

Global Employment Policy Review

Summary of Chapter 5: The transition to formality: Comparing policy approaches in Africa, Asia and Latin America

Authors: Juan Chacaltana, Vicky Leung

Almost five decades after the first use of the term “informal sector” in 1972 by the ILO, and after intense debates around the concept and definition of informality, current international discussion emphasises the need for innovative policy approaches for transition to formality. In this context, R204 and SDGs provide an international consensus regarding policies for the transition to formality.

In this chapter, we explore the regional dimension of formalisation policies focusing on Africa, Asia and Latin America and the Caribbean, where informality rates range above 50% of total employment. Given the vast heterogeneity of informality, it is clear that there is no “*single bullet*” solution for the transition to formality and multiple and coordinated interventions are needed (integrated approach).

Based on the analysis of a diverse set of information, including some formalisation episodes in a number of countries, we describe how these policy choices heavily depend on productive structures, composition of labour markets, the nature of informality, institutional settings and so on. This means that the pertinent policy mix has different emphasis of drivers depending on relative nature and composition of informality in each country or region. In particular, we find that productivity increases matter tremendously through economic growth and structural transformation processes, especially in those cases of higher informality rate. The evidence shows that these economic drivers boost their potential when properly combined with institutional policies, such as incentives and enforcement measures. The evidence also indicates that impacts tend to be limited when interventions are implemented in an isolated manner, therefore it is better to accumulate and complement different interventions, thus supporting the idea of multiple and coordinated measures. Different regions need to prescribe the dosage of economic and institutional policies according to their own needs and the proportion of 6:4 in LAC has shown to be effective.

Regarding the way forward, as many studies point out, labour markets are generating new business models and new forms of employment at a speedy pace and policy making should try to adapt to it. Technologies indeed offer the possibility of transforming or upgrading the way that labour market policies are implemented, in particular those related to the transition to formality. Fortunately, an increasing number of countries are in practice using new technologies for supporting the transition to formality. These e-solutions bring more transparency, information and innovative approaches to policy makers. However, these tools can only be considered complements (not substitution) to the structural drivers of the transition to formality or can help the implementation process to facilitate the transition to formality. No matter what other transformations the future might bring, tripartite social dialogue remains the vehicle to ensure that the transition to formality always leads to better and decent jobs. Informal economy actors know the best their own problems and concerns and social dialogue provides them a channel for their voice to be heard in policymaking process towards transition to formality.