



► Policy Brief

prepared for the Second World Summit for Social Development

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Accelerating the transition to formality for decent work and social justice

Key considerations for WSSD2

- **Informality is a key feature and challenge of the world of work. Although the share of workers in the informal economy is declining globally, the numbers continue to grow in absolute terms.** Informal employment remains a defining feature of far too many economies and the daily reality of 2 billion workers and 80 per cent of enterprises worldwide.
- **The transition of both workers and economic units to the formal economy is essential to advancing social justice, ensuring decent work for all and achieving the UN Sustainable Development Goals (SDGs).** Widespread informality presents significant challenges for the realization of workers' rights and working conditions. It also undermines the rule of law, hinders productivity and has a negative impact on: (i) the development of sustainable enterprises, public revenues and governments' scope of action; (ii) the soundness of institutions; and (iii) fair competition on national and international markets.
- **An integrated and coherent approach based on solid social dialogue institutions and greater representation of those in the**

informal economy is critical to address informality significantly and sustainably.

The Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204), is a key guiding instrument. Experience has shown that the following four pillars can be considered prerequisites: (i) good governance and an adequate regulatory framework, combined with political will and commitment; (ii) organization, voice and representation of workers and economic units in the informal economy, and inclusive social dialogue; (iii) an enabling environment for sustainable enterprises to make productive and full employment a reality; and (iv) better working and living conditions through the transition to formality and leaving no one behind.

- **Joining forces and developing strategic partnerships within the multilateral system and with international financial institutions.** Effective coordination, knowledge sharing and strategic partnerships are crucial to strengthen national capacities to address informality and guarantee adequate and sustainable financing for policies and interventions that support pathways to formality.

► Introduction

The informal economy is a major feature of the world of work, accounting for around 6 out of 10 workers and 8 out of 10 enterprises worldwide (ILO 2023a, 15, 24). Depending on the region, it contributes between 15 and 35 per cent of total gross domestic product (Ohnsorge

and Yu 2022; Deléchat and Medina 2021) and, while there are marked differences among countries and regions, all economies are affected.

This widespread informality is one of many structural barriers to advancing social justice and sustainable

development. It hampers progress in reducing inequality and ensuring decent work for all, including the realization of the fundamental principles and rights at work. It also undermines the rule of law, hinders productivity and has a negative impact on: (i) the development of sustainable enterprises, public revenues and governments' scope of action – particularly with regard to economic, social and environmental policies; (ii) the soundness of institutions; and (iii) fair competition on national and international markets. The pervasive nature of informality undermines efforts towards inclusive and sustainable social and economic development.

The policy debate on the transition to the formal economy, including the prevention of informalization, is at a critical crossroads. Despite enhanced efforts and growing capacities at the national level, along with opportunities emerging from the digital revolution and through engagement in supply chains, transitioning to formality remains a significant challenge.

While a growing number of countries have a proven record of developing effective legal and policy frameworks for formalization, with sustained efforts for policy coherence and coordination, others have only

recently embarked on similar paths or are considering doing so. There is substantial demand from policymakers and employers' and workers' organizations for evidence-based, innovative approaches and good practices on effective policy and coordination frameworks for facilitating the transition to the formal economy.

Ten years after the adoption of the Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204), the 2025 International Labour Conference's general discussion on innovative approaches (ILO 2024, 2025a, 2025b, 2025c) provides a timely opportunity to reflect on lessons learned and identify effective pathways to address informality and foster coherence and complementarity of actions at the sectoral, national and international levels. The Second World Summit for Social Development offers a crucial platform to address informality as one of the core barriers to achieving the SDGs and to further promote such inclusive strategies – enhancing labour and social protection, strengthening institutions and driving sustainable economic transformation – ensuring that no worker is left behind in the global effort to achieve social justice through decent work.

► Informality in numbers

At the global level, informality has been gradually declining over the past two decades, but progress remains slow. As of 2024, informal employment represented just under 58 per cent of total employment, compared to 62 per cent in 2004 (ILO, n.d.). Given the pace of growth in population and employment, the numbers of workers in informality continues to rise, and reached over 2 billion in 2024. The figures range from 13 per cent in high-income countries to close to 90 per cent of workers in low-income countries.

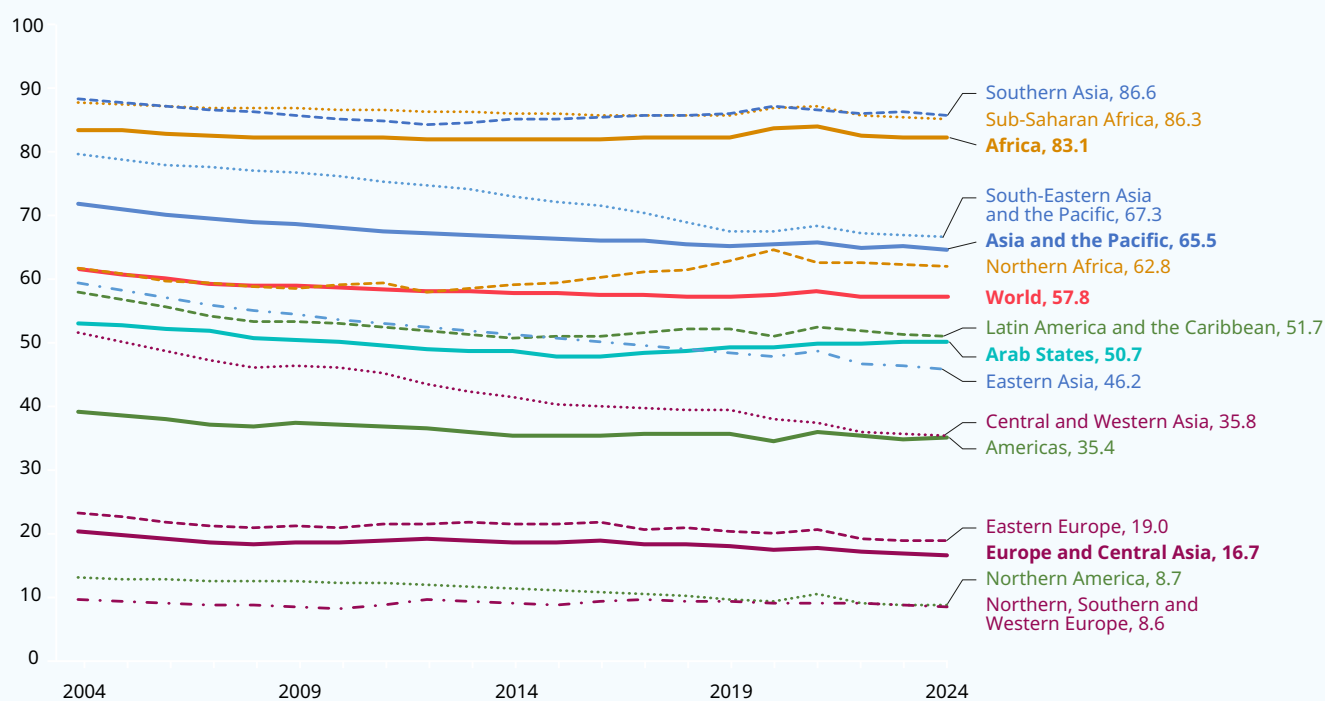
Some categories of workers and types of enterprises are more exposed to and impacted by informality than others in most contexts. Own-account workers are more than twice as likely to be in informal employment compared to employees. At the same time, employees in temporary employment are five times more likely to be in informal employment than employees in open-ended full-time employment, and are almost as exposed to informality as own-account workers. Informality of both enterprises and workers decreases as the size of the enterprise increases. Similarly, some sectors are consistently at higher risk of informality: agriculture, domestic work¹ and construction. Home-based work

► Box 1. What does informal economy mean?

From a policy perspective, as noted in Recommendation No. 204, "the term 'informal economy': (a) refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements; and (b) does not cover illicit activities [...]". In 2023, the 21st International Conference of Labour Statisticians adopted a resolution concerning statistics on the informal economy (ILO 2023b), which is aligned conceptually with informality as set out in Recommendation No. 204, defining the informal economy as comprising all productive activities carried out by persons or economic units that are – in law or in practice – not covered by formal arrangements, whether or not they are carried out for pay or profit. This conceptual definition is reflected in operational definitions of core elements of the informal economy, namely, informal sector and informal employment.

¹ More than 80 per cent of the world's 75.6 million domestic workers – of whom 76 per cent are women – are in informal employment, twice the share of other employees. See ILO (2021a, 189).

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



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

and work in non-fixed places of work (or, more generally, in non-professional fixed visible premises) are more likely to be informal (ILO 2023a, 42).

Women are more exposed to informality than men in the majority of countries, although not at the global level. Women also tend to be overrepresented among more vulnerable segments of the informal economy (for example, domestic workers, home-based workers² and contributing family workers). Both younger and older workers tend to experience higher informality rates than core-age workers. The same is true for workers with disabilities compared to persons without disabilities (70 per cent as opposed to 58 per cent, respectively) (ILO 2023c, para. 37). Indigenous peoples are 20.0 percentage points more likely to be in informal

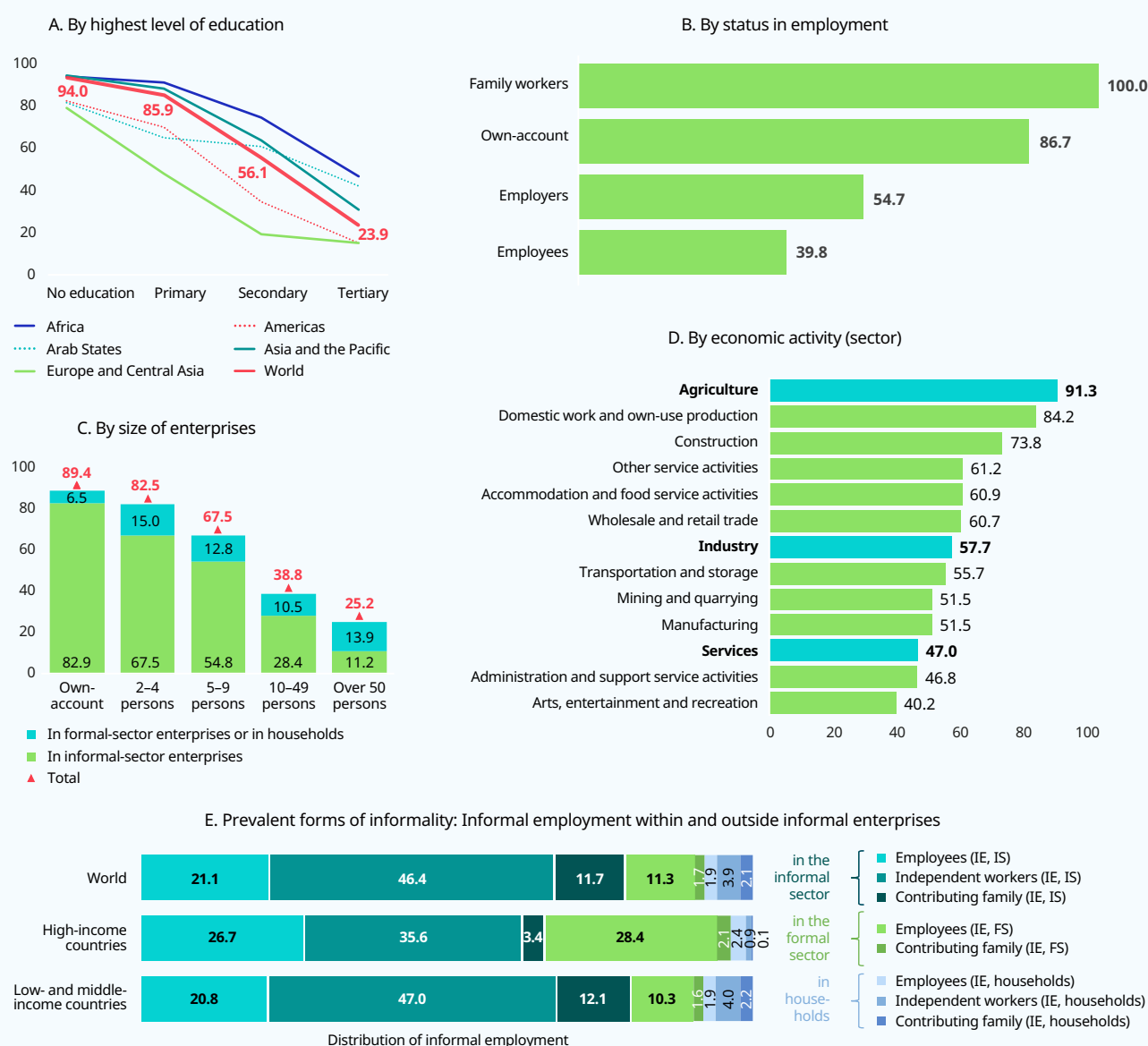
employment than the non-indigenous population (ILO 2020, 87). Higher levels of education lead to lower levels of informality everywhere, while the informal economy tends to absorb workers with lower levels of education.

Compared to workers in the formal economy, most workers in the informal economy face more pronounced decent work deficits and vulnerabilities. Globally, informal wage workers earn, on average, 56 per cent of formal workers' wages (ILO 2023a, 41) and, considering all workers, they are twice as likely to be poor than formal workers.³ At the same time, the level of labour productivity in economic units in the informal economy is less than half compared to those in the formal economy (ILO and OECD 2019).

² In low- and middle-income countries, most home-based workers are women. In 2019, 92 per cent were in informal employment compared with 88 per cent of men (ILO 2021b, 55).

³ Using the relative poverty line of 60 per cent of the median household income (ILO 2023d, 43–44).

► **Figure 2. Share of informal employment in total employment for groups most exposed to informality, and prevalent forms of informality (percentage)**



► Addressing informality and promoting the transition to formality

Formalization can be pursued through three complementary channels, encompassed in Recommendation No. 204: (i) facilitating 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; (ii) promoting the creation, preservation and sustainability of enterprises and decent jobs in the formal economy, and the coherence of macroeconomic, employment, social protection and other social policies; and (iii) preventing the informalization of formal-economy jobs.

To address informality and promote the transition to formality significantly and sustainably, an integrated and coherent approach is critical. Such an approach, in most cases, combines interventions across several policy areas in order to address different drivers of informality, increase the ability of the economy to absorb informal economy workers and enterprises, and strengthen the ability of individuals and enterprises to enter into the formal economy.

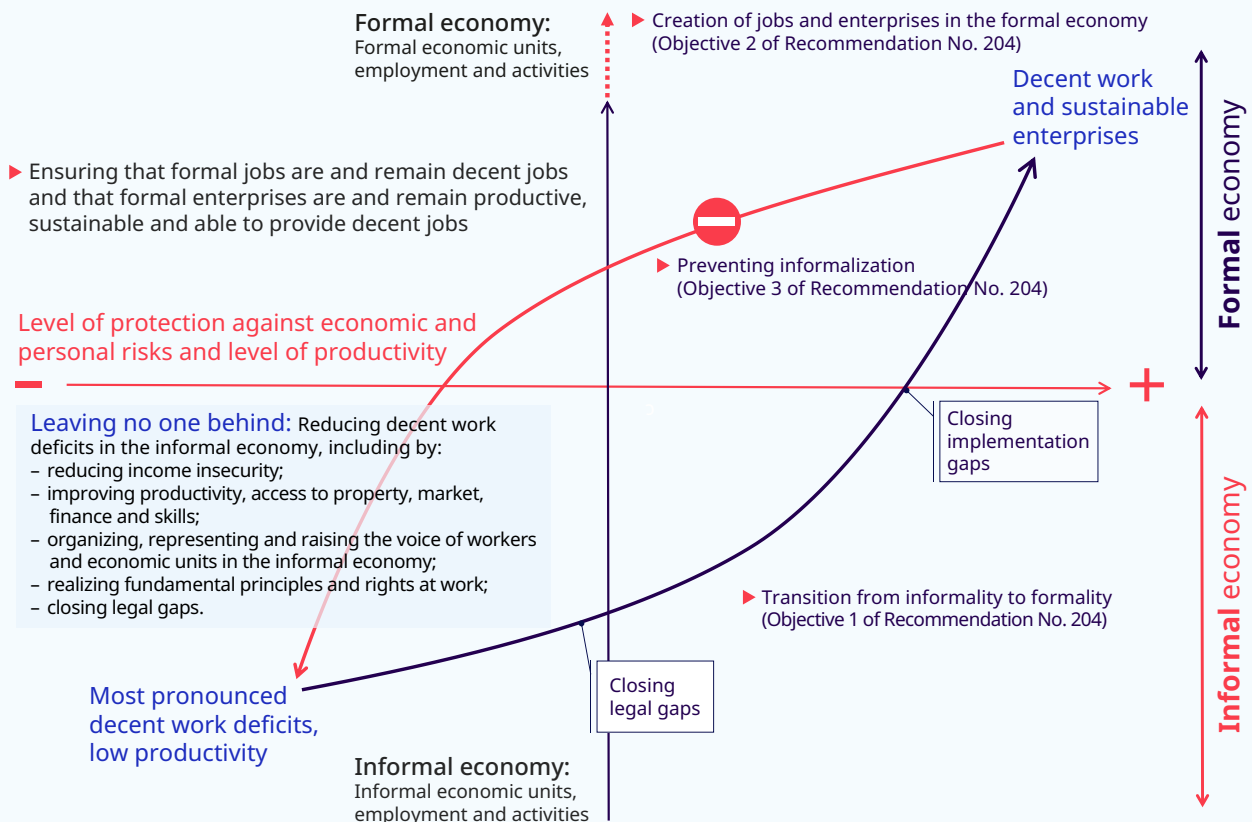
Experience since the adoption of Recommendation No. 204 in 2015 has shown that the following four pillars could be considered prerequisites for this type of approach to be effective.⁴

- **Good governance and an adequate regulatory framework combined with political will and commitment.** Supporting the transition to the formal economy often requires political will and a commitment to adopt appropriate policies and legal and institutional reforms, while encouraging the rule of law, accountability, policy coherence and evidence-based policymaking. This also requires effective social dialogue and inclusive consultation mechanisms for policymaking. Strategies to address informality and

promote the transition to formality should, where relevant, be anchored in national development plans, aligned with broader economic and social objectives and adequately and sustainably funded.

- **Organization, voice and representation of workers and economic units in the informal economy and inclusive social dialogue.** Workers and economic units in the informal economy or at risk of informalization should have the possibility to express their views and defend their interests when decisions that concern them are taken. Including them at an early stage of the policy design and implementation phase will enhance the effectiveness of such measures. This implies the organization of informal economy workers and economic units and effective and inclusive social dialogue so that their views are taken into account. Given their role in social dialogue institutions and processes, representative employers' and workers' organizations can play a critical role in representing those in the informal economy. In practice, they can extend membership to those in the informal economy. In other cases, they can provide services or form alliances to address specific issues or seize opportunities. The social and solidarity economy

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



⁴ See the ILO background report to the general discussion (ILO 2025a) and the synthesis review which was prepared as an input into the general discussion (ILO 2025c).

can help bridge the gap between the informal and formal economy by providing workers and economic units in the informal economy with complementary structures that promote solidarity, mutual support and shared decision-making.

- **An enabling environment for sustainable enterprises to make full and productive employment a reality.** Such an environment is necessary for fair competition, the generation of productivity gains and the creation, preservation and sustainability of enterprises and decent jobs in the formal economy. At the same time, productive development policies, enhanced skills development, adequate and efficient labour market institutions, and effective labour protection and social protection for all workers contribute to fostering productivity gains and ensure that they are fairly distributed to promote social and economic development.
- **Better working and living conditions through the transition to formality and leaving no one behind.** The transition to the formal economy is a condition for achieving some key outcomes, including access to decent work. However, for many in the informal economy, entering the formal economy is not a

realistic possibility in the short term. Leaving no one behind means recognizing that, for some workers who are far removed from formality, the immediate priority is to address the most critical decent work deficits and vulnerabilities – such as low earnings and productivity, poor working conditions and the lack of social protection coverage. Importantly, the realization of 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. Also, it is crucial that workers and economic units organize for collective voice at any stage of the journey towards formality, in order to make progress.

Figure 3 highlights possible trajectories from the most critical situation (marked by the most pronounced decent work deficits, vulnerabilities and low productivity in the informal economy) towards the optimal situation (decent work and sustainable enterprises in the formal economy). Ultimately, ensuring that formal jobs are and remain decent jobs and that formal enterprises are sustainable, including through increased productivity and fair competition, remain overarching objectives.

► Accelerating and scaling up the transition to formality based on Recommendation No. 204: Priorities and principles

To make progress in accelerating and scaling up the operationalization of Recommendation No. 204, consideration could be given to innovative approaches and good practices that are aligned with the following priorities and principles.

- **Intensifying efforts to improve governance and adopt comprehensive, coordinated and integrated approaches.** Too many interventions to date have been fragmented and uncoordinated, focusing narrowly on a specific policy area of formalization and suffering from inappropriate compliance and enforcement systems. A whole-of-government approach that brings together ministries from a broad range of policy areas and includes different levels of government – combined with effective and inclusive social dialogue – can foster a mutually reinforcing, coordinated and integrated approach for accelerating the transition to formality.
- **Ensuring that informal economy workers and economic units are organized and effectively represented in social dialogue on policies to support the transition to formality.** Where feasible and with appropriate capacity-building, representative organizations of employers and workers should further extend membership and services to workers and economic units in the informal economy and support their access to social dialogue, including collective bargaining. Employers' and workers' representative organizations could also develop alliances with organizations of workers and economic units in the informal economy to strengthen their representation. Cooperatives and the social and solidarity economy can also contribute to strengthening the voice of those in the informal economy.
- **Moving towards formalization while reducing decent work deficits in the informal economy, leaving no one behind.** The transition to formality remains one of the primary paths towards decent work. Yet, for some workers and economic units in the informal economy, entering the formal economy is not a realistic possibility in the short term. For them, improved working and living conditions is a priority and an enabler for their transition to formality in the longer term.
- **Accelerating the implementation of international labour standards, including the fundamental Conventions.** The implementation of these standards lays the foundation for creating conditions where all

workers, including those in the informal economy, can experience safe, fair and dignified work.

- **Creating an enabling environment for sustainable enterprises, enhancing productivity and ensuring productive employment and a fair distribution of productivity gains.** An enabling business environment is essential to support the transition of economic units and workers to formality as well as to prevent the informalization of economic units and workers in the formal economy.
- **Paying special attention to those exposed to the most serious decent work deficits in the informal economy.** Addressing the root causes of informality faced by women and the workers vulnerable to the most serious decent work deficits in the informal economy, as highlighted by Recommendation No. 204, requires measures to systematically address their specific circumstances and needs through mainstreamed and targeted interventions. The transition to formality can increase the economic empowerment and voice of those in the informal economy by removing some of the barriers which confine them, in particular women, to low-productivity and low-income activities. This includes improving access to productive resources, care services and risk mitigation measures, as well as ensuring that they are effectively represented.
- **Harnessing new technologies while addressing the digital divide.** New technologies, including digital technologies, can simplify the registration of enterprises and employment, and facilitate access to social security, skills, finance, markets and other productivity-enhancing services that help workers and economic units in the informal economy to overcome some of the barriers to entering the formal economy. New technologies can help to prevent informalization while supporting compliance with laws and regulations, including through more effective enforcement systems. To leverage these opportunities, efforts are needed to ensure adequate regulation, the protection of workers' privacy, and transparency on the use of the technologies. In addition, public policies should ensure that digital infrastructure and skills are available to and affordable for all.
- **Applying sectoral and other targeted approaches to formalization.** While an integrated economy-wide approach to formalization is recommended to address the full range of drivers of informality, sectoral integrated approaches offer advantages in addressing the unique challenges and specific drivers of informality within sectors, while building on existing sectoral policies and organizations. Sectoral approaches can include value-chain perspectives and may benefit from coordination mechanisms between private and public entities, also to enhance productivity.

- **Generating a double dividend of the transition to formality and a just transition towards environmentally sustainable economies and societies.** Efforts to promote the transition to formality and a just transition towards environmentally sustainable economies and societies can be mutually reinforcing and essential for achieving sustainable and inclusive development. Workers and economic units in the informal economy are particularly vulnerable to climate change and environmental risks, and are often closely linked to the environment – especially in sectors such as agriculture, fisheries, forestry and waste management. More targeted measures (such as access to green financing, reskilling and upskilling, social protection and business linkages) can, in many contexts, enable workers and economic units in the informal economy to adopt and benefit from sustainable practices, while reducing their vulnerabilities and increasing productivity and resilience.
- **Strengthening the evidence base to inform and measure the impact of policies and interventions.** Future efforts should aim at developing – or, where relevant, strengthening – statistical systems and analytical capacities to close data and methodological gaps (in line with ILO 2023b), while promoting regular interactions between data producers and users, including policymakers. This is the condition, once combined with more systematic impact evaluations, to support the development, implementation and monitoring of formalization policies that are responsive to the diversity of contexts and circumstances, and leave no one behind.
- **Developing strategic partnerships within the multilateral system and with international financial institutions.** The heightened interest in the informal economy among ILO constituents, the UN Secretary-General, UN agencies, international financial institutions and other stakeholders presents a unique opportunity to accelerate progress in addressing informality and promoting the transition to formality by strengthening existing partnerships and forming new ones. The ILO has a central role in improving the coherence of actions in this area and fostering complementarities, in particular within the multilateral system. Multilateral initiatives (such as the Global Coalition for Social Justice) can facilitate coherence, cooperation and coordination. Additionally, it is necessary to consolidate engagement, coordination and, where possible, partnerships with international financial institutions.
- **Strengthening the capacities of constituents through supporting knowledge sharing and promoting horizontal cooperation.** Mapping good practices and innovative approaches for the transition to formality as well as strengthening research, knowledge-sharing and capacity-building frameworks is essential for designing and implementing effective

pathways to address informality and prevent informalization at the country level. This requires consolidating and expanding knowledge and expertise on integrated strategies, developing tools, strengthening advocacy and improving coordination mechanisms to foster synergies between policy

interventions. This should ensure that intervention models to design and implement pathways to formality are impactful, sustainable and inclusive so that they address systemic challenges and unlock opportunities for economic and social development (ILO 2025a, 2025d).

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