinguishing between employees and self-employed workers. Courts often play an important role in that regard. Tackling disguised employment relationships requires not only the existence of clear legal criteria, but also determined action by enforcement authorities. New technologies combined with traditional inspection methods can support the detection of such abusive practices, including through data mining or risk scoring. As with the anti-fraud tool in Spain,<sup>131</sup> the Estonian Tax and Customs Board uses algorithms to analyse discrepancies between reported tax data, social contributions and the nature of working relationships. Similarly, in France, the authorities combine sources and leverage data analytics while ensuring compliance with data protection regulations on individual privacy rights to monitor and address employment misclassification. Patterns such as individuals working exclusively for a single client or lacking the business expenses typical of genuine self-employment are among the possible signs of the existence of an employment relationship.

## Reducing decent work deficits in the informal economy

### Establishing and creating an environment for the application of minimum wage policies

**195.** Effective and well-designed minimum wage policies can also promote formalization. As informal workers are often situated at the lower end of the wage distribution,<sup>132</sup> minimum wages can improve their immediate working conditions and create the enabling conditions for their eventual transition to formal employment over the longer term. Minimum wages exist in 90 per cent of ILO Member States.<sup>133</sup> In recent years, many countries have adopted new minimum wages, broadened the scope of coverage (for example, to domestic workers) or strengthened existing minimum wage systems. A large body of empirical evidence indicates that wages in the informal economy can increase following an upward adjustment of the minimum wage in a country. This phenomenon is known as the “lighthouse effect”, as a minimum wage serves as a reference price in the bargaining process of all workers in the economy, including those in the informal economy.<sup>134</sup>

**196.** Informal economic units in low- and middle-income countries – mainly micro and small enterprises – face significant challenges in complying with minimum wage laws, notably due to low productivity levels. In various countries, a significant proportion of informal economic units have average sales per worker that are lower than the monthly minimum wage.<sup>135</sup> Therefore, complementary measures should support economic units, particularly micro and small enterprises, through capacity-building, financial incentives, skills development and access to technology, to enable them to comply with minimum wage legislation.

### Access of informal economy workers to childcare benefits

**197.** As stated in Recommendation No. 204, “Members should encourage the provision of and access to affordable quality childcare and other care services to promote gender equality in entrepreneurship and employment opportunities and to enable the transition to the formal economy”. Several initiatives have been developed to address the lack of accessible and affordable childcare services for informal economy workers, especially women, to support their ability to

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<sup>131</sup> See para. 116 above.

<sup>132</sup> ILO, *Global Wage Report 2024–25: Is Wage Inequality Decreasing Globally?*, 2024, 37.

<sup>133</sup> ILO, *Global Wage Report 2020–21: Wages and Minimum Wages in the Time of COVID-19*, 2020, 60.

<sup>134</sup> ILO, *Global Wage Report 2020–21*, 155.

<sup>135</sup> Eliane Badaoui and Frank Walsh, “Productivity, Non-Compliance and the Minimum Wage”, *Journal of Development Economics* 155, 102778 (March 2022).

work consistently and secure stable incomes. In Accra, Ghana, WIEGO has worked to build bridges between market traders and city officials and facilitated a multi-stakeholder, participatory process that resulted in a set of national guidelines for the governance and management of childcare centres in urban informal markets. The Ghana Makola Market Child Care Centre significantly improved the well-being of women market traders and their children. First run as a public service, the Centre is now run directly by the Ghana Association of Traders, which covers the costs of the centre in part.<sup>136</sup> Cooperatives are active in advocating for or providing care services, including childcare, while also helping to protect the labour rights of care workers in the informal economy.<sup>137</sup> In Brazil, the Asmare Waste Pickers Cooperative advocated within municipal participatory budgeting assemblies for the childcare needs of their members to be met. The municipality took over the management and financing of the community childcare centre, which is now fully integrated within the early childhood development municipal network.<sup>138</sup> In India, in response to workers' requests and to address the pressing need for affordable, quality childcare among women informal workers, the Self-Employed Women's Association set up the Sangini Child Care Workers' Cooperative in Ahmedabad in 1986.<sup>139</sup> The Cooperative provides an integrated approach to childcare to meet children's education, nutritional and health needs.

## Extending and enhancing social protection

- 198.** Social protection constitutes an enabling factor for the transition to formality and reduces vulnerability to economic and other shocks that may force people into informality. It also supports life and labour market transitions, including those related to climate, demographic and technological change.<sup>140</sup> To achieve universal social protection, including coverage of the "missing middle",<sup>141</sup> it is essential to address legal, financial and administrative barriers while enhancing awareness of social security benefits, governance and service quality tailored to uncovered groups.<sup>142</sup> This requires alignment with employment, wage, macroeconomic and fiscal policies, alongside fostering the transition to the formal economy to ensure equitable and sustainable systems.
- 199.** Guided by the Social Security (Minimum Standards) Convention, 1952 (No. 102), the Social Protection Floors Recommendation, 2012 (No. 202), and other international social security standards, Member States have followed combined approaches for achieving universal social protection. Many countries have linked the extension of social protection directly to formalization.<sup>143</sup> In Kenya, a specific strategy for the extension of social protection to workers in the informal and rural economy was adopted in 2023, and implementation plans were discussed across sectors at the county level in two counties in 2024.<sup>144</sup> In Nepal, the Ministry of Labour, Employment and Social Security launched a scheme in 2023 designed to extend social protection to informal and self-employed workers across various industries, with a particular focus on

<sup>136</sup> WIEGO, *Women Informal Workers Mobilizing for Child Care*, 2017, 3.

<sup>137</sup> ILO and WIEGO, *Cooperatives Meeting Informal Economy Workers' Child Care Needs: A Joint ILO and WIEGO Initiative*, 2018.

<sup>138</sup> ILO, *Mobilizing Social and Solidarity Economy Units Towards Universal Social Protection*, Social Protection and Cooperatives Spotlight, 2022, 4.

<sup>139</sup> ILO and WIEGO, *Cooperatives Meeting Informal Economy Workers' Child Care Needs*, 5–6.

<sup>140</sup> ILO, *World Social Protection Report 2024–26: Universal Social Protection for Climate Action and a Just Transition*, 2024, 58, 218.

<sup>141</sup> ILO, *World Social Protection Report 2017–19: Universal Social Protection to Achieve the Sustainable Development Goals*, 2017, 148.

<sup>142</sup> ILO, *Extending Social Security to Workers in the Informal Economy*, Chapter 4.

<sup>143</sup> ILO, *Extending Social Security to Workers in the Informal Economy*, 16–17.

<sup>144</sup> Government of Kenya, "Strategy for Extension of Social Protection Coverage to Workers in the Informal and Rural Economy in Kenya", 2023.

agriculture, construction and transport.<sup>145</sup> Such an approach builds mainly on existing social insurance schemes. This includes improved compliance with social security laws in formal enterprises, and the extension of legal coverage of social insurance to self-employed workers (for example, Algeria, Brazil, Côte d'Ivoire, Estonia, Iraq, Senegal, Sweden, Türkiye, Uruguay), temporary and part-time workers (for example, Armenia, Bulgaria, Iraq, South Africa, Uruguay, Viet Nam), workers in micro and small enterprises (for example, Bosnia and Herzegovina, North Macedonia, Peru, Republic of Moldova), agricultural workers (for example, Brazil, Mongolia) and domestic workers (for example, Peru, Philippines, South Africa, Spain). It also includes unified and simplified registration of enterprises and employment contracts as well as the collection of taxes and social contributions through integrated mechanisms (for example, Argentina, Brazil, Cabo Verde, Uruguay); subsidization of contributions (for example, China, Indonesia, Mongolia, Philippines); and attractiveness of the benefits package, including short-term benefits (for example, Côte d'Ivoire, Mongolia, South Africa).<sup>146</sup> India established a scheme to extend social protection to casual construction workers through a flat-rate contribution system, while construction firms have an additional charge levied amounting to 1 to 2 per cent of the total value of construction projects. The scheme provides access to old-age pensions, employment injury protection, health insurance and maternity cash benefits. In a few countries, governments have set up individual savings schemes for workers in the informal economy that are not fully aligned with the principles of collective financing and risk pooling enshrined in ILO Convention No. 102, but could evolve into more systemic solutions.<sup>147</sup>

- 200.** To complement the extension of social insurance and address the situation of those with limited or no contributory capacity, countries have also extended coverage through non-contributory social protection mechanisms, primarily financed by government revenue and/or external resources. By reducing workers' vulnerability and poverty risks, ensuring income security, enhancing access to healthcare and education and enabling them to seize economic opportunities, such efforts can ultimately foster pathways to productive and formal employment. Some examples are the introduction and expansion of social transfer programmes for children and families (for example, Brazil, Mongolia, Senegal), persons with disabilities (for example, South Africa) and older persons (for example, social pensions in Lesotho, Mauritius, Namibia, Nepal, Thailand, Timor-Leste), as well as national public employment programmes (for example, Ethiopia, India, South Africa).<sup>148</sup> When designing strategies for extending social protection, it is crucial to combine both tracks (contributory and non-contributory) as parts of a coherent and sustainable system and establish effective incentives for formalization, to avoid "informality traps".<sup>149</sup>
- 201.** Access to healthcare is particularly important. Out-of-pocket payments from households for healthcare are significantly higher in the informal economy, which limits their access to timely

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<sup>145</sup> ILO, UNICEF and Global Coalition for Social Protection Floors, "Extending Social Protection to Workers in the Informal Economy", Thematic brief, 2023.

<sup>146</sup> ILO, *Extending Social Security to Workers in the Informal Economy*; ILO, *World Social Protection Report 2024-26*; ILO, *Making the Right to Social Security a Reality for Domestic Workers: A Global Review of Policy Trends, Statistics and Extension Strategies*, 2022, Chapter 4.

<sup>147</sup> ILO, *Why are unemployment individual savings accounts not an adequate and equitable solution to unemployment protection?*, Social Protection Spotlight, 2024.

<sup>148</sup> ILO, *World Social Protection Report 2024-26*.

<sup>149</sup> ILO, UNICEF and Global Coalition for Social Protection Floors, "Extending Social Protection to Workers in the Informal Economy", 2.

and adequate care.<sup>150</sup> In response, some low- and middle-income countries have adopted national policies to expand social health protection coverage. Some of them used a mix of contributory and non-contributory approaches through universal health insurance schemes, with full or partial contribution subsidies and adapted registration and contribution collection mechanisms. Significant progress in extending coverage to workers in the informal economy and their families has been made through such approaches, for instance in China, Colombia, Côte d'Ivoire, Indonesia, Kazakhstan, Mongolia, the Philippines, Rwanda, Thailand and Viet Nam.

**202.** In Côte d'Ivoire, an innovative multi-stakeholder approach to extending universal health insurance coverage to cocoa farming communities was undertaken (box 6).

► **Box 6. Extending universal health insurance coverage to cocoa farming communities in Côte d'Ivoire**

The project used a multi-stakeholder model for supporting the formalization of cocoa farming communities in Côte d'Ivoire, emphasizing social health insurance as a pathway to economic stability and improved working conditions. The approach fosters partnerships among government agencies, private sector entities and cocoa cooperatives in collective efforts to improve working and living conditions and promote formalization. Buyers/exporters pay part of farmers' insurance contributions, creating a shared responsibility for social protection. The universal health insurance scheme, which extends health coverage to all residents, including informal economy workers and their families, is a cornerstone of the approach.

The initiative incorporates human-centred design and targeted awareness campaigns to ensure inclusivity and accessibility. Extensive outreach efforts inform cocoa farmers about the benefits of universal health insurance and simplify enrolment through mobile stations and local health centres. Adapted mechanisms have been developed for the registration of agricultural workers with a contributory capacity and their families. Continuous monitoring and feedback mechanisms ensure quality of services by addressing gaps and improving user satisfaction. Together, these elements contribute to a comprehensive model that is both participatory and responsive to the needs of workers in the informal economy.

The programme provides cocoa farmers with formal access to health insurance, reducing economic vulnerabilities and enhancing financial resilience. Improved health outcomes support improved productivity and reductions in child labour, while organized cooperative structures foster social cohesion and empowerment. Lessons from the initiative emphasize the importance of sustained collaboration, awareness and how best to leverage existing national social protection. There are, however, some concerns that the approach reduces negotiation power, with a potential impact on income.

Sources: ILO, ACCEL Africa, *Good Practices: Côte d'Ivoire – Extending Universal Health Insurance Coverage to Cocoa Farming Communities*, 2023; Tessier and Louis dit Guérin.

**203.** The inclusion of migrant workers in national social protection schemes based on the principle of equality of treatment and the conclusion of social security agreements<sup>151</sup> are essential pathways to formality. Many countries are extending social protection to migrant workers and refugees, through unilateral, bilateral or multilateral measures. In 2020, there were approximately 660 social security agreements worldwide, a significant rise compared to 100 agreements in 1980.<sup>152</sup> In Kenya, the Social Health Insurance Act of 2023 extends protection to all “ordinarily residing non-Kenyans”. In Cabo Verde, migrant workers can register with the National Social Protection

<sup>150</sup> Pan American Health Organization, “Informal Work as a Key Social Determinant of Health Equity: Results of a Systematic Review”, forthcoming.

<sup>151</sup> ILO, “Model Intervention: The Eight-Step Process to Negotiating a Social Security Agreement”, ILO brief, 2023.

<sup>152</sup> International Social Security Association, “Global Overview of International Social Security Agreements”, 2022.

Institute Scheme as a wage worker or independent worker. Registration is compulsory to obtain a residence permit.<sup>153</sup> In Malaysia, migrant workers, including migrant domestic workers, have been covered by the employment injury scheme since 2019 and the social security invalidity and survivors' scheme since July 2024.<sup>154</sup>

- 204.** In other cases, the social and solidarity economy has provided pathways to formalization by supporting the implementation of national social protection systems. In Togo, the Mutual Social Protection Scheme for Workers in the Informal Sector delivers health protection through a mutual model. In Colombia, the Ministry of Health and Social Protection implements the universal social health insurance scheme through a country-wide network of mutual funds. In Senegal, the national universal healthcare programme is co-implemented with sector-based occupational mutual associations that facilitate registration and collection of contributions for workers of the informal economy.<sup>155</sup>

### Strengthening capacity to adapt to and mitigate climate and environmental change

- 205.** Some countries have taken practical approaches to strengthen the capacity of those in the informal economy to adopt mitigation and adaptation measures and maximize the social and economic opportunities of climate and environmental action, including through the greening of economies. For example, in the Philippines, the Fisherfolk Social Protection Identification Card Programme aims to bolster social protection for fishers, making them more resilient to economic shocks and the challenges posed by climate change.<sup>156</sup> The programme, launched in 2023, provides essential social services to fishers, a group vulnerable to both economic uncertainty and the impacts of climate change. The programme grants access to a range of benefits, including health services, housing, pensions, medical and burial assistance, accident insurance and financial support. To help fishers manage mandatory contributions to the social security system, the programme established savings associations that enable fishers to set aside resources for emergencies and social insurance payments, easing the financial burden on this community. Through the identification card, fishers and their families also gain access to financing institutions, which recognize the cardholders for basic social services, including accident and crop insurance.
- 206.** In India, SEWA's Extreme Heat Protection Initiative, implemented in 2023, aims to build the climate resilience of women in the informal economy who are particularly vulnerable to the impacts of heatwaves. SEWA's heatwave survey found that 93 per cent of respondents faced severe health issues, including heat-related illnesses, dehydration and mental distress. This resulted in lower productivity, shorter work hours and missed workdays. These challenges led to a 30–50 per cent decline in members' incomes. The initiative aims to ensure safer workplaces and reduce income insecurity, offering financial protection to partially replace the incomes lost due to climate shocks. The initiative combines several strategies to mitigate the effects of extreme heat, such as risk reduction measures, early warning heat systems, the provision of protective gear, and an Extreme Heat Income Microinsurance product which offers payouts during extreme unsafe working conditions. This insurance product was complemented in 2024 by a cash assistance layer that is triggered at a lower temperature than the insurance product. The pilot phase initially targeted 21,000 women across five districts in Gujarat. In 2024, the programme was scaled up to

<sup>153</sup> ILO, "Intervention Model: For Extending Social Protection to Migrant Workers in the Informal Economy", ILO brief, 2023, 10.

<sup>154</sup> CentralHR, "Extension of SOCSO Invalidity Scheme Coverage to Foreign Workers Effective 1 July 2024", Blog, July 2024.

<sup>155</sup> Lou Tessier and Olivier Louis dit Guérin, *What Role Can Health Mutuals And Community-Based Health Insurance Play in Social Health Protection Systems? Review of Experiences* (ILO, 2025), 216–225.

<sup>156</sup> ILO, "Background paper on Innovative Approaches to Formalization", ILO Asia and the Pacific Tripartite Regional Knowledge Sharing Forum, forthcoming, 24.

52,000 members across 22 districts. The cash assistance layer was triggered in all districts and members received assistance of 400 Indian rupees. In addition, the insurance layer was triggered in 17 out of the 22 districts, and 46,339 members received payouts ranging from 151 to 1,651 rupees. An added benefit of the programme was the inclusion in the formal financial system of 17,000 members without bank accounts or with dormant accounts.

- 207.** Some countries have developed initiatives that combine enterprise and skills development, promotion of formal economic units and decent work, and measures to facilitate a just transition (box 7).

► **Box 7. Innovation and green business development in Zimbabwe**

Zimbabwe faces a wide range of economic, social and environmental challenges that are hindering private sector growth and job creation. The Green enterPRIZE project sought to promote inclusive economic opportunities and environmental sustainability, and to support microenterprises and SMEs in adopting greener, more resilient practices.

The project integrated the development of skills supply and demand within the green economy by supporting a network of microenterprises and SMEs, business development service providers, national and local government departments and regulatory bodies, employers' and workers' organizations, technical and vocational education and training institutions and training providers. The project tailored its green business development approach to the needs of existing enterprises, the majority of which were in the informal economy. Several training initiatives and tools were developed to help enterprises take the first steps towards formalization while exploring business diversification in the green economy. For instance, the project introduced an innovative platform for business actors to exchange ideas and for informal economic units to explore opportunities and partnerships along different value chains.

As of 2021, the project had created 446 new jobs, 57 per cent of which among women. It had also made 2,218 existing jobs more decent and greener. Job creation figures were lower than anticipated due to COVID-19 and the resulting lockdown.

- 208.** In the context of shortages of affordable housing and high levels of informality in the construction sector, the Zambia Green Jobs Programme worked to promote greener and better jobs by supporting sustainable MSMEs along the construction value chain. The innovative approach entailed simultaneously encouraging the adoption of more sustainable housing materials and practices (such as compressed stabilized earth blocks), encouraging the growth of enterprises, and addressing decent work deficits while creating job opportunities across the supply chain in the construction sector. The programme worked at both the policy and enterprise levels, and involved the extension of social security to construction workers as well as initiatives to improve OSH, thereby demonstrating the value of a multi-pronged, integrated approach.<sup>157</sup>

### Areas for improvement

- 209.** Gaps in legal coverage that exclude some categories of workers and economic units from the scope of laws and regulations persist in too many countries. Closing such gaps is a necessary step to ensure the transition to formality and adequate protection of workers. Exclusion from legal coverage also tends to affect microenterprises and, consequently, the workers they employ. In other circumstances, while workers are covered by laws, they are excluded from some protections because of the nature of their contractual arrangements or other parameters, such as the number of hours they work.

<sup>157</sup> For more information, see ILO, "Zambia: Green Jobs in the Building Construction Sector".

- 210.** In some countries where adequate legal coverage exists, weak compliance systems, including inspectorates operating with insufficient resources and capacity, still undermine the application of the law, which also drives informality. For example, strategies to extend coverage of enforcement mechanisms and OSH services to the informal economy are still lacking in many countries, especially in contexts of widespread informality. Furthermore, identifying and accessing economic units and workers in the informal economy remains a major barrier to enforcing regulations.
- 211.** One outstanding challenge is the delivery of labour protection for workers facing discrimination and disadvantages in the labour market. Many of these workers are overrepresented in the informal economy. Despite the progress made in some countries, measures to address systematically the specific circumstances and needs of these workers through mainstreamed and targeted interventions are often lacking or insufficient.

### **2.2.5. Preventing informalization and addressing emerging forms of informality**

- 212.** The onset of crises and conflict, alongside transformations in the world of work, including those driven by technological innovations, environmental and climate change and globalization, may lead to the growth of forms of contractual arrangements associated with a relatively higher risk of informality than permanent full-time wage employment (see section 1.2.3 above), including situations of employment misclassification. If left unaddressed, this can lead to informalization. In addition to responding to the consequences of informalization, it is important to understand and address the underlying causes and focus on improving the formality of affected workers or enterprises.

#### **Assessing risks of informalization**

- 213.** To assess informalization risks and prevent and address informalization, the ILO is developing and testing a methodological tool to guide the process of gathering sufficient evidence to enable national actors to arrive at a shared understanding of which groups of workers, forms or modalities of work and types of economic units are most at risk of informalization and the main causes of informalization. This preventive approach is also intended to encourage national actors to devise gender-responsive measures to prevent the onset of informality, as well as to take steps to assess the effectiveness of these measures.<sup>158</sup>

#### **Preventing informalization, including measures to prevent the growth of forms of employment more prone to informality**

- 214.** Own-account workers are at least twice as likely to be in informal employment than wage employees. Many countries have, for instance, put in place measures to detect and address disguised employment relationships. In order to limit the incidence of disguised employment relationships, Chile's Labour Code prohibits recourse to any subterfuge, concealment, disguise or alteration of identity or ownership if it results in the avoidance of compliance with labour and social security obligations established by law or agreement. Several countries, such as Greece, Hungary, Italy and Saudi Arabia, have sought to discourage disguised employment relationships and dependent self-employment by including within their labour laws a presumption that a

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<sup>158</sup> ILO, "Preventing and Addressing Informalization and Informalization Risks: Methodological Kit", forthcoming.

worker is an employee, which means that the burden of proof is placed on the employer (rather than the employee) where employment status is disputed.<sup>159</sup>

- 215.** Approximately 70 per cent of employees in temporary employment are in informal employment compared to 16 per cent of employees in permanent employment (open-ended contract).<sup>160</sup> In order to prevent an increase in temporary employment, a common measure in recent years in Europe has been to cut the maximum cumulative duration of successive fixed-term contracts, as has been done in countries such as Cyprus, Italy, Norway, Poland, Portugal, Spain and Sweden.<sup>161</sup> In Spain, a general presumption that an employment contract is for an indefinite period was reintroduced in 2021, having been abolished in 2012. The use of temporary contracts is restricted to certain situations.<sup>162</sup> Some countries have sought to curb the use of fixed-term contracts by increasing the cost to employers of using them. The measures applied include introducing or increasing severance payments (for example in Lithuania, the Netherlands and Spain) or increasing the rate of social contributions payable in respect of employees with fixed-term contracts compared to employees with open-ended contracts (for example in France, Italy, Lithuania, Poland and Spain).<sup>163</sup> In France, employers must pay employees on fixed-term contracts a monthly “precarity bonus” of 10 per cent of their remuneration, which is intended to address issues of low pay as well as reducing employers’ use of fixed-term contracts.<sup>164</sup> Some countries have adopted measures aimed at ensuring equal treatment, that is, limiting the risk of informalization associated with forms of employment usually more exposed to informality. For example, in India, the Industrial Relations Code of 2020 prohibits discrimination between temporary and permanent employees.<sup>165</sup>
- 216.** A range of measures can help prevent the informalization of formal enterprises and improve their resilience to changing and uncertain contexts, including in times of crisis.<sup>166</sup> For instance, navigating changes in regulations can be challenging for enterprises. In the context of supporting a just transition, Germany has implemented various subsidies and grants to assist SMEs in complying with new labour and environmental regulations, thereby reducing the financial burden of adapting to the changes and encouraging these enterprises to remain formal. Similarly, to mitigate the challenges associated with the introduction of several environmental regulations impacting SMEs,<sup>167</sup> the EU has established support structures, such as financial assistance and transition periods for SMEs to adapt to new environmental and data protection regulations. In the United Kingdom of Great Britain and Northern Ireland, the Better Regulation Executive provides mechanisms for businesses to offer feedback on new and existing regulations, which contributes to addressing enterprises’ concerns that might otherwise drive them away from formal

<sup>159</sup> ILO, Methodological Kit, forthcoming.

<sup>160</sup> ILO, *Women and Men in the Informal Economy: A Statistical Update*, 21.

<sup>161</sup> Eurofound, *Labour Market Change: Trends and Policy Approaches Towards Flexibilization*, Challenges and prospects in the EU series, 2022, 43.

<sup>162</sup> ILO, *Leaving No One Behind*, section 2.6.3.

<sup>163</sup> ILO, Methodological Kit, forthcoming.

<sup>164</sup> Tom Hunt and Sean McDaniel, *Tackling Insecure Work: Political Actions from Around the World*, Sheffield Political Economy Research Institute, 2017, 6.

<sup>165</sup> ILO, *Leaving No One Behind*, para. 130.

<sup>166</sup> ILO, *Leading Business in Times of Covid Crisis: Analysis of the Activities of Employer and Business Membership Organizations in the COVID-19 Pandemic and What Comes Next*, 2021, 44–45.

<sup>167</sup> A study commissioned by the European Parliament estimated that the total cost of compliance for SMEs with green legislation could be approximately €28 billion in the first year of implementation. Julia Rzepecka et al., *The Impact of EU Legislation in the Area of Digital and Green Transition, Particularly on SMEs*, 2024, 19.

compliance.<sup>168</sup> In Australia, the government conducts Regulation Impact Statements to evaluate the potential effects of new regulations on businesses to minimize unnecessary burdens and help formal enterprises to anticipate and prepare for changes, ensuring smoother transitions.<sup>169</sup> Furthermore, all measures aiming at boosting productivity, facilitating access to markets and reducing administrative burden for formal enterprises increase their resilience and sustainability, and contribute to preventing informalization.

## Preventing and addressing the risk of informalization associated with emerging forms of employment: The case of work on digital labour platforms

- 217.** One of the most visible emerging forms of employment is work via digital labour platforms. Platform work can provide employment and income opportunities for many workers and, in certain circumstances, facilitate the transition to formality. However, in certain situations it can also present challenges to decent work, such as the correct employment classification and workers' income and access to social protection.<sup>170</sup>
- 218.** There is no consensus on the relationship between the increase in platform work and informalization. The risk of informalization is to a large extent linked to the fact that most platforms characterize their businesses as technological intermediation and consider digital platform workers to be self-employed. This makes them more exposed on average to informality than employees. The lack of regulatory frameworks adapted to the characteristics of these forms of work might also contribute to challenges related to proper coverage by formal systems. Conversely, the traceability of platform activities offers a chance to formalize hidden economic activities and can therefore advance decent work.
- 219.** Countries have taken different approaches to regulating work on digital labour platforms. Some have focused on supporting access to formal wage jobs and to associated labour and social protection, mostly through reclassification of the workers (such as in Belgium, Croatia, Malta, Portugal and Spain), often through the creation of a rebuttable legal presumption of an employment relationship. These measures are aligned with EU Directive 2024/2831 on improving working conditions in platform work.
- 220.** Both for protection purposes and as an incentive for workers and platforms to operate formally, other countries, including Australia, China, Singapore and some states in the United States (including New York and Massachusetts) have extended protection beyond the employee status. In Singapore, for example, the Platform Workers Act,<sup>171</sup> which entered into force on 1 January 2025, requires all platform operators to maintain detailed records of platform workers and provide earnings slips. The Act also requires platform operators to provide employment injury compensation and aims to improve platform workers' housing and retirement by gradually aligning digital platform workers' and operators' contribution rates to the Central Provident Fund with those of other employees and employers, respectively. Similarly, China has initiated comprehensive reforms to enhance the rights of digital platform workers. Key measures include the issuance in 2021 of the Guiding Opinions on Safeguarding the Rights and Interests of Workers in New Forms of Employment, which provide for the extension of some rights to workers under a

<sup>168</sup> Government of the United Kingdom, "Better Regulation Framework: Guidance", 2023.

<sup>169</sup> Government of Australia, *Australian Government Guide to Regulatory Impact Analysis*, second edition, 2020.

<sup>170</sup> Actions in this area will be defined in accordance with the outcome of the Conference discussions on decent work in the platform economy that will take place in 2025 and 2026.

<sup>171</sup> For more information, see Government of Singapore, "Platform Workers Act".

“less-than-complete” employment relationship, and allocate some responsibilities to platforms.<sup>172</sup> A pilot programme for occupational injury insurance, launched in July 2022 in seven platform enterprises, had expanded coverage to 9.8 million workers by the end of September 2024.<sup>173</sup> In India and the Republic of Korea, these protections were extended through specialized legislation, such as social security and occupational safety and health legislation.

## Harnessing the traceability of activities on digital labour platforms to support the transition to formality or prevent informalization

- 221.** Digital labour platforms are unique in that they digitally record and track the identities and transactions of workers and clients. The traceability of activities on platforms offers an opportunity for governments to detect non-compliance, and in doing so, facilitate the formalization of informal economy workers, economic units and activities, including undeclared work in the platform economy.<sup>174</sup> The realization of the potential of such traceability is contingent, however, on collaboration and information-sharing between platforms and the competent national authorities. Several countries have taken steps in that direction. In 2021, Italy mandated digital labour platforms to report details about the workers they engage or employ, including independent contractors and occasional workers, to the Ministry of Labour. Platforms registered in Italy must provide information on each worker’s identity, employment details and tasks, as well as their own VAT number and address. In France, digital platforms have been required by law since 2020 to report the income paid to digital platform workers residing in France or engaged in taxable sales or services in France for VAT purposes. This enables the authorities to assess workers’ tax and social security obligations.<sup>175</sup>
- 222.** In India, the Rajasthan Platform-Based Gig Workers (Registration and Welfare) Act, 2023, requires all digital labour platforms to share a database of all registered platform workers, each of whom is assigned a unique identification, and requires the State to maintain a public register of all digital labour platforms operating in the territory. In Croatia, digital labour platforms must report to the Ministry of Labour, Pension System, Family and Social Policy the number of workers using the platform and the types of contractual relationships involved. The Ministry maintains a digital register of platform work to ensure transparency and legal compliance.<sup>176</sup>
- 223.** In the Republic of Korea, amended Acts designated digital platform operators as administrative agencies, legally obliging them to electronically report platform workers’ employment status and monthly payments and to remit their social insurance contributions. To implement these provisions, the Korea Workers’ Compensation and Welfare Service (COMWEL) signed a memorandum of understanding with platform operators on real-time exchange of data. Subsidies are provided to platform operators based on the number of reports provided. Additionally, the National Tax Service shares platform operators’ income data with COMWEL.<sup>177</sup>
- 224.** Also important in preventing informalization are tighter controls by the authorities over platforms. For example, in Belgium, platforms must be approved by the federal authority in order

<sup>172</sup> ILO, *Realizing Decent Work in the Platform Economy*, ILC.113/Report V(1), 2024, paras 133–134.

<sup>173</sup> ILO, “Good Practices in Social Security in China (3): Pilot programme on occupational injury insurance for workers in new forms of employment”, ILO brief, 2024, 4.

<sup>174</sup> Colin C. Williams, “Review of Country Practices on Using the Traceability of Jobs and Activities on Digital Platforms to Support Formalization”, forthcoming; ILO, *Realizing Decent Work in the Platform Economy*, Chapter 2.4.

<sup>175</sup> ILO, “Brief on harnessing the traceability of activities of digital labour platforms to support formalization”, forthcoming.

<sup>176</sup> Government of Croatia, “Amendments to Labour Act to prevent consecutive fixed-term contracts”, 2022.

<sup>177</sup> ILO, “The Republic of Korea: Extending Social Insurance to Digital Platform Workers”, ILO brief, 2024, 5.

to be recognized as collaborative economy platforms. Article 17 of the EU Directive on improving working conditions in platform work also establishes duties on platforms to share information concerning the number of persons working through the platform and their contractual or employment status, the contractual terms and conditions, the average duration of the activity and the intermediaries with which the platform has a contractual relationship. The Directive also provides for the right of representatives and the competent authorities to ask for additional information, including details regarding the employment contract. In Chile, a law regulating paid passenger transport applications requires companies, authorized drivers and their vehicles to be entered in a digital register maintained by the Ministry of Transport and Telecommunications.<sup>178</sup> Also in Chile, a resolution on the social security of self-employed workers<sup>179</sup> holds digital labour platforms responsible for issuing a monthly payslip for each worker. These platforms must also withhold contributions at the source, calculated as a percentage of the net earnings from each trip, and remit them monthly to the Internal Tax Service. In Mexico, ride-hailing drivers, operating as independent contractors, are expected to be part of the federal taxpayer registry to fulfil their tax obligations, including issuing receipts to passengers who request them. Furthermore, since June 2020, Mexico has implemented a tax withholding plan for ride-hailing platforms, under which companies are responsible for withholding value added tax and income tax from drivers' earnings and remitting them to the government.

## Preventing and addressing the impacts of crises

**225.** The informal economy thrives in a context of high unemployment, underemployment, poverty, gender inequality and precarious work. The increasing number of crises around the world significantly worsens all these symptoms and thus exacerbates the prevalence of informality, particularly through the informalization of previously formal enterprises and jobs. At the onset of the COVID-19 pandemic, employers' and workers' organizations showcased how, through effective social dialogue, measures could be tailored to prevent the informalization of formal enterprises and jobs and meet the needs of those most impacted by the crisis (box 8).

### ► **Box 8. COVID-19: The role of social dialogue in mitigating the impact of the crisis and preventing informalization**

The COVID-19 pandemic underscored the essential role of employers' and workers' organizations in addressing the economic and social challenges that emerged during the crisis. According to an ILO survey undertaken, 81 per cent of countries leveraged social dialogue to reach consensus on measures to protect all workers and enterprises.<sup>1</sup> These organizations provided support to prevent the informalization of formal enterprises and employment. They also provided direct support to the informal economy by helping to: (i) collect and disseminate information to inform policy responses and better respond to the priority needs of those in the informal economy; (ii) support the co-creation of inclusive policies through social dialogue mechanisms, including bipartite and tripartite negotiations; (iii) enhance access to social protection and financial support for micro and small enterprises; and (iv) raise awareness and promote workplace health and safety measures.

In many countries, the engagement of the social partners, particularly through social dialogue, contributed to the design and implementation of effective policies aimed at ensuring business continuity and resilience, and maintaining formal employment, thereby reducing the risks of informalization.

<sup>178</sup> Chile, Law No. 21.553 of 19 April 2023 regulating paid passenger transportation applications and the services provided through them.

<sup>179</sup> Government of Chile, Internal Revenue Service, *Instruye sobre la forma de documentar los servicios prestados por trabajadores independientes de plataformas digitales domiciliadas o residentes en Chile*, Resolution Ex.SII No. 132, 2023.

For instance, Denmark relied heavily on tripartite agreements involving the government, employers' organizations and trade unions to address the economic impact of the pandemic in an integrated and comprehensive manner that enabled businesses to continue to operate and workers to remain attached to the formal labour market.<sup>2</sup> Key measures included a wage compensation scheme that helped to prevent mass lay-offs and a short-time work scheme that enabled companies to reduce working hours while providing unemployment benefits to workers for the time not worked. In addition, specific agreements were made for the sectors most exposed to the consequences of the pandemic, such as hospitality.

<sup>1</sup> ILO, *A Global Trend Analysis on the Role of Trade Unions in Times of COVID-19*, 2021. <sup>2</sup> ILO, *Peak-Level Social Dialogue and COVID-19: The European Experience*, 2022.

- 226.** However, crises also present unique opportunities to create pathways to formality while preventing further informalization. For instance, in Iraq, following a diagnostic study,<sup>180</sup> the ILO has been providing a range of measures to support reducing informality and preventing informalization, including: (i) promoting the development of SMEs through streamlined business registration processes and an improved business environment; (ii) equipping workers with skills to access formal employment opportunities, such as vocational training programmes in green skills; (iii) engaging with different local actors to enhance infrastructure and create decent jobs in different sectors; and (iv) expanding social protection coverage. To date, more than 155,000 working days have been created through various infrastructure improvements. The ILO is also supporting efforts to encourage the extension of social security coverage.

### Areas for improvement

- 227.** The prevention of the informalization of formal economy jobs – the third objective of Recommendation No. 204 – has received far less attention than it should. A proactive approach to identifying and preventing these risks is as important as managing their consequences, if not more so. Ensuring that formal jobs and enterprises remain formal contributes to this prevention and is essential to guaranteeing a long-term and sustainable transition to formality.
- 228.** Informality is a dynamic process that depends on multiple factors and forms of work that evolve over time. In some cases, public institutions might struggle to adapt to the rapid pace of changes. Policies should be responsive to such evolutions by preventing the informalization of jobs, enterprises and activities while taking advantage of the opportunities they provide.

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<sup>180</sup> ILO, *A Diagnostic of the Informal Economy in Iraq*, 2021.

## ► Chapter 3. Conclusions and way forward

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- 229.** The transition to the formal economy of both workers and economic units is essential to advancing social justice, ensuring decent work for all and achieving the Sustainable Development Goals.
- 230.** Since the adoption of Recommendation No. 204, considerable efforts have been made to promote the transition to the formal economy and prevent informalization, in line with the Recommendation. Over the past decade, most ILO constituents have developed a better understanding of what the informal economy is, how diverse it is, what drives it and what the consequences are. There is a growing awareness that the informal economy is a poverty and low-productivity trap and one of the structural barriers to sustainable and inclusive development. A growing number of governments, in collaboration with social partners, are now addressing informality and promoting the transition to formality as a means to achieve their development objectives.
- 231.** Although the share of workers in the informal economy is declining globally, the numbers are continuing to grow in absolute terms. Informal employment remains a defining feature of far too many economies. Certain transformations in the world of work – including those driven by technological innovations, demographic shifts, environmental and climate change, and globalization – may adversely affect pathways to formality. They may add to the complexity of dealing with long-standing factors of informality and, in some circumstances, contribute to increased risks of informalization. At the same time, these transformations also present opportunities for progress towards promoting the transition to formality.
- 232.** To make progress in accelerating and scaling up the operationalization of Recommendation No. 204, consideration could be given to innovative approaches and good practices that are aligned with the following priorities and principles:
- (a) **Intensifying efforts to improve governance and adopt comprehensive, coordinated and integrated approaches.** Too many interventions to date have been fragmented and uncoordinated, focusing narrowly on a specific policy area of formalization and suffering from inappropriate compliance and enforcement systems. A whole-of-government approach that brings together ministries from across a broad range of policy areas and levels of government – combined with effective and inclusive social dialogue – can foster a mutually reinforcing, coordinated and integrated approach. Attention should be paid not only to the transition of economic units and workers in the informal economy to the formal economy but also to the prevention of the informalization of formal economic units and workers. Strategies to address informality and support the transition to formality should, where relevant, be anchored in national development plans, be aligned with broader economic and social objectives and be adequately funded.
  - (b) **Ensuring that informal economy workers and economic units are organized and effectively represented in social dialogue on policies to support the transition to formality.** Far too many interventions to date have been planned and designed without adequate participation of informal economy workers and economic units. Where feasible and with appropriate capacity-building, representative organizations of employers and workers should further extend membership and services to workers and economic units in the informal economy and support their access to social dialogue, including collective bargaining. Employers' and workers' representative organizations could also develop

alliances with organizations of workers and economic units in the informal economy to strengthen their representation. Cooperatives and the social and solidarity economy can also contribute to strengthening the voice of those in the informal economy.

- (c) **Moving towards formalization while reducing decent work deficits in the informal economy.** The transition to formality remains one of the primary paths towards decent work. Yet, for some workers and economic units in the informal economy, entering the formal economy is not a realistic possibility in the near future. For them, improved working and living conditions is a priority and an enabler for their transition to formality in the longer term. Approaches to address informality and promote the transition to formality should respond to the needs of all workers, ensuring that no one is left behind.
- (d) **Accelerating the implementation of international labour standards, including fundamental Conventions.** The implementation of these standards lays the foundations for creating conditions where all workers, including those in the informal economy, can experience safer, fairer and dignified work. Special attention should be paid to measures such as the need to take immediate action to address the unsafe and unhealthy working conditions that often characterize work in the informal economy.
- (e) **Creating an enabling environment for sustainable enterprises, enhancing productivity and ensuring a fair distribution of its gains.** An enabling business environment is essential to support the transition to formality of economic units and workers and to prevent the informalization of economic units and workers in the formal economy. Such an environment is necessary for fair competition, the generation of productivity gains, and the creation, preservation and sustainability of enterprises and decent jobs in the formal economy. At the same time, productive development policies, enhanced skills development, adequate and efficient labour market institutions, and effective labour protection and social protection for all workers will contribute to supporting productivity gains and ensuring that they are distributed fairly.
- (f) **Paying special attention to those exposed to the most serious decent work deficits in the informal economy.** Addressing the root causes of informality of women and the workers vulnerable to the most serious decent work deficits in the informal economy, as highlighted by Recommendation No. 204, requires specific measures to address systematically their specific circumstances and needs through mainstreamed and targeted interventions. The transition to formality can increase the economic empowerment and voice of these workers by removing some of the barriers which confine them, in particular women, to low-productivity and low-income activities, including through improving access to productive resources (such as land or assets), care services and risk mitigation measures, as well as ensuring that they are effectively represented.
- (g) **Harnessing new technologies while addressing the digital divide.** New technologies, including digital technologies, can, among other matters, simplify registration of enterprises and employment, and facilitate access to social security, skills, finance, markets and other productivity-enhancing services that can help workers and economic units in the informal economy to overcome some of the barriers to entering the formal economy. In particular, digital solutions and artificial intelligence can help to improve monitoring and traceability. In doing so, they can help to prevent informalization while supporting compliance with laws and regulations, including through more effective enforcement systems. To take advantage of these opportunities, efforts are needed to ensure adequate regulation, the protection of workers' privacy, and transparency on the use of the technologies. In addition, public policies should ensure that digital infrastructure and skills are available to and affordable for all.

- (h) **Applying sectoral and other targeted approaches to formalization.** A growing number of countries are engaging in integrated approaches to formalization at the sectoral level. While an integrated economy-wide approach to formalization is recommended to address the full range of drivers of informality, sectoral integrated approaches offer advantages in addressing the unique challenges and specific drivers of informality within sectors, while building on existing sectoral policies and organizations. Sectoral approaches can include value chain perspectives and may benefit from coordination mechanisms between private and public entities, including to enhance productivity. There is a need to further explore the conditions that make sectoral approaches most effective, including by addressing both sector-specific and cross-cutting drivers of informality. This can be done by drawing lessons from and capitalizing on existing experiences, such as integrated strategies for formalizing domestic workers and the holistic approach applied at the sectoral level in many European countries to tackle undeclared work.
- (i) **Generating a double dividend of the transition to formality and a just transition towards environmentally sustainable economies and societies.** Efforts to promote the transition to formality and a just transition towards environmentally sustainable economies and societies can be mutually reinforcing and essential for achieving sustainable and inclusive development. Workers and economic units in the informal economy are particularly vulnerable to climate change and environmental risks and are closely linked to the environment, especially in sectors such as agriculture, fisheries, forestry, waste management, transport and construction. More targeted measures, such as access to green financing, reskilling and upskilling, social protection and business linkages, can, in many contexts, enable workers and economic units in the informal economy to adopt and benefit from sustainable practices, while reducing their vulnerabilities and increasing productivity and resilience.
- (j) **Strengthening the evidence base to inform and measure the impact of policies and interventions.** Still too many countries lack comprehensive statistics to capture the diversity of the characteristics, circumstances, needs and strategies of workers and economic units in the informal economy, and to monitor and evaluate trends and impacts. Future efforts should aim at developing or, where relevant, strengthening statistical systems and analytical capacities to close data and methodological gaps, in line with the resolution concerning statistics on the informal economy, while promoting regular interactions between data producers and users, including policymakers. The greater alignment and consistency between the measurement of informality and the scope and objectives of Recommendation No. 204 should be leveraged and combined with more systematic impact evaluations to support the development, implementation and monitoring of formalization policies that are responsive to the diversity of contexts and circumstances and that leave no one behind.
- (k) **Developing strategic partnerships within the multilateral system and with international financial institutions.** Attention to the informal economy has grown significantly among ILO constituents, the UN Secretary-General, UN agencies, international financial institutions and other stakeholders at the national, regional and international levels. This heightened interest presents a unique opportunity to accelerate progress in addressing informality and promoting the transition to formality by strengthening existing partnerships and forming new strategic partnerships. The ILO has a central role in improving the coherence of actions in this area and fostering complementarities, in particular within the multilateral system. At the same time, strategic partnerships will also help to address some of the root causes of informality, some of which are outside the world of work. Multilateral initiatives such as the Global Coalition for Social Justice can facilitate

coherence, cooperation and coordination. Additionally, it will be crucial to further develop engagement, coordination and, where possible, partnerships with international financial institutions, including the IMF, the World Bank and bilateral and regional development banks. Such coordination is also crucial to guarantee adequate and sustainable financing for policies and interventions that support pathways to the formal economy.

- (l) **Strengthening the capacities of constituents through supporting knowledge-sharing and promoting horizontal cooperation.** Mapping good practices and innovative approaches for the transition to formality and strengthening knowledge-sharing and capacity-building frameworks is essential for designing and implementing effective pathways to address informality and prevent informalization at the country level. This requires consolidating and expanding knowledge and expertise on integrated strategies, developing tools, strengthening advocacy and improving coordination mechanisms to foster synergies between policy interventions. The ILO and its International Training Centre will play a vital role in supporting constituents through capacity-building, knowledge-sharing and promoting South–South cooperation. This should ensure that intervention models to design and implement pathways to formality are impactful, sustainable and inclusive so that they address systemic challenges and unlock opportunities for economic and social development.