



Summary Report

# Regional Conference on the Formalization of the Informal Economy

Bečići, Budva, Montenegro  
15-16 September 2015



International Labour Organization



# **Regional Conference on the Formalization of the Informal Economy**

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## 1. Introduction: Setting the scene

The term ‘the informal economy’ was introduced for the first time by the International Labour Organization (hereinafter, ILO) during the 1970s to describe certain types of work that were not being captured or recorded in official government statistics on employment. The concept of the initially-coined as ‘informal sector’ has developed into an all-encompassing notion, now termed the ‘informal economy’. This concept groups ‘all economic activities by workers and economic units that are, in law or in practice, not covered or inadequately covered by formal arrangements. This informality may be due, on the one hand, to a lack of any formal reference point (informal employment) or, on the other hand, to non-conformity with a legal reference point, including, significantly, the lack of any declaration to the relevant public authorities (undeclared work and/or grey economy).<sup>1</sup>

Informality is a key component of insecurity in the world of work. Informed estimates assess that more than half of the world’s workforce participates in the informal economy. Every continent, and all regions are affected by this phenomenon, in both the developing and industrialized world.<sup>2</sup> In the European and Central Asian region the average share of the overall economy which could be defined as informal, is estimated at around 36 per cent of official national GDPs, albeit with marked sub-regional differences between the EU (18.5 per cent) and the countries of Southeast Europe, Eastern Europe and the CIS (up to 40 per cent).<sup>3</sup> In Central and South-Eastern Europe (non-EU) and the CIS, informal employment has been estimated as between 15 and 30 per cent

of total employment.<sup>4</sup> In most Balkan countries, the informal workforce is roughly evenly split between wage earners without a legal contract and the self-employed, while in Central Eastern and Southern Europe, informal self-employment is the dominant form of unregulated work.<sup>5</sup>

Although it may be argued that informality offers flexibility for employers and some opportunities for people who may be excluded from the formal economy, its negative implications are overwhelmingly negative, both for those who operate in it, as well as for society as a whole. The informal economy can trap individuals and companies in a spiral of low productivity, poverty and unfair competition. It limits an individual’s ability to raise capital, acquire credit, engage technology, and participate fully in the job market. Further it deprives workers of their dignity and their fundamental rights at work, it divests people of decent work conditions and opportunities, and it fosters unfair competition from informal enterprises against registered and formal ones. Significantly, it inhibits governments from collecting taxes and social contributions. The compound effect of the informal economy is that overall, it hampers social development and economic growth.

Perhaps the greatest challenge to a transition to formality stems from the heterogeneity of the informal economy, the many different categories of work involved, the multiplicity of drivers propelling both the growth of informality and the informalization of formality. Moreover, the difficulty in tackling this issue also flows from the specific causes that generate and/or maintain informality. On the one hand, there is the resilience of the informal production of goods and

<sup>1</sup> See ILO, Decent Work and Informal Economy, ILC Report, 2002; ILO, Transitioning from the informal to the formal economy, ILC Report, 2015.

<sup>2</sup> See ILO, The Informal Economy and Decent Work: A policy Resource Guide, Supporting transitions to Formality, 2014.

<sup>3</sup> Schneider, F., The Shadow Economy and Work in the Shadow: What Do We (Not) Know?, IZA DP No. 6423, 2012.

<sup>4</sup> ILO, Global Employment Trends 2014. Risk of a jobless recovery?, 2014.

<sup>5</sup> Packard, T.; Koettl, J.; Montenegro, C. E. In From the Shadow. Integrating Europe’s Informal Labor, The World Bank, 2012.

services for local markets, which remains an important feature of everyday life for a large number of people and entails high rates of undeclared work in the European Union and in the Balkans.<sup>6</sup>

On the other hand, the complexity in addressing informality is magnified by recent informalization processes linked to trends in the global economy or to past structural adjustment policies. In recent years, the collapse of state socialism in Central and Eastern Europe and in the former Soviet Union instigated a long period of economic crisis and decline. The dismantling of institutions and practices in those centrally planned economies and their replacement with market economy mechanisms, led to widespread

economic and social disruptions.<sup>7</sup> More recently, the global financial crisis has prompted several governments over Europe and Central Asia to critically review the vulnerabilities in their labour markets, unanimously recognizing that the common challenge of informal economies is a central issue that needs to be addressed with integrated, coordinated and targeted policies. This precondition for efficiently tackling informality is reflected in the recently adopted ILO Recommendation on Transition from the Informal to the Formal Economy 2015 (No. 204) (hereinafter, ILO R204), which constitutes the first international instrument to help Member states in lifting workers out of the informal economy into the formal economy, and in addressing undeclared work.<sup>8</sup>

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<sup>6</sup> See ILO, Transition from informal to formal economy, ILC Report, 2015.

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<sup>7</sup> Smith A., Informal Work and the Diverse Economies of 'Post-Socialist' Europe, in Marcelli E., Williams C., Joassart P. (eds.), *Informal Work in Developed Nations*, Routledge, 2009.

<sup>8</sup> See [http://www.ilo.org/ilc/ILCSessions/104/media-centre/news/WCMS\\_375615/lang-en/index.htm](http://www.ilo.org/ilc/ILCSessions/104/media-centre/news/WCMS_375615/lang-en/index.htm)

## 2. Organization of the Conference: rationale, objectives and participants

In light of the renewed interest on this issue and of the newly adopted Recommendation, the ILO organized a regional conference entitled “*Formalizing the Informal Economy in Europe and Central Asia*” which took place in Bečići, Budva (Montenegro), on September 15-16, 2015.<sup>9</sup> The Government of Montenegro has been particularly involved in the discussion on the informal economy, and resources have been allocated for the preparation of a UNDP National Report on this topic, on which the ILO has been asked to contribute.<sup>10</sup> The Ministry of Labour and Social Welfare of Montenegro therefore offered to host the meeting, and requested the ILO’s support for its organization.

### 2.1 Rationale

The conference was a result of an extensive consultation between ILO Geneva (in particular, ILO Regional Office for Europe, ACTRAV, ACTEMP and other ILO technical departments, such as EMPLOYMENT, INWORK, LABADMIN/OSH) and the ILO Decent Work Technical Support Team and Country Office for Central and Eastern Europe in Budapest (DWT/CO-Budapest) and the ILO Decent Work Technical Support Team and Country Office for Eastern Europe and Central Asia in Moscow (DWT/CO-Moscow). The event is one in a series of regional thematic

consultations that the ILO is organizing as a global follow-up to the adoption of ILO R204 in view of the global knowledge-sharing forum on informality to be held in the International Training Centre of the ILO in Turin in November this year.<sup>11</sup> This Regional Conference also builds on the extensive work that the ILO has carried out on this topic since the 1970s both at the global, regional and country level.

Globally, it is widely recognised that the ILO has been the international organization that has introduced the notion of the “informal sector” into international development debates in the early 1970s.<sup>12</sup> Over the years the ILO has consolidated guidelines on the transition to the formal economy calling for an integrated approach. In March 2013 the ILO constituents agreed to place a standard-setting item on “*Facilitating transitions from the informal to the formal economy*” on the agenda of the International Labour Conference (hereinafter, ILC) in 2014. The subject was discussed in the recent ILC in June 2015, and a Recommendation on the topic has been adopted. In view of the importance given to this landmark labour standard, its implementation will be articulated in an action plan, to be approved by the ILO Governing Body in November this year. Furthermore, the significance of the informal economy and the need for continuous support to ensure a sustainable transition to formality, have been reflected in the Director-General’s Programme and Budget proposal for 2016-17. In fact, “formalization of the informal economy” is one of the 10 key Policy Outcomes (Outcome 6) of the ILO Programme and Budget 2016-17. This theme is likely to have a promi-

<sup>9</sup> See Annex 1 (Concept Note) and Annex 2 (Agenda of the Conference) for further information.

<sup>10</sup> As mentioned by the UN Resident Coordinator during the Conference, UNDP worldwide is dedicating its 2015 global Human Development Report to the topic of “Rethinking Work for Human Developments”. The underlining concept of this report is embodied in the premise that “if employment is seen as the primary route to poverty reduction – this cannot be achieved simply by creating jobs, but by creating *decent jobs*, those that offer adequate pay, healthy working conditions and a sufficient level of social protection. Jobs in the informal sector frequently fail to meet these basic requirements. Work that is hazardous - work without safety measures, labour rights, or social protection - is not conducive to human development.” Within this context, a National Human Development Report focussing on Montenegro is being prepared.

<sup>11</sup> A first Regional knowledge-sharing forum entitled “Transition to the formal economy in Latin America and the Caribbean” took place in Lima on August 24-28, 2015. A similar event focussing on the Asian Region is planned to be held in Nepal at the beginning of October; while another one dealing with Africa is scheduled in Senegal at the end of October this year.

<sup>12</sup> For further information, see E. Bangasser, *The ILO and the informal sector: an institutional history*, EMPLOYMENT PAPER, ILO, 2000/9.

ment role in the ILO Future of Work Report in view of the ILO centenary to be celebrated in 2019. Finally, in the context of the Post 2015 Development Agenda, the General Assembly of the United Nations has adopted the so-called Sustainable Development Goals (SDGs). The Decent work concept is part of Goal #8 and the informal economy issue is explicitly included as one of its indicators.

At the regional level, the formalization of the informal economy and the promotion of compliance are top priorities of the ILO agenda in Europe. These are firmly anchored to the Decent Work Country Programmes (DWCPs), the main programming tool for delivery of ILO support to countries. Designed to promote decent work within national development strategies, all currently active DWCPs include a joint commitment by the ILO and the national constituents to attribute the highest priority to the formalization of the informal economy. In September 2014 the ILO joined high-level European officials and social partners in the International Conference “How to Make Formal Work Attractive”, organized in Vilnius by the Ministry of Social Security and Labour of Lithuania to discuss strategies to facilitate the transition to formality, as well as to exchange best practice, policy approaches and measures that national authorities have implemented. As part of the ILO Programme and Budget 2014-15’s Area of Critical Importance “Formalization of the Informal Economy” (ACI 6), the DWT/CO-Budapest is implementing a project in Bosnia and Herzegovina and in Moldova to strengthen the capacity of governments and social partners to design and implement policies and measures which promote formalization of the economy.

The DWT/CO-Moscow, together with the Employment Department, has recently conducted four country studies on transition from the informal to formal economy in Armenia, Kazakhstan, Russia and Tajikistan.<sup>13</sup> At the same time, sectorial activities to

improve compliance in the informal economy, in particular through technical cooperation initiatives aimed at strengthening labour inspections, have been carried out in different countries, such as Montenegro, the former Yugoslav Republic of Macedonia, Bosnia and Herzegovina, and Greece. The major findings were discussed at a sub-regional conference held in St Petersburg in November 2013. The ILO is also providing technical assistance to several EU and CIS member states, in order to actively promote policies and incentives for the transition from informality to formality, in cooperation with all national constituents.

The conference also built on the work and efforts, particularly on undeclared work, carried out both at the EU and country level in the targeted area.<sup>14</sup> In 2003 the EU Council issued a Resolution recommending that Member States take preventive and deterrent measures to reduce undeclared work.<sup>15</sup> At the same time, the EU has spearheaded several studies on this issue and the formulation of practical policy responses to address it. In this context, an EU platform to address undeclared work is expected to be implemented in 2015, bringing together all enforcement bodies involved in tackling undeclared work, including labour and social security inspectorates, as well as EU-level representatives of employers and workers. At the national level, several bilateral agreements have been signed between European countries to facilitate cross border inspections. In 2010, an important trilateral cooperation agreement was signed by the Labour Ministers of Bulgaria, Greece and Romania in order to better prevent and fight undeclared work in South-east Europe.<sup>16</sup>

<sup>13</sup> Sargsyan, A.; Tatybekov, B.; Soboleva, I.; Kubishin, E.; Baskakova, M. “Содействие переходу к формальной экономике на примере некоторых государств - участников СНГ” Working Paper No.6, ILO, Moscow, 2014.

<sup>14</sup> European Commission, Stepping up the fight against undeclared work, COM(2007) 628 final, Brussels, 2007.

<sup>15</sup> Council resolution on transforming undeclared work into regular employment, published in the Official Journal C 260, 29/10/2003.

<sup>16</sup> [http://www.ilo.org/labadmin/info/WCMS\\_145368/lang-en/index.htm](http://www.ilo.org/labadmin/info/WCMS_145368/lang-en/index.htm).

## 2.2 Objectives

With the adoption of *The Oslo Declaration Restoring confidence in jobs and growth*,<sup>17</sup> the ILO was called upon to provide assistance to constituents on specific challenges and to “facilitate the exchange of experience, including through platforms for sharing good practices and through the organization of seminars for mutual learning focused on concrete issues of concern.” Within this framework, the event was meant as a regional exchange of experiences and good practices, as well as an opportunity to disseminate the results of the current on-going projects in the Region. In particular, the objectives were the following:

- Promoting the outcome of the 2015 International Labour Conference (ILC) discussion on the transition from the informal to the formal economy with practical examples and in particular the adopted ILO R204;
- Sharing knowledge among tripartite constituents from the Region on approaches and instruments related to the formalization of the informal economy, including the lessons learned

through the implementation of several ILO projects across the Region;

- Facilitating tripartite dialogue among social partners and government representatives for the development of national programs on the formalization of the informal economy;
- Identifying regional and sub-regional priorities for possible future initiatives.

## 2.3 Participants and format

The Conference served as an opportunity to bring together tripartite delegations from 15 countries in the Region, namely: Albania, Armenia, Bosnia and Herzegovina, Bulgaria, Kazakhstan, the former Yugoslav Republic of Macedonia, Moldova, Montenegro, Portugal, Romania, Russia Federation, Serbia, Tajikistan, Turkey and Ukraine (see Annex 4 List of Participants).<sup>18</sup>

The format of the workshop included sessions with panels elaborating on selected topics with presenters and moderators engaging in open dynamic discussion with all participants.

<sup>17</sup> Adopted at the 9th ILO European Regional Meeting, Oslo, April 2013; further information, including the text, is available at [http://www.ilo.org/global/meetings-and-events/regional-meetings/europe-and-central-asia/erm-9/WCMS\\_210356/lang--en/index.htm](http://www.ilo.org/global/meetings-and-events/regional-meetings/europe-and-central-asia/erm-9/WCMS_210356/lang--en/index.htm)

<sup>18</sup> See Annex 3: List of Participants.

### 3. Formalizing the informal economy in Europe and Central Asia Region: the new ILO R204 and the need of an integrated approach

All keynote speakers emphasized the importance and timeliness of addressing the informal economy in the European and Central Asia Region. There was consensus that formalizing the informal economy is not only an obligation from a human rights perspective, as informality deprives people of decent work conditions and opportunities, and undermines one's dignity at work, but also that tackling informality clearly bolsters enterprise competitiveness, economic growth and development.

Through the showcasing of specific country examples and experiences, participants learned that technical interventions and programs addressing just one aspect of the informal economy in isolation usually produce only limited sustainable results, due to the heterogeneity of informality in terms of both its drivers and causes, and its manifestations. For instance, in the targeted Region, a plethora of drivers of informality can be identified, such as:

- Weak and unstable governance (government support is often lacking; in need of significant reforms and transnational cooperation; lack of political stability);
- Lack of efficiency in, and transparency of, public administration and low quality of services provided by governments;
- Unpredictable, rigid and complicated regulatory environment combined with high administrative burdens, high taxes on wages, increasing numbers of fiscal burdens and frequent amendments to legislation leading to volatile legal frameworks;
- Gaps in the scope or coverage of labour laws, excluding certain areas (such as minimum wages, working conditions, social and employment protection) or certain sectors (rural sector, mi-

cro and small enterprises, construction sector, domestic work etc.);

- Weak enforcement and compliance, stemming from poor governance, lack of institutional capacity and incentive mechanisms, and inefficient judicial systems;
- High long-term unemployment rates;
- Low formal wages;
- Increasing use (and misuse) of non-standard forms of employment;
- Poor industrial relations environment, ineffective social dialogue and lack of representation combined with concrete and practical shortages in reaching out to “invisible” workers and enterprises in the informal economy;
- Low tax morale;
- Insufficiently persuasive sanctions and complicated enforcement procedures in case of non-compliance;
- Migration and Europe's current refugee crisis.

Furthermore, as some participants noted, informality in the Region also has a historical background, as it has resulted from recent informalization processes linked to trends in the global economy or to past structural adjustment policies. In particular, after the collapse of state socialism in certain countries, and the consequent decline of formal employment due to the restructuring of enterprises and the downsizing of the state-sector, the informal economy has surged as people have resorted to a variety of informal, low-skilled, and sometimes precarious activities to survive.

Heterogeneity is a feature of the informal economy, as participants noted, in that there are many different categories of work involved, which cannot be tackled by a one-size-fits-all solution. From discussion it was clear that, while in some countries undeclared work and wage envelopes represent a major problem (Balkans), in others informal employment, understood as not registered, and informal self-employment, are the main features of informality which must be confronted (Central-Eastern and Southern Europe, CIS).

This overview of informality in the Region and its main drivers and causes, served as a concrete foundation upon which to firmly reaffirm that policies and interventions supporting transitions to formality require multiple and distinctive interventions aimed at addressing these different drivers, deep-rooted causes and multifaceted manifestations of informality in each national context. Therefore, a single, but multidimensional and country-tailored framework is needed. This precondition for efficiently containing and reducing high levels of informality has been reflected in the recently adopted ILO R204,<sup>19</sup> as it was acknowledged throughout the conference discussions. As the ILO representative pointed out, “the new Recommendation No. 204 on Transition from the Informal to the Formal economy provides a powerful and practical policy tool for the tripartite partners in the European region to set in motion integrated strategies that address specific drivers of informality in different national realities”.

All participants welcomed the adoption of the new ILO instrument as an opportunity for further tackling challenges in the Region, improving on-going efforts and reviewing results achieved to date. With regard to this, the ILO representative, in her keynote speech, recalled that ILO R204 is the first international labour standard specifically aimed at helping informal workers and economic units transiting to the formal economy, while, at the same time, it sets out to impede informalization of formal employment and promote decent work for all. The new

international labour standard represents a practical guide and resourceful tool to facilitate the transition from the informal to the formal economy. The general principles circumscribed in the Recommendation reflect lessons learnt from successful experiences around the world in dealing with the transition to the formal economy.

Moreover, the new Recommendation bridges, for the first time, all the major international labour standards, which are explicitly listed as annexes. In fact, although the majority of the ILO standards do apply to workers in the informal economy, informality makes it difficult to enforce the labour standards and to achieve the goal of decent work.

More specifically, the Recommendation emphasizes three key objectives: 1. the transition from the informal to the formal economy of existing workers and economic units; 2. the creation, preservation and sustainability of enterprises and decent jobs in the formal economy; 3. the prevention of further informalization of formal economy jobs. Within this framework, special attention needs to be given to freedom of association and collective bargaining, which need to be considered not only as fundamental rights to be guaranteed and promoted, but also as crucial mechanisms and tools towards achieving the effective implementation of the ILO R204 and, consequently, of all the related labour standards.

In addition, the ILO representative pointed out that implementing R204 requires a four-stage cycle of intervention: (i) given the heterogeneous nature of informality, a preliminary diagnostic phase is necessary in order to understand the specific drivers and causes of informality in each national and local context; (ii) a review of legal and policy frameworks to identify gaps and examine the feasibility, affordability and enforcement issues of such a framework needs to be undertaken; (iii) the appropriate policy mix to address gaps in each specific context has to be configured; (iv) an integrated and coherent strategy must be implemented under an inter-institutional body which has support at the highest level of government and among the social partners.

<sup>19</sup> See [http://www.ilo.org/ilc/ILCSessions/104/media-centre/news/WCMS\\_375615/lang--en/index.htm](http://www.ilo.org/ilc/ILCSessions/104/media-centre/news/WCMS_375615/lang--en/index.htm)

All participants agreed on this *modus procedendi*. In particular, they emphasized the need for collecting reliable and comparable data as a preliminary step and a precondition for a successful implementation of the ILO R204. Factors such as the size of the informal economy, the profile of the population prone to informal employment, the specific sectors characterized by high share of informality, the particular groups of workers trapped in informal employment, and the patterns and characteristics of growth of the local labour markets should be taken into consideration in order to identify barriers for a successful transition and the appropriate tools to overcome them. Since these variables may differ across countries, different entry-points in their national agendas for transiting to the formal economy will be appropriate, and will require more accurate and reliable statistics.

Further discussion focussed on specific thematic policy areas included in ILO R204, such as promoting an enabling business environment, enforcing compliance of labour law, extending social protection coverage, ensuring sound macro-economic policies and strengthening social dialogue. The summary and main highlights of each thematic discussion are summarised in the next paragraphs. As emphasized by the ILO representative, within the new framework of ILO R204 each topic has to be considered not as a standalone strategy and effort, but, conversely, as a different and reinforcing pillar of a unique approach to be developed and undertaken simultaneously.

### 3.1 Promoting an enabling environment for sustainable enterprises

The first panel addressed the issue of creating an enabling business environment as a key element in facilitating the transition from the informal to the formal economy. As a preliminary note, it should be stressed that all participants and keynote speakers acknowledged that an enabling business environment is an important ingredient in the formalization of the informal economy, as the ILO R204 openly states.<sup>20</sup> A conducive economic, fiscal and legislative framework is, in fact, instrumental in lowering the cost of formality and in promoting fair competition.

The participants observed that, first of all, an enabling business environment requires a strong and enduring commitment from governments in designing, implementing and enforcing relevant policies and legislation. However, in order to be successful in their actions, governments cannot act alone, but social partners' support should be constantly sought. As often highlighted during the Conference, social partners represent a unique lens through which governments can obtain an accurate and authentic snapshot of the concrete needs of businesses. If policies are agreed upon by all relevant stakeholders and determined through a participatory process, their subsequent implementation and enforcement should be assured. For instance, in **Bulgaria**, recent successful reforms to the Trade Act and Trade Registry Act to facilitate business registration have been enhanced through social dialogue.

Another important issue raised during the discussion concerned the scope of enabling business environment policies. Based on participants' views and ex-

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<sup>20</sup> See ILO R204, which invites Member States to promote sustainable enterprises and, in particular, the conditions for a conducive environment, taking into account the resolution and conclusions concerning the promotion of sustainable enterprises adopted by the ILO in 2007, including support to micro, small and medium-sized enterprises and entrepreneurs, and well-designed, transparent and well-communicated regulations to facilitate formalization and fair competition (R204, IV, 15(c)).

periences, these policies should be as comprehensive as possible and address support to businesses from their start-up and throughout their existence, both in the private and public sector. A conducive policy and legal framework supports entrepreneurship, firstly by lowering the costs of establishing and operating businesses, including simplified registration and licensing procedures, as well as instigating appropriate rules, regulations, and ensuring reasonable and fair taxation. Such a framework also augments the benefits of legal registration; it can facilitate access to commercial buyers, ensures more favourable credit terms, legal protection, contract enforcement and access to technology, subsidies, foreign exchange and local and international markets.

Such policies can also play a reverse role in discouraging formal businesses from slipping into the informal economy. For instance, in **Bulgaria** and in **Turkey**, action plans have been adopted for simplifying administrative procedures, promoting electronic exchange of information between institutions and making available information online on relevant regulations to facilitate compliance. In **Bulgaria**, amendments to the Labour Code have allowed for the instigation of one-day contracts in the agricultural sector, where most seasonal employees are informal. In **Azerbaijan**, since 2014 employment contracts can be registered electronically. In **Armenia** tangible steps have been taken towards the improvement and facilitation of business start-up and registration procedures. In particular, on-line declaration of taxes has been implemented, and a “One-Stop-Shop” for the registration of enterprises has been established with the aim of reducing the time necessary for registration and starting-up a business. This has helped to achieve substantive improvements, as has been acknowledged in a recent World Bank report.<sup>21</sup>

Through the showcase of country examples, participants listed the positive effects that enabling business

environment policies have had, such as, the enhancement of productivity through access to finance, skills, infrastructure, markets and technology transfers. In fact it was widely asserted that the limited access to finance and technology of operators in the informal economy means that they have fewer opportunities for business expansion and productivity improvement. Conversely, participants noted the positive impact that micro- and small-enterprises loans, for example, can have in terms of boosting income and creating jobs in small enterprises. In **Russia** and in **the former Yugoslav Republic of Macedonia**, for instance, start-up loans have been provided with consequent positive impact on the unemployment rate.<sup>22</sup> In **Albania**, the Government’s programme 2013-2017 provides specific support for small and medium business to substantially lower administrative barriers and costs, thereby further aiding the elimination of informality and corruption.

Finally, a sound and conducive policy framework aimed at achieving an enabling business environment should also include sound and fair bankruptcy legislation and ensure an effective and equitable judicial system. In this regard, all participants lauded initiatives directed at increasing the cost of remaining informal, while shrinking the costs of transitioning to formality, as well as raising the benefits of being formal. In particular, there was consensus that core labour rights and standards are non-negotiable minima, and non-compliance with these should be subject to non-discretionary punishment. However, in the context of a sound enabling business environment policy, fines should increase relative to the higher number of workers affected and/or the larger the size of the enterprise. This is the case in **the former Yugoslav Republic of Macedonia** where the Law on Misdemeanour has recently been amended and sanctions increased according to the size of the enterprise or where there have been cases of recidivism.

<sup>21</sup> See World Bank, *Ease of Doing Business Report*, 2015.

<sup>22</sup> In the former Yugoslav Republic of Macedonia, according to Government’s information, unemployment rate has decreased from 39% in 2006 to 26.9% in 2015 thanks to this specific measure.

## 3.2 Promoting compliance with labour law

The second panel focused on compliance and enforcement. This is another pillar of the integrated approach envisaged by the new ILO R204 to promote the transition from the informal to the formal economy.<sup>23</sup>

As a preliminary note, the ILO representative shed light on the distinctive approach that the twofold nature of informality requires. On the one hand, undeclared work and the grey economy must be confronted with clear legal frameworks, improved systems of labour inspection, easy and rapid access to legal aid, and consistent and equitable judicial systems, including cost-effective dispute resolution and contract enforcement. Initiatives aimed at promoting efficient administration institutions including labour inspectorates as well as efficient judicial systems, which are corruption-free, transparent and consistent in the application of rules and regulations, were lauded. In **Moldova** for example, the Government has decided to increase not only the number of, but also, and more importantly, the amount of wages for labour inspectors as a concrete measure to tackle corruption.

On the other hand, informality necessitates a balanced strategy of prevention initiatives, awareness raising campaigns and enforcement measures in order to tackle the great heterogeneity of drivers and the divergent types of work that characterise the informal economy. Legal frameworks to facilitate the transiting to the formal economy must provide transparent outcomes where a combination of all these measures are foreseen and effectively applied. In this regard, several participants highlighted that strategies that are educational, persuasive, transparent and participatory are particularly successful in

targeting the informal economy. Such initiatives as formalization campaigns seeking to raise awareness on labour rights and to support transition to the formal economy, or education initiatives addressing benefits of working formally, as has happened in **Portugal**, were well received.

As a further example, in **Moldova**, more dissuasive sanctions for undeclared work have been combined with the introduction of educational campaigns aimed at illuminating the consequences of informality in both the short- and long-term. Within this context, conference discussion strongly concurred on the importance of collaboration between the inspectorate and the social partners, through both partnership agreements in sectors with a high incidence of undeclared work, as well as joint information and awareness-raising campaigns on undeclared work. For instance, in **Moldova**, collaboration with social partners in campaigning against undeclared work is in place, particularly in the agricultural, processing industry and construction sector. Other countries have established tripartite consultative bodies dealing with labour inspection, which provide a framework for cooperation between workers' and employers' organizations and the labour inspectorate. This occurs in **Portugal**, where the Permanent Commission for Social Partnership, which is the forum for national social dialogue, also deals with labour inspection policies and programmes, including on formalizing informal economy.

Participants unanimously lauded initiatives aimed at strengthening coordination among the various governmental authorities – such as, among others, social security agencies, labour and health inspectors, tax agencies, migration and border police – and the social partners, with a view to develop effective monitoring systems and sanctions, and to strengthen the sharing of data and coordination among the institutions concerned. This is the case, for instance, in **Moldova**, where an action plan to counter envelope wages has been adopted and benefits from labour inspection system collaboration with anti-trafficking authorities, social security institutions and police to carry out joint inspections. In **Turkey**, labour inspection officers have to determine whether or not employees are insured and submit such information to the social security institution.

<sup>23</sup> ILO R204 invites Member States to “take appropriate measures, including through a combination of preventive measures, law enforcement and effective sanctions, to address tax evasion and avoidance of social contributions, labour laws and regulations; (...) to put in place appropriate mechanisms with a view to ensuring compliance with national laws and regulations; (...) to have an adequate and appropriate system of inspection” (R204, title VI, Incentives, Compliance and enforcement).

Use of new technologies can play an integral role in improving access to information and awareness-raising. The Internet in particular can bring policy-makers closer to the public, thereby raising awareness, disseminating information more rapidly and facilitating more transparent and consultative policy-making. Added to this, tailored software can improve the collection and analysis of labour market and inspection data, strengthening the objective basis for policy development, programming and evaluation. In **Albania** the introduction of the portal “e-inspection” administered by the Central Inspectorate, has enhanced the transparency and professionalism of the inspection bodies and enhanced coordination between their programming and inspections functions. Moreover, the labour inspectors have been provided with electronic equipment in order to facilitate the exchange and control of relevant data. In **Serbia**, labour inspection is connected to the Social Insurance database, which filters valuable data before an inspection takes place. In **Bulgaria** and **Portugal**, labour inspectorates have introduced websites as part of their special efforts to fight undeclared work, documenting and publishing the identities of violators online. In **Montenegro** smartphone applications and websites as well as whistleblowing channels have been put in place to anonymously report violations of the labour law.

Media campaigns have been essential to promote compliance and to reach out to immigrants and to other vulnerable groups. In **Moldova**, national campaigns have been launched to encourage payments through bank transfers and to promote OSH in the agriculture, processing industry and construction sectors. In **Montenegro**, a television presentation serves to highlight the negative aspects of the informal economy.

Last but not least, there was consensus that a pivotal role is played by international and supranational organizations both in reforming legal frameworks and in translating regulations into practice. **Albanian** and **Serbian** representatives observed that the ILO Conventions and EU directives are playing a key role as drivers towards the modernisation of their legal system. Moreover, ILO and EU technical cooperation projects and initiatives are proving

to be potent measures for supporting sustainable transitions to a formal economy. In **Montenegro**, a positive impact on formalizing and registering employment contracts has been achieved thanks to ILO support in capacity building and training of the labour inspectorate. In **Romania**, an EU-funded project on combating undeclared work introduced the adoption of annual labour inspection plans at the local level. This participatory measure of programming labour inspection visits and priorities is still in place even after the project’s phase-out.

### 3.3 Extending social protection to the informal economy

During this third panel, it was acknowledged that a lack of access to social security is, in certain countries, often a direct consequence of informality, and strategies to extend social security can play an important role in making a transition to formality more appealing. In the long term, by improving the living conditions of the most vulnerable, and of the population as a whole, the extension of social security coverage not only helps to achieve transitions to formality, but also generates income and increases productivity and prosperity, as recognised by ILO R204, as well as by another recently approved landmark labour standard, the ILO Recommendation on Social Protection Floors, 2012 (no. 202).<sup>24</sup>

The challenges in extending social security to the informal economy in the Region were acknowledged by all during discussions. Participants identified the main barriers being a lack of strong political will, low tax morale, weak capacity for law enforcement and social contribution collection, (including insufficiently dissuasive sanctions and lengthy court proceedings), as well as a high tax burden compared to the low levels of social security benefits. Moreover, the transition from a centrally-planned to a market-based economy, as well as the fiscal consolidation measures resulting from the current economic downturn, have put national social security systems under considerable strain.

<sup>24</sup> See [http://www.ilo.org/secsoc/areas-of-work/legal-advice/WCMS\\_205341/lang-en/index.htm](http://www.ilo.org/secsoc/areas-of-work/legal-advice/WCMS_205341/lang-en/index.htm).

In this regard, the ILO representative noted the importance of recognising not only the drivers, but also the different consequences stemming from informality in order to design and implement effective responses and strategies. At its most serious, the informal economy threatens the adequacy and sustainability of social security systems. However, while unregistered workers in informal employment and their families are unprotected against substantial social risks, undeclared work through under-declaration of wages diminishes the level of contributions collected, resulting in a lower distribution of future benefits. Interventions therefore should be differentiated. Social security extension strategies should be coordinated with fiscal, economic and employment policies in order to support transitions to formality. The dual dimensions of prevention and protection need to be integrated as well, including the prevention of work accidents and occupational diseases, improvement to working conditions, income security, and access to health care. All in all, an integrated and holistic approach is essential.

Despite the great challenges characterising this Region, the showcase of country examples evidenced that progress has been made towards both the extension of social security systems and improvements to compliance with and collection of social security contributions. Several noteworthy practices can be highlighted in the Region. For instance, some countries are in the process of revising their legal system in order to create a conducive environment for the extension of social security to sectors and workers currently excluded from its scope. In this regard, **Tajikistan** has taken steps towards the creation of a comprehensive legal framework in line with international standards and core labour rights. Other countries have included the extension of social protection, or one of its components, in their national integrated policy to tackle their informal economy. When the country context does not allow for the implementation of all the components of a national social protection floor at once, a sequential approach can generate immediate benefits in terms of poverty reduction and transition to formality. As one example, **Albania** has included social security and, in particular, the need for pension reform in

the 2013-2017 Government's programme for tackling its informal economy.

Finding new ways to extend the coverage of social protection programmes to workers in the informal economy and to other vulnerable groups such as migrants, ethnic minorities, youth, women and people employed with non-standard forms of employment, is recognised as a primary challenge for social security systems and their credibility and sustainability. In so exploring, some countries have put in place mechanisms and innovative measures that address the characteristics and needs of workers and employers in the informal sector, including development of instruments to incentivize and facilitate registration with social security schemes. In Republika Srpska (**Bosnia and Herzegovina**) for instance, the payment of voluntary contributions in the agricultural sector has been facilitated by combining the payment of farmers' social security contributions with discounts in purchasing chemicals, such as fertilisers and pesticides. In other countries, wage subsidies and incentives, in terms of temporary reductions or exemption from social contributions, have been utilised to recruit vulnerable groups of workers. Examples can be seen with seasonal workers in agriculture and youth in the **former Yugoslav Republic of Macedonia**; and with migrants and internally displaced people in **Ukraine**. Moreover, in the **former Yugoslav Republic of Macedonia**, the project "Employing Macedonia" launched by the Government in March 2015 aims to promote employment and ease the high level of unemployment in the country (27.3% in the first quarter of 2015). The project targets five categories of registered unemployed. An attempt is being made to stimulate their employment prospects by granting employers exemptions from tax and/or social contributions.<sup>25</sup>

Improvements in the collection of social security contributions and in the strategy against fraud have

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<sup>25</sup> According to government sources, by June 2015 around 2,500 people had been employed and 1,750 companies had taken up the exemptions offered. For further information, see <http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=2282&furtherNews=yes>

proved beneficial for both providers and beneficiaries, and has enhanced the credibility and sustainability of social security systems. New technologies can play a crucial role in this area by cushioning the administrative cost of registration with social security services, and in development of comprehensive innovative mechanisms to ‘capture’ workers in irregular employment relations, to prevent fraud and improve inspections. For instance, many countries in the Region, including **Bosnia and Herzegovina, Serbia, the former Yugoslav Republic of Macedonia, and Moldova**, have focused on establishing a unified collection system of taxation and social security contributions; others have introduced incentive-based penalty rates, as has **the former Yugoslav Republic of Macedonia**. Others, like **Turkey**, have prohibited all cash transfers and have allowed exchange of data between Social Security and Financial Institutions.

The discussion acknowledged the crucial role that social dialogue can play. In many countries, building a long-lasting consensus on social security, including establishing a participatory management of social security systems, has proved to be essential. In **Turkey**, for instance, the General Assembly of the Social Security Institution is an influential tripartite body which monitors the design and implementation of social security policies. Moreover, the showcase of country examples proved that social partners could act as a catalyst for raising awareness of the adverse effects of informal and undeclared work, including the lack of social protection in the short- and long-run. In **Romania** and in **the former Yugoslav Republic of Macedonia**, for instance, the social partners provide training, education and awareness raising campaigns on the benefits of the social protection floor and the need to extend its coverage to the informal economy, as well as extending it to non-standard forms of employment, migrants and other vulnerable groups of workers.

### 3.4 Defining macroeconomic and employment policies to promote formal employment

The purpose of this panel was to address potential employment policy measures as a vehicle to help formalize the informal economy.<sup>26</sup> As clearly highlighted by ILO representatives in their introductory remarks, sustainable and inclusive growth is important to aid the transition towards formality and reduce poverty. As noted, it is widely recognised that the root cause of the informal economy is an inability to create sufficient numbers of formal jobs to absorb new entrants to the labour market and provide job opportunities for those who are trapped in the informal economy.<sup>27</sup> In conditions of low economic growth, poor investment climate and the prolonged effects of economic crisis, the informal economy has become an illusory escape from poverty. In practice however, it actually compounds poverty in the long-term.

In order to curb the spread of informality, the ILO has urgently called upon Member States to make employment a central concern of economic and social policy by promoting employment-friendly macroeconomic frameworks and supporting those productive sectors of the economy which have a high impact on employment and decent work. In the context of the economic crisis, as one response, **Portugal** has put in place a package of measures to support active labour market policies and training, lifelong learning, work placements to facilitate integration of young people in the labour market, and measures to support employment, favouring stable and permanent employment relationships. In **Russia**, as another response, the Government

<sup>26</sup> See ILO R204, section IV, namely, «*In pursuing the objective of quality job creation in the formal economy, Members should formulate and implement a national employment policy in line with the Employment Policy Convention, 1964 (No.122), and make full, decent, productive and freely chosen employment a central goal in their national development and growth strategy or plan. Members should promote the implementation of a comprehensive employment policy framework, based on tripartite consultations...*».

<sup>27</sup> See ILO, Transitioning from informal to formal economy, ILC Report, 2015.

has introduced starts-up grants, which have shown positive effects on unemployment rates.

From the discussion it was clear that small and medium enterprises (SMEs) have a crucial role in many countries in the Region in creating and maintaining numerous jobs. Public policies to support these companies can contribute to generating formal employment. Moreover, many participants highlighted that sectoral policies are a key aspect in this regard. Targeted support for sectors with the potential to generate high levels of quality employment (say, tourism) or with a very high level of informality (as in agriculture and construction sectors) is a key dimension of formalization. For instance, in **Russia** the Ministry of Economic Development has launched a specific programme aimed at supporting SMEs; **Kazakhstan** has instituted targeted policies to combat informality particularly in the rural sector, by providing microloans up to USD 12,000 for 5 years combined with mandatory entrepreneurship training.

Given the considerable skills gaps in the formal economy, participants pointed out the need for quality of technical and vocational education and training (TVET) and qualification frameworks aimed at addressing the mismatch between the output of educational and training institutions and the types of skills required in the labour market. To take one example, **Kazakhstan** has focussed on designing and strengthening apprenticeship programmes for youth in the context of its active labour market policies. In **Armenia**, on the other hand, the Central Bank has developed and implemented policies to finance education of employers and employees. And in **Russia**, starting from 2015, public-private partnerships have been promoted to organize distance learning centres. These are educational programs aimed at the development of technological, financial, legal, economic, civic literacy, and cultural adaptation of foreign citizens in Russia, and include the use of modern means of communication.<sup>28</sup>

Conference participants acknowledged that the informality issue is also an issue of governance. In particular, the institutional context and the capacity of labour market institutions are of vital importance. Some countries in the Region have embarked on reforms aimed at strengthening and/or establishing mechanisms and procedures for labour market governance and for the setting up of policy parameters, such as collective bargaining and wage councils. **Russian** authorities, for instance, created committees to monitor the situation of informal hiring and analyse payment of wages. These committees identify areas where informal employment is prevalent, identify the average salary level in the enterprises in that area, conduct inspections, exchange information with different inspections and ministries, and identify employers who do not comply with the minimum wage. In **Albania**, the Business Promotion Department at the Ministry of Economic Development, Trade and Entrepreneurship (METE) has been established as the competent body responsible to design policies for investment developments, exports and SMEs, to promote free entrepreneurship and to encourage the development of business innovation in order to increase their competitiveness in regional and global markets.<sup>29</sup> And in **Montenegro**, a coordination body has been established at national level to tackle the challenges of the informal economy.

Finally, it was strongly emphasized that greater participation by social partners in the design and monitoring of active and passive labour market policies and institutions is crucial to address the informal economy. Most notably this can be achieved through activation measures, such as stimulating the level of contracting to employ additional groups, more apprenticeships, traineeships and better job practices. In **Turkey**, for instance, employment strategy and action plans have been designed through social dialogue, with a positive effect on formal employment rates and growth.

<sup>28</sup> See [https://g20.org/wp-content/uploads/2014/12/g20\\_employment\\_plan\\_russian\\_federation.pdf](https://g20.org/wp-content/uploads/2014/12/g20_employment_plan_russian_federation.pdf)

<sup>29</sup> See <http://wbc-inco.net/object/organisation/8178> and <http://www.ekonomia.gov.al/>

### 3.5 The role of tripartism and social dialogue in formalizing the informal economy

This last panel analysed in detail the role of social dialogue and tripartism in supporting transitions to formality. As shown above, social dialogue and tripartism were a recurrent and cross-cutting theme throughout the Conference discussion. It was repeatedly emphasized that successful strategies for the transition to formality need to be embedded in conducive macroeconomic, social, legal and political frameworks within national development strategies. They also need to be facilitated through strong social dialogue institutions allowing for the participation of workers' and employers' organizations. However, people in the informal economy are usually not permitted to organize under local or national legislation, and are often excluded from or under-represented in social dialogue institutions and policy-making processes. Consequently, this session aimed firstly at taking stock of national tripartite initiatives on confronting informality in the Region and, secondly, at shedding light on feasible, innovative solutions to extend the scope and coverage of social dialogue to reach out to the most vulnerable workers and sectors prone to informality.

Conference discussion revealed that, although social dialogue is widely recognised as an essential feature of participatory democracy, governments nevertheless often show limited interest in engaging with social partners. Notwithstanding such reluctance, the overview of experiences of various countries' experiences testified that better results can be achieved when the social partners are fully involved in designing, implementing and monitoring national strategies for the transition to formality. In fact, successful practices in the Region have proved that tripartite bodies in charge of monitoring progress in policy implementation have manifested in more positive realities. As one illustration, **Romania** the Labour Inspectorate and social partners have cooperated in designing and implementing measures to tackle undeclared work within the framework of a Memorandum of Understanding (MoU) between the Government and the European Union. According to the government repre-

sentative, this participatory approach in the years 2010-2015 saw undeclared work rates in the country halved. In **Turkey**, an ILO-EU funded project on "Social Dialogue as a tool to address informal economy" (2005-2007) proved to be a successful experience in addressing informality by enhancing social dialogue and tripartism among relevant partners at the local level.<sup>30</sup>

The debate acknowledged that the system of industrial relations in Eastern Europe and Central Asia is still characterized by the predominance of tripartite consultations at national/policy level as compared to bipartite social dialogue and collective bargaining, which mainly takes place at the enterprise level and is predominately in the private sector. In response, many participants emphasized that tripartism can play a significant role as a tool to self-regulate collective and employment relationships at any level, and that governments should provide incentives and/or stimulus for its further refinement

Social partners can be also crucial in carrying out education and awareness raising campaigns and initiatives. In **Turkey**, consultancy and training facilities are provided to SMEs by workers' and employers' organizations, along with educational and vocational skills programs. A good-practice in **Romania** is the "*A day per week*", an initiative consisting in unannounced checks on the self-employed and/or SMEs in sectors prone to informal employment, such as tourism, agriculture, construction. Moreover, social partners and, in particular, trade unions can play a key role in promoting the participation and representation of women and other vulnerable groups such as youth, migrants and ethnic minorities, who are particularly numerous in the informal economy, and on accommodating their specific needs. In **Romania**, for instance, an EU-funded project helps women establish their own businesses; moreover, a Guaranty Fund is in place

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<sup>30</sup> In fact, within this framework tripartite constituents worked together in order to develop national plans of actions to set out strategic axes, to establish working groups within Provincial Employment Boards to ensure that decisions took into account local social-economic conditions; to carry out labour market analysis through informality lens, and to raise awareness on risks of informal employment.

to provide internships and other vocational opportunities to low-skilled workers.

All participants underscored the need for designing and implementing new, innovative and participatory ways to connect with the most vulnerable categories of workers and economic units in the informal economy, including vulnerable groups and people employed with non-standard forms of employment. In fact, since the actors in the informal economy do not have the right and/or the capacity to organize and represent their needs and interests, organizing them is the first step towards social dialogue and the development of tripartite

solutions that take into account the contextual factors and diversity within the informal economy. Successful examples include the formation of bipartite associations in sectors prone to informality in order to engage workers and operators, as it is the case in **Romania**, where “The Builders’ Social Fund” was established in 1998 as a privately run welfare organization to which the representative trade unions and employers’ organizations in the construction and building materials sector contribute equally. This framework has presented ideal conditions for a multi-dimensional approach to combating illegal work. Welfare services are only made available to legally employed persons.

## 4. Conclusions: the way forward

Two days of fruitful discussion pointedly demonstrated that the informal economy is a most significant concern in Europe and Central Asia. Although most countries in the Region are already taking steps to promote the formalization of the informal economy, informal employment and undeclared work still represent a major challenge to policy makers. Policy interventions need to consider crucial variables such as specific national and sectoral contexts, as well as the size of the various enterprises involved. Informality requires the political and economic actors in the region to actively address a wide range of issues such as the lack of strong political will and commitment, low tax moral, weak enforcement capacity and contribution collection, high tax burden and social contributions, as compared to the low level of benefits, lack of dissuasive sanctions, lengthy court processes and inadequate structural adjustment policies.

This Regional Conference created a forum to share good practices and ideas on how to continue tackling the informal economy and to better implement the new ILO R204. Based on the participants' interventions, the following key messages and priorities can be identified as a basis for future work and actions:

### Implementing international standards

ILO Conventions and Recommendations, as well as EU directives and regulations, continue to have a defining role in Europe and Central Asia. Governments and social partners, with the assistance of the ILO and the EU, must continue to cooperate in establishing and maintaining an enabling environment for the adoption, review and enforcement of laws and regulations of ratified labour standards, as recommended by the ILO R204 as a matter of priority.

### Designing and implementing an integrated policy approach

For a successful transition to the formal economy it is necessary to collect, analyse and disseminate data to assess the size and composition of the informal economy, its drivers and manifestations, the patterns of growth and characteristics of the labour markets, and to monitor and evaluate the progress made towards formalization. In collaboration with international organizations and in consultation with employers' and workers' organizations, governments should therefore engage in further capacity building of national statistics offices on measuring informality and in strengthening research on this topic.

A crucial aspect of ILO R204 is the emphasis on the need for an integrated policy strategy to facilitate the transition to the formal economy. It is therefore imperative that governments, in consultation with employers' and workers' organizations, develop and enhance single, but multidimensional and country-tailored frameworks to promote and support transitions to formality. The consensus of the conference discussions was that governments in Europe and Central Asia should further engage in designing and implementing such an integrated policy framework, based on tripartite consultations, and that such a framework should include the following elements:

- a. Considering that the root cause of the informal economy is the inability to create sufficient numbers of formal jobs to absorb new entrants to the labour market and provide job opportunities for those who are trapped in the informal economy, governments should ensure that an integrated policy framework is embedded in national development strategies or plans, as well as in poverty reduction strategies and budgets, in line with ILO R204. This integrated and holistic policy should focus on strategies for sustainable development, poverty eradication and

- inclusive growth, the generation of decent jobs in the formal economy and the promotion of skills and productive capacity able to match labour market demand.
- b. Consistent with the ILO Recommendation on Social Protection Floor, 2012 (No. 202) and with the ILO Social Protection (Labour Protection) Resolution and Conclusions adopted during the 104th International Labour Conference,<sup>31</sup> governments and social partners should identify and close gaps in the coverage of social protections (labour protection), paying special attention to workers, occupations and sectors that are excluded or in the labour market segments, to non-standard forms of employment, to social groups that are most at risk, such as migrants, ethnic minorities, youth and women, and to emerging challenges associated with new ways of working and the changing world of work. Government and social partners should also work closely on designing and implementing innovative ways to ensure the efficient collection of taxes and social contributions.
  - c. Governments, in consultation with the most representative organizations of employers and workers, should work to adjust the legal framework in order to overcome gaps in legislation, and to avoid an unnecessary legislative burden through frequent amendments to legislation which may undermine the existing legal framework. While ensuring the necessary protections and decent working conditions for all workers, including those in labour market segments, these regulations should also take into account differences among sectors and enterprises' size, and should be designed to remove complexities that create disincentives for compliance by businesses, with a view to promote and facilitate the formalization of the informal economy in line with the ILO R204.<sup>32</sup>
  - d. The creation of an enabling environment for the formalization of enterprises is one of the key factors to take into consideration when devolving informalization. Governments, in consultation with the most representative organizations of employers and workers, should work to draft regulations that are not unnecessarily complex, while ensuring that they provide necessary protections and working conditions for workers, as stated in the SMEs and Employment Creation Resolution and Conclusions, adopted during the 104th International Labour Conference.<sup>33</sup> Measures should also be targeted to support the formalization of enterprises in line with the ILO R204, by adopting regulations that take into account differences among enterprises, by removing barriers which present disincentives for compliance and by improving access to business services, finance, infrastructure, markets, technology, and education and skills programs.
  - e. More effective compliance mechanisms need to be designed, combining incentives and enforcement measures, awareness raising and enforcement measures. Labour Inspectorates should operate with adequate and appropriate resources, and they should cooperate with social partners in awareness raising campaigns and with other authorities (such as tax inspectors, police, social protection institutes, health officials, migration and border police etc.) in joint inspections. Steps should be taken to extend the coverage of labour inspection to all workplaces in the informal economy in order to protect workers, and provide guidance for enforcement bodies, as clearly stated in ILO R204. Efficient and accessible complaint and appeal systems should be put in place, and further efforts should be undertaken shorten the length of legal proceedings and to ensure consistency and fairness of outcomes.

<sup>31</sup> See <http://www.ilo.org/ilc/ILCSessions/104/committees/social-protection/lang--en/index.htm>

<sup>32</sup> See <http://www.ilo.org/ilc/ILCSessions/104/committees/informal-economy/lang--en/index.htm>

<sup>33</sup> See <http://www.ilo.org/ilc/ILCSessions/104/committees/sme/lang--en/index.htm>

Innovative approaches such as e-government and the use of new technologies are providing some promising breakthroughs in the area of data collection, access to information, facilitation of registration and compliance procedures. International organizations, governments and social partners should continue to develop and assess the effectiveness of information technology and digital tools, to assist governments in improving data and tax revenue collection systems, to support businesses in complying with legal requirements, and to inform workers of their rights and protections. Initiatives in this area should be promoted and advanced at the international, regional and national level, through the ongoing development and promotion of assessment tools and customized guidance that can overcome existing information gaps. Innovative tools are ideally developed in a participatory way and in partnership with employers and workers in order to meet their specific needs and challenges.

### **Promoting and extending social dialogue in the informal economy**

The outstanding support obtained from the ILO's tripartite constituents for ILO Recommendation No. 204 demonstrates that formalizing the informal economy is an issue of universal concern. Governments, employers and workers all have a role to play as all can benefit from this transition to formality. It is therefore imperative that these parties cooperate in developing and enhancing effective policy mixes and sustainable strategies to achieve the stated objective. . Priorities for action include broadening efforts to extend the coverage and scope of social dialogue and collective bargaining to sectors and groups of workers still excluded; raising awareness on the adverse effects of the informal economy and the lack of social protection coverage; and enhancing national capacities to acquire and use knowledge and information to develop effective participatory mechanisms to promote transitions to formality. Further, there must be established tripartite institutions able to ensure stability, efficiency and transparency in labour market governance.

In line with ILO R204, special attention needs to be given to examining the potential barriers to free-

dom of association and collective bargaining in order to enhance the ability of workers and employers in the informal economy to exercise their rights, to facilitate sharing of good practices and innovative approaches, and to offer governments and social partners guidance, training and technical support to address these barriers.

### **Enhancing international cooperation**

With the aim of ensuring the effective implementation of international labour standards and tripartite consensus-based approaches, the ILO should continue its efforts to strengthen its international cooperation activities as an effective conduit towards formalization of the informal economy. At the global level, initiatives such as the action plan for the implementation of ILO R204 are welcomed and should be supported, alongside further research and studies on the topic, such as the ILO Future of Work report on the occasion of the ILO centenary to be celebrated in 2019. Within the framework of the Sustainable Development Goals (SDGs), the ILO should further strengthen on-going partnerships and alliances with other UN specialised agencies (including the UNDP, UN Women and Unicef), International Financial Institutions (such as the World Bank and the International Monetary Fund), civil society organizations, business communities and academia. In the Region, the ILO will continue to support the work through the DWCPs negotiated with tripartite constituents, promotional awareness raising and advocacy campaigns, capacity building of tripartite constituents, knowledge development and dissemination, and international cooperation and partnerships with relevant EU agencies, such as the European Commission, Eurofound and EU-OSHA.

In line with the spirit of *The Oslo Declaration: Restoring confidence in jobs and growth*,<sup>34</sup> governments and social partners recognize that global and regional platforms

<sup>34</sup> With *The Oslo Declaration: Restoring confidence in jobs and growth*, signed in Oslo in 2013 by tripartite delegates from 51 European and Central Asian member States, the ILO was called upon to “facilitate the exchange of experience, including through platforms for sharing good practices and through the organization of seminars for mutual learning focused on concrete issues of concern.”

– such as this Regional Conference – are essential in maintaining the national, regional and international discourse focused on engaging further efforts to facilitate the transition to the formal economy. Efforts should thus be made to promote further initiatives and events for the exchange of good practices, such as the upcoming global knowledge-sharing event organized by the ILO and to be held later this year (end of November) in the International Training Centre of the ILO in Turin, where experiences and views from all regions will be shared.

Governments and social partners will all have a crucial role to play in achieving the new Sustainable Development Goals (SDGs). The developmental potential stemming from the formalization of the informal economy is clearly recognized by Goal #8

“Decent work and economic growth”, and especially by its target no. 8.3, which explicitly calls for “the formalization and growth of micro-, small- and medium-sized enterprises”. Constituents are called upon to live up to such ambitious commitments by supporting the implementation of the SDGs at the national and international level. The adoption of integrated policy frameworks aimed at facilitating the transition of workers and economic units to the formal economy will not only contribute to the achievement of Goal #8, but also critically influence the attainment of other interrelated Goals such as Goal #1 on poverty eradication, Goal #3 on good health and wellbeing, Goal #5 on gender equality, Goal #10 on reduced inequalities, and Goal #16 on inclusive societies and effective and accountable institutions.



