

General Discussion Committee on Promoting Transitions Towards Formality

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► Draft conclusions concerning the General Discussion on Promoting Transitions Towards Formality

I. Addressing informality leaving no one behind: An urgent need for action

1. The Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204), remains the global reference for addressing informality and promoting the transition to formality. It provides comprehensive policy guidelines for addressing the root causes of informality, recognizes the diversity of the informal economy across and within countries and calls for integrated approaches tailored to national circumstances and based on social dialogue.
2. Informality is one of the structural barriers to advancing decent work, social justice and sustainable development. It hinders progress in reducing poverty and inequality and presents significant challenges for the realization of workers' rights, including the fundamental principles and rights at work, effective labour protection, and universal access to comprehensive, sustainable, effective and adequate social protection. It also undermines the rule of law, hinders productivity and has a negative impact on the development of sustainable enterprises, public revenues, governments' scope of action, the soundness of institutions and fair competition in national and international markets.
3. Ten years on from its adoption, Recommendation No. 204 has yet to be fully implemented. Informality remains high and persistent, is increasing in some countries, and unacceptable. The informal economy accounts for close to six out of ten workers and eight out of ten enterprises in the world. While more prevalent in low- and middle-income countries, the informal economy exists in all parts of the world, including in high-income countries. Although the share of workers in the informal economy is declining globally, the numbers of informal workers continue to grow in absolute terms. For most workers and economic units, entering the informal economy is not a choice but a consequence of a lack of opportunities in the formal economy and the absence of other means of livelihood.
4. Informality is a complex, structural and evolving challenge that affects diverse forms of work arrangements across informal economic units, formal enterprises and households.

5. Own-account workers, those in non-standard forms of work, micro and small economic units, and certain sectors, might be disproportionately at risk of informality.
6. Women as well as groups in situations of vulnerability, including young people, older people, migrants, refugees, indigenous and tribal peoples, persons with disabilities, care and domestic workers, home-based workers, street vendors and waste pickers, and rural and agricultural workers, are often at higher risk of informality and face specific barriers to formalization.
7. Drivers of informality are multifaceted and interrelated. Their relative importance differs considerably between countries, workers and economic units as well as sectors. Drivers of informality are cross-cutting and specific to particular groups of workers or categories of economic units. The main drivers of informality include, but are not limited to:
 - (a) Low income, high levels of poverty and inequality;
 - (b) weak public institutions and inadequate, ineffective or non-existent regulatory frameworks, including legal coverage gaps, weak or inefficient compliance and enforcement systems, lack of rule of law, including a lack of access to justice and public services, complex and costly regulatory and tax requirements and burdensome registration procedures;
 - (c) a lack of policy coherence and coordination across different institutions, ministries and levels of government, corruption, and a lack of accountability, which further erodes trust in formal systems;
 - (d) a lack of or limited social protection coverage and accessibility, and inadequacy of social protection, which disincentivizes formalization in the long term;
 - (e) the inability of the economy to generate sufficient formal jobs and formal business opportunities;
 - (f) the lack of or slow shift in production towards higher value added and higher productivity activities, both across and within sectors;
 - (g) a low level of productivity in informal economic units, often compounded by a lack of access to essential resources such as land, finance, technology and market opportunities and to property rights, which limits their economic viability and ability to grow, innovate, formalize and provide decent work;
 - (h) discrimination and gender inequality, disproportionately affecting vulnerable groups.
 - (i) threats and restrictions to the respect for, and the promotion and realization of, freedom of association and effective recognition of the right to collective bargaining, as enabling rights, and the related lack of representation and effective access to social dialogue, including tripartite cooperation.
 - (j) a low level of, and limited access to relevant education, training and skills, which restricts upward mobility and hinders informal economy workers' ability to access formal employment opportunities;
 - (k) prevailing crises and external shocks, such as the COVID-19 pandemic, geopolitical crises, armed conflicts and forced displacement;
 - (l) environmental and climate change, which intensifies existing vulnerabilities, especially for workers in the informal economy who are often the first and hardest hit by climate-induced shocks, exacerbated by limited or no access to adequate social protection and healthcare;

- (m) perceived and misunderstood advantages of operating informally, which can lead some to deliberately avoid formalization;
 - (n) repercussions of significant transformations in the world of work driven by technological innovations, demographic shifts, environmental and climate change and globalization that could lead to the growth of forms of employment and categories of enterprises associated with a relatively high risk of informality, while public institutions often struggle to adapt in a timely manner to these changes.
8. At the same time, new opportunities to support the transition to formality are emerging. When implemented in meaningful consultation with social partners, new digital technologies can provide effective tools to facilitate the transition to formality, prevent informalization and strengthen compliance systems against labour law violations, while respecting data protection laws. Similarly, under certain conditions, increased access to domestic and global markets through supply chains can help to integrate informal workers and economic units into the formal economy.

II. Accelerating the implementation of Recommendation No. 204: Main lessons learned

9. Formalization should be pursued through three complementary channels, which are the objectives of ILO Recommendation No. 204, notably:
- (a) facilitate the transition of workers and economic units from the informal to the formal economy, while respecting workers' fundamental rights and ensuring opportunities for income security, livelihoods and entrepreneurship;
 - (b) promote the creation, preservation and sustainability of enterprises and decent jobs in the formal economy and the coherence of macroeconomic, employment, social protection and other social policies; and
 - (c) prevent the informalization of formal economy jobs.
10. Integrated comprehensive, coordinated strategies combining national, local and sectoral approaches – as set out in Recommendation No. 204 – are the most effective in tackling the multiple drivers of informality and promoting the transition to formality, while achieving desired outcomes.
11. Lessons learned since the adoption of the Recommendation No. 204 in 2015 have shown that the following four pillars can be considered to be prerequisites for the transition to formality:
- (a) Good governance and an adequate, fit-for-purpose regulatory framework combined with political will and commitment.
 - (i) The transition to the formal economy requires political will and commitment to adopt appropriate policies and legal and institutional reforms, while fostering the rule of law, accountability and policy coherence through effective institutional coordination.
 - (ii) Reliable, quality and timely data, diagnostics and rapid assessments are crucial for informing evidence-based policies and interventions.
 - (iii) Ensuring the sustainability of formalization efforts requires the dedication of adequate financial and human resources, including the establishment and maintenance of effective implementation, compliance and enforcement mechanisms, capable of supporting long and complex formalization processes.

- (iv) Effective social dialogue and inclusive consultation mechanisms for policymaking are essential for the success and sustainability of formalization policies.
- (b) Organization, voice and representation of workers and economic units in the informal economy and inclusive social dialogue.
 - (i) When decisions that concern them are taken, it is important that workers and economic units in the informal economy have the possibility to express their views and defend their interests through freedom of association and the right to collective bargaining. This includes the right to establish and, subject to the rules of the organization concerned, to join organizations, federations and confederations of their own choosing in law and in practice.
 - (ii) Representative employers' and workers' organizations can play a critical role in representing those in the informal economy in social dialogue processes and institutions. Where feasible and with appropriate capacity-building, representative organizations of employers and workers should extend membership to those in the informal economy, provide services and, where appropriate, form alliances and partnerships to achieve common goals.
 - (iii) The social and solidarity economy can complement other formalization pathways by providing workers and economic units in the informal economy with complementary structures that promote solidarity, mutual support and shared decision-making.
- (c) An enabling environment to accelerate the transition to formality.
 - (i) In some contexts, sustained economic growth, structural transformation and steady gains in productivity – when combined with determined action to reduce poverty, advance decent work, extend social protection and improve education and skills – can progressively remove many of the underlying conditions that give rise to informality.
 - (ii) Targeted action to move workers and economic units out of low-productivity, highly informal sectors – and to enhance productivity within existing sectors through investment, skills development and lifelong learning, innovation and social dialogue and respect for fundamental principles and rights at work – is critical to reducing informality.
 - (iii) Creating a conducive environment for sustainable enterprises, including micro, small and medium-sized enterprises (MSMEs) and social and solidarity economy units can support the transition to formality by promoting a level playing field and fair competition, and by improving access to land, finance, markets and services. Formalization efforts also benefit from regulatory simplification, transparent and predictable compliance systems and fiscal incentives that support business development.
 - (iv) Complementary gender-responsive and inclusive measures are necessary to produce an enabling environment for increasing productivity and to ensure that workers are able to take advantage of new opportunities in the formal economy.
- (d) Better working and living conditions through the transition to formality and leaving no one behind.

- (i) The transition to the formal economy is a key condition for decent work. However, for many informal economy workers and economic units, entering the formal economy is a gradual process.
 - (ii) Leaving no one behind means tackling the most critical decent work deficits and vulnerabilities, including improving incomes, working and living conditions and extending social protection in the informal economy. Importantly, the realization of the fundamental principles and rights at work in practice cannot and should not depend on a transition to formality but should instead support and facilitate this transition, including through strengthened access to skill development and lifelong learning.
- 12.** In addition, based on a wide range of country-level innovations, a number of new approaches have gained prominence, with new developments offering opportunities to promote formalization.
- (a) Harnessing new technologies, while addressing the potential risks and the digital divide, can, among others, improve incomes, simplify registration of enterprises and employment, facilitate access to social security, skills, finance, markets and other productivity-enhancing services when accompanied by adequate infrastructure, interoperability and digital capabilities to overcome some of the barriers to entering the formal economy. Digital technologies can prevent informalization and strengthen compliance with laws and regulations, including through more effective enforcement systems, awareness raising, information sharing and capacity building and expansion of efficient and effective labour inspection systems.
 - (b) Sectoral or targeted integrated approaches are effective at tackling the heterogeneity and specific drivers of informality within sectors or specific groups.
 - (c) Increasing access to supply chains, particularly through multinational enterprises, can connect workers and economic units with domestic and export markets, while providing services, such as capacity-building, skills transfers, support for formalization and improvements in job quality. For MSMEs to participate in supply chains, especially in their domestic tiers, public policies are essential to reduce barriers to formalization, enhance productivity and promote sustainable enterprise growth.

III. Advancing decent work through the transition to formality, leaving no one behind

- 13.** As we move forward, the priority must be to strengthen action for the effective implementation of Recommendation No. 204.
- 14.** Innovative approaches and good practices show that, to address the root causes of informality and promote the transition to formality, governments and employers' and workers' organizations, with the support of the Office and taking account of national circumstances, should promote measures, such as:

Good governance and integrated strategies

- (a) ensuring evidence-based policymaking and policy coherence with economic, employment, social and migration policies and stronger monitoring mechanisms to assess progress in addressing informality;

- (b) designing and implementing adequately funded integrated national and sectoral strategies for promoting the transition to formality and preventing informalization, based on whole-of-government engagement, efficient labour market institutions and social dialogue;
- (c) implementing gender-responsive policies and regulations to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all;
- (d) Strongly encouraging that public financing promotes decent work, enabling decent livelihoods, and fully formalized employment with access to universal, comprehensive, sustainable, effective and adequate social protection;

Enabling environment for transition to formality

- (e) scaling up business development services, sustainable finance and support for the formalization of economic units and sustainable and productive development;
- (f) streamlining registration and compliance mechanisms, including through digital tools and e-services, to reduce complexity and costs associated with registration, balancing incentives, compliance and enforcement;
- (g) offering fiscal and other incentives such as tax breaks, subsidies, credit lines and including provisions in public procurement linked to facilitating the effective and timely transition from the informal to the formal economy;
- (h) promoting education and skills development, especially for women and young people, including technical and vocational education and training, skills recognition, internship, lifelong learning, apprenticeships, reskilling and upskilling with a view to promote sustained, inclusive and sustainable economic growth, full, formal and productive employment and decent work for all;
- (i) strengthening public services and public employment services and private employment agencies;
- (j) recognizing and supporting the social and solidarity economy workers and economic entities in the design, implementation and monitoring of strategies and measures for the transition from the informal to the formal economy;
- (k) addressing legal, policy and implementation gaps to ensure adequate, inclusive and effective labour protection, sustainable formal enterprises, wage policies including living wages in line with the Conclusions of the ILO meeting of experts on wage policies including living wages, as well as adequate and comprehensive social protection for all workers and the realization of the fundamental principles and rights at work;
- (l) addressing legal, financial and administrative barriers to the extension of social protection to all, while enhancing awareness of social security benefits, governance and service quality tailored to uncovered groups;
- (m) progressively extending labour administration functions to cover workers in the informal economy and promote compliance and enforcement systems, including effective labour inspection and uphold labour rights;
- (n) promoting, with the support of employers' and workers' organizations, awareness-raising campaigns making clear to economic units and workers how formalization helps improve business operations and realize decent work;

- (o) implementing targeted approaches for groups disproportionately affected by, and at risk of, informal work as well as for sectors, such as agriculture, and types of economic units, such as micro and small enterprises and own-account workers, where informality remains widespread;
- (p) extending the fundamental and enabling rights of freedom of association and collective bargaining to all workers, including at national and sectoral levels;
- (q) ensuring through social dialogue that workers and economic units in the informal economy have a voice in the policies and programmes intended to address informality and support the transition to formality;
- (r) strengthening the capacity of employers' and workers' organizations to reach, organize and represent informal economy workers and economic units, including through targeted outreach strategies, training programs, tailored service offerings, partnerships with local associations and support to access to financial and technical resources;
- (s) providing advisory services and practical guidance that address the concrete challenges of workers and economic units in the informal economy, particularly in sectors where informality is most entrenched;
- (t) supporting, where appropriate, effort by employers' and workers' organizations to develop partnerships and alliances with member-based representative organizations of workers and employers in the informal economy to achieve common goals and increase their voice and representation.

15. To support ILO constituents in accelerating the transition to formality, the ILO should:

Policy coherence and strategic guidance

- (a) provide technical assistance to develop national and sectoral formalization strategies that encompass an integrated and coherent approach that includes creating decent employment, extending universal and adequate social protection systems, supporting inclusive education and skills systems, reforming legal frameworks to extend rights to workers in the informal economy and strengthening labour inspection and enforcement mechanisms;
- (b) enhance assistance to countries to realize the right of all workers to a safe and healthy working environment, following its recent recognition as a fundamental principle and right at work;
- (c) provide targeted and sustained assistance to extend freedom of association and collective bargaining rights, including at national and sectoral levels;
- (d) ensure that employers' and workers' organizations are equipped and supported in their efforts to reach, organize and represent informal economy workers and economic units, and develop inclusive organizing models that reflect the realities of informal work;
- (e) support legal reforms that recognize and uphold the rights of workers in the informal economy to form and join trade unions, bargain collectively and participate fully in social dialogue mechanisms at all levels;
- (f) support the ratification and effective application of clear, robust and up-to-date international labour standards to support a transition to formality;

Research and data

- (g) cooperate closely with national statistical offices to develop or, where relevant, strengthen the regular production, analysis and dissemination of reliable, timely and internationally comparable sex-disaggregated statistics on workers and economic units in the informal economy, in line with the 21st International Conference of Labour Statisticians resolution concerning statistics on the informal economy;
- (h) develop and strengthen the research and analytical capacities of the ILO to deepen the understanding of the informal economy and the wide range of interrelated topics and facilitate evidence-based policy making, to inform the design, implementation, monitoring and evaluation of formalization policies that are responsive to the diversity of contexts and circumstances and that leave no one behind;
- (i) share best practices and promote peer-to-peer learning and knowledge sharing;

Capacity-building

- (j) provide technical assistance to develop and improve national and sectoral formalization strategies;
- (k) support the establishment or enhancement of tripartite structures that are responsible for oversight, coordination and coherence of formalization efforts across different levels of government and cooperation between the relevant bodies and authorities;
- (l) provide technical assistance to constituents for the estimation and operationalization of living wages, in line with the conclusions of the ILO Meeting of experts on wage policies, including living wages, held in February 2024, and within the scope of the ILO programme on living wages;
- (m) strengthen support for enabling business environments and productivity ecosystems that foster sustainable enterprises and competitiveness that can translate into more and better jobs, enabling informal businesses to become viable and transition into the formal economy;

Leadership and strategic partnership

- (n) organize a tripartite meeting of experts on innovative approaches to addressing informality;
- (o) develop a global and timebound road map toward effective formalization that can be tailored to national circumstances and legal frameworks and that includes short, mid- and long-term objectives, as well as a clear monitoring framework;
- (p) establish a dedicated Programme and Budget Outcome focused on preventing informalization and supporting the transition of informal workers and economic units to formality;
- (q) strengthen collaboration and promote policy coherence within the UN and multilateral system, including with international financing institutions and public development banks, and assert the ILO's leadership in harnessing its tripartite mandate to advocate for the transition to formality;
- (r) ensure employers' and workers' organizations are included in relevant discussions and frameworks;

- (s) support efforts by Member States to mobilize and strengthen their domestic resources towards fostering formalization, including through integration with ILO programming instruments, such as ILO Decent Work Country Programmes and United Nations Sustainable Development Cooperation Frameworks;
- (t) build on the momentum generated by the Global Coalition for Social Justice, the Global Accelerator on Jobs and Social Protection for Just Transitions and the World Social Summit under the title “Second World Summit for Social Development” to further foster joint commitments towards effective formalization and strengthen domestic and international financing to support a transition to the formal economy.