

Fostering Formalization through an integrated approach

*Recommendation 204: Recommendation Concerning the
Transition from the Informal to the Formal Economy*

Advancing Decent Work, Productivity and ILS

Economic growth is a necessary but not sufficient condition.....

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- ▶ Challenges for policy makers due to the fact that the growth of formal employment is insufficient to absorb the new entrants and those currently trapped in informal employment
- ▶ In many countries the rate of informal employment in formal sector is growing
- ▶ Informality is persistent even in countries with good economic performance
- ▶ Policy and regulatory frameworks need to adapt to new forms of work and new business models, which are increasingly becoming important part of national economic growth

Why the Recommendation 204 is important?

1. The R204 is the first international instrument approaching informal economy in its entirety
2. Indicates a clear orientation for moving out of informality and transition to the formal economy through integrated strategies
3. Takes into account the reality and diversity of different countries, regions, sectors and economic context
4. Situations of informality can often be complex, requiring a sequential approach that takes into account different factors and contexts. This highlights the need for an **integrated approach**.
5. Provides a framework which enables the systematization and sharing of good practices in the transition to formality, at the same time provides a framework which allows policy innovation
6. Mainstreams Decent Work and ILS
7. It is a guidance to



ILO Recommendation 204: Concerning the Transition from the Informal to the Formal Economy

The objectives of the Recommendation are to:

1

Facilitate the transition of workers and economic units from the informal to the formal economy, while respecting workers' fundamental rights and ensuring opportunities for income security, livelihoods and entrepreneurship;

2

Promote 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

3

Prevent the informalisation of formal economy jobs

R204 - Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204)

Recognizes the
broad diversity of
situation in the
informal economy



Root causes and
drivers that give
rise to informality
among workers and
economic unit



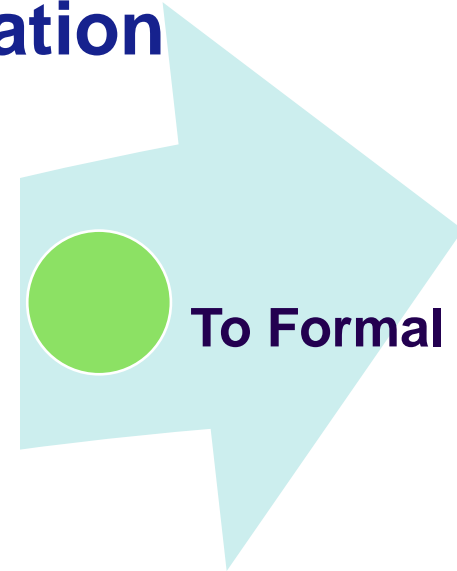
Enable design and
implementation of
specific but
differential
measures as part of
coordinated and
integrated strategy

Strategies Towards Formalisation

Transition looks at:

1. Legal and policy framework
2. Employment policies
3. Rights and Social Protection
4. Incentives, Compliance and enforcement
5. Freedom of Association, Social Dialogue
And the role of Employers' Organizations and
Workers' Organizations,
6. Data Collection

**From
informal**



▶ ILO Recommendation 204: Concerning the Transition from the Informal to the Formal Economy

Key Definitions

Informal Economy: refers to all economic activities by workers and economic units that are not covered or insufficiently covered by formal arrangements and are not criminal/ illicit activities.

Economic Units: refers to enterprises that: (i) employ workers (ii) are owned by individuals working on their own account (self-employed); (iii) cooperatives and social and solidarity economy units.

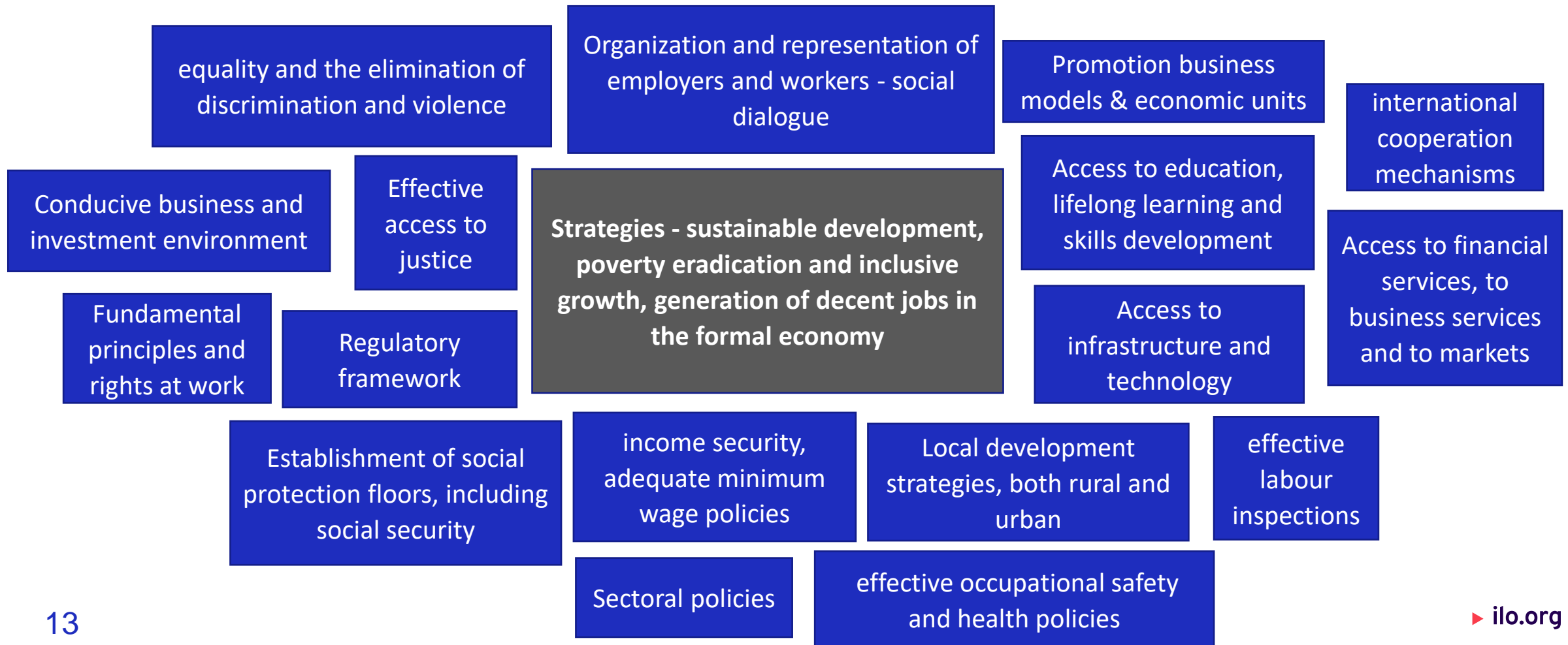
▶ **What is an integrated approach to formalization?**

Guiding principles R204 for integrated approaches to formalisation (summary):

In designing rational and integrated strategies to facilitate the transition to the formal economy, the following principles have to be taken into account:

- The **diversity of characteristics, circumstances and needs** of workers in the informal economy;
- **Different and multiple strategies** can be applied to facilitate the transition to the formal economy;
- The need for **consistency and coordination across a broad range of policy areas** in facilitating the transition to the formal economy;
- The **effective promotion, protection and fulfilment of decent work** for all through respect for human rights and rights at work;
- The **promotion of gender equality and non-discrimination**;
- The preservation and **expansion, of the entrepreneurial potential, creativity, dynamism, skills and innovative capacities of workers and economic units** in the informal economy; and
- The need for a **balanced approach combining incentives with compliance measures**.

Elements of an Integrated policy framework



▶ Approaches to formalization, policies and strategies

► Policy approaches to formalization: Explicit vs Implicit approaches

- Integrated approaches may emerge **explicitly**, mainly if national development and growth strategies, plans, employment policies, poverty reduction strategies and budgets, commit to transition towards formality.
- Alternatively, formalization might happen due to the impact of policies even if policies/measures proposed do not have formalization as an explicit goal. For instance, Industrialization policies might generate economic transformation that leads to higher levels of formalization, or any other strategies that may target the drivers of informality

Pathways to formality

	Productivity	Standards	Incentives	Oversight
Macro (environment, inclusive growth)		Information and skills development	Linkage to formal sector (registration, taxes)	Culture of compliance
Meso (sectors, value-chains)		Simplification (process, registry, taxes, social security)	Linkage to social security (emphasis on collectives with limited coverage and unconventional methods)	Institutional strengthening (advocacy, management, automation)
Micro (enterprise and individual level)		Social dialogue (improvement, modification)	Specific approaches (formalization laws, specific agreements etc)	Specific approaches (substitution of fines, formalization agreements etc.)

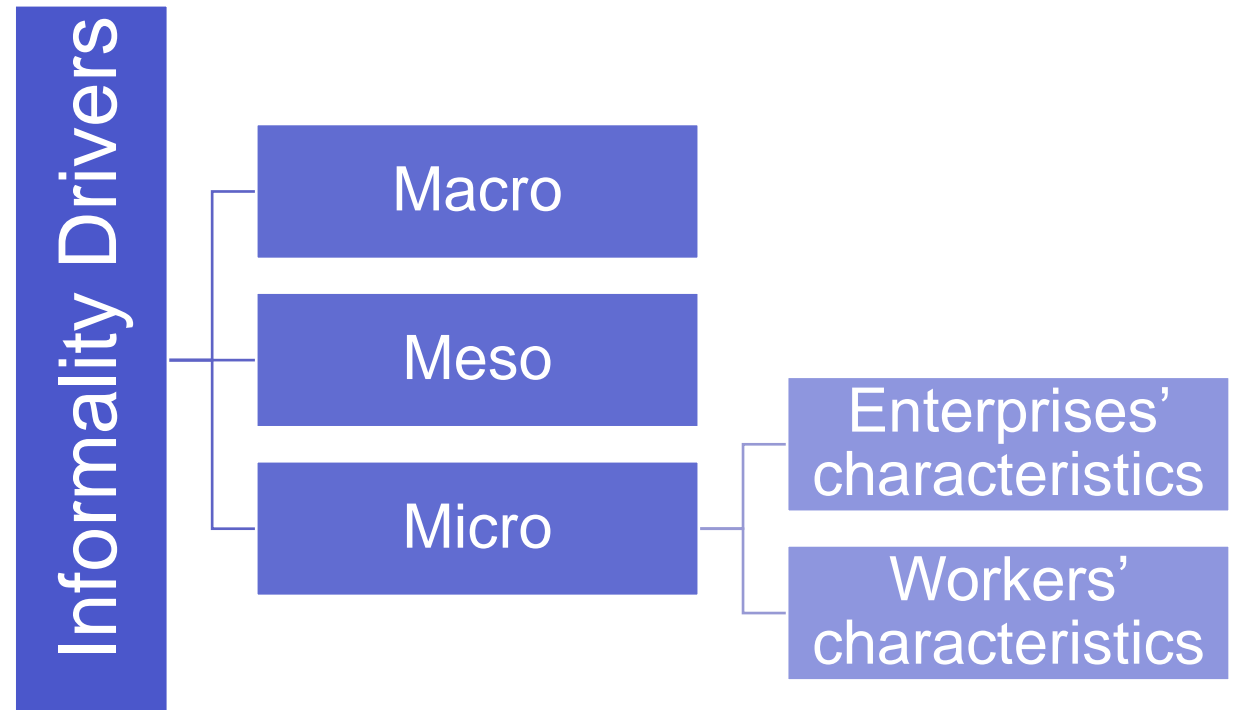
Horizontal integration

Applied to wage and salaried workers, own-account workers and other types of worker (including those working in new forms of work)

Vertical integration

▶ Integrated strategies focusing on the drivers of informality in three different dimensions

- ▶ level of integration can also be understood by the informality drivers that are addressed through different formalization strategies
- ▶ **Macro drivers:** targets economic growth, productivity, poverty and employment.
- ▶ **Meso drivers:** target specific regulations, laws, and standards of compliance based on specific regions, and sectors
- ▶ **Micro drivers:** the micro dimension of policy, the main issue is to support different socio-economic actors



Facilitating transition to formalization taking into account four policy areas

Driving Productivity Growth

- ▶ Economic capacity a key factor for formality
- ▶ Investment, technology, infrastructure, closing educational and skill deficits

Standards & Legislation

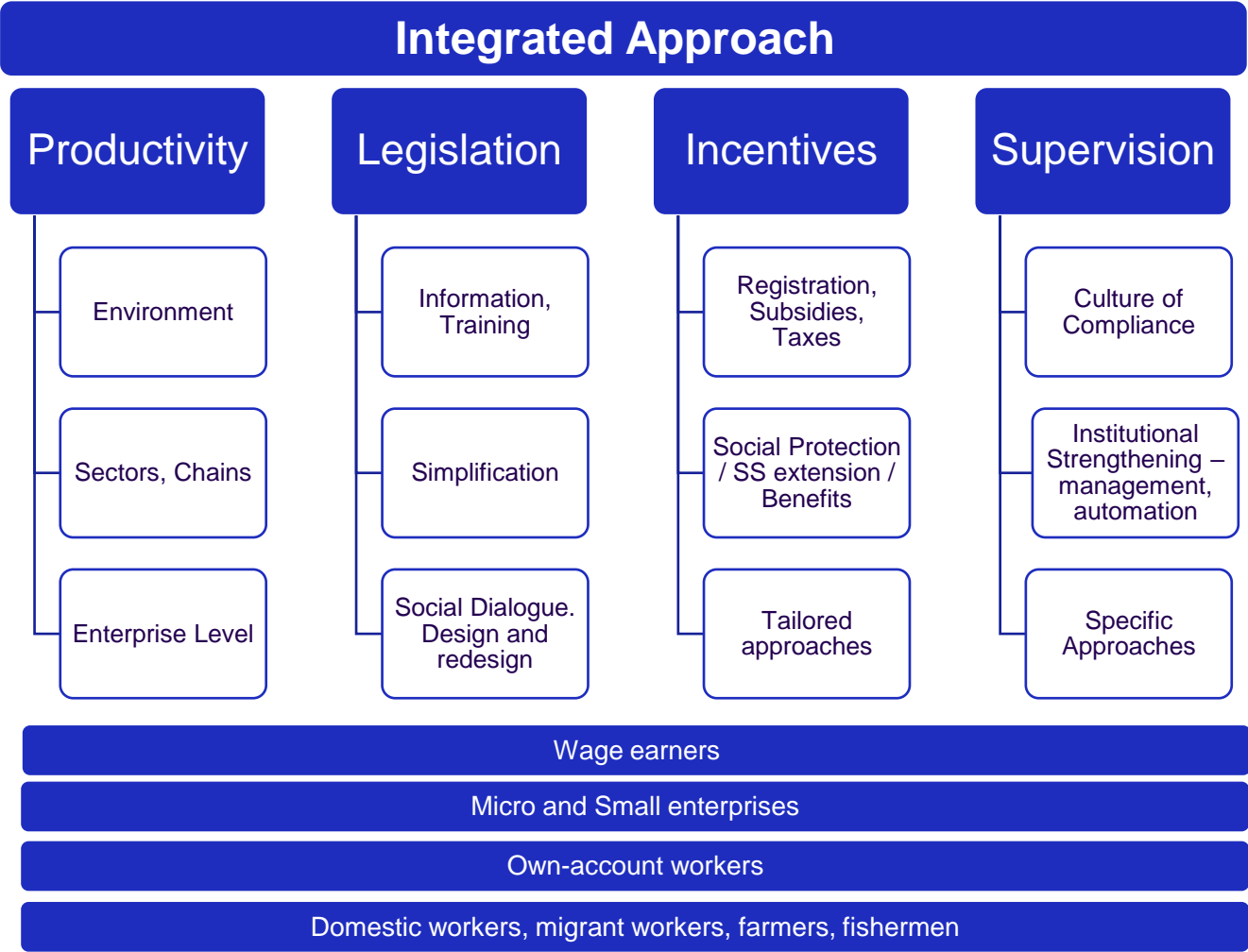
- ▶ information and knowledge of the rights and responsibilities of employers, workers
- ▶ Facilitate procedures / redesign

Incentives for enterprises to formalise

- ▶ Linking labour and tax issues
- ▶ Extending benefits for certain groups

Strengthening Compliance and Supervision Mechanism

- ▶ strengthening structures, budgets and processes
- ▶ Coordination with other institutions



► To be taken into account when designing integrated approaches

Whether explicit or implicit policies, it is important to start somewhere. Formalisation will remain a process, which requires policy integration

An integrated approach can tackle two or more elements and bring different institutions to work together (coordination and policy coherence)

Strategies can tackle elements (drivers) at macro level, but it can also be an effort at micro level (for instance programs aiming at a certain group of workers or enterprises in specific sectors)

It is advisable to start by specific sectors and scale up to others, or to an overall strategy

Working conditions and labour rights must be at the center of formalization strategies

▶ **Thank you**