



► ILO Brief

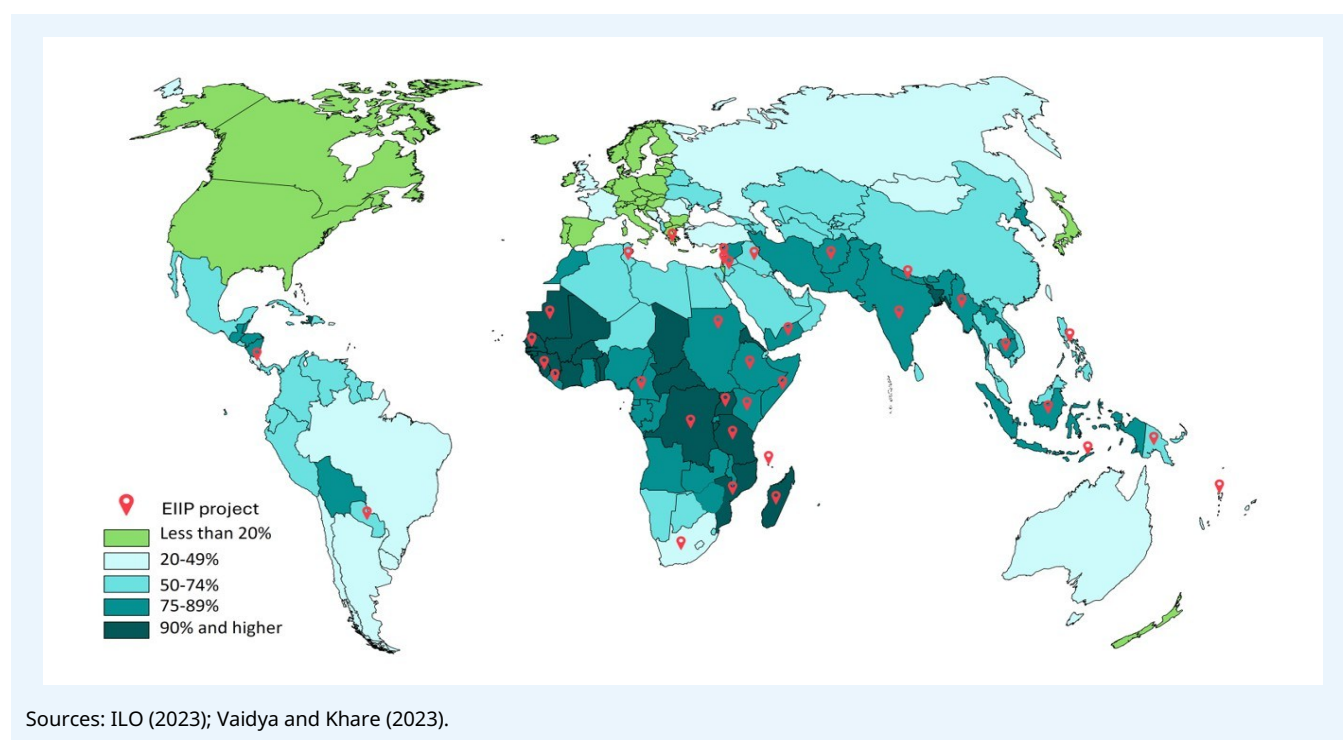
August 2026

Promoting formalization outcomes in Employment-Intensive Investment Programme¹

Convergence of the informal economy and Employment-Intensive Investment Programme

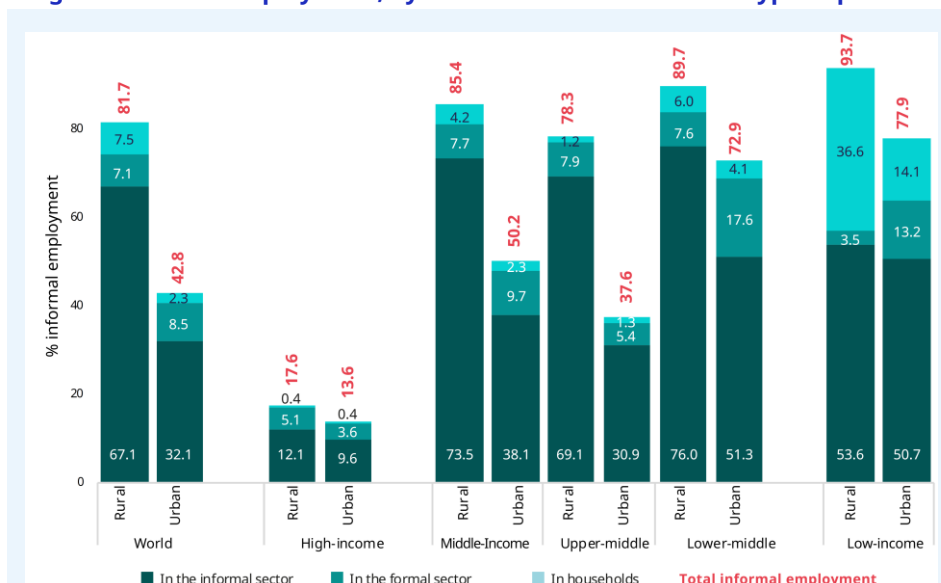
Informal employment is widespread across the world, with nearly 2 billion workers making their livings in the informal economy. According to ILO data, informality is particularly prevalent in low-income countries, where it represents 89 per cent of total employment and accounts for 93.7 per cent of rural employment (figures 1 and 2).

► **Figure 1. Percentage of informal employment in total employment, 2019, and presence of EIIP between 2012 and 2022**



¹ This guidance brief was drafted by Vicky Leung of the ILO. The author acknowledges the collaboration of Martha Mildred Espano of the ILO in the conceptualization of the note and thanks ILO colleagues Martha Mildred Espano, Maikel R. Lieuw-Kie-Song, Cyrano Afidi Ombolo Lebogso, Mito Tsukamoto and Albert Uriyo for their valuable comments and suggestions during the review process. The author also acknowledges the valuable feedback received from colleagues during the EIIP Global Learning Series webinar on 13 May 2026. Any remaining errors or omissions are the responsibility of the author.

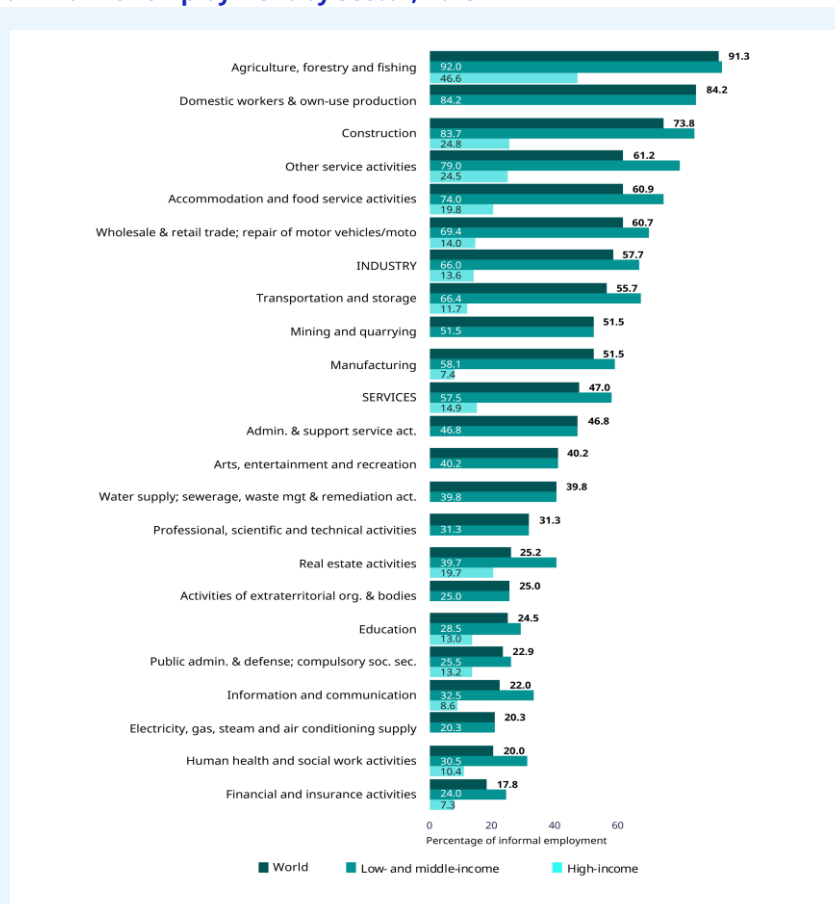
► **Figure 2. Percentage of informal employment, by urban/rural residence and type of production unit, 2019**



Sources: ILO (2023); Vaidya and Khare (2023).

In the construction sector of low- and middle-income countries, 8 in 10 workers are informal, well above the global average of 6 in 10 workers in informal employment across all sectors (figure 3).

Figure 3. Percentage of informal employment by sector, 2019



Source: ILO (2023).

High levels of informality are often attributed to a lack of formal and decent work opportunities in these specific contexts. Informal employment implies denial of rights at work, absence of quality employment, inadequate social protection and absence of social dialogue (see box 1).

► **Box1. Definitions of informal economy, informal employment and informal sector**

The **informal economy** 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 does not cover illicit activities.

Informal employment refers to working arrangements that are de facto or de jure not subject to national labour legislation, income taxation or entitlement to social protection or certain other employment benefits, for example advance notice of dismissal, severance pay, paid annual or sick leave and so on.

The **informal sector** consists of unincorporated enterprises that are not legally separate from their owners and are not registered with the relevant authorities, such as social security or tax authorities, as required by national law.

Sources: ILO (2018; 2023).

Employment-Intensive Investment Programme (EIIP) often operates in these same environments, developing countries and sectors with high levels of informality, namely construction and rural works, seeking to address unemployment and underemployment through public investment, typically in infrastructure development (see figure 1). EIIP strengthens institutional and operational capacity to provide productive and decent work that generates economic, social and environmental impact. Within its project's scope, EIIP creates jobs and economic opportunities for informal workers and economic units and their working and living conditions are generally improved. However, these gains rarely translate into sustainable integration in the formal economy automatically. In most cases, workers and economic units remain informal or revert to informality once projects conclude. This outcome can be due to both internal constraints, such as overcrowded scope and short time frames of projects, and external factors, including unfavourable national or subnational labour market context, insufficient data on informality and limited evidence on the long-term community development impacts of EIIP interventions. These challenges make it difficult for practitioners to design, implement, and evaluate interventions that lead to sustainable formalization outcomes.

In recent years, the ILO has undertaken several impact studies to examine EIIP interventions and their success factors, including assessment of livelihoods improvements in water access projects and one study of long-term development impacts. For formalization, meta-analysis studies by Jessen and Kleve and by Floridi et al. provide empirical insights into the effectiveness of interventions to reduce informality in low- and middle-income countries and to formalize informal economic units. These studies shed lights on where and how EIIP can serve as an operational entry point for formalization by translating policy commitments into actions and outcomes.

This guidance brief is designed to support practitioners and decision-makers in promoting formalization outcomes for informal workers and economic units in EIIP projects. While improving working and living conditions is recognized as part of the transition to formality, this brief adopts a pragmatic approach by focusing on measurable formalization outcomes, namely workers and economic units becoming part of the formal economy. Drawing on evidence from multiple studies, it presents effective pathways for formalization and examines the impacts of EIIP interventions on employment and development. It also highlights the challenges and key considerations involved in integrating formalization into EIIP projects. Finally, it offers practical recommendations for embedding formalization in project design and implementation.

Integrating formalization into Employment-Intensive Investment Programme projects

Effective pathways for formalization

An overview of the most widely implemented formalization interventions globally is provided in table 1. These encompass provision of information and trainings, administrative simplification, compliance and enforcement mechanisms, as well as various incentive packages. The examples of these interventions show how different barriers informal workers and economic unit face can be removed.

► **Table 1. Topology of formalization interventions**

Type of intervention	Description	Example
Provision of information, trainings or workshops	Provide business or worker with details on how to register and the potential benefits of formalization.	- Information or trainings on the registration step-by-step procedures - Awareness-raising campaign on the potential benefits of business and employment formalization
Simplification of procedures	Simplify the business registration process or reduce bureaucratic burdens.	- One-stop shop for business registration or licensing - Online business registration or licensing - Reduce business registration days - Simplify payroll taxes - Simplify social security contributions
Tax incentive and simplification of social security contributions	Reduce the financial burden of being formal by lowering or simplifying taxes or social security contributions.	- Reduce payroll taxes - Monotax scheme
Compliance and enforcement	Enforce compliance with employment and enterprise registration legislations through inspections or government notifications.	- Visit of labour inspectors - Official notification from tax authorities
Financial incentives	Offer direct financial payments to encourage formalization.	- Reduce registration costs - Offer a one-time payment to business who is willing to register

Sources: Jessen and Kluve (2021); Floridi et al. (2020; 2021).

Evidence from recent studies (Floridi et al. 2020, 2021; Jessen and Kluve 2021) examine which types of interventions are most effective in promoting formalization efforts and how they contribute to improved outcomes. The findings suggest that successful formalization can be achieved through the following approaches:

- **Multi-component interventions.** Formalization strategies tend to achieve greater effectiveness when they integrate multiple measures rather than depending on a single measure (Chacaltana and Leung 2020). For instance, tax incentives are more impactful when accompanied by information campaigns that explain both the benefits and the practical steps of formalization. When further complemented by training workshops, business development services, and advisory support, such integrated interventions can enhance the growth prospects of newly formalized economic units and contribute to sustaining their long-term benefits.
- **Long-term and large-scale interventions.** Interventions implemented on a large scale and sustained over extended periods consistently yield more significant outcomes than short-term or small-scale efforts. Structural reforms and policy-level measures are more likely to generate lasting transformations in the behaviour of workers and enterprises.
- **Enterprise-employment formalization nexus.** Policies that promote the registration of workers tend to produce more substantial outcomes than those targeting enterprise registration alone. This underscores the importance of integrating social security registration and labour protections with enterprise registration and compliance mechanisms.

- **Alignment with national or local context.** Formalization efforts tend to be more effective in conducive labour market environments, where formal job opportunities and favourable economic conditions exist, with a lower poverty and unemployment rate. This highlights the importance of sequencing interventions appropriately and aligning them with broader economic and labour market policies to maximize their impact.

Successful formalization occurs when the intended outcomes are achieved, such as business and employment registration, along with the realization of the associated benefits. These benefits may include higher wages and improved protections for workers, as well as increased revenues, growth, and enhanced performance for economic units. To track progress and assess the effectiveness of formalization interventions, examples of relevant indicators are presented in table 2.

► **Table 2. Type of formalization outcomes and indicators**

Outcome variable	Measurement	Example of indicator
Business registration	Whether a business obtains an official registration, for example business license and tax identification.	• Number of enterprises registered • Share of enterprises registered
Employment registration	Whether workers are formally registered with social security, tax authorities, or on official employment rolls.	• Number of formal jobs • Share of workers with contracts or social security contributions
Wages	Changes in worker earnings due to in situ employment registration or transitioning to a formal job	• Change in average monthly wage
Business growth and profitability	Whether becoming formal affects business earnings	• Change in revenue or sales or profit
Tax revenue	Whether the government's tax base expands due to higher participation of workers and enterprises in the formal economy	• Change in tax collected from newly formalized enterprises
Business performance	Changes in business performance due to formalization	• Change in asset acquisition • Change in access to finance • Change in expansion of activities

Sources: Jessen and Kluve (2021); Floridi et al. (2020; 2021).

Impact of EIIP interventions on employment and development

Based on the EIIP projects implemented between 2012 and 2022, Vaidya and Khare (2023) summarizes all interventions, outcomes and expected immediate and long-term development impacts in an EIIP theory of change (table 3). The EIIP theory of change illustrates how targeted interventions can generate both immediate employment outcomes and long-term development impacts. At the implementation level, infrastructure works contribute not only to improved economic assets but also to non-economic assets such as health and education facilities, green works, public amenities, and a better living environment. These interventions simultaneously create decent work opportunities, leading to higher incomes and greater social inclusion. Complementary efforts in public and private sector development strengthen the capacity of contractors, public officials, and trainers, while also enhancing access to public procurement opportunities. These outcomes contribute to a more dynamic and inclusive local economic development. Finally, policy and institutional development and implementation support ensure sustainability by embedding the EIIP approach within policies and institutions, fostering inclusive public procurement systems, and facilitating the design and implementation of relevant pro-employment policy frameworks guided by international labour standards. Together, these interconnected interventions improve livelihoods and reduce poverty as long-term development impact.

► Table 3. EIIP theory of change for employment and development impacts

Intervention	Outcome	Impact
Implementation of infrastructure works in the context of public employment programme and emergency employment	• Higher income from decent work opportunities and inclusion • Improved economic assets • Improved non-economic assets, such as health and education facilities, green works, public amenities and living environment	• Improved livelihoods • Poverty reduction
Public and private sector development	• Improved capacity of private sector contractors, public sector officials and trainers • Improved access to public procurement	
Policy and institutional development and implementation support	• EIIP approach embedded in policies and institutions • Inclusive public procurement policies • Policy developed and implemented	

Source: Vaidya and Khare (2023).

Decent work opportunities generated through the implementation of infrastructure works (see box 2) and business opportunities facilitated by access to the project's procurement (see box 3) could be key drivers of improved formalization indicators within EIIP projects.² In parallel, technical assistance has supported the development and implementation of social protection policies in Cambodia, Greece, and Lebanon, as well as inclusive public procurement policies in Tanzania, particularly benefiting small-scale entrepreneurs. Comparable initiatives, such as the incorporation of decent work principles into Cameroon's new Procurement Code, illustrate the potential to create employment with higher social impact for youth, women and other vulnerable groups and expand formalization efforts at the national level (Vaidya and Khare 2023).

² The examples presented in boxes 2 and 3 are illustrative and do not represent the full range of EIIP interventions. Comparable approaches to supporting formalization have also been implemented in EIIP projects in Afghanistan, the Philippines, Timor-Leste and Zambia among other countries.

► **Box 2. Integrating informal workers into social protection system in the Community Emergency Employment Programme in the Philippines**

The Community Emergency Employment Programme (CEEP) in the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) in the Philippines aimed to alleviate poverty in conflict-affected communities by improving access to safe water and sanitation while providing emergency employment of 15 days to informal workers impacted by COVID-19.

Over 1,800 workers and nearly 12,000 households benefitted from short-term employment opportunities that adhered to decent work principles, including minimum wage, equal opportunity for men and women, and safe working conditions.

A central feature of CEEP was linking informal workers to social protection. Participants received coverage through joining the national social security system, health insurance and accident insurance, supplemented by third-party liability insurance with private insurance company to mitigate risks in construction work. These measures enhanced formalization indicators by integrating vulnerable workers into national social protection schemes.



Water supply facility constructed under the ILO-Japan Water Project in BARMM, Philippines, 2023. @ Arvy Origenes/ILO



Worker-participants registering in the Social Security System. Philippines, 2012. @ ILO

CEEP also invested in capacity building of community contractors, providing technical training in areas such as labour standards, social protection, contract management, occupational safety and health, and practical construction skills.

The main success factor for formalization was aligning the Programme's interventions with the local government mandates and strong integration with existing social protection programmes, which increased awareness of employment standards and the benefits of formal coverage. By combining emergency employment, skills development, and social protection, CEEP demonstrates an effective approach to fostering both immediate economic relief and long-term inclusion of informal workers in the formal economy.

► **Box 3. Facilitating access to public procurement through cooperative organization in Central African Republic**

Between 2017 and 2020, the ILO implemented the project *"Promotion of peace and creation of decent and productive jobs in the Central African Republic"* in Bangui, in a context marked by inter-communal conflict and high levels of informality. The project demonstrated how EIIP approaches can contribute to peacebuilding in the context of the Humanitarian-Development-Peace Nexus by creating decent jobs and economic opportunities for young men and women.

Through EIIP-based construction of community infrastructure, the project created short-term employment and strengthened the skills of about 100 young people, 28 per cent of whom were women, from different communities in the Bimbo 3 and KM5 neighbourhoods. Training demonstration sites focused on road construction, sanitation, building works and public space development, integrating occupational safety and health standards as well as social and environmental clauses.

From the formalization perspective, participants received training on cooperative organization using the ILO's Think.COOP and Start.COOP tools. With ILO support, three construction cooperatives, enabling young workers to collectively access EIIP equipment, comply with basic regulatory requirements and engage with project-related procurement and subcontracting opportunities. Linkages were also facilitated with construction small and medium-sized enterprises, the Bangui City Council and international organizations.



Participants receiving certificates after completing skills training under the EIIP project. Central African Republic. © ILO



Training demonstration site for labour-intensive infrastructure works under the EIIP project. Central African Republic, 06/2019 © ILO



On-the-job training in paving block installation under the EIIP project. Central African Republic. © ILO

By structuring young workers into cooperatives linked to procurement opportunities, the project reduced reliance on informal, individual job-seeking and created clearer pathways towards formalization. However, a final independent evaluation highlighted that limited follow-up funding and under-resourced municipalities constrained the scaling up of employment-intensive public works, limiting longer-term formalization impacts despite improved capacities and readiness to participate in public procurement.

Challenges and considerations of integrating formalization in EIIP projects

While some EIIP interventions may contribute to pathways towards formalization, achieving direct and sustainable formalization outcomes is not guaranteed. Several persistent challenges limit the extent to which EIIP projects can fully address informality:

- **Weak governance and challenging labour markets:** EIIP projects often operate in fragile and underdeveloped labour markets characterized by structural unemployment, weak demand for labour, limited formal job creation and the absence of accessible health or social service. These systemic issues extend beyond the mandate and capacity of EIIP interventions. At best, EIIP can support “transitions” towards formality through skills development, public employment services, enterprise support, and infrastructure development, but these alone cannot ensure formalization.
- **Short project duration:** Transition to formality is inherently a long-term process, often requiring sustained interventions and policy support over many years. By contrast, EIIP projects are implemented within finite project periods. As a result, employment opportunities generated tends to remain temporary, limiting the potential for sustainable formalization outcomes.
- **Overcrowded project scope:** EIIP projects already pursue multiple objectives—such as employment creation, skills development, institutional capacity development and infrastructure development to improve access to essential services. Adding formalization as an explicit objective risks overburdening project design and diluting focus.
- **Fiscal and institutional constraints:** Local governments and institutions frequently face limited fiscal space and institutional capacity, making it difficult to sustain, scale up or replicate formalization-related measures beyond the lifespan or geographic reach of the project.

Given these constraints, the integration of formalization into EIIP projects should be carefully assessed before inclusion in project design and implementation. Key considerations include:

- **Understanding of informality:** Is there a solid understanding of the informal economy's characteristics and the broader labour market context? What are the main causes of informality in the target area?
- **Reality checking:** Are the project's timeframe, budget and implementation arrangements sufficient to achieve measurable formalization outcomes?
- **Needs prioritization:** Are the most urgent needs of beneficiaries and communities being addressed? Is formalization truly a priority for them compared to other pressing challenges?
- **Identification of enabling conditions:** Does a conducive policy and institutional environment exist to support formalization, such as fiscal space, political will, relevant mandates, and supportive policies? For example, the potential social protection function of public employment programmes is determined by several key factors, including the existence and maturity of a national social protection system, public institutional capacity and fiscal space and the nature of existing labour and social security legislation and levels of compliance (McCord et al. 2024).³

³ For more information, see [Annex 1](#) “Public employment programme functions across diverse contexts” in McCord et al. (2024).

Recommendations to promote formalization outcomes in Employment-Intensive Investment Programme projects

Integrating formalization in EIIP projects requires careful planning, grounded in evidence and aligned with the challenges and opportunities of the national and local context. If the decision to incorporate formalization into the project design and implementation is made after assessing the prevailing constraints, the following recommendations are critical to achieving meaningful outcomes:

- **State formalization as a core project objective.** Formalization must be explicitly articulated as one of the project's objectives during the design stage. If it is not embedded in the project's theory of change from the outset, interventions that foster formalization are difficult to introduce later. Without this clarity, formalization risks being treated as an unintended or residual outcome, rather than a measurable result.
- **Identify target groups, aspects of informality, and expected outcomes.** The project should specify which groups in the informal economy it intends to support, which causes and dimensions of informality to address, and what outcomes are realistically achievable. This process should be informed by social dialogue and grounded in a diagnostic analysis of why certain groups remain in informality. Clear outcomes should reflect behavioural changes of relevant authorities, workers and economic units operating in the informal economy, such as, registration and compliance with laws and regulations, and desirable benefits derived from formality, including better protection, higher wages, business growth, and productivity gains (see examples of project outcomes in table 4).
- **Design targeted interventions for formalization.** Effective interventions should be tailored to the identified groups and designed to address specific causes of informality. Examples include raising awareness on the benefits of formality, integrating informal workers to social protection systems and facilitating access to procurement opportunities within the project framework (see examples of project interventions in table 4). The sequencing and combination of interventions is particularly important. For example, access to ILO procurement opportunities is typically restricted to formal and registered entity under ILO procurement rules. However, for informal entities with sufficient capacity to provide goods and services, project's implementation agreement with donor could include provisions that enable their participation under specific conditions within the project's scope. EIIP interventions may initially provide tailored support, such as cooperative organization, information on tenders, training on bid preparation, business development services, or certification, to help these entities meet requirements. By the end of the project, these entities would be required to formalize in line with national legislation, positioning them to benefit not only from procurement of EIIP projects but also from broader public procurement opportunities.⁴ Where feasible, digital technologies can be leveraged to improve the accessibility, efficiency and transparency of interventions (Chacaltana et al. 2018).
- **Integrate formalization indicators into monitoring and evaluation frameworks.** To track progress, guide adaptive management and measure results, formalization-related indicators should be incorporated into the project's monitoring and evaluation system (see examples of project indicators in table 4). These indicators will provide early signals of whether interventions are effective, and if necessary, trigger timely adjustments to ensure that formalization outcomes remain achievable and aligned with project objectives.

⁴ For further guidance, ILO staff may consult the [ILO Sustainable Procurement Guidance on Micro, Small, and Medium Enterprise \(MSME\) Inclusive Procurement](#), chapter 1-2b of the ILO Procurement Manual. It is available in English, French and Spanish.

► Table 4: Topology of EIIP interventions for formalization outcomes

Intervention	Outcome	Indicator
• Awareness-raising campaign on the potential benefits of being formal enterprise • Information or trainings on the business registration or licensing step-by-step procedures • Subsidize registration costs • Offer a one-time payment to enterprise who is willing to register	Business registration	• Number of enterprises/cooperatives/community-based organizations registered • Share of enterprises/cooperatives/community-based organizations registered • Number of newly formed formal enterprises/cooperatives/community-based organizations
• Awareness-raising campaign on the potential benefits of formal employment • Information on employment registration procedures and making contributions to social security	Employment registration	• Number of informal workers registered • Share of workers with contracts registered or social security contributions or health and accident insurance affiliation • Number of workdays of formal employment opportunities created • Paid annual or sick leave
• Provide living wages	Higher income/wages	• Change in average monthly income/wage following in situ registration or transitioning to a formal employment
• Promote inclusive procurement for MSMEs/cooperatives/community-based organizations	Business growth and higher productivity	• Change in revenue or sales or profit • Change in economic assets • Change in access to finance • Number of procurement contracts for MSMEs/cooperatives/community-based organizations • Percentage of procurement purchasing value/amount for MSMEs/cooperatives/community-based organizations

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Contact details

International Labour Organization

Route des Morillons 4
CH-1211 Geneva 22
Switzerland

Employment in Investments Branch
(EMPINVEST)
E: EMPINVEST@ilo.org