



## Governing Body

325th Session, Geneva, 29 October–12 November 2015

GB.325/POL/1/1

**Policy Development Section**  
*Employment and Social Protection Segment*

**POL**

**Date:** 8 October 2015

**Original:** English

### FIRST ITEM ON THE AGENDA

## Formalization of the informal economy: Area of critical importance

#### Purpose of the document

This document sets out the strategy for the area of critical importance on the formalization of the informal economy (ACI 6). It provides an overview of the strategy, the main areas of focus, the progress made and the results of implementation.

The Governing Body is invited to provide guidance which builds on the results and conclusions of, and lessons learned from, the work under the ACI, to inform the implementation of outcome 6 of the Programme and Budget for 2016–17 and the follow-up to the resolution concerning efforts to facilitate the transition from the informal to the formal economy (see the draft decision in paragraph 27).

**Relevant strategic objective:** All.

**Policy implications:** The guidance of the Governing Body will inform the implementation of the Office strategy concerning the formalization of the informal economy, including the support that the Office will provide to its constituents.

**Legal implications:** None.

**Financial implications:** Implications for future programme and budget proposals beyond 2016–17. Extra-budgetary resource mobilization is required for the implementation of the follow-up plan.

**Follow-up action required:** Integration of the guidance provided by the Governing Body into the strategy, workplan and way forward for the next biennium.

**Author unit:** Conditions of Work and Equality Department (WORKQUALITY).

**Related documents:** Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204); Programme and Budget for 2014–15; Programme and Budget for 2016–17; GB.325/INS/6; GB.325/POL/1/2; GB.325/POL/4.



## Background and rationale

1. The ILO's work on the informal economy dates back to the early 1970s and, over the years, the Organization has accumulated considerable experience and knowledge. In 2013, the Governing Body decided to devote one of the eight areas of critical importance (ACIs) to the formalization of the informal economy, which was included in the Programme and Budget for 2014–15,<sup>1</sup> and to place a standard-setting item on facilitating transitions from the informal to the formal economy on the agenda of the International Labour Conference for a double discussion in 2014 and 2015. The latter culminated in June 2015 with the adoption by the Conference of the Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204), which is the first ILO instrument to provide comprehensive guidance to member States on how to help workers and economic units move out of the informal economy and into the formal economy.
2. The purpose of this document is to report on the strategic approach and objective of ACI 6 and the achievements of and lessons learned from its implementation, and to show how the work under ACI 6 has benefited from and contributed to the preparation of Recommendation No. 204 and its follow-up.

## Objective and strategic approach

3. *Objective.* The goal of ACI 6 is to strengthen the capacity of constituents to develop and implement policies that facilitate the formalization of economic units and workers in the informal economy and prevent the informalization of formal employment and enterprises. Formalization is the process of bringing informal workers and economic units under the coverage of formal arrangements, while ensuring opportunities for income security, livelihoods and entrepreneurship.
4. *Focus.* Building on the ILO's past work relating to the informal economy, work under this ACI has sought to: (i) systematize and consolidate methodologies; (ii) research emerging or unexplored issues; and (iii) encourage greater coordination throughout the Office to increase coherence across policy areas.
5. *Specific and cross-cutting drivers of formalization.* Informality has multiple causes and is diverse in nature, both within and across countries. Promoting formalization requires policies that address the specific needs and circumstances of the various groups of workers and economic units in the informal economy and also policies that tackle the structural causes of informality (see box 1 below). The Office's work under ACI 6 was therefore organized in accordance with these two approaches. Underpinning the strategy is the promotion of the organization of workers and employers in the informal economy, both as a fundamental right in itself and as a stepping stone to the realization of other fundamental rights at work and the other dimensions of decent work.

<sup>1</sup> ILO: *The Director-General's Programme and Budget Proposals for 2014–15*, Report II (Supplement), International Labour Conference, 102nd Session, Geneva, 2013.

Box 1 Policies to promote the transition to the formal economy	
<p><b>1. Targeted policies for specific groups of workers and economic units in the informal economy</b></p> <ul style="list-style-type: none"> <li>■ Formalization of micro- and small enterprises</li> <li>■ Sector-based approaches to formalization</li> <li>■ Non-standard forms of employment and formalization</li> </ul>	<p><b>2. Policies tackling structural drivers of informality</b></p> <ul style="list-style-type: none"> <li>■ Extension of social security coverage</li> <li>■ Improved compliance with the law (including with international labour standards)</li> <li>■ Labour market institutions and formalization</li> <li>■ Organization of informal workers and employers</li> <li>■ Integrated approaches to formalization</li> </ul>

6. *Strategic link between ACI 6 and the standard-setting discussion on the transition to the formal economy.* Throughout the past two years, the Office has endeavoured to ensure consistency between these two strands of work. It identified thematic priorities, drawing on the discussions of the Tripartite Meeting of Experts on Facilitating Transitions from the Informal Economy to the Formal Economy held in September 2013,<sup>2</sup> in preparation for the standard-setting discussion. Interregional consultations, such as the Academy on the Formalization of the Informal Economy, held in Turin in November 2014 involving the tripartite partners from the countries participating in ACI 6, served as a platform to exchange knowledge and experience, which provided input for the standard-setting discussion. Consultations at the country and regional levels have helped social partners in discussing issues and reviewing good practices on the transition to formality (see paragraph 15). The Office is also taking the opportunity to promote the new Recommendation No. 204 in its remaining activities under the ACI in the second half of 2015.

7. *Mutually reinforcing linkages between global products and regional/country-level activities.* Work under ACI 6 was undertaken within and across regions and at the country level. Globally, standardized approaches and tools were developed to improve the efficiency of the Office's delivery of services and to facilitate the transfer of knowledge within and outside the Organization, while contributing to a more coherent dissemination of ILO knowledge. Global products provide input for and, in turn, receive input from, work on the ground. Fifteen countries were selected to participate, in consultation with the ILO's regional offices, according to the following criteria:

- demand from constituents, as expressed through Decent Work Country Programmes;
- possibility of achieving concrete results within the biennium;
- geographical and thematic balance;
- potential for cross-fertilization across regions;
- potential for mobilizing extra-budgetary funding; and
- potential for clustering country programme outcomes to promote integrated approaches to formalization.

8. In a number of countries (such as **Dominican Republic, Philippines, Senegal and South Africa**), selected country programme outcomes (CPOs) linked to different programme and budget outcomes and ACIs, including ACI 6, are clustered around the common theme of

<sup>2</sup> For the meeting report, see [http://www.ilo.org/wcmsp5/groups/public/---ed\\_norm/---relconf/documents/meetingdocument/wcms\\_226739.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_226739.pdf).

formalization of the informal economy. Under this arrangement, one CPO plays the coordinating role and is responsible for overseeing joint planning and implementation of activities under all country programme outcomes. This improves coherence and generates critical mass and economies of scale to achieve greater impact.

## Areas of intervention: Progress and preliminary results

9. *Formalization of micro- and small enterprises.* Work under the ACI has supported the development of regulatory frameworks that are conducive to higher productivity in micro- and small enterprises and improved protection of their workers. Preliminary results include: (a) the development of new laws (**Mexico** and **Senegal**); and the introduction of legislative reforms (**Nepal**); (b) the inclusion of business-enhancing measures within existing national strategies (**South Africa**); (c) the development of strategies to improve compliance in value chains in the automobile industry (**India**); and (d) the strengthening of the capacities of constituents to design and implement strategies to formalize micro- and small enterprises (**Dominican Republic, India** and **Nepal**). These and other experiences highlight the effectiveness of coordinating business, tax and social security registries, and the importance of policies that encourage enterprises both to become and to remain formal. The Office has produced policy briefs and has organized knowledge-sharing forums on this theme.
10. *Sector-based approach to formalization (domestic work).* Work under the ACI has focused on domestic work, a sector with a high incidence of informal employment and for which demand for assistance from constituents is high. The Office has pursued a three-pronged approach: (a) raising awareness of the Domestic Workers Convention, 2011 (No. 189); (b) supporting the establishment or strengthening of laws and tripartite structures; and (c) strengthening the capacities of the social partners to organize domestic workers and their employers (**Dominican Republic, Ecuador** and **Peru**). In **Senegal**, the ILO helped tripartite partners to assess the regulatory framework for domestic work, and in July 2015 adopted a national action plan which contains measures to help domestic workers and their employers to organize. In **India**, new government committees were created to propose measures to improve the welfare and working conditions of domestic workers. In the **Philippines**, the Tripartite-Plus Working Group on Domestic Work, which contributed to the drafting of the 2013 law on domestic work, is now working on its implementation by developing guidelines on minimum-wage setting, contract registration and dispute settlement in this sector. A participatory methodology for measuring the impact of policy and regulatory reforms on the formalization of domestic workers was developed for possible use by the Government as part of its monitoring of the application of the law.
11. *Non-standard forms of employment and informalization.* Empirical evidence is needed to ascertain the impact of non-standard forms of employment on workers' protection, enterprise performance and labour markets. Not all non-standard forms are informal, but, in some instances, there may be an overlap between the two. Work under the ACI has focused on situations where: (a) the national legislation has no specific provisions on or has not adapted to specific types of non-standard forms of employment; (b) the employer–employee relationship is not evident; and (c) non-standard employment is highly insecure. Studies on non-standard forms of employment in Asian and Latin American countries identified which types of non-standard work may face legal exclusions. These findings were used in the follow-up to the Tripartite Meeting of Experts on Non-Standard Forms of

Employment (Geneva, February 2015) and other sectoral meetings, which in turn prompted further research on non-standard forms of employment in specific sectors.<sup>3</sup>

12. *Integrated approaches to formalization.* Integrated approaches that cut across several policy areas and involve different institutions have been demonstrated to facilitate formalization. The Regional Programme to Promote Formalization in Latin America and the Caribbean (FORLAC) has documented good practices on such integrated policy frameworks.<sup>4</sup> In response to requests from constituents, the ILO supported the establishment of the National Framework on the Formalization of the Informal Economy in **Jordan**; the Sectoral Formalization Strategy in **Peru**; the Formalization Programme in the **Dominican Republic**; the Employment Formalization Program in **Mexico**; and the National Employment Policy in **Nepal**, which promotes formalization. Furthermore, **Cameroon, Jamaica and Madagascar** are formulating national policies and action plans, building on diagnostic studies on the causes and characteristics of informality. The Office organized knowledge-sharing forums at the regional (in Dakar, Lima and Kathmandu) and global levels (the Academy on the Formalization of the Informal Economy; see paragraph 6).
13. *Extension of social security coverage.* Through strategic linkages between ACI 6 and ACI 3 on creating and extending social protection floors, the ILO supported constituents in developing and extending social security schemes to workers not previously covered. The ILO helped to revitalize the Domestic Workers Welfare Board in the state of Maharashtra (**India**) and to strengthen the capacity of the National Registry of Agrarian Workers and Employers (**Argentina**), which registers agricultural workers and provides them with social protection benefits, and monitors labour law and social security compliance. In **Colombia**, the Office initiated and facilitated a dialogue that led to a contributory social security scheme for domestic workers and workers in agriculture, commerce and construction.<sup>5</sup> Building on these and other country experiences, the Office is developing a good-practice toolkit on extending social security coverage to uncovered groups, with a focus on employment-based contributory social security schemes.
14. *Strengthening compliance with the law.* Strong institutions and social dialogue are central to the enforcement of laws and regulations. The passing of a new law on the promotion of registered work and prevention of labour fraud in **Argentina** in May 2014 provided effective sanctions for non-compliance and new incentives for micro-, small and medium-sized enterprises to register their workers. In **South Africa**, the Decent Work Country Programme for the contract cleaning sector covering 2015–17 provides a roadmap to address the growing casualization of workers in that sector. Social dialogue is ongoing in the **Republic of Moldova** to deal with temporary agency employment and seasonal and casual work in agriculture. Furthermore, the Office is preparing a policy brief on compliance measures by labour inspection services and a report on European and Latin American experiences in addressing undeclared work. Preliminary findings suggest that providing labour inspectorates with clear parameters to determine the existence of an employment relationship, introducing electronic payroll systems, working with main

<sup>3</sup> Global Dialogue Forum on Employment Relationships in Retail Commerce: Their Impact on Decent Work and Competitiveness (Geneva, 22–23 April 2015); Global Dialogue Forum on Employment Relationships in Telecommunications Services and in the Call Centre Industry, Geneva (27–28 October 2015).

<sup>4</sup> See <http://www.ilo.org/americas/temas/econom%C3%ADa-informal/lang--es/index.htm> [in Spanish only].

<sup>5</sup> Decree No. 2616 of 2013 of the Ministry of Labour applies to workers whose employment contract covers a period of less than 30 days in a calendar month.

contractors to help them bring their subcontractors into compliance, and introducing innovative sanctions such as compulsory training are all effective measures to address or prevent informality.

15. *Labour market institutions and formalization.* Labour market institutions are critical in shaping the world of work. Under the ACI, the ILO is assessing the effect of statutory minimum wages on the formalization of workers and economic units in several countries – including **Cabo Verde** and **Mexico** – where the ILO is providing technical assistance on minimum-wage fixing. The Office will finalize a policy brief that will be included in the new resource package on minimum wages. Preliminary results suggest that minimum wages which are set without balancing the needs of workers and their families with economic factors, or which are overly complex, may result in poor compliance and might result in workers moving from the formal to the informal economy.
16. *Organization of workers and employers in the informal economy.* The ILO supported employers' and workers' organizations in extending membership and services to workers and employers in the informal economy. Trade unions in the **Dominican Republic, Ecuador, Jordan, Montenegro, Paraguay, Philippines** and **South Africa** held consultations that helped to define national trade union priorities regarding formalization strategies. In the **Philippines**, three domestic workers' associations were founded in 2015 and are affiliated with the Federation of Free Workers, the Centre of United and Progressive Workers and the Trade Union Congress of the Philippines. The ILO's Bureau for Employers' Activities (ACT/EMP) is preparing guidelines on how employers' organizations can support the formalization of informal businesses through advocacy, service provision and partnerships with associations in the informal economy. ACT/EMP and the employers' organizations in Latin America have created a database of business environment profiles of participating countries<sup>6</sup> – a model which is now being extended to Africa, Asia and the Pacific and Europe.
17. In Latin America, a database<sup>7</sup> developed by the ILO's Bureau for Workers' Activities (ACTRAV) has helped trade unions to map workers in informal employment and extend their membership to them, identify legal restrictions on freedom of association and collective bargaining rights, and form a regional trade union network on informality. The database maps as many as 80 unions in 17 countries that have organized workers in the informal economy, and includes references to sample by-laws, manuals and case studies. Furthermore, the Trade Union Confederation of the Americas (TUCA) has campaigned for the ratification of Convention No. 189, bringing the number of ratifications to 12 in the region.
18. *Data collection and analysis.* Accurate statistics on informal employment are critical to be able to diagnose drivers of informality and design responsive policies. A total of 53 countries report that they collect statistics on the informal economy based on the guidelines produced by the 17th International Conference of Labour Statisticians. Efforts have been deployed to develop the capacity of national statistical institutes to comply with these guidelines. In Latin America and in the Middle East, the ILO is advising ten countries on how to harmonize their methods of measuring informality, while cooperation is ongoing with the statistics office in Bosnia and Herzegovina to build its capacity to collect data on the informal economy.

<sup>6</sup> Based on the Enabling Environment for Sustainable Enterprises (EASE) methodology, this database provides indicators of factors within a country's business environment which affect formalization and enterprise performance. See <http://metaleph.com/eese-data>.

<sup>7</sup> See <http://white.lim.ilo.org/spanish/260ameri/oitreg/activid/proyectos/actrav/forlac/index.php> [in Spanish only].

## Links with other ACIs

19. Formalization requires interventions in the policy areas covered by all of the ACIs. Sound economic performance and governance are key to generating decent jobs, and appropriate macroeconomic policies, comprehensive employment policies and a suitable policy environment for enterprises are required in order to promote job creation in the formal economy (covered by ACI 1 on promoting more and better jobs for inclusive growth and ACI 4 on productivity and working conditions in small and medium-sized enterprises). Social protection and labour inspection systems (covered by ACI 3 on creating and extending social protection floors and ACI 7 on strengthening workplace compliance through labour inspection) are crucial to provide workers in informal jobs with the necessary protections, while a significant proportion of workers in informal jobs – including women, young people, rural workers, indigenous peoples or persons with disabilities – are subject to unacceptable forms of work (covered by ACI 2 on jobs and skills for youth, ACI 5 on decent work in the rural economy, and ACI 8 on the protection of workers from unacceptable forms of work).

## Lessons learned and conclusions

20. Facilitating the transition from the informal to the formal economy involves diverse strategies that must be adapted according to national circumstances. Work under the ACI was organized around priorities and policy mixes, taking into account the proper sequencing, depending on countries' level of development and the strength of governance institutions, and needs identified through the Decent Work Country Programmes and other national frameworks.
21. As a result of the synergies established between ACI 6 and the standard-setting process on the transition from the informal to the formal economy, the activities carried out under ACI 6 are aligned with the guiding principles and areas of work outlined in the corresponding Recommendation No. 204. The Office has tested approaches to formalization that are consistent with the new standard, which has provided insights and tools for the implementation in 2016–17 of programme and budget outcome 6 and of Recommendation No. 204.
22. Among the targets of sustainable development, goal 8 on decent work and inclusive growth are encouraging the formalization and growth of micro-, small and medium-sized enterprises and promoting labour protection for all workers, including those in insecure employment. The strategies on formalization that have been implemented under ACI 6 constitute a basis on which the ILO can advance these targets within its response to the challenges facing the future of work. The ongoing progression from research to policy and institutional reform and action and evaluation, as reported in this document, is a trajectory that must be continued, in order to build a better-informed path towards the future.
23. Experiences at the country level have shown a need to ensure coherence among different types of legislation, namely labour and social security law, enterprise legislation and trade union law, to support sustained transitions to formality. The role of macroeconomic, employment and sectoral policies is equally critical. Also important is that statistical and other relevant offices should work together to harmonize legal definitions and that labour inspectorates should cooperate with tax authorities and social security agencies. To support such coherence and create synergies in country support, coordination across the Office, engaging different technical units simultaneously, is indispensable.
24. Employers' and workers' organizations play a key role in addressing the gap in representation in the informal economy and advocating for necessary reforms. This

requires changes in by-laws, structures, organizing strategies and services, as well as the creation of platforms and mechanisms for tracking and disseminating relevant initiatives and policies. Continued support for this work is essential, and must involve interregional cooperation.

25. Constituents have expressed a strong desire to benefit from the experiences of their peers in policy areas where their work could be advanced. Within and between regions, countries are learning from each other. The regional and global knowledge-sharing forums and the Academy on the Formalization of the Informal Economy are examples of such opportunities, and should be carried forward to the next biennia, along with other tools for sharing knowledge. Regional Meetings in Asia and Latin America have also sought to bring about opportunities for cross-regional exchange of experiences.
26. Because of the many actors involved and the gap between demand and the allocated resources, work under ACI 6 has been challenging at times. However, it has managed to encourage synergies across the Office, as its global and country products are interspersed across the 19 outcomes of the Programme and Budget for 2014–15.<sup>8</sup> Clustering different country programme outcomes around the unifying framework of formalization has proved to be a promising model that permits economies of scale and greater policy coherence.

### **Draft decision**

27. *The Governing Body requests the Director-General to take account of its guidance, which builds on the results and conclusions of, and lessons learned from, the work under the ACI on the formalization of the informal economy, in order to inform the implementation of outcome 6 of the Programme and Budget for 2016–17 and the follow-up to the resolution concerning efforts to facilitate the transition from the informal to the formal economy.*

<sup>8</sup> Out of the 45 country programme outcomes directly linked to this ACI: 17 relate to outcomes 1, 2 and 3 of the Programme and Budget for 2014–15, on employment promotion, skills development and sustainable enterprises; 12 relate to outcomes 4, 5 and 11, on social security, working conditions, and labour administration and labour law; and 14 relate to outcomes 9, 10 and 12, on employers' and workers' organizations and social dialogue.