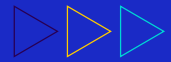




International
Labour
Organization



FORLAC 2.0



Background guide
for the Regional Tripartite
Knowledge Sharing Forum:

Innovative Approaches to Promoting the Transition to Formality in Latin America and the Caribbean





International
Labour
Organization



FORLAC 2.0

Background guide
for the Regional Tripartite
Knowledge Sharing Forum:

Innovative Approaches to Promoting the Transition to Formality in Latin America and the Caribbean



Attribution 4.0 International (CC BY 4.0)

This work is licensed under the Creative Commons Attribution 4.0 International. To view a copy of this licence, please visit <https://creativecommons.org/licenses/by/4.0/>. The user is allowed to reuse, share (copy and redistribute), adapt (remix, transform and build upon the original work) as detailed in the licence. The user must clearly credit the ILO as the source of the material and indicate if changes were made to the original content. Use of the emblem, name and logo of the ILO is not permitted in connection with translations, adaptations or other derivative works.

Attribution - The user must indicate if changes were made and must cite the work as follows: OIT / Oficina Regional para América Latina y el Caribe, *Background guide for the Regional Tripartite Knowledge Sharing Forum: Innovative Approaches to Promoting the Transition to Formality in Latin America and the Caribbean*, Lima: Oficina Internacional del Trabajo, 2024, © OIT.

Translations - In case of a translation of this work, the following disclaimer must be added along with the attribution: *This is a translation of a copyrighted work of the International Labour Organization (ILO). This translation has not been prepared, reviewed or endorsed by the ILO and should not be considered an official ILO translation. The ILO disclaims all responsibility for its content and accuracy. Responsibility rests solely with the author(s) of the translation.*

Adaptations - En caso de que se adapte la presente obra, deberá añadirse, además de la atribución de la titularidad, el siguiente descargo de responsabilidad: *La presente publicación es una adaptación de una obra protegida por derechos de autor de la Organización Internacional del Trabajo (OIT). Esta adaptación no ha sido realizada, revisada ni aprobada por la OIT y no debe considerarse una adaptación oficial de la OIT. La OIT declina toda responsabilidad en cuanto a su contenido o exactitud. La responsabilidad incumbe exclusivamente al autor o autores de la adaptación.*

Third-party materials - This Creative Commons licence does not apply to non-ILO copyright materials included in this publication. If the material is attributed to a third party, the user of such material is solely responsible for clearing the rights with the rights holder and for any claims of infringement.

Any dispute arising under this licence that cannot be settled amicably shall be referred to arbitration in accordance with the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL). The parties shall be bound by any arbitration award rendered as a result of such arbitration as the final adjudication of such a dispute.

Queries on rights and licensing should be addressed to the ILO Publishing Unit (Rights and Licensing) at rights@ilo.org. Information on ILO publications and digital products can be found at: www.ilo.org/publns.

The designations employed in ILO publications and databases, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the ILO concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers or boundaries.

The opinions and views expressed in this publication are those of the author(s) and do not necessarily reflect the opinions, views or policies of the ILO.

Reference to names of firms and commercial products and processes does not imply their endorsement by the ILO, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

Table of Contents

Introduction	7
II. Background and context	9
What is the informal economy?	9
The Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204)	10
Situation and challenges of the transition to the formal economy in LAC.....	12
Informal employment trends in the region	13
Profile of persons working in the informal economy	15
New forms of work and informality: telework and employment on digital platforms.....	18
ILO: initiatives to promote formalization in Latin America and the Caribbean in the last decade.....	19
FORLAC Program: 2014-2017	19
Strategy for Formalization in Latin America and the Caribbean - FORLAC 2.0: 2024-2030	23
Brief balance sheet.....	27
What has happened in the last decade in LAC since the adoption of Recommendation 204?.....	27
What are the main challenges and least addressed aspects to accelerate the transition to the formal economy in the region?	28
III. Innovative Approaches and Practices to Accelerate the Transition to the Formal Economy.....	31
Approaches mentioned in R204 that are still not sufficiently addressed: productivity enhancement, formalization and decent work	32
Questions for analysis and reflection	38
Approaches that have gained importance to promote the transition to the formal economy through digital technologies and innovation	39
Questions for analysis and reflection	48
Approaches less explored by the ILO: Transition to the formal economy from a sectoral approach through social dialogue and inter-institutional coordination mechanisms that include informal economy workers and units.	48
Questions for analysis and reflection	54

Conclusions	55
References	58
Annexes	59
Annex 1. Innovative formalization initiatives in Latin America and the Caribbean.	59
Annex 2. Innovative formalization initiatives sheets	61

Introduction

Half of the workers in Latin America and the Caribbean work in the informal economy (ILO, 2024). The problem is structural, multidimensional, and persistent. It affects certain population groups, such as women, young people, people belonging to certain ethnic groups and migrants. It also affects the less educated, those working in low-productivity agricultural activities, the working poor, small businesses, the self-employed, and people in new forms of employment, both in rural and urban areas. As the latest figures show, informality has returned to pre-pandemic levels. (ILO, 2024).

As recognized by the Recommendation on the transition from the informal to the formal economy (No. 204) of the International Labor Organization (ILO), the high incidence of informality is an obstacle not only to guaranteeing the rights of working people but also to the development of sustainable enterprises, and the financial sustainability of the State (ILO, 2015).

Because of the importance of the topic for constituents, the ILO Governing Body, at its 347th session, decided to include for general discussion in the agenda of the 113th session of the International Labor Conference (ILC) in 2025 the topic of innovative approaches to address informality and promote transitions to formality to promote decent work. 2025 also marks the tenth anniversary of Recommendation 204 (R204).

In this context, the "Regional Tripartite Knowledge Sharing Forum: Innovative approaches to promote the transition to formality" provides an opportunity for ILO constituents to share good practices and innovative approaches, and to identify progress, challenges, and lessons learned since 2015. The results of this tripartite dialogue will contribute to the overall ILC 2025 discussion.

This background report will serve as a preparatory input for constituents participating in the regional forum for Latin America and the Caribbean. The document provides information on the context and conceptual issues, trends in formalization in the region, ILO efforts to support the implementation of R204 over the last decade and highlights innovative approaches and good practices developed by constituents¹.

Innovative formalization approaches or practices are grouped, following the guidelines of the Board of Directors, into three main groups:

Review and deepen the operationalization of some aspects mentioned in R204.

Specifically, practical measures to increase productivity in informal economic units (transitional MSEs²), linking this increase in productivity with the formalization of the units and jobs within these units;

1 A review of a set of innovative formalization initiatives for the region has been carried out, for more details see Annex 2.

2 This category of economic units comprises MSEs that are neither traditional nor modern, that operate beyond the survival level and that can adopt business and management practices and technologies to improve their productivity and working conditions. Normally, they cannot insert themselves into dynamic and/or formal value chains and clusters on their own: they need innovative support policies and solutions from the State or other entities of the productive and entrepreneurial development ecosystem of the economic sector and/or territory where they operate (ILO 2024). Development of Inclusive Productive Linkages between MSEs and Tractor Companies. Approach, guide and support tools. Lima: ILO.

Evaluate innovative approaches that have gained importance since the adoption of R204.

Practical solutions that harness the potential of digital technologies to support the transition to the formal economy will be addressed, for example, how to use the potential of "traceability" of activities to encourage formalization in complex forms of work such as the platform economy;

Review approaches not yet sufficiently exploited by the ILO.

Innovative approaches, including sectoral approaches to facilitate access to effective social dialogue and inter-institutional coordination mechanisms that address public-public and public-private coordination failures and consider workers and units in the informal economy.

This document has been prepared by a team coordinated by Efraín Quicaña and Juan Manuel García of the ILO Regional Office for Latin America and the Caribbean (LAC), together with Frédéric Lapeyre and Florence Bonnet of the ILO's Priority Action Programme on Formalization. The drafting and analysis of the information was carried out by consultant Alvaro Ramirez. The valuable reviews and comments of Maribel Batista, ILO/ACTRAV regional specialist; Andrés Yurén, ILO/ACTEMP regional specialist; as well as Judith Condori, consultant; and Emily Wyatt, intern, both from the ILO Regional Office for LAC, are gratefully acknowledged.

The content development was enriched by interviews with Frederic Lapeyre, Director of the ILO's Priority Action Programme on Formalization; Florence Bonnet, Senior Data and Diagnostics Specialist on the Informal Economy; Maribel Batista, ILO/ACTRAV Regional Specialist; Andrés Yurén, ILO/ACTEMP Regional Specialist; Tulio Cravo, ILO/ACTEMP Regional Specialist; Tulio Cravo, ILO regional specialist on productivity and public policies; Efraín Quicaña, ILO senior specialist on rural economy, productive development and formalisation; Marco Llinás, director of ECLAC's Division of Production, Productivity and Enterprise Development; and Beltrán de la Torre, expert on undeclared work at the European Labour Authority (ELA).

II. Background and context

This section addresses conceptual, statistical and trend aspects of formalization in Latin America and the Caribbean. It also describes the efforts made by the ILO and the member states in this area since the adoption of R204, making a brief assessment of progress and challenges a decade after its approval.



What is the informal economy?

According to Recommendation No. 204 (ILO 2015), the informal economy "refers to all economic activities carried out by workers and economic units that - in law or in practice - are insufficiently covered by formal systems or not covered at all." The definition includes those who own and operate economic units in the informal economy (own-account workers, employers and members of cooperatives and social and solidarity economy units); contributing family workers, regardless of whether they work in economic units in the formal or informal economy³; salaried workers with informal jobs who work in or for economic units of the formal sector, whether private or public, or in economic units of the informal economy, including, among others, those who are subcontracted or who work in supply chains, or in households as paid domestic workers; and workers whose work relationships are not recognized or regulated.

This definition of informality does not include illicit activities, in particular the provision of services and the production, sale, possession or consumption of goods prohibited by law, including the illicit production and trafficking of narcotics, illicit manufacturing and trafficking of firearms, trafficking in persons and money laundering, as defined in the relevant international treaties.

In 2023, the 21st International Conference of Labor Statisticians (ICLS) revised the methodology for measuring informality. The main changes adopted are the following⁴.

3 The 21st International Conference of Labor Statisticians recognizes the possibility that some contributing family workers may be part of formal employment (ILO, 2023).

4 Resolution I of the 21st ICLS (ILO 2023b), available on the web portal of documents of the meetings of the International Conferences of Labor Statisticians.

- New concepts are introduced (informal productive activities, informal economy, informal market economy):
 - informal productive activities (all productive activities conducted by individuals or economic units that, in law or in practice, are not covered by formal systems);
 - informal economy (all non-illegal informal productive activities of individuals or economic units, whether or not they are conducted for remuneration or profit);
 - informal market economy (all production for remuneration or profit in the informal sector and all productive activities of employed workers that, in law or in practice, are not subject to formal systems).
- A distinction is made between the informal sector, the non-informal sector, and the community and household sector that produces for its own use, based on two dimensions: the formal status of the economic unit, and the intended destination of production.
- Considering the current concept of work (any activity performed to produce goods or provide services for the use of others or for one's own use), the scope of informality is extended to forms of work other than occupation or employment (work performed for the purpose of obtaining remuneration or profit). For example, unpaid care work performed by family members may be classified as informal.
- By the definition of occupation or employment, informal occupation does not include own-use production work.
- The operational definition of the informal sector is strengthened to extend it to market-oriented agricultural activities.
- The possibility of employees holding formal jobs in informal economic units is eliminated.
- It is specified that the formal status of dependent contractors is determined according to their formal status in relation to the country's administrative legal framework.

Many of the countries in the region have been gradually adapting their statistics to the new international trends. The ILO has provided technical assistance to member states interested in this update..



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

As mentioned above, the ILO has a valuable instrument to address the challenge of informality: the Recommendation on the Transition from the Informal to the Formal Economy (R204). Adopted on a tripartite basis by The General Conference of the International Labor Organization in June 2015, R204 provides a framework of guidance for comprehensively addressing the challenge of informality. Below is a brief synopsis of the most relevant aspects of the instrument.

Why is informality a problem?

- It is an obstacle to workers' rights, including fundamental principles and rights at work, as well as to social protection and decent working conditions.
- It also affects inclusive development and the rule of law, public revenues and the scope of government action, and the soundness of institutions.
- It has negative consequences for the development of sustainable enterprises

Choice or necessity?

Most people who enter the informal economy do not do so by choice, but as a consequence of lack of opportunities in the formal economy and lack of other means of livelihood.

What is the cause?

It has multiple causes, including structural and governance issues.

Objectives?

R204 provides a clear roadmap for action, with dedicated support from its constituents.

- a) Facilitate the transition of workers and economic units from the informal to the formal economy, respecting the fundamental rights of workers and guaranteeing opportunities for income security, livelihoods, and entrepreneurship;
- b) To promote the creation, preservation and sustainability of enterprises and decent jobs in the formal economy, as well as the coherence of macroeconomic, employment, social protection, and other social policies; and
- c) Prevent the informalization of jobs in the formal economy

Public policy orientations?

ILO constituents recommend implementing an Integrated Policy Framework that includes at least the following:

- a) the promotion of sustainable development strategies, poverty eradication and inclusive growth, and the generation of decent jobs in the formal economy;
- b) the establishment of an appropriate legislative and regulatory framework;
- c) fostering a favorable business and investment environment;
- d) respect, promotion and implementation of fundamental principles and rights at work;
- e) the organization and representation of employers and workers to promote social dialogue;
- f) the promotion of equality and the elimination of all forms of discrimination and violence, including gender-based violence, in the workplace;
- g) the promotion of entrepreneurship, micro, small and medium-sized enterprises and other forms of business models and economic units, such as cooperatives and other units of the social and solidarity economy;
- h) access to education, lifelong learning, and the development of job skills;
- i) access to financial services, including through a regulatory framework that promotes an inclusive financial sector;
- j) access to services for businesses;
- k) access to markets;

- l) access to infrastructure and technology;
- m) the promotion of sectorial policies;
- n) the establishment of social protection floors, where they do not exist, and the extension of social security coverage;
- o) the promotion of local development strategies in rural and urban environments, including regulated access to the use of public spaces and regulated access to public natural resources for subsistence purposes;
- p) effective occupational safety and health policies;
- q) efficient and effective labor inspections;
- r) income security, including adequately formulated minimum wage policies;
- s) effective access to justice; and,
- t) international cooperation mechanisms.

In formulating and implementing an integrated policy framework, members should ensure coordination between various levels of government and cooperation between relevant bodies and authorities, such as tax authorities, social security institutions, labor inspectorates, customs authorities, migration agencies and employment services, among others, depending on national circumstances.

It is also considered of utmost importance that employers' and workers' organizations, where appropriate, extend their membership and service provision to workers and economic units in the informal economy.



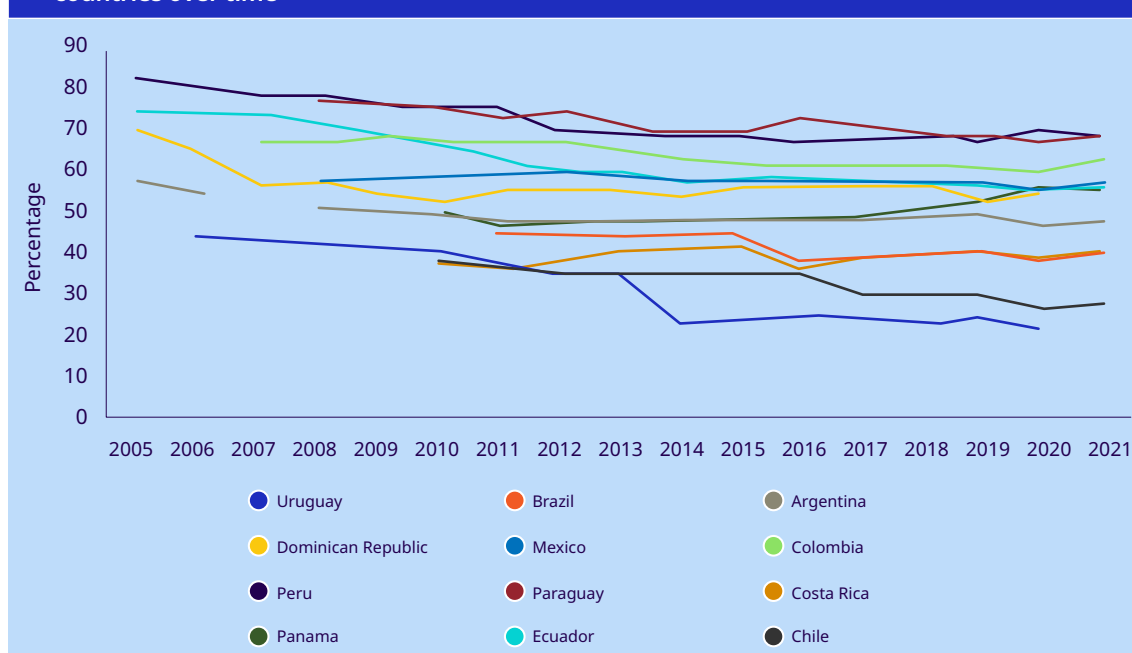
Situation and challenges in the transition to the formal economy in LAC

By 2022, 49.6 percent of total employment in the countries with available data in Latin America and the Caribbean corresponds to informal employment. In other words, one out of every two workers is in informal employment. There are, however, significant differences between countries. Chile and Uruguay stand out as the countries with the lowest informal employment rates (26.2 and 21.8 percent, respectively), while the country with the highest rate was Bolivia (80.8 percent).

Informal employment trends in the region

Informality declined in the region at the beginning of this century (see Figure 1). The downward trend came to a halt between 2014 and 2016. The improvement was associated with a combination of high economic growth and deliberate policies to stimulate formalization, including incentives, regulatory improvement and strengthened compliance. Much of the acceleration in growth was associated with an upward cycle in the prices of raw materials exported by the region and hence an improvement in the terms of trade (Salazar-Xirinachs & Chacaltana, 2018).

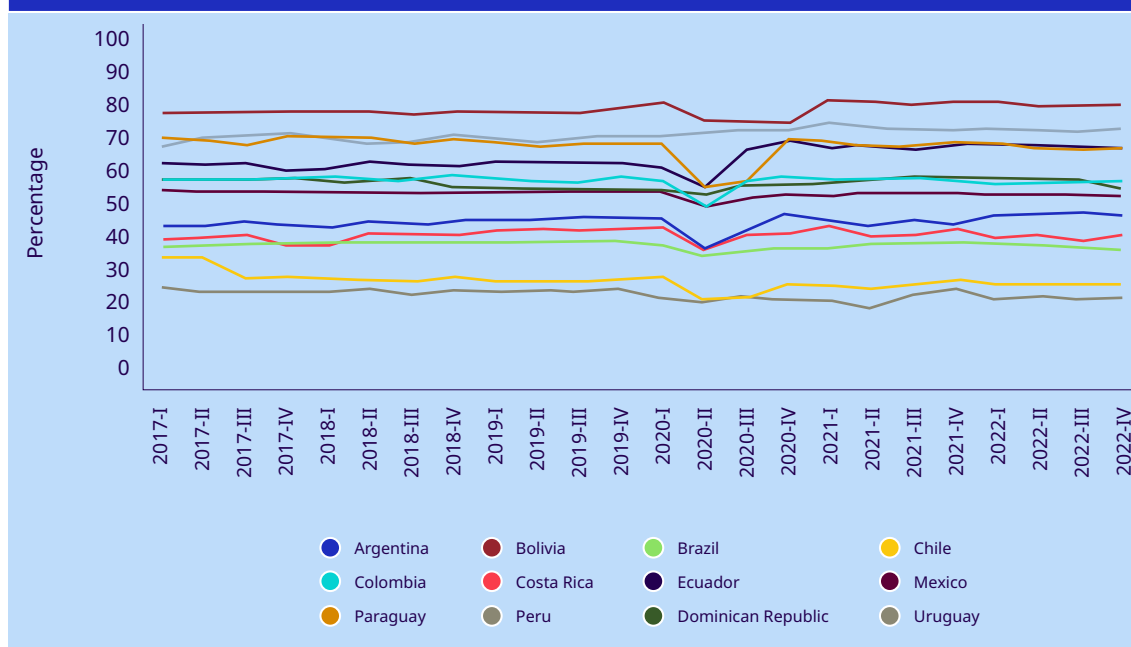
► Figure 1. Informal employment rate in selected Latin American and Caribbean countries over time



Source: (ILO, 2024)

Between 2017 and 2022 there was little variation in the incidence of informality, with the exception of the pandemic period (see Figure 2). This temporary reduction, however, was not due to an increase in formal employment but to a reduction in informal employment that turned into unemployment and inactivity. After the end of the COVID-19 crisis, employment rebounded, but mostly in the informal sector, with the result that informality in most countries remained constant or increased during the last five years.

► Figure 2. Informal employment rates in Latin America and the Caribbean. Quarters 2017-I to 2022-IV



Note: 12 countries are considered (Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Paraguay, Peru, and Uruguay). Argentina includes only urban areas.

Source: (ILO, 2024)

Why do policies to reduce informality fail?

La estrategia de formalización FORLAC 2.0 sugiere que existen por lo menos cuatro fallos principales que han impedido avanzar con mayor rapidez en materia de formalización en América Latina y el Caribe:

- policies that are disjointed and/or do not have an explicit objective of promoting the transition to the formal economy;
- policies that do not respond to the heterogeneity of the different types of economic units and informal workers, and are biased in favor of the formal sectors of the economy;
- weak institutions that do not act in a coordinated manner and have insufficient resources; and,
- limited representation of informal sectors in the design and implementation of formalization strategies⁵.

In short, it is a mixture of factors that have to do with policies, institutions, and governance. For this reason, Recommendation R204 emphasizes the need for a comprehensive and integrated approach to the problem, so that simultaneous action can be taken on all these fronts. The efforts made in the region, both by the countries and by the ILO itself, will be described below.

⁵ It should be noted that informal workers encounter serious obstacles in the laws and practices of most of the countries of the continent to create their organizations and join them to exercise and claim their rights.

Profile of people working in the informal sector

Informal employment is similar among men and women, but higher among young people than among adults. The national informal employment rate for men and women is 49.7 and 49.4 percent, respectively, and at the rural level it is 4 percentage points higher for women. At the age level, the informality rate is 2.8 percentage points lower for young women than for young men (see Table 1). In addition, young people (under 25 years of age), at the national level, face a rate 15 percentage points higher than that of adults.

► **Table 1. Informal employment rate by sex, age group and area in Latin America and the Caribbean, 2022 (percentages)**

	Total	Urban	Rural
Total	49,6	44,0	75,4
Woman	49,4	44,5	78,1
Men	49,7	43,7	74,1
Young people	62,5	56,6	84,0
Woman	60,8	55,9	83,2
Men	63,6	57,0	84,3
Adults	47,3	42,0	73,6
Woman	47,5	42,7	77,0
Men	47,2	41,4	71,7

Note: Data from 15 countries are included depending on the availability of information. Only urban data are available for Argentina.

Source: ILO, 2024.

The incidence of informality is higher among people with low levels of education and those living in rural areas. The rate of informal employment is 49.1 percentage points higher for workers with a low level of education compared to those with an elevated level of education. By area of residence, the rural population faces a higher incidence. The informal employment rate is 31.4 percentage points higher in rural areas than in urban areas (see Table 2).

► **Table 2. Informal employment rate by sex, educational level and area; Latin America and the Caribbean, 2022 (percentages)**

	Total	Urban	Rural
Total	49,6	44,0	75,4
Low educational level	76,2	70,4	84,5
Women	80,9	74,9	91,0
Men	73,5	67,7	81,3
Medium educational level	52,1	48,4	72,7
Women	54,6	51,3	76,4
Men	50,6	46,4	70,8
High educational level	27,1	26,0	45,0
Women	27,1	26,3	41,7
Men	27,0	25,7	48,1

Notes: Data from 15 countries are included depending on the availability of information. Only urban data are available for Argentina. Low educational level is considered to be up to 6 years of education, medium educational level from 7 to 12 years of education, and high educational level from 13 years of education or more.

Source: ILO, 2024.

Self-employed workers, salaried workers, and employers in microenterprises, as well as in domestic service, tend to be overrepresented in informality. . In self-employment, the informal employment rate amounts to 77.6 percent (80.8 in the case of men) . In microenterprises, salaried workers show an incidence of informality of 67.1 percent (71.4 in the case of men), and 44.7 percent if they are employers (47.6 in the case of men). Finally, those who perform domestic service have an informal employment rate of 77.0 percent (76.9 if they are women). See the following table for more details.

► **Table 3. Informal employment rate by occupational category, sector, size of establishment and area; Latin America and the Caribbean, 2022 (percentages)**

	National		
	Total	Women	Men
Total	49,6	49,4	49,7
Employers	40,4	33,9	42,9
Microenterprises	44,7	37,2	47,6
Small and medium-sized enterprises	6,2	7,0	6,2
Salaried workers*	34,2	33,3	35,0
Public sector	9,8	10,0	9,5
Private sector	35,2	30,2	38,0
<i>Micro-enterprises</i>	67,1	58,7	71,4
<i>Small and medium-sized enterprises</i>	14,5	13,8	15,0
<i>Large enterprises</i>	6,1	6,3	6,0
Domestic service	77,0	76,9	65,1
Self-employed	77,6	77,1	80,8
Cooperatives	26,0	30,5	23,7

Notas: Data from 15 countries are included depending on the availability of information. Only urban data are available for Argentina. For this report, economic units are distinguished according to the number of workers according to the following definitions:

- Microenterprise: from 2 to 10 workers.
- Small companies: from 11 to 50 workers, except in Chile, where it corresponds to 11 to 49 workers.
- Medium-sized company: from 51 to 100 workers, except in Brazil and Mexico, where it corresponds to the category of 51 or more employees, and in Chile, which is equivalent to between 50 and 199 workers.
- Large company: more than 100 employees, except in Chile, where it corresponds to more than 200 employees.

*The salaried employees include domestic service workers.

Source: ILO, 2024.

The five sectors with the highest rate of informality at the regional level are (see Table 4): agriculture (80.8 percent), domestic service (76.1 percent), construction (72.0 percent), commerce (54.1 percent) and transportation (48.9 percent). Feminization of informal employment is higher in domestic service (92.5 percent), services (63.0 percent) and commerce (50.6 percent); in the rest of the sectors male employment predominates (ILO, 2024).

6 El porcentaje que se destaca entre paréntesis corresponde al género con el porcentaje más alto.

► **Table 4. Informal employment rate by branch of activity and sex. Latin America. In percentages. 2022**

Activity	Total	Woman	Man	Feminization rate
Act. Agriculture and Livestock	80,8	87,7	78,7	23,5
Domestic service	76,1	76,9	65,1	92,5
Construction	72,0	29,9	73,8	4,1
Trade	54,1	60,6	47,4	50,6
Transportation	48,9	23,9	53,0	14,3
Manufacturing Industry	37,7	47,6	31,7	37,5
Services	37,3	40,7	31,6	63,0
Finance	27,4	27,5	27,3	42,7
Mines and quarries	25,4	25,9	25,4	12,7
Electricity, gas and water	19,8	23,3	18,9	22,2

Note: Data from 15 countries.

Source: ILO, 2024.

The majority of informal jobs in the region are in the informal sector (76.2%). Meanwhile, 16% are concentrated in the formal sector, mostly salaried work (16%) and work in households (7.6%). Within the informal sector, the majority are in self-employment, but there are still a sizable number of salaried workers in this sector (see Table 5).

► **Table 5. Latin America and the Caribbean. Composition of informal employment by status in employment and type of production unit (%) 2019**

	Percentage
In the Informal Sector	76,2
Salaried	20,3
Independent	49,2
Family Auxiliary Family	6,7
In Formal Sector	16,0
Salaried	15,1
Family Auxiliary Family	0,9
In Homes	7,6
Salaried	6,4
Independent	1,1
Family Auxiliary Family	0,1

Source: (ILO, 2023)



New forms of work and informality: teleworking and employment on digital platforms

The pandemic and the acceleration of technological change led to a significant growth in new forms of work and informality in the region. Among the modalities that experienced the greatest boom are teleworking (remote work from home based on the use of information and communication technologies) and employment on digital platforms (delivery, online collaborative work, e-commerce, digital payments, *online banking*). (ILO, To be published).

Telework among people who managed to keep their jobs in 2020 ranged from 15.9 percent in Brazil to 29.4 percent in Peru. In countries such as Bolivia, Uruguay and Costa Rica, levels of 18.0, 19.6 and 20.6 percent, respectively, were reached. Post-pandemic, telework declined, but remained above 2019 levels. For example, home-based wage work in Argentina, Chile, and Costa Rica rose from 1.2 percent at the end of 2019 to 20.9 in the third quarter of 2020, and declined to 5.7 percent in the last quarter of 2022 (ILO, To be published).

During the pandemic, telework was more prevalent in the formal economy than in the informal economy. In the third quarter of 2020, for example, 24.7 percent of wage earners in formal employment in Argentina, Chile, and Costa Rica were teleworking, compared to only 9.7 percent of those in informal employment. (ILO, To be published).

As for digital platforms, there are at least two types of platforms (ILO, To be published):

- a) web-based platforms. They are those that operate through online platforms. They are mainly used to hire free-lance work or micro-tasks, for example, image recognition, audio transcription, database research, surveys, or logo design;
- b) location-based platforms. It is done through mobile applications in activities such as transportation (e.g., Uber or Lyft), delivery (e.g., *Glovo* or *Rappi*), repair services (e.g., Home Solution), household chores (e.g., *Zolvers*), among many others.

Employment in digital platforms represents a small percentage of total employment, although it has been growing. Globally, it is estimated at between 4 and 13 percent, while in Latin America and the Caribbean it ranges between 0.2 and 1.0 percent (ILO, to be published). (ILO, To be published).

The profile of people working on platforms is remarkably diverse and varies according to the type of platform (web-based or location-based). In general terms, women are strongly underrepresented. In addition, there is a marked horizontal segregation by gender, i.e., women are concentrated in activities such as cleaning and care, while men are concentrated in other activities such as delivery. Young workers represent approximately the same proportion in platform employment as in total informal work (20%). In countries such as Argentina, Chile and Peru, there is also a large presence of migrants among platform workers (especially delivery workers). (ILO, To be published).

A large part of platform workers' jobs are informal, either using the criteria for salaried or self-employed workers. In general, most of them do not contribute to social security or are not registered in the tax system. This is why the advance of this type of employment could exacerbate the structural precariousness of the region's labor markets. However, if the digital platforms themselves were used to promote formal hiring or tax registration, the net effect in terms of the degree of informalization could be neutral or slightly positive. (ILO, To be published). The novelty of the phenomenon and the scarcity of information, coupled with the fact that some countries have begun to regulate these emerging forms of work, make it necessary to continue studying the issue to better understand how to take advantage of the opportunities and mitigate the risks.



ILO: initiatives to promote formalization in Latin America and the Caribbean in the last decade

In the first decade of implementation of R204, the ILO Office for Latin America and the Caribbean has implemented two strategies to support constituents in formalization. The first was the Program for the Formalization of Informality in Latin America and the Caribbean (called FORLAC), presented in 2013. The second initiative, just over ten years later, was the Formalization Strategy for Latin America and the Caribbean, called FORLAC 2.0, whose launch took place in Lima in 2024. The following is a brief review of the content of both.

FORLAC Program: 2014-2017

What was FORLAC about?

- Generate knowledge about the dimensions and nature of informality, to make appropriate decisions.
- Advise and provide technical assistance in the design of comprehensive strategies at the national and local levels.
- Train government officials, employers', and workers' organizations.
- Support the strengthening of the countries' institutional capacity.
- Promote the exchange of successful experiences in the region and the world.
- Raise awareness among economic and social stakeholders of the need to take specific measures.

The FORLAC program collaborated with the countries in measuring informality, researched and systematized the most successful and viable strategies, conducted awareness campaigns on the issue, and provided technical assistance to constituents for the design of formalization policies and strategies.

Between 2014 and 2017, through the FORLAC program, the ILO supported the development of formalization strategies in Argentina, Brazil, Jamaica, Mexico, Peru, and Dominican Republic and Colombia; it also implemented a project to promote respect for the labor rights of informal workers in Costa Rica, El Salvador, and Honduras (ILO, 2017).

Based on the evidence generated through FORLAC's research work, it was determined that an integrated approach to formalization should encompass at least four main elements: productivity, standards, incentives, and enforcement (see Figure 1).

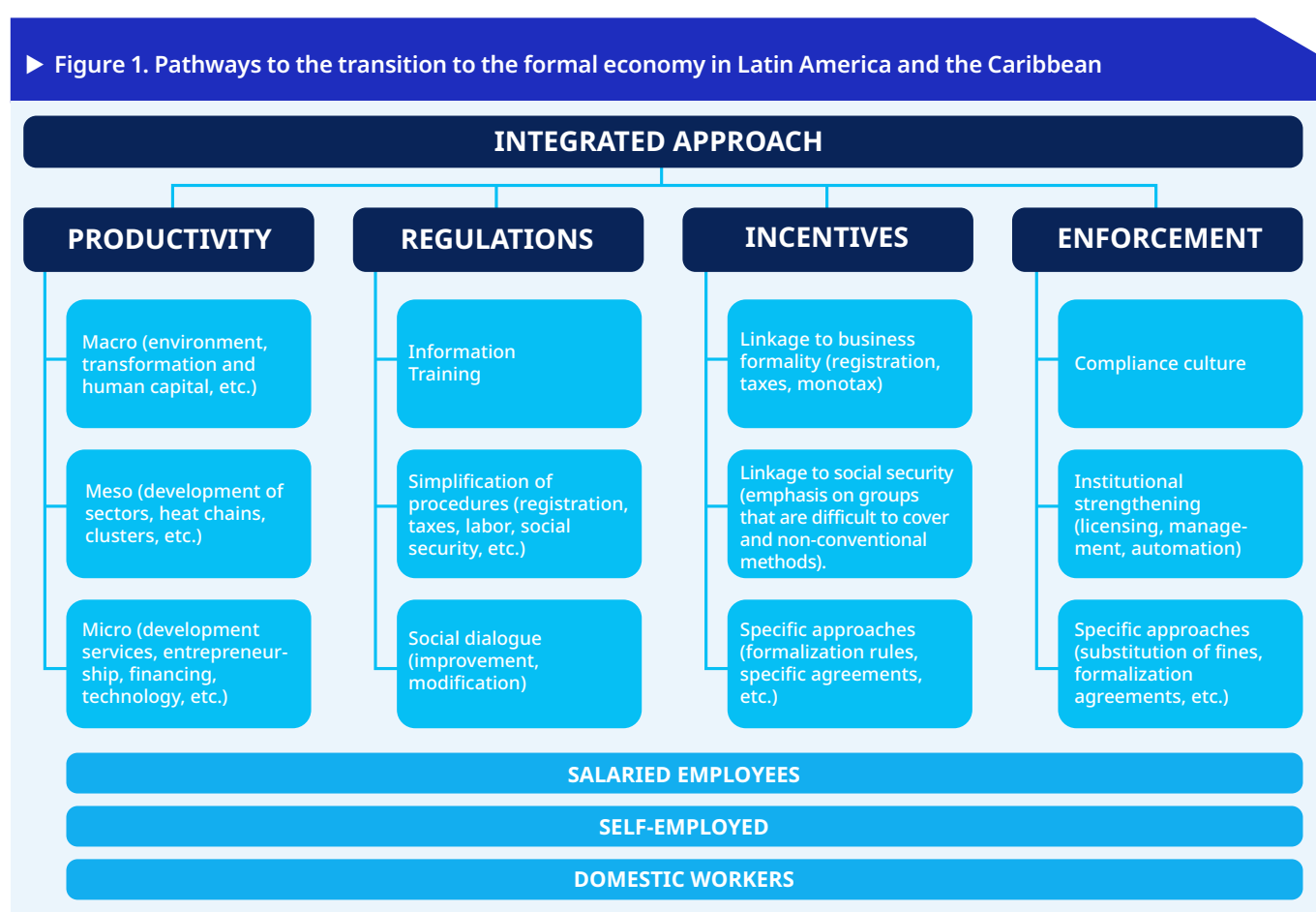
Interventions at the macro, meso and micro levels were considered essential in the area of productivity. At the macro level, by generating a favorable business environment; at the meso level, by using sectoral and value chain approaches as entry points; and at the micro level, by improving management at the enterprise level, for example, through the provision of financial and non-financial business development services.

In the regulatory field, it was considered essential to improve the level of information and knowledge of individuals and productive units regarding current legislation; to simplify and facilitate procedures; and to promote social dialogue with a view to optimizing the current regulatory framework.

The creation of incentives to stimulate voluntary migration to formality was also promoted. Among the possible incentives were those to stimulate business formality (registration costs and taxes), linkage to social security (focused mainly on groups that are difficult to cover through innovative methods), and more tailored actions for specific groups.

Finally, in the area of enforcement, priority was given to the generation of a culture of compliance⁷, the strengthening of labor administration, including the adoption of new technologies and management approaches to encourage compliance with the regulations in force, as well as the adoption of innovative practices such as formalization agreements or the substitution of fines in certain circumstances.

► Figure 1. Pathways to the transition to the formal economy in Latin America and the Caribbean



Source: ILO (2014) Notes on formalization. Recent experiences of formalization in Latin American and Caribbean countries. FORLAC.

7 The culture of compliance presupposes the existence of responsible institutions capable of effectively fulfilling their role, as well as the possibility for workers and employers to be consulted, represented and heard.

An ILO investigation in 2014 (ILO, 2014) after evaluating public policy in 10 countries (Argentina, Brazil, Ecuador, Mexico, Paraguay, Peru, Colombia, Jamaica, Dominican Republic and Uruguay), concludes that the countries had not necessarily implemented an integrated strategy as suggested in Figure 1. This limited the impact and scope of the formalization policies and programs implemented.

Another similar analysis conducted by the ILO in 2017 (Salazar-Xirinachs and Chacaltana, 2018) concluded that "the instruments do work and have positive, albeit modest, impacts", and thus recommended improving the mix of formalization policies and the capacity of the institutions responsible for their design and implementation.

Strategy for Formalization in Latin America and the Caribbean -FORLAC 2.0: 2024-2030

In 2024, the ILO Regional Office for Latin America and the Caribbean presents the FORLAC 2.0 strategy. This initiative seeks to "structure and strengthen the ILO's integrated and coherent response to the needs of its constituents for the transition to the formal economy in Latin America and the Caribbean in the period 2024-2030". (ILO, 2024)

The strategy is based on six premises:

- a) without a sustained increase in productivity, there will be no sustained reduction in informality;
- b) without compliance with labor rights there is no formal employment;
- c) informality is not a monolithic and homogeneous block: it is key to measure, segment and prioritize target segments;
- d) there are no instant solutions or single routes to formality: the strategy must be comprehensive and adaptive, considering the productive, labor, and institutional reality of each country;
- e) formalization should contribute to a just transition in the context of climate and technological change; and,
- f) formalization requires inclusion, dialogue, and implementation. Inclusive tripartite dialogue is key to the design of balanced and more effective solutions.

Based on these premises and an exhaustive analysis of the failures that have prevented more effective progress in formalization in the region, FORLAC 2.0 proposes an integrated policy framework described in Figure 2. In this regard, the ILO, considering the evaluation of the FORLAC 2014-2017 Program, recommends to its constituents the **simultaneous and coordinated implementation of actions in at least the following areas**: a) productive development policies, b) employment and skills development policies, c) social protection policies, as well as d) policies for the recognition and enforcement of labor rights, and sanctions and incentives for formalization, focused on the objectives of Recommendation No. 204 (formalizing, preventing informality and creating formal jobs and enterprises). Social dialogue is key to the co-design of solutions adapted to the reality of each country, considering cross-cutting objectives such as gender equality, just transition, and environmental sustainability.

► Figure 2. Integrated policy framework for formalization



Source: (ILO, 2024)

In the following, the policies of the integrated framework for formalization are developed, considering policy orientations and a set of intervention options:

Policy orientations and intervention options⁸:

Productive development policies. These are public policy actions to increase productivity with decent work, which consider interventions at the macro, meso and micro levels. At the national level, policies are needed to promote economic diversification, increase productivity, and the acquisition of skills, among others, to achieve economic growth in the countries. It is therefore necessary to promote actions at the national level to foster enabling environments for the development of sustainable enterprises⁹ (horizontal policies), including improving tax regulation and simplifying administrative procedures for the payment of taxes.

At the sectoral level, it is necessary to make productive investments in economic sectors that drive or stimulate growth, formalization, and economic diversification in an inclusive and sustainable manner. This is done through the promotion of private and public investment, and interventions focused on productive development and business development to promote clusters, value chains or business networks (vertical policies) aimed at inducing changes in the sectoral composition of production. Thus, formalization and improvements in working conditions are accelerated, among others, with measures related to occupational health and safety, and guaranteeing the right of association and freedom of association for employers and workers.

These policies will pay special attention to the promotion of associativity and the productive articulation of micro and small enterprises (MSEs) and cooperatives. At the business and worker level, policies are needed to support transitional MSEs with the potential for formalization, focused on improving productivity and working conditions by strengthening business management systems (quality, occupational health and safety, skills development, clean production, among others) and improving the skills of company managers and workers.

This type of policy will be applied to promote the formation and strengthening of cooperatives. Likewise, in the case of employers of subsistence economic units, business management and production organization capacities must be strengthened to improve their working conditions and income. These actions should take advantage of the use of information and communication technologies, and include the development of digital skills for governments, workers, and employers. In this regard, the ILO's productivity ecosystem for decent work provides recommendations at the macro, meso and micro levels. (ILO, 2022).

Options for policy interventions:

At the macro level:

- support infrastructure for productive development;
- research and development;
- access to markets;
- access to public procurement;
- requirements and simplified registration for company registration; and,
- simplified tax and contribution payment systems.

⁸ Taken from [FORLAC 2.0](#)

⁹ The ILO has established an enabling environment for sustainable business methodology as a framework for providing evidence-based recommendations on how to improve the enabling environment for business. This tool focuses on the social, political, economic and environmental aspects of the business environment (ILO 2014).

At the meso level:

- to place productive bets on sectors and value chains that are driving or energizing;
- support services for potential sectors, clusters, and value chains;
- business development services (financial and non-financial);
- services for the improvement of working conditions, with emphasis on occupational health and safety;
- to promote fundamental principles and rights at work, especially freedom of association;
- strengthening labor inspection to monitor compliance with labor rights and promote decent work;
- associativity and cooperativism;
- associativity and productive articulation between MSEs and tractor companies;
- technology transfer and innovation;
- intellectual property;
- appropriate sectoral rules and regulations;
- access to information and assistance for compliance with relevant regulations and capacity building, including the use of technological tools, for example, simulators of a transition route to business and labor formality; and,
- strengthening social dialogue and collective bargaining processes to maintain and strengthen the virtuous cycle between productivity and decent working conditions.

At the micro level:

- business services to improve productivity and working conditions;
- development of management competencies;
- occupational health and safety;
- right of association, freedom of association and collective bargaining;
- promotion of sustainable business practices and models; and,
- promotion of responsible business conduct.

Employment and skills development policies. This policy should promote full, productive, and freely chosen employment. It must have a comprehensive approach, i.e., it must be coordinated and articulated with other social and economic policies, including macroeconomic, trade and investment policies, among others.

An essential axis of this policy is technical-vocational education and training, which is essential for the sustained improvement of productivity, in a context of accelerated technological change that has a significant impact on the future of work and production, such as automation processes, new forms of work based on the use of digital technologies, artificial intelligence, among others; likewise, the effects of climate change on the labor market must be considered, especially in certain economic activities and occupations that are more vulnerable.

In addition, these policies should focus on reducing the gap between the skills of workers and those required by the productive apparatus, which should target the groups that are difficult to formalize mentioned in premise 3 of the integrated framework, in order to improve their level of employability. To provide guidance to Member States in this area, the ILO has a [*Guide for the formulation of national employment policies \(2012\)*](#).

Options for policy interventions:

Employment:

- investment promotion policies (in employment-generating sectors, including green jobs);
- public employment services (including modern and adapted labor intermediation services);
- subsidies and job training to promote the hiring of vulnerable groups and the retention of formal employment in times of crisis;
- employability programs, including job retraining, with emphasis on populations with low employability, such as young people;
- care services to prevent the informalization of women's work and promote their incorporation into formal employment;
- policies against labor discrimination;
- labor-intensive programs;
- strengthening social dialogue and promoting collective bargaining by industry;
- promoting the inclusion of informal workers in the design of employment policies;
- improved regulatory framework for the hiring of workers, which considers the characteristics of productive activities; and,
- improved and adequate regulatory framework to regulate the different modalities of hiring workers, with emphasis on domestic workers and new modalities of work, whether part-time or full-time.

Development of competencies:

- labor education and training at the sectoral and value chain levels, including job retraining;
- employment prospecting according to occupations, considering technological change and climate change (green jobs);
- qualifications frameworks by sector and value chains, considering the evaluation of tasks for the updating of occupational structures;
- certification of competencies by sector and value chains;
- continuous training;
- strengthening and/or creation of job training institutions;
- dual training;
- job training for the rural sector;
- educational technologies;

- strengthening of the actors in the world of work to participate in vocational training policies; and,
- vocational orientation.

Social protection policies. The ILO's policy on the extension of social protection is based on the two-dimensional strategy adopted by the 100th Session of the International Labor Conference in 2011 (ILO, 2011).

This approach aims at the implementation of national social protection floors containing basic social security guarantees for universal access to essential health care and income security, at least at a nationally defined minimum level accessed by segments with lower contributory capacity - in line with the [Social Protection Floors Recommendation, 2012 \(no. 202\)](#)—, and to the progressive achievement of higher levels of protection, within the framework of integrated social security systems, in line with the [Social Security \(Minimum Standards\) Convention, 1952 \(No. 102\)](#).

Social protection must be economically sustainable and provide quality services to users. The shortcomings and inferior quality of social protection systems make formalization unattractive, since the cost is not rewarded with quality services.

Likewise, social protection must be provided without discrimination of any kind, with sufficient benefits and throughout the life cycle, and must include the least favored groups, such as people with disabilities.

Options for policy interventions:

- health services;
- pensions;
- unemployment insurance;
- occupational health and safety;
- maternity protection;
- simple and expeditious social security enrollment procedures;
- simplified social security contribution systems;
- access to effective information and assistance in complying with social security regulations;
- dependent care systems;
- inclusive social protection of persons with disabilities; and,
- awareness of the importance of social protection, especially social security within the framework of decent work.

Policy for the recognition and enforcement of labor rights, and sanctions and incentives for formalization. In terms of compliance with labor rights, it is essential to increase the State's capacity to recognize, promote and ensure respect for current legislation or make the necessary adjustments to guarantee the exercise of labor rights, with emphasis on fundamental labor principles and rights for all workers, including workers in the informal and independent economy; as well as the promotion of a culture of compliance, through tripartite social dialogue.

In parallel, it is essential that compliance policies use, in addition to sanctions or punishments, creative actions that encourage the transition to formality by increasing the benefits of formalization for workers and economic units through tax, financial and other incentives, including the simplification of procedures and the facilitation of compliance as an important part of this agenda.

Options for policy interventions:

- labor protection and inspection to guarantee the rights of all workers (including inspection for the prevention of gender-based violence and harassment);
- Strengthening inspection systems through modernized information and supervision mechanisms for compliance that guarantee the interoperability of data for inspection systems. Likewise, using modern technological tools for inspection intelligence to identify risks of non-compliance with regulations and new pockets of informality;
- improved regulatory framework that protects the rights of self-employed workers, including the right to organize or join trade unions or bodies representing employers, and to enter into collective bargaining or agreements with the companies, authorities and institutions concerned;
- promote capacity building to enable countries to stimulate and promote social dialogue mechanisms, including collective bargaining;
- services to ensure occupational health and safety;
- strengthen mechanisms to ensure compliance with labor and social protection regulations;
- broadening the focus of inspections to new forms of precarious employment, extending them beyond on-the-job inspections;
- design and application of tax, financial and other regulatory incentive systems to stimulate the formalization of workers and economic units, formulated based on evidence of their effectiveness, with special emphasis on micro- and small enterprises; and,
- promotion of a culture of social dialogue for the design, improvement, and enforcement of current labor regulations.



Brief balance sheet

What has happened in the last decade in LAC since the adoption of Recommendation 204?

The region has been a laboratory of innovation in formalization programs and policies. The ILO, within the framework of the project "Innovative Solutions for Formalization in Latin America and the Caribbean", co-financed by the European Union, systematized innovative initiatives of governments, employers' and workers' organizations aimed at the transition to the formal economy. (ILO, 2024).

The criteria for classifying an initiative for labor formalization as innovative were as follows:

1. the initiative challenges traditional approaches, methodologies, procedures, or mechanisms for formalizing work, generating new ones that free access to formalization;
2. the initiative opens access to labor formalization to groups of workers who previously had no access to it, especially marginalized and vulnerable workers;

3. the initiative is sustainable over time (institutionally, politically, socially, and/or financially), scalable and replicable in specific territorial and sectoral contexts; and,
4. the initiative addresses the new challenges for formalization in the labor markets (work in the digital economy, climate change, green economy).

A total of 77 initiatives from 13 LAC countries were reviewed, which were implemented in the last decade or are still in progress. Of these, 31 were finally considered as initiatives with a high degree of innovation¹⁰. Some of the predominant orientations in these initiatives were (ILO, pending publication):

- digital solutions to facilitate job registration, detect non-compliance or stabilize cash flow needs;
- "traceability" of activities in the platform economy to encourage formalization;
- strengthen the capacity of those working in the informal economy to adopt mitigation and adaptation measures and to have effective access to the opportunities offered by the just transition to the green economy;
- sectoral approaches to address informality;
- tax policy innovations / incentives to encourage registration; and,
- innovative approaches to organizing workers and economic units in the informal economy, developing partnerships with representative organizations of workers and employers and facilitating access to effective social dialogue.

In addition, it is useful to note that in 2020 a Skills Challenge Call for Innovation was launched (aimed at LAC organizations that promote the development of skills to facilitate the formalization of labor and economic units), the ILO identified 60 innovative solutions based on the use of technologies to reduce work in the informal economy.

The ILO is currently supporting two of them: *Eslabonamientos productivos digitales para emprendedores informales vulnerables* (Cámara de Industria de Guayaquil, Ecuador) and *#MujeresparaMujeres: Una herramienta de educación digital para competencias emprendedoras* (Servicio Social de Industria, Brazil).

What are the main challenges and least addressed aspects to accelerate the transition to the formal economy in the region?

To answer this question, it is important to analyze the characteristic features of the formalization initiatives systematized by the ILO (see Table 5). In general, there is a concentration (60%) on actions to facilitate the transition from informality to formality; very few initiatives consider the other two objectives of R204 (preventing informality and promoting formal enterprises and jobs).

Of FORLAC 2.0's integrated policy framework, those focused on the enforcement of labor rights (65%), the extension of social protection coverage (35%), and employment policies, including actions for the development of skills of target populations (25%), are most frequently used. Other types of policies, such as productive development, receive less attention (10%).

One aspect that has taken off, especially during and after the COVID-19 pandemic, has been the use of digital technologies to leverage innovative formalization solutions. Half of all initiatives studied include the use of digital tools (applications, online platforms, database integration in the cloud, among many others).

10 For more details see the [ILO Formalization Toolkit](#).

In terms of geographic coverage, eight out of ten initiatives are national in nature. This means that in very few cases are programs designed with a subnational or territorial focus, an opportunity that could undoubtedly be better exploited by involving municipalities and other local actors.

Most of the initiatives focus on specific target groups. 65% prioritize branches of activity (domestic work, agriculture, commerce), 75% target specific occupational groups (self-employed and household workers), and 75% focus on certain segments of the population (women, young people, low-income, or low educational level). There is frequent overlapping of targeting criteria (e.g., women working independently in commercial activities).

It is important to note that only 30% of the initiatives adopt an explicit gender focus. This is undoubtedly a weakness, considering the high rate of feminization in some sectors with a higher incidence of informality.

Finally, in terms of time, there is a significant concentration of initiatives (40-45%) that aim to achieve results in the short or medium term. Many others do not even establish clear time goals. This characteristic is possibly explained by the predominance of policies or plans designed according to the term of the government in office, without considering that the reduction of informality is typically a long-term task due to the structural nature of its causes.

► **Table 5. Characteristic features of innovative formalization initiatives in Latin America and the Caribbean since the adoption of Recommendation 204.**

Appearance	Description
Approach	60% seek to formalize those who are in the informal sector; approximately 15% seek to avoid informalization; and the remaining 15% are both.
Priority policies ¹¹	65% labor rights/ compliance 35% social protection 25% employment policies/skills 10% productive development policies
E-formalization	50% use digital tools.
Geographical coverage	80% national coverage.
Branch of activity	65% targeted. Mainly: households/domestic work, agriculture/agro-industry, and commerce.
Occupational category	75% targeted. Most frequent categories are self-employed and domestic workers.
Population group	75% targeted. the most frequent segments are women, young people, low-income people, and people with a low level of education.
Gender focus	30% only explicitly contemplate this approach
Time dimension	40-45% expect results in the short or medium term

Source: own elaboration based on (ILO, 2014)

One of the greatest challenges when analyzing initiatives of this type is the scarcity of information on their impact. In general, the design of interventions does not include impact evaluations or robust monitoring and follow-up mechanisms. There are few impact evaluations. All this hinders not only the measurement of results, but also the efficient management that would allow for the timely correction of errors.

11 The policy prioritization selection is a multiple-choice selection; therefore, there is a multiple total and the numbers do not add up to 100% in this case.

In summary, there is insufficient attention to the objectives of preventing informality and fostering formal enterprises and jobs; there are policy areas that receive inadequate attention such as productive development, essential for stimulating growth and reducing informality; there are few formalization efforts with a territorial or sub-national focus; there is no strong commitment to gender equality; and, the relatively short duration of interventions makes it unlikely that the structural causes of informality will be tackled. Nevertheless, it is useful to confirm that high priority is given to the enforcement of labor rights and social protection, that technology is increasingly used for the design of cost-efficient and scalable solutions, and that there is a clear awareness of the need to focus efforts on well-defined target groups (by branch of activity, occupational category, or population group) to increase the likelihood of success.

III. Innovative approaches and practices to accelerate the transition to the formal economy

FORLAC 2.0 proposes that to accelerate the formalization of businesses and jobs in the region and prevent setbacks, it is essential to innovate policies and strengthen the institutions responsible for implementing them. To this end, it is essential to go beyond the symptoms and address the causes of informality.

In Latin America and the Caribbean, informality is mainly associated with the following causes: (a) the persistent productive duality, i.e., the coexistence of a highly productive and mostly formal modern business sector and a large number of traditional companies with low productivity and high informality; (b) the existence of barriers to entry into formality, such as, for example, cumbersome, slow and costly procedures (legal and institutional aspects); c) the propensity of some formal sector companies to reduce costs by making labor precarious; and d) legal loopholes that exclude certain groups of workers or the insufficient capacity of public institutions to adequately enforce compliance with labor laws and rights (ILO, 2024). (ILO, 2024). In addition, there are now atypical forms of employment, such as work on digital platforms, which generate a new form of informality associated with the advance of the technological revolution.

Despite the many efforts made by member states in the region, the results, as seen above, have been limited. It is therefore essential to explore new paths towards formalization. FORLAC 2.0 adopts an experimentalist governance approach that encourages exploring, discovering, learning, and scaling innovative solutions.

Along the same lines, the Governing Body, at its 347th session, decided to include in the agenda of the 113th session of the International Labor Conference (ILC) in 2025 the topic of *innovative approaches* to address informality. In particular, the Office is instructed to analyze aspects such as the following¹².

- a. **Approaches to implement certain aspects mentioned in R204 that are not yet sufficiently addressed:** such as practical measures to increase productivity in informal economic units, linking this increase in productivity with the formalization of the units and systematically formalizing jobs within these units. Other areas under this first category could refer to preventing the informalization of formal jobs and economic units; and taking advantage of the opportunities offered by the Social and Solidarity Economy (SSE) to support formalization processes.
- b. **Approaches that have gained importance since the adoption of R204:** they include, for example, practical solutions to harness the potential of digital technologies to support the transition to formality and, more specifically, the potential of "traceability" of activities in complex forms of work such as the platform economy to foster formalization or the issue of just transition and formalization.

¹² For additional information, see appendix 3 in [GB.347/INS/2/1](#). Governing Body, 347th Session, Geneva, 13-23 March 2023. Agenda of the International Labor Conference. Agenda of future sessions of the Conference.

- c. **Approaches not yet sufficiently addressed by the ILO:** includes sectoral approaches to address informality or policy innovations/fiscal incentives to encourage registration. It also includes policies that address decent work deficits of workers whose work may not be formalized in the short term but may place them, as well as their economic units, on a trajectory between informality and formality.

In addition, it encompasses innovative approaches to organizing workers and economic units in the informal economy, developing alliances with representative organizations of workers and employers, and facilitating access to effective social dialogue. The development and strengthening of partnerships, particularly partnerships between different agencies of the multilateral system capable of addressing the various root causes of informality, also falls into this third category.

This section analyzes some practical cases of innovative approaches to formalization in Latin America and the Caribbean, using the three criteria defined above by the Governing Council as organizing axes. It is based on the information compiled by the Office and mentioned in the preceding section¹³. Due to space limitations, only 13 of the 31 systematized initiatives are analyzed. However, all of the cases can be consulted on the ILO *Formalization Toolkit dashboard* ([English](#) and [spanish](#) versions).



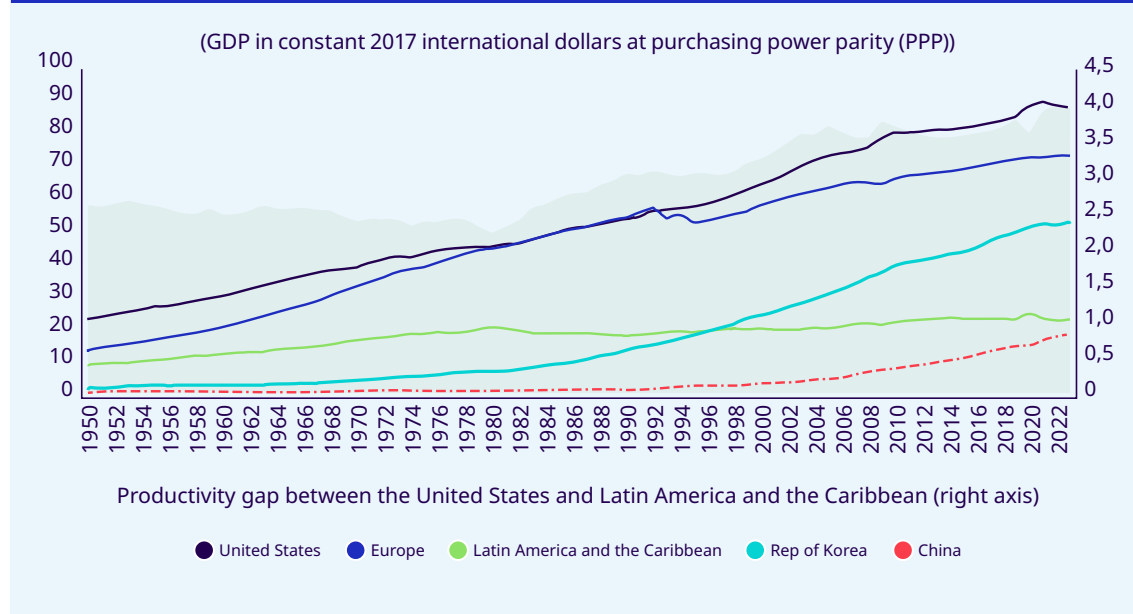
Approaches mentioned in R204 that are still not sufficiently addressed: productivity growth, formalization, and decent work

Without a sustained increase in productivity there will be no sustained reduction in informality. This is one of the essential premises of FORLAC 2.0. Looking at the situation in Latin America and the Caribbean, however, there is truly little progress in terms of productivity. According to ECLAC, productivity in the United States was four times that of Latin America and the Caribbean in 2022, a ratio that has almost doubled since 1950 (see Figure 3).

ECLAC attributes the stagnation of productivity in the region to factors such as the lack of investment in human talent, the low quality of education, low fixed capital formation, and a political, social, and economic environment that does not always favor the development of sustainable enterprises. It also emphasizes the existence of an important economic dualism that is manifested in the coexistence of highly productive sectors with low productivity sectors, as well as in the existence of significant differences in productivity between companies of varied sizes and between different regions of the same country. This high productive heterogeneity is aggravated by the existence of high rates of labor and business informality (ECLAC, 2024).

13 When using the criteria defined by the Board of Directors to identify innovative approaches, some initiatives such as those based on the application of behavioral economics (e.g. deterrent letters in Peru) are excluded from the analysis

► **Figure 3. Selected countries and regions: output per hour worked and productivity gap vis-à-vis the United States, 1950-2023**



Source: (ECLAC, 2024).

Sustained productivity growth can facilitate the transition to formality. There is ample empirical evidence showing that public policy interventions aimed at fostering productivity have positive effects on firm formalization (Bruhn, 2013).

To address this challenge, the ILO promotes the "productivity ecosystems for decent work" approach. (ILO, 2022). According to this approach, enterprises and their workers are part of an "ecosystem" in which the factors that drive productivity and decent work are interrelated at three levels: national (macroeconomic), sectoral (mesoeconomic) and enterprise (microeconomic). These public policy areas are also included in R204 as part of the integrated policy framework for formalization.

FORLAC 2.0, which incorporates this approach, emphasizes the importance of technical and vocational education and training (TVET) as an indispensable means for the sustained improvement of productivity with decent work. In a context of accelerated technological change, induced by the fourth industrial revolution, it is essential to develop the relevant skills to take advantage of the opportunities of the new world of work and mitigate the risks associated with change. Prioritizing the population groups with the greatest educational lag or the least access to TVET should be a fundamental part of any comprehensive formalization strategy.

What experiences or approaches have been identified in the region in relation to productivity, formalization, and decent work?

There are two clear trends in the region. On the one hand, there are efforts at the microeconomic level focused on improving the productivity of smaller companies through different advisory and training services. On the other hand, some interventions prioritize the development of employability skills, especially for people with low levels of education or living in poverty.

Some of the innovative initiatives documented by the ILO include the following (see more details in Annex 2):

► Background guide for the Regional Tripartite Knowledge Sharing Forum:
Innovative Approaches to Promoting the Transition to Formality in Latin America and the Caribbean

Initiative	Description	Results
<i>Mi Pyme Cumple</i> (Chile)	Through strategic alliances with institutions such as universities, it provides advice and concrete tools to micro, small and medium-sized companies in Chile so that they can comply with current legislation and become formalized. The project defined three central axes: information, training, and advice on legal matters (mainly labor, tax, and business), which translates into a series of products and activities that <i>Mi Pyme Cumple</i> has available free of charge for the country's small and medium-sized companies. Part of the innovative elements have to do with the implementation of more digital tools during and after the Covid-19 pandemic. Through the development of mass trainings, mostly virtual, they have developed content and material easily accessible to people. On the other hand, the legal advisory services provided in collaboration with the Legal Clinic of the Catholic University and the School of Auditing of the <i>Universidad de las Américas</i> (UDLA) benefit both companies and students at these universities who help in the resolution of real cases of SMEs. In addition, they have developed a digital platform within their website that allows users to perform free business diagnostics and thus be able to get advice on issues of strategy, performance, and changes in the evolution of the markets.	16 thousand MSEs trained, and more than 300 companies advised. Of note is the annual Catholic University course on legal aspects and legal advice, conducted in collaboration with the Legal Clinic of the Catholic University and the School of Auditing of <i>Universidad De Las Américas</i>. The initiative began in 2016.

<i>Formaliza tu negocio</i> (Honduras)	The program, implemented by the Chamber of Commerce and Industry of Tegucigalpa (CCIT) with support from the ILO and other partners, includes training, technical assistance, legal advice, and a cost simulator, all through an online platform. It is totally free, lasts eight weeks and is executed by a formalization officer and consultants. It uses the ILO's IMESUN methodology and offers individual counseling. Participants receive a certificate and monthly support for one year, in addition to being part of a business <i>networking</i> community. An innovative element of the program is that the seed capital accessed through this project has been provided by various organizations, including the Terra Foundation, the National Service for Entrepreneurship and Small Businesses (SENPRENDE), as well as the International Red Cross and the Honduran Red Cross, which have provided financial support to the entrepreneurs participating in the program. Another innovative aspect of this initiative is that it is digital, through a web platform that provides access to a series of tools for marketing, business planning, purchasing, accounting records, costing, inventory control and human resources. In addition, this page offers the possibility of making queries and having them answered by experts in the field to provide better advice to those who request it.	Since its implementation in 2021, they have assisted more than 900 entrepreneurs, which has helped formalize more than 200 companies, provided more than 500 advisories and access to seed capital to 451 ventures throughout the country. Nearly 65% of the enterprises with which we have worked are led by women. In addition, the formalization of these enterprises has contributed to broadening the scope of social protection coverage.
---	---	---

<i>Uruguay trabaja</i>	It is a socio-educational labor program created by Law 18.240 that aims to generate greater opportunities for social inclusion through work, facilitating integration processes through socio-educational strategies for people in situations of socio-economic vulnerability. It consists of a system of social and training support for the development of social integration processes, in the framework of which the participants perform temporary jobs of public value for 30 hours per week and for a period of up to 9 months, during which they receive a subsidy called "Support for labor market insertion". The initiative offers a regime of social accompaniment and training for social integration and labor insertion. It includes work in tasks of public value, training workshops to complete primary school and digital literacy, and ophthalmology and oral health care. In addition, support is provided for labor insertion and basic documentation such as health cards and PAP (Papanicolaou test) is provided. Admission to the program is by lottery. In addition, the program has an innovative educational component: cross-cutting workshops and specific training (completion of primary school, digital literacy, etc.).	Three to four years after program exit, participants had greater job stability and 10% higher job retention during the pandemic compared to non-participants. Quality of employment: positive impact on the formality of employment, with a higher rate of formality among participants compared to the control groups. Distribution of tasks: influence on the distribution of household and care tasks, increasing the probability of shared care of non-child dependents between men and women in participating households.
-------------------------------	---	---

Social impact bonds program (SIBs.CO) <i>Empleando Futuro BIS I</i> (Colombia)	The program consisted of creating a market for social impact bonds in the country and generating knowledge and learning. It was based on a new model of joint work between the public and private sectors and a payment by results approach. The intervention model includes socio-occupational orientation and life project plan, pre- and post-training evaluation, training in specific competencies and socio-emotional skills. (100-300 hours), retention strategy (refreshments and transportation), psychosocial support, labor intermediation, effective job placement with signing of contracts and legalization of social security affiliation, and post-employment support. An innovative element was to implement disruptive strategies in the financing of public policies for access to formal employment for vulnerable groups: financial and reputational incentive schemes that motivate investors, the intermediary and operators to focus management and implementation strategies on improving project results. The BIS initiative in Colombia promotes the creation of a market to finance public policies and the construction of an ecosystem of actors to encourage the use of payment by results mechanisms.	899 people in vulnerable conditions obtained employment, which represents 117.3% of the placement target (766). Of the former, 677 people remained employed for at least 3 months. Meanwhile, 309 people remained employed for at least six months. Positive effects on the probability of accessing formal employment: 12 percentage points increase in the probability of obtaining employment three months after completing the training stage and 15.7 percentage points six months after completing the training. High intensity in hours of training in hard skills (70 or more hours) and soft skills (50 or more hours) has a positive impact on access to stable employment (probability of having a job that pays social security contributions for the entire month).
---	--	---

Source: Prepared by the authors based on (ILO, pending publication).

The first two initiatives (Chile and Honduras) are examples of interventions to stimulate the formalization of smaller companies through an attractive package of services that have a direct impact on their productivity (business management training, access to capital, specialized advice, among others), and therefore on their ability to meet their obligations in the formal economy. The use of digital technologies and strategic alliances expand scale and reduce cost. In addition, the prominence of employers' organizations favors the confidence of the entrepreneur and enhances future opportunities for linkages.

The cases of Uruguay and Colombia focus on the employability of vulnerable groups. Many countries are developing similar programs; however, these two initiatives contain important innovative elements. The design of an integrated service offering that complements training with other benefits, including psychosocial support, health, labor intermediation, economic subsidies during training, among others, makes these programs an extremely attractive alternative for the target population. It is evident that there is an in-depth knowledge of the target segment and its needs. In addition, in the case of Colombia, there is an innovative financing modality through social impact bonds. Last but not least, both initiatives incorporate impact monitoring and evaluation in their design.

In general terms, the following attributes are identified as contributing to improve the effectiveness of these interventions:

Targeting of the target population: there is a prioritization of specific and vulnerable groups (youth, women, and smaller companies), which have an elevated level of informality.

Interventions with integrated actions: on the one hand, there are initiatives with complementary measures that are strengthened, focused explicitly on incorporating beneficiaries (workers and companies) into formal systems. For example, training, orientation, placement and incentives, post-employment support, evaluations, among others. On the other hand, there are interventions that explicitly promote coordination and articulation between the public and private sectors, as well as collective action through employers' or workers' organizations.

Focus on results: these are experiences that not only show positive impacts in terms of access to formal employment but were designed with monitoring and evaluation mechanisms to measure results. This is a critical attribute that many initiatives in the region lack.

Questions for analysis and reflection

1. What factors explain the growing productivity gap between the most advanced sector of the economy and the lagging sectors, including those operating in the informal economy?
2. What are the challenges, opportunities, and priorities for constituents to boost productivity growth, formalization, and decent work?
3. What policies make it possible to increase productivity and simultaneously improve working conditions and the enforcement of labor rights in the most backward sectors of the economy?
4. What would be the contributions of constituents to productivity growth, formalisation and decent work? What other public entities should be involved?
5. What are constituents' expectations of the ILO's work to boost productivity growth, formalization, and decent work?



Approaches that have become important in promoting the transition to the formal economy through digital technologies and innovation

There are two incredibly positive trends in the region that facilitate the fulfillment of the R204 objectives and that have gained importance in recent years. On the one hand, the digital revolution is enabling novel solutions in key areas such as labor rights compliance and the expansion of business development services. On the other hand, regulatory and associative innovations are making access to social protection possible for groups traditionally difficult to cover.

In relation to the first trend, digital technologies have become a powerful tool in favor of decent work. In terms of formalization, the use of digital technologies has strengthened inspection and compliance with labor rights. Among the policy orientations of FORLAC 2.0, it is precisely recommended to strengthen inspection systems through modern information and supervision mechanisms that guarantee the interoperability of data for inspection systems and the use of technological tools for inspection intelligence to identify risks of noncompliance. (ILO, 2024).

The advance of Artificial Intelligence (AI) is also transforming business development services. A good example of this is the case of [MAIA](#) in Peru, an artificial intelligence that advises small and medium-sized companies in a personalized way. It offers useful and personalized advice on marketing, sales, finance, and many other key areas for business productivity. This type of tool makes it possible to increase the scale and efficiency of the service at an exceptionally low cost.

In addition, the "traceability" of activities in the platform economy also represents an opportunity to promote formalization, regularizing the new forms of work that arise in the context of accelerated technological change. This is one of the important premises of FORLAC 2.0 (premise number 5).

The following are some recent examples of this trend in the region:

Initiative	Description	Results
<i>Inspector digital</i> (Argentina)	<i>Inspector Digital</i> (INDI) is a digital application that allows inspectors to identify workers and employers of each company in real time, verify the labor record, detect violations and apply sanctions for non-compliance; and in case there is a debt in contributions, an alert is generated and the estimated debt and fine is indicated. INDI 2.0, from 2023, unifies all current inspection processes and incorporates them into the same technological solution along with their respective reports, facilitating the management of reports and alerts on tax debts and associated fines. The innovative element of the use of a digital application in labor inspection lies in the automation and centralization of the entire inspection process, which significantly reduces the processing time, from the notification of the order to the delivery of results. In addition, it allows to increase the number of inspections in the territory and facilitates the regularization of the labor situation of Argentine workers in a more efficient and effective way.	Reduced average inspection processing time from 235 days (before implementing INDI) to 60 days in 2023. Technology enabled the digitalization of files and facilitated the expansion of inspection coverage, allowing inspectors to reach remote areas with only their notebooks and connectivity. Regularization of the labor situation of more than 200,000 Argentine workers between 2017 and 2019. The situation of more than one million workers was surveyed.

<i>APP Laudelina</i> (Brasil)	Laudelina is an application designed in 2017, which has since 2023 with a web application. It covers numerous services such as a didactic and interactive guide to the labor rights of domestic workers in an accessible language. It also provides a benefits calculator where they can enter the day they start work, their salary and whether they work overtime, and then calculate how much they should receive, or if they can request vacation time for the period worked, and information on the nearest union representation. The use of new information technologies is fundamental to the development of this initiative, as it not only facilitates networking through the application, but also enhances the collective organization of domestic workers. These tools have become a crucial means of sharing ideas and strengthening organizational capacity. The application was disseminated through a national mobilization campaign in defense of domestic workers' rights with caravans throughout the country, to seek feedback to improve the application, based on the real needs of these workers.	Use of Laudelina by more than 58,000 domestic workers, 25,000 through the app and 33,000 through the website. Increased oversight of labor inspection bodies in Brazil, such as the Public Ministry of Labor or Labor Justice, which participate as collaborators. Development of a major Laudelina communication campaign to disseminate and raise awareness of the rights of domestic workers, with a potential reach of 193 million users of the media.
--	---	---

Tax Registration System for Tax, Labor, and Social Security Obligations (eSocial) (Brasil)	E-Social in Brazil is a digital accounting system, which has harmonized in a single government database the information of different labor, tax and social security obligations: it is a new way of providing information to the Treasury, which guarantees more effectively the rights of workers, simplifies the processes of the companies and increases the quality of the information provided to the State. The information that employers must report in eSocial includes withholding income tax, contributions to Brazil's Unemployment Compensation Fund (FGTS), unemployment insurance, family allowance, and sick, temporary and vacation leave. The system replaces Brazil's previous reporting process which was not integrated.	Increase in new users, accesses and downloads of digital documentation. In 2020 there were more than 270 million visits, and the download was enabled for IOS and Android, reaching more than 24.2 million downloads. Improvement in the quality of the information provided to the tax authorities, which reduces the administrative processes related to the provision of benefits to policyholders. Before eSocial, approximately 20% of the benefits requested by policyholders were not rendered promptly and were referred to another process. With eSocial, workers have information about their work life in a single, reliable file. Reduction in the number of hours spent by companies to fulfill their obligations faster, safer and at a lower cost.
---	---	---

Law No. 21.431 regulating the contract of workers of digital service platform companies (Chile)	Law No. 21,431 regulates the relationship between workers and companies through digital applications in the urban transportation and delivery sectors. It determines the registration in a digital registry provided by the Ministry of Transportation of the companies, the payroll of drivers and vehicles with which they operate. In addition, safety and professionalization of drivers and insurance for users are regulated. Prior to the law, approximately 200,000 people provided transportation or delivery services through digital application companies, without recognition of labor relationship or registration in the country. This sector of workers operated without legal regulation, facing a situation of helplessness. Seventy percent of transport or delivery workers for application companies did not contribute to a social security system or did not know if they did. One out of every three drivers did not have health insurance or did not know if they had any, and in the case of delivery workers this figure rose to 47%.	Increase in the issuance of tickets, since only 6% of drivers and 16% of delivery drivers issued tickets when the law came into force. These values increased to 24% of drivers and 35% of delivery drivers. The average (weekly) connection time to the application drops from 81 to 75 hours per week after the law. Reduction in the proportion of non-contributing workers of 10 and 3 percentage points in the five months following the application of the law in the case of drivers and delivery drivers, respectively.
--	--	--

Source: Prepared by the authors based on (ILO, pending publication).

The first three cases (digital inspector, Laudelina App and eSocial) demonstrate the extraordinary potential of digital transformation in labor rights enforcement. These disruptive solutions open a menu of new low-cost, large-scale alternatives for protecting workers' rights. It makes compliance easier and cheaper for companies (eSocial), exponentially increases the efficiency of labor inspection (digital inspector and Laudelina App), and empowers workers to know and demand their rights at work (eSocial). The intelligent use of this new resource represents one of the greatest qualitative leaps in terms of decent work and social justice.

The following are some of the most relevant attributes shared by these initiatives:

Targeting of the target population: the selection of vulnerable populations or those with a high incidence of informality such as domestic workers (App Laudelina) or people employed in digital platforms (Law No. 21,431 in Chile) is an appropriate approach to maximize the impact of the intervention.

Interventions with integrated actions: the implementation of technological solutions requires complementary efforts such as bridging the gap and digital literacy of vulnerable populations, information campaigns, coordination with employers' and workers' organizations, among others. Furthermore, in the case of initiatives such as eSocial in Brazil, inter-institutional coordination/articulation is indispensable. This approach of integrated actions is key to increase the effectiveness of interventions.

Focus on results: the application of digital technologies has demonstrated not only positive impacts in terms of formalization, but also an unprecedented scale in this type of services.

In parallel to digital innovation, innovative solutions have emerged in the area of social protection extension. This is one of the priority policy areas of R204 and of FORLAC 2.0 (ILO, 2024) and responds to the orientations of the two-dimensional strategy adopted by the 100th Session of the International Labor Conference in 2011. As seen above, this strategy promotes the implementation of social protection floors containing basic social security guarantees for universal access to essential health care and income security, and the progressive achievement of higher levels of protection within the framework of integrated social security systems.

The following are two examples that demonstrate the potential of such disruptive approaches to the extension of social protection in the region (see Annex 2 for more information):

Initiative	Description	Results
Innovations to extend social security coverage to the self-employed: differentiated contributory categories, collective registration system and special contribution collection mechanisms (Costa Rica)	The Costa Rican Social Security Fund (CCSS) has implemented a series of innovations to increase the contributory coverage of self-employed workers in the general pension and health insurance schemes through: 1) differentiated contribution categories, applied according to income for low-income workers; 2) collective registration systems, through group insurance agreements for farmers with financing according to the level of contributive capacity; 3) special mechanisms for the collection of contributions by independent workers and employers, with specialized inspectors and using physical, material, and technological resources for day and night supervision.	The benefits received by the insured and their families through the Collective Insurance Agreements are the same as those received by the other categories of workers affiliated to the social security system. The mechanism of differentiated contributory categories with subsidies has contributed to increasing the coverage rate of self-employed workers in health insurance and pension insurance.

<i>Asociación Mutual de Servicios Solidarios (AMUSSOL)</i> (Dominican Rep.)	The <i>Asociación Mutual de Servicios Solidarios</i> (AMUSSOL), founded in 2003 as an evolution of AMUSSAL, facilitates social security affiliation for informal workers in the Dominican Republic. It collects contributions representing 20% of salaries and transfers them to the Social Security Treasury, allowing access to benefits such as Old Age, Disability and Survivors' Insurance and Family Health Insurance in various labor sectors. Seminars, congresses, assemblies, and meetings are held on issues related to technical training, employment, labor, and union rights. The association has also been working on an agenda for safe workplaces free of violence and harassment against women, and the gender approach is already being implemented in the services provided by the initiative. AMUSSOL extends social security: it is a comprehensive model through the creation of the figure of a virtual employer, where they register self-employed workers as if they were workers for AMUSSOL to formalize and enter the Dominican social protection system. In addition, they provide advisory services and offer different services to their associates. One of the potential innovative elements of this approach is that, legally, AMUSSOL is a private enterprise (a social enterprise) whose share capital belongs to a trade union organization.	The impact of this approach has been positive, since, through the services provided by AMUSSOL, there has been an increase in formalization in the country, as well as a new perception by workers of the national social protection system. Increase in the number of people in social security: 30,416 full members, 71,378 dependent members, for a total of 102,972 active members. 907 microenterprises have been formalized with AMUSSOL's support. Accumulated payments to the Social Security Treasury (TSS) as of 12/31/23 amounted to 2,933,465,351 Dominican pesos. Mostly low-income and self-employed workers. It has 291 affiliated organizations.
--	--	---

Source: Prepared by the authors based on (ILO, pending publication).

The case of Costa Rica is a good example of a design adapted to the characteristics and needs of target groups that are difficult to cover. Differentiated contributions according to income level reduce one of the main barriers to access for the most vulnerable population groups. Collective insurance agreements are an amazingly effective tool for facilitating coverage of organized groups of small producers and guaranteeing their full access to social security benefits without discrimination. On the other hand, the special mechanisms for collecting contributions from self-employed workers and employers comply with one of the FORLAC 2.0 guidelines regarding simple and expeditious affiliation procedures. (ILO, 2024).. It is important to note that these changes in the functioning of Costa Rican social security were adopted by a board of directors with the participation of representatives of government, employers, and workers, i.e., they are the result of social dialogue.

The AMUSSOL model, on the other hand, represents an interesting experience of innovation from the trade union movement. Concerned about the exclusion of important groups of self-employed workers, the Autonomous Confederation of Class Trade Unions (CASC) decided to create a social enterprise whose objective was to extend social security to these groups of society and their families. The change in Dominican legislation and the openness of the respective authorities made possible the creation of an unprecedented figure, that of a virtual employer (AMUSSOL). Thanks to this innovation, and the arduous work of the team in charge, this organization not only opened the door to social security for tens of thousands of people, but also generated a portfolio of complementary services that facilitate the use of these benefits for the insured. The benefits of this innovative model not only strengthen the credibility and attractiveness of the union with its members, but also its finances, since part of the net income from the service contributes to its financing.

Some of the important attributes of these interventions are:

Targeting of the target population: the starting point of both initiatives is to identify the characteristics of groups that are difficult to reach in terms of social protection and to design tailored solutions. This targeting improves the relevance of the intervention and therefore its impact.

Interventions with integrated actions: collaborative work between the organizations representing the interests of the prioritized groups and the institution responsible for social security is key. In addition, the solution requires a set of integrated measures ranging from differentiated quotas to awareness-raising activities and mechanisms for collecting quotas according to the reality of the target group.

Focus on results: the impact of both initiatives is positive in terms of formalization. Both have information systems that make it possible to accurately identify the number of beneficiaries.

Questions for analysis and reflection

1. What are the challenges, opportunities, and priorities for constituents to promote the transition to the formal economy through digital technologies and innovation processes?
2. What actions would make it possible to take better advantage of new technologies to promote formalization and decent work?
3. The expansion of digital employment (e.g., platforms) obliges States to design e-formalization strategies to regularize these atypical forms of work. What elements should such strategies include?
4. Which sectors of the informal economy could benefit most from collective insurance schemes? How organized are these sectors to negotiate with the authorities responsible for social security?
5. What would be the contributions of constituents to promote the transition to the formal economy through digital technologies and innovation processes?
6. What are constituents' expectations of the ILO's work to promote the transition to the formal economy through digital technologies and innovation processes?



Approaches less explored by the ILO: transition to the formal economy from a sectoral approach through social dialogue and inter- institutional coordination mechanisms that include informal economy workers and units

The Governing Board requested the Office to include this topic in the report that will serve as the basis for the general discussion in 2025. Of particular interest are sectoral approaches to combating informality and innovative schemes for organizing workers and economic units in the informal economy that establish partnerships with representative organizations of workers and employers and facilitate access to effective social dialogue.

R204 refers to sectoral policies that promote employment, raise productivity, and facilitate productive transformation. This orientation is also reflected in FORLAC 2.0. Member states are recommended to make productive bets in economic sectors that stimulate growth, formalization, and economic diversification in an inclusive and sustainable manner. This requires the promotion of private and public investment, the promotion of clusters, value chains or business networks aimed at inducing changes in the sectoral composition of production to accelerate formalization. All of this within the framework of an inclusive social dialogue and respect for labor rights. (ILO, 2024).

Regarding social dialogue, R204 proposes the use of tripartite mechanisms with the participation of the most representative organizations of employers and workers. These should include in their membership, in accordance with national practice, representatives of membership-based organizations that are representative of workers and economic units in the informal economy (ILO, 2015).

FORLAC 2.0 includes inclusive dialogue as one of the fundamental premises of any formalization strategy. That is why it seeks to support constituents in strengthening their representativeness and in the design of processes for the participatory construction of solutions.

One of the innovative approaches to dialogue and co-creation promoted by FORLAC 2.0 is the "Executive Boards for productivity and decent work" (ILO, 2024). (ILO, 2024). This is an ideal instrument for:

1. overcoming coordination failures that occur among the institutional actors that must work across sectors in favor of formalization with interventions at the national, sectoral, business and workers' levels;
2. identify and eliminate the underlying causes that affect formalization and the capacity to generate decent work in a sector, value chain or cluster;
3. focus on the co-creation and implementation of cost-effective sustainable solutions/interventions at the national (macro), sectoral (meso), and enterprise and worker (micro) levels; and,
4. adapting, streamlining, modernizing, and making public management processes and procedures more flexible.

In the area of sectoral policies, the work being conducted by ECLAC in the region is particularly relevant. The organization conceives sectoral policies from a broader perspective as productive development policies. These policies are defined as "horizontal and vertical efforts aimed directly at productive transformation, i.e., sophistication, diversification and virtuous structural change of the productive apparatus, as a vehicle for increasing productivity and thus achieving more productive, inclusive and sustainable development" (ECLAC, 2024). (ECLAC, 2024).

Sectoral policies include science, technology and innovation, technological extension, entrepreneurship, digital transformation, closing human talent gaps, financing, investment, specific infrastructure and other specific public goods, specific policy and regulatory agendas, and internationalization, among others. (ECLAC, 2024). An analysis of this type of policies in five countries in the region (Argentina, Brazil, Chile, Colombia and Mexico) revealed that the average annual investment in these policies in 2021-2022 was between 0.2% and 1.2% of GDP, compared to 3.5% in the countries of the Organization for Economic Cooperation and Development (OECD). This demonstrates the incipient nature of this promising public policy approach in the region. It is important to note that, according to Marco Llinás of ECLAC (2024), the productive development policies analyzed by the organization do not have formalization as an explicit objective, although in some cases they could have a positive impact on their figures.

The following is a summary of innovative formalization initiatives related to policies and/or models of inclusive social dialogue, incorporating actors from the informal economy:

Initiative	Description	Results
<i>Programa Emprende Turismo</i> (Ecuador)	To promote the creation, start-up, and consolidation of innovative enterprises with potential for development and growth that will boost productivity and employment, and strengthen the supply of tourism services, through specialized technical assistance and the effective placement of investments in the form of seed capital. Services include support through business plan competitions, consulting, training, and since 2023, offers access to fixed-rate financing to those entrepreneurial ideas in the tourism sector that want to develop and have potential. Companies must be up to date with social security contributions and have no tax debts to participate. The municipalities are responsible for verifying compliance with these requirements. An innovative element is the way in which the calls for proposals and applications to be part of the program are conducted, since everything is done via the web page using the technological tools available to the project. On the official website there is a section where you can find the document with all the technical and legal bases of the call and where the objectives, criteria and attributions of the program are detailed. Everything is available free of charge.	Notable increase in corporate and small business applications, from 60 in 2018 to 1,009 in 2023, mainly in food, lodging, tourism operations and entertainment sectors. Formalization of 100% of the selected businesses, complying with registration requirements and with no Social Security debts. High participation of women, reaching 51% of business leadership.

Collective bargaining in the domestic work sector in the city of São Paulo. (Brazil)	In Brazil, 93% of paid domestic work is performed by women and around 62% is informal. This is a sector that in many countries is excluded from dialogue and collective bargaining. Through the associativity of this group of workers and a process of inclusive dialogue, collective bargaining is achieved to promote formality and generate better working conditions. One of the innovative aspects of this process is that it is an inclusive and dynamic dialogue, which is maintained continuously over time, the Union of Domestic Workers of the Municipality of Sao Paulo (STDMSP) and the Union of Domestic Employers of Sao Paulo (SEDESP) have continued to undertake collective bargaining in the following years after the start of the initiative. As a result, annual updates of the Collective Bargaining Agreement (CBA) have been signed between 2018 and 2023. These signatures facilitate and are a key piece in the process of formalization and prevention of informality in line with R204.	The highlight is the ability to bargain collectively in a predominantly informal sector. The content of each CCT is legally binding, but the signing of a new agreement is subject to the predisposition of the parties interested in starting a negotiation. In 2017, an agreement was signed between the Union of Domestic Workers of the Municipality of São Paulo and the Union of Domestic Employers. Among the benefits are inclusion of a minimum wage higher than the national minimum wage and weekly rest periods, as well as the full enjoyment of workers' rights.
--	---	---

► Background guide for the Regional Tripartite Knowledge Sharing Forum:
Innovative Approaches to Promoting the Transition to Formality in Latin America and the Caribbean

Intervention model for the transition from the informal to the formal economy (Dominican Rep.)¹⁴	The intervention model is based on an experimental public policy approach. According to this approach, there are no predetermined or linear solutions. It is a process based on exploring, discovering, learning, and scaling. It is not possible to separate design, implementation, and evaluation. It is an innovative way of converting the principles of ILO Recommendation No. 204 into a practical tool for action, which seeks to facilitate the design and implementation of formalization strategies with a sectoral approach. The entire process is managed by a Tripartite Executive Board led by the Ministry of Labor with the participation of other ministries and key institutions. The intervention model has an implementation guide and support resources, as well as a tool for the technical prioritization of groups/sectors.	The transfer of the model to the Dominican authorities was completed in the first half of 2024. The implementation of the first pilot project is pending.
---	---	--

Source: Prepared by the authors based on (ILO, pending publication).

14 This initiative is not included in the ILO Formalization Toolkit as its implementation has yet to begin.

In this modality of approaches less explored by the ILO, few examples were identified in the region of innovative sectoral policy initiatives focused on the transition from informality to formality. The participation of organizations of informal economy workers in dialogue spaces, for example, in collective bargaining processes, is also exceptional.

Ecuador is one of the few countries that has used a sector-wide approach in tourism to deliberately promote formalization objectives. The *Emprende Turismo* program has not only managed to formalize 100% of the selected small businesses but has also incorporated digital technologies to expand access and reduce the costs of formality. In addition, it has successfully included women (51% of beneficiaries). The combination of incentives such as technical support and seed capital, conditional on compliance with formal obligations (social security and taxes) was undoubtedly a good mix of instruments. Municipal participation in program supervision was another innovative element. The selection of beneficiary businesses through public calls for proposals adds transparency and allows for effective targeting.

The case of Brazil is a positive exception in which a successful and lasting collective bargaining process was established in a largely informal sector. The leading role of the union organization undoubtedly played a significant role in the success of the process. The benefits for workers are evident in terms of wages and protection of their rights. The organization of collectives such as this one and the possibility of using dialogue and collective bargaining demonstrate the enormous potential of this type of instrument to advance the agenda of decent work and formalization. An important aspect of this initiative is also the territorial dimension (Sao Paulo).

Finally, about the Dominican case (Intervention model for the transition from the informal to the formal economy), its innovative design should be highlighted. It is a model that draws on the experimentalist governance approach, uses technical criteria for the prioritization of entry points (groups/sectors), and provides a series of tools and support resources for the authorities responsible for implementation. It was designed with ILO support and with the active participation of workers, employers, and the government. It proposes the use of Executive Tables to address the challenges of coordination between institutions, and incorporates other actors needed to address informality in a comprehensive manner (entities linked to economic policy, social security, taxation, among others).

Among the attributes of these initiatives are:

Target population focus: both the Brazilian and Ecuadorian cases are initiatives focused on narrow target groups (domestic work and tourism, respectively). The Dominican intervention model also promotes segmentation of informal employment and prioritization of entry points (groups/sectors).

Interventions with integrated actions: the case of Ecuador is a good example of an integrated intervention model. It articulates business development services and soft financing, conditional on compliance with tax and social security obligations. In addition, it involves both the municipality and the sector's organizations.

Focus on results: the cases of Ecuador and Brazil have shown positive results in terms of formalization. The existence of verification and compliance mechanisms, in one case by design and in the other because it is part of collective bargaining, facilitates the measurement of impact.

Questions for analysis and reflection

1. What are the challenges, opportunities, and priorities for constituents to promote the transition to the formal economy from a sectoral approach through social dialogue and inter-institutional coordination mechanisms that include workers and economic units in the informal economy?
2. Why is there a disarticulation between productive development policies, including sectoral policies, and formalization policies or strategies? How can this be corrected?
3. How to ensure that the interests and needs of people working in the informal sector are considered at the dialogue tables where formalization policies and strategies are designed?
4. What role could ILO constituents play in promoting such less explored approaches? What support would they require from the Office?
5. What would be the contributions of the constituents to promote the transition to the formal economy from a sectoral approach through social dialogue and inter-institutional coordination mechanisms that include workers and economic units of the informal economy?
6. What are the constituents' expectations regarding the ILO's work to promote the transition to the formal economy from a sectoral approach through social dialogue and inter-institutional coordination mechanisms that include workers and economic units in the informal economy?

Conclusions

This report has discussed three different innovative approaches to formalization: those included in R204 that are less used by member states, others that have taken off since the adoption of the recommendation, and those that have been less explored by the ILO. From the review of experiences systematized by the Office, it is possible to draw useful lessons to inform the design of more effective interventions.

Regarding the first type of approach, aspects included in R204 that are not sufficiently utilized, the issue of productivity stands out. Two clear trends were identified in the region. On the one hand, there are efforts at the microeconomic level focused on improving the productivity of smaller companies through different advisory and training services. On the other hand, there are interventions focused on the development of employability skills, especially for people with low levels of schooling or living in poverty. Although promising, these actions are insufficient to close the productivity gaps between the region and the countries that are advancing faster.

The second source of innovation comes from approaches that have boomed since the adoption of R204. The digital revolution is one of the main transformative forces that is enabling fresh solutions in key fields such as labor rights compliance and the expansion of business development services. The use, for example, of Artificial Intelligence, enables specialized advisory services to be offered at low cost and large scale. Technology has been a valuable ally of decent work, improving the scope and effectiveness of labor administration and inspection services. Regulatory and associative innovations also contribute to improving access to social protection for groups traditionally difficult to reach, in some cases with the protagonist participation of social actors.

In relation to the third approach, innovations that have not been sufficiently addressed by the ILO include sectoral approaches to combat informality and inclusive dialogue schemes that allow for a fuller incorporation of informal economy actors in the design of policies and programs. The new generation of productive development policies, promoted by ECLAC and based on an experimentalist governance approach, offer promising alternatives for addressing the root causes of informality. Likewise, collective bargaining or innovative collaborative work mechanisms such as the Executive Boards for productivity and decent work are effective means to improve the impact on formalization.

The exhaustive review of innovative experiences conducted by the ILO, including the cases presented in this report, provides valuable elements to consider in the design of formalization initiatives. In particular, it is worth highlighting what works and what does not work in the design and implementation of this type of interventions. The following is a review of the most common success factors and limitations.

Success factors:

Some of the most frequent critical success factors in the initiatives reviewed are:

1. Target population focus

The informal economy is a complex problem due to its multiple causes and associated dimensions. This is why those responsible for formulating formalization strategies are often faced with a challenging question: where to start? A complex problem can be overwhelming if approached in its entirety, so it is useful to identify and establish entry points for change.

The choice of entry points may initially focus on specific sectors, categories of companies or groups of workers. How to prioritize? Relevance and feasibility criteria are usually combined.

Relevance refers to the degree of informalization or the severity of decent work deficits of the target population. Feasibility, on the other hand, refers to the probability of success considering the resources available, the willingness of the parties involved, and other variables of the social, cultural, political, and economic context.

The cases analyzed show that when the target population is a limited group with more homogeneous characteristics, it is feasible to design solutions tailored to their conditions and needs, significantly increasing the probability of success. This requires the active participation of stakeholders, including representatives of people working in the informal economy, in the design and implementation of the intervention.

2. Interventions with integrated actions

Informality is a multifactorial phenomenon that requires the design and implementation of public policy interventions, combining a series of integrated and articulated strategies that consider the diversity of factors that explain it, as recommended by R204.

The initiatives studied show that success is greater when interventions are designed that consider aspects such as the following:

- Coordinated work between government institutions: the Ministry of Labor alone cannot face the challenge of informality. The active participation of the institutions responsible for complementary policies included in a comprehensive strategy is indispensable, as well as the leading role of employers and workers.
- The commitment of municipal authorities: local governments, like other levels of government, have exclusive or shared competencies in the promotion of decent work and productive development in their territories. Local governments are the level of government closest to the citizens, therefore their incorporation is fundamental.
- Articulation and synergies between public policies, programs, and services: the complementarity between the various initiatives allows for a better response to the multifactorial nature of informality, as well as strengthening effectiveness, impact, sustainability and optimizing the resources invested.
- Institutional strengthening of the inspection system in the countries by improving regulations and developing new approaches, instruments and technologies, strengthening the institutional and technical capacities of inspectors, and providing greater resources, among other strategies.

3. Focus on results

The most successful initiatives typically include in their design a clear focus on measurable results. They have clear goals and the resources to achieve them. They also include robust monitoring and evaluation mechanisms, allowing them to make the necessary corrections in real time and to accurately quantify the impact of the actions taken.

In the experimentalist management perspective, it is not possible to separate design, implementation, and evaluation. Evaluation is not a final phase but a cyclical and iterative process that consists of validating the solution, gathering lessons learned and continuing to review the problem definition and redesigning the solution with a vision of correction and adaptation for continuous improvement. This innovative approach must be an essential part of the change to break out of the informality trap in the region.

Common limitations:

Some of the main limitations observed in formalization strategies in the region are the following:

1. Design challenges

Among the main weaknesses in the design stage of the interventions are the following:

- Lack of understanding of the problem and its causes: often the solutions are based on supposed international best practices or theoretical considerations, without an in-depth study of the problem to be solved and its causes.
- Exclusion of informal economy stakeholders from the dialogue roundtables: this makes it difficult to identify and incorporate their needs and interests in the design of interventions, and thus limits their effectiveness.
- Insufficient planning: operational, logistical, and communicational challenges must be considered, as well as the provision of sufficient resources.
- Weak incorporation or non-incorporation of the gender approach: the lack of gender diagnostics prior to strategy design limits the potential of policies to benefit women.

2. Implementation challenges

Well-designed strategies may fail in the implementation phase. Some of the most frequent reasons for the limited impact of interventions are the followings:

- Limited mandate: often fragmented mandates are given to various institutions regarding informality or delegated to an entity such as the Ministry of Labor, which rarely has authority over the institutions required for a comprehensive approach to informality.
- Institutional weakness and governance challenges: insufficient resources and institutional capacities, weak consultation and dialogue mechanisms, political instability, and high turnover of officials, among others.
- The effects of interventions on employment formality weaken over time: the search for short-term results, associated with periods of government, prevent more effectively addressing the structural causes of informality.
- Rigidities in the public sector discourage the participation of private actors.
- The digital divide must be considered: possible technological barriers and cultural resistance of the beneficiary population must be foreseen.

3. Evaluation challenges

Very few initiatives have effective monitoring and evaluation mechanisms. Impact evaluations are scarce in the region, which limits accountability, institutional self-learning, and timely correction of interventions.

References

- ILO** (2024). *Formalization Strategy for Latin America and the Caribbean 2024-2030*. Geneva: ILO.
- ILO** (2022). Promoting productivity ecosystems for decent work. Governing Body (p. GB.346/INS/9). Geneva: ILO.
- ILO** (2011). Report VI - Social security for social justice and a fair globalization. 100th International Labour Conference. Geneva: ILO.
- Bruhn, M. y.** (2013). Entry regulation and formalization of microenterprises in developing countries. *Policy Research Working Paper No.6507*. Washington D.C.: World Bank.
- ILO** (2017). *Evaluación clúster sobre iniciativas OIT en favor de la transición hacia la formalidad*. Lima: ILO.
- ILO** (2024). *Promoting the transition from the informal to the formal economy in Latin America and the Caribbean: Systematization of some innovative initiatives of workers' organizations and employers' organizations*. Lima: ILO.
- ECLAC** (2024). *Panorama de las políticas de desarrollo productivo de América Latina y el Caribe 2024*. Santiago: ECLAC.
- ILO** (2015). *R204 - Transition from the informal to the formal economy Recommendation, 2015 (No. 204)*. Geneva: ILO.
- Llinás, M.** (September 27, 2024). Productive development and formalization policies in LAC (A. Ramírez, Interviewer).
- ILO** (2024). *Análisis de las características y de la evolución reciente de la ocupación informal en América Latina y el Caribe*. Lima: ILO.
- Salazar-Xirinachs, J. M., & Chacaltana, J.** (2018). *Formalization Policies in Latin America: Progress and Challenges*. Geneva: ILO.
- ILO** (2014). *Notes on formalization. Recent experiences of formalization in Latin American and Caribbean countries*. Lima: ILO.
- ILO** (pending publication, a). *Report on systematization of innovative initiatives for formalization*. Lima: ILO.
- ILO** (pending publication, b). *New forms of work and informality in Latin America*. Lima: ILO.
- ILO** (2024). *The Executive Boards for productivity and decent work. Complementary methodological note*. Lima: OIT.

Annexes

Annex 1: Innovative formalization initiatives in Latin America and the Caribbean.

Country	Initiative
Argentina	Reform that increased labor standards for domestic workers and the enforcement of compliance by their employers.
Argentina	Policy to disseminate the labor rights of domestic workers by sending letters to potential employer households.
Argentina	Program for Economic Recovery, Employment Generation and Social Inclusion of Private Household Workers (REGISTRADAS)
Argentina	<i>Inspector digital e Inspector Digital 2.0</i>
Bolivia	Employment Support Program
Brazil	Tax Registration System for tax, labor, and social security obligations (eSocial)
Brazil	<i>APP Laudelina</i>
Brazil	First large-scale effort by the Brazilian government to increase social security compliance among the self-employed through behavioral interventions
Brazil	Information services, exemption from registration fees, assignment of municipal inspectors and visits by inspectors to neighboring companies to generate impacts on formalization behavior.
Brazil	Program to Support Fiscal Management in Brazil (Profisco)
Brazil	Collective Bargaining in the domestic work sector in the city of São Paulo
Chile	<i>Mi Pyme Cumple</i>
Chile	Law 21.431. Law regulating the contract of workers of digital service platform companies.
Colombia	Social impact bonds program (SIBs.CO) <i>Empleando Futuro BIS I</i>
Colombia	<i>BIS II Cali Progresas con Empleo</i> (Cali Progresses with Employment)
Colombia	<i>BIS III. Emergency Innovation Voucher</i>
Colombia	Law 1607 (Tax Reform Law of 2012)
Colombia	Programs that foster the growth of neighborhood stores: <i>Programa Tu negocio en línea</i>

Costa Rica	Mechanisms to extend social security coverage to the self-employed: differentiated contributory categories, collective registration system and special contribution collection mechanisms.
Costa Rica	Subsidized insurance for social security affiliation of part-time domestic workers and Electronic Registration System for Domestic Workers
Ecuador	<i>Programa Empeñe Turismo</i>
Honduras	<i>Formaliza tu negocio</i>
Peru	<i>Corredores Complementarios de Lima Metropolitana</i>
Peru	Law N°31110 on the labor regime and incentives for the agro-export and agro-industry sector.
Peru	<i>Acciones previas a la fiscalización laboral</i>
Dominican Republic	<i>Asociación Mutual de Servicios Solidarios (AMUSSOL)</i>
Dominican Republic	Intervention model for the transition from the informal to the formal economy
Uruguay	<i>Uruguay Trabaja</i>
Uruguay	<i>Monotributo</i>
Uruguay	Improvements in the pension system accompanying the Paid Domestic Work Law

Source: (OIT, pendiente de publicación).



International
Labour
Organization

Ilo Regional Office
for Latin America
and the Caribbean