



Governing Body

329th Session, Geneva, 9–24 March 2017

GB.329/POL/2

Policy Development Section
Employment and Social Protection Segment

POL

Date: 16 February 2017

Original: English

SECOND ITEM ON THE AGENDA

Outcome 6: Formalization of the informal economy

Purpose of the document

This document provides an overview of the strategy of outcome 6 on the formalization of the informal economy, its main areas of focus and the progress made during the first year of implementation.

The Governing Body is invited to provide guidance on the strategy and its implementation (see draft decision in paragraph 29).

Relevant strategic objective: All.

Main relevant outcome/cross-cutting policy driver: Outcome 6: Formalization of the informal economy.

Policy implications: The guidance of the Governing Body will inform the implementation of the Office strategy.

Legal implications: None.

Financial implications: Most of the outputs of the current biennium are covered by the Programme and Budget for 2016–17; however, some of the outputs to be produced at the global and country levels are currently underfunded.

Follow-up action required: Implementation of outcome 6 as defined in the Programme and Budget for 2016–17.

Author unit: Inclusive Labour Markets, Labour Relations and Working Conditions Branch (INWORK).

Related documents: Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204); Resolution concerning efforts to facilitate the transition from the informal to the formal economy; GB.325/POL/1/1; GB.325/POL/1/2; ILO Programme and Budget for 2016–17.

I. Background

1. Around half of the world's workforce operates in the informal economy, which in some countries accounts for over 50 per cent of gross domestic product (GDP). Informal economies, while heterogeneous, are typically characterized by a high incidence of poverty, inequality and vulnerability to decent work deficits.
2. In June 2015, the International Labour Conference adopted the Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204), a new labour standard of strategic importance to the world of work given the magnitude of the informal economy. This is the first international labour standard to focus on the informal economy in its entirety and to point clearly in the direction of transition to the formal economy as a means for achieving decent work for all. As a follow-up to the resolution concerning efforts to facilitate the transition from the informal to the formal economy, adopted by the International Labour Conference in 2015, the Governing Body in November 2015 adopted a strategy for action by the Office for the 2016–21 period. This strategy is based on four interrelated components: promotional awareness-raising and advocacy campaign; capacity building for tripartite constituents; knowledge development and dissemination; and international cooperation and partnerships.
3. The strategy for outcome 6 for 2016–17 builds on the work done in the context of the area of critical importance (ACI) “Formalization of the informal economy” in 2014–15, the adoption of Recommendation No. 204 and the follow-up to the corresponding resolution.

II. Objective and strategic approach

4. The outcome is cross-cutting in nature and is being implemented through Office-wide collaboration in more than 40 countries and all regions. Key expected changes are:
 - improved and comprehensive national legal and policy frameworks that facilitate the transition to formality guided by Recommendation No. 204;
 - strengthened awareness and capacity of constituents to facilitate the transition to formality, drawing on an expanded knowledge base;
 - gender equality and the needs of vulnerable groups in the informal economy addressed when facilitating the transition to formality.
5. The outcome's strategic approach builds on the shared understanding that the transition to the formal economy can best be facilitated through an integrated strategy, policy coherence, institutional coordination and social dialogue. Interventions are more effective when they are combined and tackle different drivers of informality, enabling them to address both the diversity and scale of the informal economy. Evidence indicates that formalization is larger when the set of instruments used is more comprehensive.
6. To promote such strategies, which are fully consistent with Recommendation No. 204, particular emphasis has been put on strengthening constituents' capacities for formulating integrated strategies, raising awareness of the benefit of such strategies and undertaking national diagnoses of the characteristics and causes of informality.
7. Strengthening ILO constituents' capacities to design integrated strategies has been pursued notably through a course on integrated policies and the Academy on Formalization of the Informal Economy, both organized by the International Training Centre of the ILO

(ITC–ILO) in 2016. The Academy brought together participants from Africa, Asia and Latin America. It allowed participants to strengthen their understanding of key concepts and characteristics of the informal economy and of successful integrated formalization strategies, and to share experiences. Specific training modules on integrated strategies have also been included in several courses such as the National Employment Policy Course and the Academy on Social Dialogue and Industrial Relations. In addition, capacities of constituents have been reinforced through training activities at country or subregional level, the promotion of Recommendation No. 204 and dissemination of publications such as the policy resource guide on integrated strategies for the transition to formality.

- 8.** With a view to promoting strategies consistent with Recommendation No. 204 at national level, the Office implemented many awareness-raising activities in relation to this Recommendation in the last two years. For example, a subregional workshop on Recommendation No. 204 was organized in collaboration with the United Nations (UN) programme in Mozambique. A tripartite consultation on Recommendation No. 204 was hosted by the Caribbean Community. Similar activities were undertaken at national level, for example in Nepal, Burkina Faso and Costa Rica. The ILO has promoted Recommendation No. 204 in the context of the G20 and BRICS employment working groups and the respective labour ministers' declarations, including by providing data on informal employment and analysis of good practices for facilitating the transition to formality. Awareness-raising is also supported by action at the global level. An online platform to raise awareness about Recommendation No. 204 is being developed. A generic support package, including briefs on Recommendation No. 204, on the transition to formality for specific groups of workers and economic units, and on particular drivers of formalization, is under development.
- 9.** Diagnoses cover a broad range of issues creating the basis to design interventions on multiple fronts and integrated strategies. These are being carried out in 25 countries. They may apply as appropriate to the whole economy or to specific sectors, groups of workers or economic units. Several countries are engaged in comprehensive diagnoses of the informal economy at large, including Brazil, Nepal, South Africa, Swaziland and Viet Nam. Other countries have adopted an approach focusing on specific sectors, such as the construction sector in Côte d'Ivoire and Madagascar, the trade sector in Burkina Faso, or the entertainment sector in relation to HIV and AIDS in Cambodia. Lastly, others focus on specific issues, such as undeclared work in Greece; groups of workers, such as wage workers in micro-enterprises in Peru; specific economic units, such as micro- and small enterprises in Cameroon; or specific policy areas, such as social security in Zambia. Support is also provided on measurement issues in the Caribbean, India and Montenegro. A global methodological note to conduct national diagnoses of the informal economy is under development. The diagnostic work sets the basis for the development of monitoring systems, including the assessment of policy measures.
- 10.** As a result of outcome 6 activities, several national action plans/roadmaps have been or are being formulated with ILO support, such as the roadmap to tackle undeclared work in Greece, the five-year master plan for Kwazulu Natal Province in South Africa, or the formalization strategy in Zimbabwe. In Latin America and the Caribbean, strategies based on multiple interventions, such as those implemented in Argentina or Brazil, are being pursued. It is expected that at least ten countries across the regions will champion the development and implementation of integrated policy frameworks over the 2016–21 period.

III. Promoting social dialogue in the transition to the formal economy

11. Promoting social dialogue in the transition to the formal economy is at the heart of the outcome 6 approach. Tripartite mechanisms and consultations with workers' and employers' organizations are promoted notably when identifying the nature of the informal economy, establishing national diagnoses, elaborating national action plans or when designing and implementing policies for a particular group of workers and economic units. For example, in Greece, a national diagnosis on undeclared work and a roadmap to combat this phenomenon have been adopted through a full tripartite process. In Costa Rica, a tripartite agreement for the implementation of Recommendation No. 204 was signed in 2016. Bipartite social dialogue is also supported, as in Argentina, in which bipartite dialogue has been extended to the domestic work sector.
12. Several activities targeting workers' and employers' organizations have been undertaken to strengthen social dialogue in the transition to the formal economy.
13. In 2016, in all the regions, subregional and regional capacity-building activities of workers' organizations were held to enhance collaborative action and policy influence on the effective transition to the formal economy, with a focus on Recommendation No. 204. They all built up to a Global Workers' Academy under outcome 6. A few national follow-up activities were also held in 2016, with many more to be carried out in 2017. In India, trade unions increased their organizational activity in the informal economy while also challenging the relevant shortcomings in the legal frameworks. In addition to the explanatory workers' guide to Recommendation No. 204, produced under outcome 6 with support from outcome 10, another global publication, entitled *Organizing workers in the informal economy: ILO ACTRAV policy brief*, promotes Recommendation No. 204. This brief, available in six languages, aims to assist workers' organizations in understanding and tackling the decent work deficits associated with employment in the informal economy, and provides information and proposes strategies that can be used to organize, protect and promote the rights and interests of informal economy workers, in line with Recommendation No. 204.
14. Assistance was provided to Business Unity South Africa (BUSA) to develop an Enabling Environment for Sustainable Enterprises (EESE) assessment with a key focus on the transition to formality. The BUSA action plan was established to boost sustainable enterprises and the transition to formality, and a report was produced on the enabling environment of enterprises. BUSA engaged with the SME sector, informal businesses, the Government and organized labour for validating the documents produced. In Zimbabwe and Namibia, an EESE assessment is taking place to provide guidance and a plan for employers' organizations to advocate policies that support the transition to formality. A strategic planning workshop for employers' organizations was organized in 2016, at the Southern African Development Community (SADC) Private Sector Forum focusing on Recommendation No. 204, to encourage employers' organizations to make the transition to formality part of their actions at regional and national levels. To expand regional representation of employers' organizations in South Asia, a total of 30 staff members, working in member companies, have been identified and trained to act as regional representatives and brand ambassadors. They have been tasked with attracting more members (formal and informal). This facilitates the formalization of small enterprises and increases the representativeness of employers' organizations.

IV. Highlights from specific areas of intervention

15. The Office expanded and updated its technical and advisory services and capacity-building activities relating to the transition to formality to address the diversity of needs and priorities at country level. Thus, complementing the transversal activities mentioned above, additional activities, depending on national priorities and contexts, address specific areas of intervention (for example, statistics), as well as specific sectors (such as domestic work), groups of workers (for example, ethnic minorities) or economic units (such as micro- and small enterprises). Particular efforts are being made through outcome 6 to strengthen policy coherence and coordination and to develop integrated strategies to facilitate the transition to formality. Some highlights of these additional activities are presented below.

Gender equality and needs of workers especially vulnerable to decent work deficits

16. Promoting gender equality and paying special attention to the needs of workers, especially those vulnerable to the most serious decent work deficits, is mainstreamed across outcome 6, in line with Recommendation No. 204.
17. Gender equality is promoted at global level, in particular through the development of gender-disaggregated statistics on the informal economy, the publication of the ILO report *Formalizing domestic work* (a female-dominated sector), and, within the Women at Work Centenary Initiative, the design of care policies. At the country level, gender equality is mainstreamed in all activities. Strategies that directly target women are also developed, in particular, to promote financial inclusion and better working conditions for women in the informal economy. While commercial banks have adjusted lending practices to target more women entrepreneurs in the informal economy in Zambia, the formalization of women's informal businesses in Senegal was facilitated by the creation of cooperatives enabling women to negotiate land ownership, thereby facilitating their access to finance and investments.
18. Formalization of migrant workers is one of the key priorities in Latin America and the Caribbean, with research currently ongoing in Brazil, Paraguay and Chile. An issue brief on indigenous peoples and cooperatives and a resource guide on promoting decent work opportunities for Roma youth in Central and Eastern Europe were developed. A national policy for informal economy workers living with or affected by HIV was adopted in Malawi to negotiate on matters affecting their health and safety; HIV and gender issues were integrated into the National Informal Business Upliftment Strategy in South Africa; and awareness-raising efforts on HIV testing and the registration of informal economy workers in social protection systems are under way in Kenya and Nigeria. National policies covering inclusive skills development systems have led to a more enabling environment for the formal employment of persons with disabilities, including in Bangladesh, China, Ethiopia and Zambia, and the increased recognition of the benefits of including people with disabilities in the formal workforce, including in El Salvador, Ethiopia, Indonesia and Peru.

Statistics on informality/formalization

19. Strengthening the capacity of national statistical offices to collect and analyse statistics on informality has been pursued through several courses, including a global course on measuring and monitoring informality at the ITC-ILO and a set of sessions targeting national statistics offices at the Regional Academy in Côte d'Ivoire. Targeted interventions on statistics are also being conducted in many countries, including India, Jordan, Guyana,

Honduras, Montenegro and Suriname. In addition to the dissemination of national statistics on informal employment through the ILOSTAT database, statistics on informality in line with UN Sustainable Development Goal (SDG) indicator 8.3.1 have been produced for more than 60 developing countries. Available statistics cover the size and characteristics of the informal economy, including the share of informal employment across status in employment, sectors, age groups, levels of education and rural/urban contrasts. Statistics describing the prevalence of decent work deficits in the informal economy and the relationship between informality, poverty and inequality have also been produced. Consequent findings will contribute to the update of the publication *Women and men in the informal economy: A statistical picture*.

Formalization of enterprises

20. Support has been provided to implement enterprise formalization interventions, which combine simplified business registration procedures with incentives, support and dialogue. Interventions include: (a) supporting sector-based local dialogue between municipal officials, formalizing enterprises and other informal economy actors in Nepal and Viet Nam and reviewing municipal social dialogue mechanisms in South Africa; (b) strengthening capacities of employers' organizations to advocate new laws and implement strategies to formalize enterprises in Nepal; (c) support for the Government on the development of national sectoral policies in Viet Nam; (d) supporting the implementation of a law to promote formalization of enterprises and employment creation in Cabo Verde; (e) promoting the creation and development of cooperatives in Viet Nam and Jamaica; (f) supporting constituents in the organization of annual informal economy summits in South Africa; (g) delivering events to share knowledge and generate concrete recommendations on enterprise formalization in the Caribbean and South Africa; (h) disseminating information to entrepreneurs on the benefits of formalization in Jamaica; and (i) collecting information on drivers that shape informality in enterprises in Cameroon and on perceptions among informal entrepreneurs with respect to the business environment in Zimbabwe and South Africa. A product on formalization of enterprises has also been developed and knowledge-sharing forums on this theme have been organized.

Social security and formalization

21. The extension of social security to workers in the informal economy with a view to formalization is a key element of integrated and coordinated formalization strategies. The ILO supports constituents through the development of a policy resource package, which includes a guide on the extension of social security to workers in the informal economy, summarizing lessons learnt from country experiences, a set of policy and issue briefs, and a capacity-building package developed in collaboration with the ITC-ILO, with the support of the Government of France. At the country level, significant progress is being achieved with regard to the extension of social security coverage through schemes adapted to the needs and circumstances of informal-economy workers in many countries, including Argentina, India, Senegal, Viet Nam and Zambia.

Employment policy framework and formalization

22. The transition from the informal to the formal economy requires the creation of decent jobs in the formal economy and the coherence of macroeconomic, employment, social protection and other policies to that end. The Office's work under outcome 6 has therefore included the mainstreaming and strengthening of the formalization objective and formal job creation in national employment policies, other national policy frameworks and Decent Work Country

Programmes (DWCPs). In Côte d'Ivoire, Burkina Faso, the Democratic Republic of the Congo, Ghana, Madagascar, Nepal, South Africa, Viet Nam and Zimbabwe, the ILO supported its constituents in better developing integrated policy packages to promote formal employment at national or sectoral levels, including through employment-intensive investment and public employment programmes. In Latin America, policy evaluations carried out by the ILO show the potential of active labour market policies for reducing informality. To enhance the employability of workers in the informal economy, tools were developed and capacity building conducted on the formal recognition of informal and non-formal learning and upgrading informal apprenticeship systems.

Compliance and formalization

23. Support has been provided to improve compliance with a view to facilitating the transition to formality. For example, campaigns were developed to raise awareness of prevention of work accidents and occupational diseases in the informal economy in Togo, Colombia, the Occupied Palestinian Territory, China and Viet Nam; labour inspectors and social partners were trained to address undeclared work in Greece, Montenegro and South Africa; and labour inspection approaches were adapted to the informal economy in Burkina Faso and Madagascar. Support was provided to develop a tripartite programme to combat disguised employment relationships in the mining, port and electrical sectors, and in the palm industry in Colombia. In Africa, the Office developed: a participatory labour inspection methodology aimed at identifying target sectors; action planning for formalization, prevention of occupational hazards, and promotion of fundamental rights at work; training of inspectors on fundamental rights and occupational risk assessment; implementation of combined strategies through awareness raising, incentives, and action against forced labour, child labour or imminent danger; and analysis of the potential to roll out to other sectors.

A sector-based approach to formalization: the case of domestic work

24. The ILO developed a sectoral approach to formalizing domestic work building on Recommendation No. 204 that provides a new, more comprehensive framework to develop integrated strategies. This led to the publication of the report *Formalizing domestic work*. Interventions at the country level aim in particular at extending forms of protection, ensuring compliance, and strengthening the voice and representation of workers' and employers' organizations. Interventions use social dialogue to develop approaches to address the specific circumstances and needs of domestic workers. In some countries, such as India and Brazil, the Office contributes to building trade union capacity to organize domestic workers and advocate the extension of protection; in others, such as the United Republic of Tanzania, it supports tripartite technical working groups on domestic work to the same end.

V. Partnerships and international cooperation

25. Advocacy and joint initiatives are being implemented with the World Bank and other regional and international organizations in relation to productivity and the cost and benefits of formalization; with the European Commission in relation to reducing unregistered employment in Europe through the European Platform Tackling Undeclared Work; with the OECD in relation to drivers of informality; and with Women in Informal Employment: Globalizing and Organizing (WIEGO); and other relevant organizations in relation to statistics. In the context of the multi-stakeholder Global Initiative on Decent Jobs for Youth, an interorganizational focus is laid on the issue of youth in informality and on support for

the transition to formality. Partnerships with UN agencies will be strengthened in order to foster consensus on the use of Recommendation No. 204 as a policy tool for achieving the SDGs. Collaboration has also been established with UN Women, the ITUC, IDWF, IUF and WIEGO on domestic work under the umbrella of the UN Secretary-General's High-Level Panel on Women's Economic Empowerment.

VI. Formalization and the UN Sustainable Development Goals

26. Recommendation No. 204 is a powerful policy tool to achieve the UN Sustainable Development Goals (SDGs). The transition to formality contributes to reaching primarily SDG 8, namely to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. In particular, it is a condition for achieving target 8.3 and for monitoring progress based on indicator 8.3.1 ("share of informal employment in non-agriculture employment, by sex"). As informal economies are typically characterized by a high incidence of poverty, inequality and decent work deficits, the transition to formality will also have a significant influence on reaching several other SDGs and related targets under goal 1 (all targets) through higher labour incomes and extended social security coverage; goal 5 (targets 5a, 5.4 and 5.5) through gender-sensitive formalization policies that support the economic empowerment of women; goal 10 on inequality (targets 10.2 and 10.4) through the economic and social inclusion of those in the informal economy; and goal 16 (target 16.3) through higher respect for the rule of law.

VII. Strengthening internal delivery capacity

27. To strengthen the ability of the Office to implement this transversal outcome, a biennial plan of action has been developed. This plan of action is particularly important, given that, while some policy outcomes align with the mandate of specific departments and can draw support and expertise from dedicated field specialists, outcome 6 does not have access to such support. Established through close consultations between the outcome coordinating team and field units, the plan of action includes the dissemination and development of technical tools and products on formalization, the delivery of training to the staff (for example, better understanding of Recommendation No. 204), online discussions on thematic areas (for example, formalization of enterprises) and establishing relations between specialists who work on the same priorities in different subregions.

VIII. Conclusions

28. Formalization of the informal economy is a very broad, challenging and long-term task that goes beyond a single biennium. The progress made throughout this first year represents a stepping stone, with ongoing efforts expected to continue during at least the next two biennia in line with the action plan for follow-up to the resolution related to Recommendation No. 204 and the SDGs. This task is also a fully Office-wide effort that builds on the integration and combination of interventions across many policy areas and contributes to several other outcomes. In that sense, the outcome contributes to increasing the ability to deliver as one ILO. Ultimately, considering the size of the informal economy worldwide, this outcome has a very strong contribution to make for achieving decent work for all.

Draft decision

- 29. The Governing Body requests the Director-General to take account of its guidance in further implementing the strategy for outcome 6 of the Programme and Budget for the biennium 2016–17 on formalization of the informal economy.*