Facilitating the transition from the informal to the formal economy
I. Introduction to Recommendation No. 204

344. The first time that the term “informal sector” was used in the ILO was in 1972, in the framework of a strategy to increase productive employment in Kenya. The term was intended to describe the activities of those who, although working very hard, were working poor and were not recognized, recorded, protected or regulated by the public authorities. In 1991, the ILC discussed the Director-General’s report *The dilemma of the informal sector*, the objective of which was to generate discussion among constituents on the problems to which the informal economy gives rise.

345. In 2002, the ILC held a general discussion based on a report on *Decent work and the informal economy*. In its Conclusions, the ILC set out a new framework for action. It called on governments to develop and implement a range of policies and programmes and on the social partners to advocate for and extend representation to workers in the informal economy. It called on the ILO to undertake a series of actions to better address the needs of workers and economic units in the informal economy. It also emphasized the critical need for an integrated and comprehensive approach, grounded on the four pillars of decent work (employment generation, rights, social dialogue, and social protection), to meet the objective of moving out of informality. The Conclusions reflected consensus on some main elements, as well as the building blocks that would later constitute the future ILO instrument on informality. The consensus included recognition of the diversity of situations existing in the informal economy and the fact that the workers and economic units concerned experience specific disadvantages and decent work deficits. It further pointed to a comprehensive range of actions to address decent work and to facilitate the transition to formality. The 2002 ILC perspective probably provides a unique integrated framework at the global level that recognizes and promotes the twin objectives of preserving and expanding the employment, income generation, poverty reduction potential of the informal economy, while extending social protection to the vast majority of the population working in the informal economy.

346. In 2007, the ILO organized an Interregional Symposium on the Informal Economy: Enabling Transition to Formalization. The overall objective of the Symposium was to exchange experience on the different approaches developed to facilitate the transition to formality and to assist ILO constituents develop knowledge on emerging issues and innovative approaches to addressing the informal economy across the four pillars of the ILO Decent Work Agenda. At the same time, the Symposium identified knowledge and implementation gaps.

347. In March 2013, the Governing Body accepted the proposal to include on the Agenda of the ILC in 2014 a standard-setting item on “Facilitating gradual transitions from the informal economy to the formal economy” with a view to the adoption of a Recommendation. A Tripartite Meeting of Experts on Facilitating Transitions from the Informal Economy to the Formal Economy was held in September 2013 as part of the preparatory work for the future instrument.

348. After a first discussion in 2014, the Transition from the Informal to the Formal Economy Recommendation was adopted in June 2015. While informality has already been addressed by
international labour standards; Recommendation No. 204 is the first standard specifically dedicated to the subject, its different facets and the challenges that it poses to society.

349. The resolution adopted with the Recommendation invites governments, employers and workers jointly to give full effect to Recommendation No. 204. It also invites the Governing Body to request regular reports from member States under article 19 of the ILO Constitution as part of the existing reporting mechanisms, in particular General Surveys, and to review the progress made in the implementation of the Recommendation. The decision by the Governing Body to include examination of Recommendation No. 204 in the present General Survey gives effect to this proposal.

350. The Committee further notes the follow-up strategy adopted by the Governing Body in October 2015 for the period 2016–21 to give effect to the resolution. The strategy for action is based on four inter-related components: a promotional awareness-raising and advocacy campaign; capacity-building of tripartite constituents; knowledge development and dissemination; and international cooperation and partnerships. Informality and the encouragement of formalization is reflected in the 2030 Agenda, and particularly target 8.3: “Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro, small and medium-sized enterprises, including through access to financial services”.

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462 See the following instruments: Employment Policy (Supplementary Provisions) Recommendation, 1984 (No. 169); Human Resources Development Convention, 1975 (No. 142); Human Resources Development Recommendation, 2004 (No. 195); Labour Administration Convention, 1978 (No. 150); Employment Service Convention, 1948 (No. 88); Private Employment Agencies Convention, 1997 (No. 181); Promotional Framework for Occupational Safety and Health Convention, 2006 (No. 187); Employment Relationship Recommendation, 2006 (No. 198); Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189); Promotion of Cooperatives Recommendation, 2002 (No. 193); HIV and AIDS Recommendation, 2010 (No. 200); Social Protection Floors Recommendation, 2012 (No. 202); Employment and Decent Work and Peace and Resilience Recommendation, 2017 (No 205); Violence and Harassment Convention, 2019 (No. 190); Violence and Harassment Recommendation, 2019 (No. 206).

463 ILO: Resolution concerning efforts to facilitate the transition from the informal to the formal economy, ILC, 104th Session, Geneva, 2015.

464 ILO: Formalization of the informal economy: Follow-up to the resolution concerning efforts to facilitate the transition from the informal to the formal economy, Governing Body, 325th Session, October 2015, GB.325/POL/1/2, para. 14.

465 According to the latest report on progress towards the Sustainable Development Goals of 2019, “Informal employment, which has an impact on the adequacy of earnings, occupational safety and health and working conditions, remains pervasive: in three quarters of countries with data on the subject, more than half of all persons employed in non-agriculture sectors are in informal employment.” UN. E/2019/68.
II. Rationale behind the transition from the informal to the formal economy and scope of application

1. Scope of application: Differentiating between the informal sector, informal employment and the informal economy

Informal sector enterprises were defined by the 15th ICLS in 1993 on the basis of the following criteria: they are private unincorporated enterprises (i.e. enterprises owned by individuals or households that are not constituted as separate legal entities independently of their owners, and for which no complete accounts are available that would permit a financial separation of the production activities of the enterprise from the other activities of its owner(s)). In 2003, the 17th ICLS adopted the term informal economy instead of that of informal sector as being more precise in reflecting the expanding and increasingly diverse group of workers and enterprises in both rural and urban areas operating informally. The ILO has since defined employment in the informal economy as comprising two components: (i) employment in the informal sector as defined by the 15th ICLS, and (ii) other forms of informal employment (i.e. informal employment outside the informal sector). These resolutions cover both agricultural and non-agricultural activities. However, the 1993 resolution provides in paragraph 16 that “for practical reasons, the scope of the informal sector may be limited to household enterprises engaged in non-agricultural activities”. Paragraph 7 of the 2003 Guidelines concerning the statistical definition of informal employment provides that “countries which exclude agricultural activities from the scope of their informal sector statistics should develop suitable definitions of informal jobs in agriculture, especially with respect to jobs held by own-account workers, employers and members of producers’ cooperatives.

The “informal economy” is therefore broader than the “informal sector” and captures all the relevant components of informality, including both production relationships (the informal sector) and employment relationships (informal employment). It accordingly covers situations of informality in all types of economic units, whether formal, informal or households.
353. Paragraph 2 is not a definition, but rather a description of what the term “informal economy” covers and what it does not cover for the purposes of the Recommendation. It is also an acknowledgement of the broad diversity that the informal economy entails in terms of workers, enterprises and entrepreneurs. The term “activities” goes beyond employment and refers to employment, enterprises and production. For example, informality includes the partial failure to declare wages for work performed by employees in formal employment.

354. The material scope of the concept of the informal economy, as indicated in Paragraph 2 of the Recommendation, has an impact on laws on labour, social security, taxes and commerce, and their effective implementation. Under informal arrangements, there is a failure to report economic activities and employees, and to comply with fiscal and social security obligations, including the payment of taxes on production and sales, and social security contributions. Moreover, as economic units are not recognized, and therefore not protected, they cannot conclude contracts to safeguard their intellectual and physical property. Moreover, the employment relationship is not recognized, leaving workers without the rights and benefits to which they would otherwise be entitled to (in relation to wages, hours of work, holidays, pensions, etc.).

355. Paragraph 2(b) provides a non-exhaustive list of illicit activities that are not covered by the Recommendation, and specifies that such activities are those provided for in the relevant international treaties. No reference is made in this respect to activities that are classified as illicit under the terms of national legislation since, in view of differences in national legislation, this might have resulted in the exclusion from coverage by the Recommendation of various categories of workers and businesses, depending on the specific provisions of national law.

(i) Definition of economic units

356. The concept of the informal economy refers to workers and “economic units”. Moreover, under the terms of Paragraph 4, the Recommendation applies to all workers and economic units in the informal economy. Paragraph 3 of the Recommendation indicates that the concept of “economic units” in the informal economy includes:

“(a) units that employ hired labour;
(b) units that are owned by individuals working on their own account, either alone or with the help of contributing family workers; and
(c) cooperatives and social and solidarity economy units.”
357. During the preparatory work, the encompassing term of “economic units” was adopted so as to include other actors not covered by the conventional understanding of the term “enterprises”. It normally includes production units, such as households employing domestic workers, which are not generally considered as enterprises. It also includes production activities undertaken in unidentifiable premises without a fixed location, such as “street vendors”. However, to make it clear that enterprises are also covered, the phrase “including enterprises, entrepreneurs and households” was added.

(b) Personal scope of application: Definition of informal employment

Paragraphs 4 and 5 of the Recommendation

4. This Recommendation applies to all workers and economic units – including enterprises, entrepreneurs and households – in the informal economy, in particular:

(a) those in the informal economy who own and operate economic units, including:
   (i) own-account workers;
   (ii) employers; and
   (iii) members of cooperatives and of social and solidarity economy units;

(b) contributing family workers, irrespective of whether they work in economic units in the formal or informal economy;

(c) employees holding informal jobs in or for formal enterprises, or in or for economic units in the informal economy, including but not limited to those in subcontracting and in supply chains, or as paid domestic workers employed by households; and

(d) workers in unrecognized or unregulated employment relationships.

5. Informal work may be found across all sectors of the economy, in both public and private spaces.

358. Paragraphs 4 and 5 envisage a very broad personal scope of application that covers all workers and all economic units, including enterprises, entrepreneurs and households, in the informal economy in all economic sectors, in both public and private spaces. On the basis of the 1993 and 2003 statistical definitions, Paragraph 4 enumerates the categories of workers and economic units to which the Recommendation applies.

- Employers, own-account workers and members of cooperatives and social solidarity economy units (subparagraph (a)) are considered to be informal when their economic units are in the informal sector.

- Contributing family workers (subparagraph (b)) are employed informally by definition, irrespective of whether they work in formal or informal sector enterprises. They include, for example, family assistants in home work.

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472 It should be noted that the original version of the “chapeau” of Paragraph 4 (number 6 at that time), proposed during the preparatory work, read as follows: “For the purposes of this Recommendation, ‘informal employment’ includes.” This wording reflected the statistical definition of “informal employment”. However, the Workers’ group considered that “informal employment” should not be used in the chapeau, as definitions adopted for the purpose of gathering statistics are not always appropriate to constructing definitions for the purpose of establishing labour standards. The chapeau of Paragraph 4 was thus changed to its current text. The focus was changed from a definition of “informal employment” to an enumeration of the personal scope of application of the Recommendation. However, the subparagraphs remained unchanged. ILO: The transition from the informal to the formal economy, Report V(1), ILC, 104th Session, Geneva, 2015, p. 23.
475 See ch. IV.
Employees holding informal jobs either in or for formal enterprises or for economic units in the informal economy (subparagraph (c)) are considered to be in informal employment on the basis of their employment relationship. They may be working informally in or for formal enterprises (some of these instances are referred to as “undeclared work”, or the “shadow” or “grey” economy) or in informal economic units. To be considered informal, the employment relationship should not be, in law or in practice, subject to national labour legislation, income tax, social protection or entitlement to certain employment benefits (such as advance notice of dismissal, severance pay, paid annual or sick leave). The underpinning reasons may be the non-declaration of their jobs, casual jobs or jobs of a short duration, jobs with hours of work or wages below a specified threshold (for example for the payment of social security contributions) or the absence lack of the application of laws and regulations for statistical purposes. The formal or informal nature of a job held by an employee is determined on the basis of operational criteria, such as whether social security contributions are paid by the employer (on behalf of the employee), and entitlement to paid sick leave and annual leave. Subparagraph (c) explicitly refers to employees in subcontracting and in supply chains, or paid domestic workers employed by households, as the clearest examples of this situation. The Committee considers that homeworkers could also be included in this category.

Workers in unrecognized or unregulated employment relationships (subparagraph (d)). This subparagraph was included at the suggestion of certain Government members on the understanding that a worker who does not have a recognized or regulated employment relationship is, by definition, working in the informal economy. The Office proposed to merge subparagraphs (c) and (d) because workers in unrecognized and unregulated employment relationships are usually considered to be employees holding informal jobs. However, this proposal was not accepted.

Subparagraphs (c) and (d) are closely related to the Employment Relationship Recommendation, 2006 (No. 198), and refer in reality to disguised or misclassified employment relationships.

Paragraph 5 of the Recommendation specifies that informal work may be carried out either in public or private spaces. The objective is to for the Recommendation to recognize the diversity of workplaces for workers in the informal economy, which include small workshops, private households, markets, streets and other public spaces.

Work in the informal economy is often poorly paid, hazardous and insecure. The entrepreneurial spirit that is essential for social and economic development is too often sapped in a struggle for survival. It is therefore essential for the creation of decent work opportunities to be an integral part of local, national, regional and global development strategies.

The Committee notes that according to ILO statistics, two billion workers, representing 61.2 per cent of the world’s employed population, are in informal employment, 52 per cent in the informal sector, 6.7 per cent in the formal sector and 2.5 per cent in households. Half of the world’s employed population work informally in non-agricultural activities. Considering economic units, it is estimated that eight out of ten economic units are part of the informal sector and employ 52 per cent of global employment. Typically, informal economic enterprises are small, often based around families. Informal employment exists in all countries, irrespective of the individual country’s level of socio-economic development, but it is far more prevalent in developing countries. The share of informal employment ranges from 18.3 per cent in developed countries to 67.4 per cent in emerging countries and as high as 89.8 per cent in developing countries (figure 3.1).
363. The vast majority of workers in Africa (85.8 per cent) relies on the informal economy. Asia and the Pacific region comes next with 68.2 per cent of informal employment on average but 21.7 per cent in developed Asia and the Pacific and 71.4 per cent in developing and emerging countries in the region. The third region the most affected by informal employment is the Americas. Finally, one fourth of all employed people are in informal employment in Europe and Central Asia.

364. In low-income economies, contributing family workers, including in farming households and the self-employed in agriculture and petty trading make up the majority of the informal economy. Over 90 per cent of informal employment occurs in informal sector units. In middle-income economies, informal employment in formal enterprises and households is a sizeable share of total informal employment. Such form of informality can result either from non-compliance (e.g. in the form of unregistered salaried work) or from the existence of forms of employment that are unregulated or unprotected (in particular in the context of triangular employment relationships).

365. In high-income economies self-employment represents a much smaller share of total employment but includes a significant proportion of disguised self-employment. This concerns employees holding informal jobs in or for formal enterprises, employees who do not have the right to labour benefits or are not covered by social security schemes, and workers for whom part of the activity is not declared (e.g. in the form of unregistered salaried work) or from the existence of forms of employment that are unregulated or unprotected (in particular in the context of triangular employment relationships).

366. As already noted in chapter I, each ratifying State of Convention No. 122 is required to declare and pursue, as a major goal, an active policy designed to promote full, productive and freely chosen employment. Recommendation No. 204 also calls for such a policy (Paragraph 14).
367. Many countries treat job quantity and quality as a residual rather than a necessary factor of economic development. When employment policies fail to provide the means for the inclusion of all those who are available for and seeking work, workers are forced to carry out any activities that will provide them with their necessary livelihood, even if such activities are not protected and are normally less productive. Especially in situations of high unemployment, underemployment and poverty, the informal economy offers significant job and income generation potential because of the relative ease of entry and low education, skills, technology and capital requirements. But the jobs created fail to meet the criteria of decent work and pass under the radar of public control. Indeed, the informal economy may trap individuals and enterprises in a spiral of low productivity and poverty.

368. Informality is a persistent phenomenon that affects all countries in the world and which exists across a wide range of sectors, including casualized and precarious work in the formal economy.

2. Addressing the root causes of informality

369. Changes in the world of work, including new forms of work and the organization of work, have intensified the informalization of production and employment relationships. The informal economy evolves and its characteristics change as the world evolves.

370. Workers in the informal economy are very diverse in terms of type of production unit and employment status. Such diversity means that the workers and enterprises concerned face different problems that have to be addressed through a range of policies and measures. Notwithstanding these differences, workers and entrepreneurs in the informal economy share one important characteristic: they are not recognized or protected under the legal and regulatory framework, or do not benefit from its effective implementation. This entails a high degree of vulnerability. They face serious difficulties in organizing effectively, are rarely unionized and thus have no voice to claim their rights. They also have very little (and only informal) access to markets and financial facilities. Moreover, while not all those in the informal economy are poor, there is a strong overlap between informality and poverty. They also lack employment security, including protection against arbitrary dismissal or job loss, income security, career development, recognition of the skills and, most importantly, they face serious occupational health risks.

371. As all workers should enjoy rights at work, irrespective of where they work, it is crucial to take the necessary measures to address the negative manifestations of the informal economy, as well as its root causes. These are multifaceted and include: the legal and institutional framework that render it difficult to make the transition to formality; the absence of adequate macroeconomic and employment policies; the lack of strong and effective market and non-market institutions; the absence of equality of opportunity (due, among other reasons, to lack of skills) and persistent discrimination; and the lack of representation and voice. Poor governance is thus a key issue underlying informality. But there are also many other factors.

372. Dealing with these root causes and multi-layered factors is crucial to ensuring a sustainable transition to formality. The negative aspects of work in the informal economy far outweigh its positive aspects. Informal employment provides an opportunity to secure basic survival needs for many people and under some circumstances it provides opportunities for

480 ibid., para. 6.
481 Some governments, such as those of Austria and Denmark, indicate in their reports that they do not have an informal economy. However, no indication is provided concerning employees holding informal jobs either in or for formal enterprises (“undeclared”) work which is an existing practice in Europe.
483 ibid., p. 3.
484 ibid., p. 6; and ILO: Transitioning from the informal to the formal economy, Report V(2), ILC, 103rd Session, Geneva, 2014, p. 12.
Flexible jobs with relatively high earnings. At the same time, persons in informal employment obtain no contributory social security from the work relationship and are often exposed to pervasive decent work deficits, working in jobs with low wages and in dangerous working conditions. In order to reduce inequality, poverty and vulnerability, and create the enabling conditions for formalization, it is necessary to associate economic growth with formal job creation, move towards better employment opportunities in the formal economy and improve the conditions of employment in informal activities.

373. As indicated in the Preamble to Recommendation N. 204, the rationale for the transition stems from recognition that the high incidence of the informal economy is a major challenge for the rights of workers, including fundamental principles and rights at work, social protection, decent working conditions, inclusive development and the rule of law. This has a negative impact on the development of sustainable enterprises, public revenues and the scope of action of governments, particularly in the field of economic, social and environmental policy, sound institutions and fair competition in national and international markets. It also affects the living standards of the population and prevents families and economic units from improving productivity and escaping poverty. There is global consensus that inclusive development is not possible unless rights and opportunities are extended to informal economy workers.

374. Moreover, the informal and formal economies operate in a complex environment of linkages. What happens in the informal economy has an impact on the formal economy, and vice versa. There is a “continuum” between the formal and informal economies, within which workers and enterprises coexist and where the most serious decent work deficits are at the bottom end. The informal sector does not exist separately from the formal sector; rather it

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produces for, trades with, distributes for and provides services to the formal sector. Workers and producers in the informal economy are linked to the global economy in various ways (global production networks, migration, global economic cycles and variations in global commodity and food prices) which affect: the level of vulnerability of economic units and workers in the informal economy; the functioning and capacities of actors in the informal economy; transition paths to formality; and the possibility of the effective monitoring and enforcement of regulations on globalized enterprises operating in different jurisdictions. Informal economy activities, like others, are therefore strongly affected by changes in domestic aggregate demand, reductions in the flow of credit, the downturn in international trade and other dimensions of economic crises.

III. Objectives of the Recommendation

Paragraph 1 of the Recommendation
This Recommendation provides guidance to Members to:
(a) facilitate the transition of workers and economic units from the informal to the formal economy, while respecting workers’ fundamental rights and ensuring opportunities for income security, livelihoods and entrepreneurship;
(b) promote the creation, preservation and sustainability of enterprises and decent jobs in the formal economy and the coherence of macroeconomic, employment, social protection and other social policies; and
(c) prevent the informalization of formal economy jobs.

1. Facilitate transitions while protecting rights and livelihoods
The use of the term transition places emphasis on the process of advancing towards the goal of formalization to achieve decent work. The Committee has already referred to the progressive mainstreaming of workers and economic units into the formal economy as the ultimate goal, and consistently requests information on the rate of informality at the national level and the measures taken to facilitate the transition to the formal economy. This process takes time and requires sustained economic and social development, resulting from combined measures and policies to achieve full and productive employment and reduce poverty.

CEACR – In its comments under the Employment Convention No. 122 concerning Fiji, the Committee noted that, since its inception in 2015, the Micro and Small Business Grant Scheme has assisted 6,622 entrepreneurs in transitioning into the formal economy, in businesses ranging from cash cropping and poultry farming to tailoring and hairdressing. Furthermore, the Ministry of Industry, Trade and Tourism continues to provide business development support services to entrepreneurs. The National Centre for Small Business Enterprise offers mentoring and training in the areas of financial management and sound business practices. Most of the recipients of the grants are women who start businesses in tailoring, canteen services, handicrafts, second-hand clothing and farming.
376. It is common to draw a distinction between informality that has its origins in labour, and which relates to people, and informality that has an entrepreneurial origin, and which involves productive activities. Labour informality is associated with low-productivity occupations and with working situations in which workers, voluntarily or involuntarily, do not enjoy their labour and social rights, social security and other legal benefits. In contrast, entrepreneurial informality is related to the processes of the registration and operation of businesses from a productive/commercial viewpoint. The two types of informality are related through the labour market.492

377. The conditions for moving from informal to formal arrangements, or for hiring workers formally, should be accessible and attractive to employers and workers. Approaches to formalization should therefore ensure that their respective needs and concerns are addressed; that the transaction and real costs of formality are relatively lower than those of informality; that the benefits of formality are more important than those of informality; and that formal institutions, systems and procedures are trustworthy, transparent and efficient.493 Governments should endeavour to demonstrate through policies and incentives that the transition to formality can improve working conditions, while helping livelihoods and entrepreneurship to thrive.

378. The Committee recalls the importance of ensuring that transition policies take into account the diversity of each context and the various categories of workers and enterprises affected, while protecting livelihoods and entrepreneurship opportunities, and extending the coverage of fundamental principles at rights at work, which are applicable to all workers, irrespective of the employment relationship or employment status, including workers and entrepreneurs in the informal economy.494

379. The importance has also been emphasized of allowing informal economic units to subsist, while assisting them to improve their operational and working conditions, as transition cannot happen overnight.495 In many cases, these economic units are the only means of subsistence available. Care is therefore needed to ensure that transition does not generate new socio-economic problems resulting from the elimination of enterprises, or increase unemployment, with a resulting loss of income for workers whose only source of livelihood is employment in the informal economy. In this respect, the Recommendation acknowledges the importance of the recognition of existing property, as well as the provision of the means to formalize property rights and access to land (Paragraph 13).

CEACR – In its comments under Convention No. 122 concerning India, the Committee noted the Government’s indication that enhanced wage earnings had led to a strengthening of the livelihood resource base of the rural poor in India as 72 per cent of the funds utilized were in the form of wages paid to workers. Furthermore, the Ministry of Rural Development had decided to redesign the ongoing Swarnjayanti Gram Swarojgar Yojana (SGSY) programme into the National Rural Livelihood Mission (NRLM) to make it universal in application, focused in approach, and time bound for poverty eradication by 2014–15. The idea was conceived as a cornerstone of the national poverty reduction strategy.496

496 CEACR – India, C.122, observation, 2012.
CEACR – In its comments under Convention No. 122 concerning the Philippines, the Committee noted the Government’s report that it had established the Worktrep Entrepreneurship Program (Unlad Kabuhayan Program Laban sa Kahirapan) to assist marginalized self-employed workers in the informal sector who wish to expand or make their small livelihood undertakings grow into feasible and sustainable business enterprises.\(^{497}\)

380. Well-designed policies can facilitate transitions to formality and promote formal activities in a manner that provides new opportunities for all workers to move to the formal economy. Many countries also take measures to combat illegal employment by punishing the failure to declare workers. In some cases, informal jobs in or for formal enterprises as well as unrecognized employment relationships stem from the desire to avoid complex and costly administrative measures, and in others it is cultural. Certain measures focus on the regularization of workers in a vulnerable situation.\(^{498}\)

381. The Committee notes in particular the wide range of policies and measures adopted to promote the transition to formality.

*Finland* – The Action Plan to combat the grey economy and economic crime for 2016–20 includes 20 projects (in various ministries). The principal measures are set out in the national strategy to address the grey economy and economic crime, and those with the broadest impact are included in the Action Plan.

*New Zealand* – BusinessNZ indicates that undeclared work takes place mainly on an individual basis. Workers, and in the majority of cases migrant workers, are required to work under terms and conditions inferior to those provided in the law.

CEACR – In its comments concerning the Plurinational State of Bolivia, the Committee noted the Government’s indication that, in order to encourage the transition from informality to formality, the compulsory registration of employers and workers by size of enterprise has been reinforced. The Committee requested the Government to provide up-to-date information, disaggregated by sex and age, on the rate of informality in the country, and to provide detailed information on the measures taken to facilitate the transition of workers from the informal to the formal economy.\(^{499}\)

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\(^{497}\) CEACR – Philippines, C.122, observation, 2009.

\(^{498}\) For specific examples on legislation addressing this issue, see, ILO: *Transitioning from the informal to the formal economy*, Report V(1), 2014, op. cit., paras 98–99.

CEACR – In its comments concerning Costa Rica, the Committee noted that, in the framework of the implementation of the National Development Plan 2014-18, financial and business development services are supplied through the support network for small and medium-sized enterprises (SMEs). The Government reported the implementation of measures to promote the formalization of such enterprises, including the “Mobile business consultation programme”, which provides capacity and support for enterprises for the formalization and registration of SMEs with the Ministry of Economic, Industrial and Commercial Affairs, which allows access to incentives such as tax breaks for legally registered companies, access to funds, participation in business symposia and preferential treatment in the award of contracts by the public administration.500

382. With respect to social protection, some governments refer in their reports to measures aimed at improving coverage through the regularization of the situation of employees who are not registered with the social security system.501 In other cases, measures are aimed at the extension of social insurance to the self-employed, freelance workers and employers.502

2. Promoting the creation, preservation and sustainability of enterprises in the formal economy, decent jobs and policy coherence

383. Governments should also take measures to ensure the creation, preservation and sustainability of enterprises and decent jobs in the formal economy. This concerns two elements: the development of a conducive environment for enterprises, and the creation of decent jobs.

In its 2007 Conclusions concerning the promotion of sustainable enterprises, the ILC stressed that an environment conducive to sustainable enterprises includes social dialogue, respect for human rights and international labour standards, an entrepreneurial culture, sound and stable macroeconomic policy, an enabling legal and regulatory environment, the rule of law and secure property rights, and infrastructure. Poorly designed regulations and unnecessary bureaucratic burdens on businesses limit enterprise start-ups and the ongoing operations of existing companies, and lead to informality, corruption and efficiency costs.503

384. However, a conducive environment for business is not enough on its own, as there is also a need to create decent jobs in the formal economy as a policy priority.504 This aspect is examined in greater detail in chapter 1, section V. To achieve this, it is necessary to ensure the coherence of macroeconomic, employment, social protection and other social policies, which is the second objective of the Recommendation.

385. Article 1 of Convention No. 122 requires the development of an employment policy that aims to place full and productive employment and decent work at the centre of economic and social policies. Such policy coherence is intended to ensure that growth is adequately linked to the generation of productive and sustainable employment. In so doing, national employment policies should encompass an integrated policy framework aimed at the formalization of the informal economy, as called for in Paragraphs 10, 14 and 15 of the Recommendation. Recommendation No. 204 acknowledges that informality is multifaceted and that a multidimensional approach is needed to address it, involving different policy areas, institutions and authorities in coordinated, coherent and integrated strategies.

501 For example, Algeria (Supplementary Finance Act (SFA), sections 57 and 58) and Ecuador.
502 For example, Algeria (Supplementary Finance Act (SFA), sections 60 and 61) and Bahrain. The Committee recalls that its last General Survey referred to the social protection instruments, in particular, the Social Protection Floors Recommendation, 2012 (No. 202).
3. Preventing the informalization of formal jobs

386. The third objective of the Recommendation is to provide guidance on preventing the policies and measures adopted, and changes in the world of work, pushing workers and enterprises into informality. The Committee considers that this aspect is particularly topical, as changes in the organization of work and new forms of work has in certain cases resulted in greater flexibility in the labour market, the dilution of roles and responsibilities and the blurring of lines between dependent and independent workers. In many cases, this is leading to the informalization or casualization of work. Workers and economic units are increasingly being covered by flexible work arrangements, including outsourcing and subcontracting, at the periphery of the core enterprise or at the lowest level of the production chain. This is leading to a reduction in workers’ protection and a lack of clarity concerning the identity of employers, who are often pushed into informality. Work that used to be carried out in the enterprise is now often performed by subcontractors, who are sometimes former workers of the enterprise who have become self-employed. Such work may be on the fringes of formality, and may involve disguised employment relationships, as noted in Recommendation No. 198.

387. Paragraph 1(c) should be read in conjunction with Paragraph 4(c) and (d) of the Recommendation concerning the personal scope of application. Subparagraph (c) refers to those employees holding informal jobs in formal enterprises, or in economic units in the formal or informal economy and subparagraph (d) refers to workers in unrecognized or unregulated employment relationships (see section V(4)(b) of this chapter).

388. The Committee notes that some governments have provided information in their reports under Convention No. 122 on the measures taken, including through the adoption of regulations, to prevent informal employment.506

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Argentina – The Special Unit for the Control of Irregular Work (UEFTI) was created in 2014 in the Ministry of Labour, Employment and Social Security to analyse, investigate and evaluate situations of unregistered work in sectors that are complex to inspect, as well as any forms of illegal subcontracting and labour and social security fraud.507

Honduras – In its report, the Government refers to a Bill on the social inclusion of self-employed and autonomous workers, submitted to the executive authorities in 2017. The objectives of the Bill include preventing the informalization of jobs.

CEACR – In its comments concerning Bulgaria, the Committee noted the Government’s 2015–17 Single National Strategy to reduce compliance costs, including the adoption of preventive measures aimed at preventing entry into the shadow economy and measures to assist persons working in the informal economy engage in the transition to the formal economy. The Government added that these measures are combined with inspections in different areas of the economy, with the assistance of employers’ organizations, and heavier penalties in the event that violations are detected.508

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506 For example, Azerbaijan (Presidential Order No. 3287 of 9 October 2017 approving the Plan of Action to eliminate informal employment).
IV. Assessment and diagnosis

Paragraphs 6 and 8 of the Recommendation

6. In giving effect to the provisions of Paragraphs 2 to 5 above, and given the diversity of the informal economy across member States, the competent authority should identify the nature and extent of the informal economy as described in this Recommendation, and its relationship to the formal economy. In so doing, the competent authority should make use of tripartite mechanisms with the full participation of the most representative employers’ and workers’ organizations, which should include in their rank, according to national practice, representatives of membership-based representative organizations of workers and economic units in the informal economy.

8. Members should undertake a proper assessment and diagnosis of factors, characteristics, causes and circumstances of informality in the national context to inform the design and implementation of laws and regulations, policies and other measures aiming to facilitate the transition to the formal economy.

389. The informal economy is heterogeneous and may take very diverse forms based on the different characteristics, circumstances and needs of the workers and economic units involved (as reflected in Paragraph 7(a) of the Recommendation). See, in this regard, F. Bonnet: Methodological note on national diagnostic of information, ILO, Geneva, 2019.

390. This diversity of situations calls for tailored policies. It is therefore important for the competent authorities to map the diversity, size and importance of the informal economy, and the relationship between the formal and informal economies. This assessment is crucial and should be conducted before the adoption, review and enforcement of national laws and regulations or other measures with a view to ensuring appropriate coverage and protection of all categories of workers and economic units. Background information on the size and growth of the labour force, the education and skills of those entering the labour market, rural-urban migration and the rate of urbanization is of great importance. Strengthening the quality of the data collected on the informal economy can lead to improvements in policymaking. However, measuring the precise extent of the informal economy is not easy, as it largely consists of unrecorded and unregistered activities. A diagnosis exercise can help to build broad consensus on the situation, especially when the process is transparent and participatory, and therefore provide a good basis for agreeing on priorities and responsibilities and defining an action plan and a road map. It also provides a baseline for the monitoring and evaluation of policy measures and the rate of formalization. It should ideally be carried out during the early stages of the process of formalization. The Committee notes that, based on its experience on the ground, the ILO is preparing a methodological note setting out the scope and sequence of the diagnosis, which should be adapted to the circumstances of each country. While emphasizing the importance of adapting the diagnostic and assessment process to the national situation, the Committee considers it useful to describe the process carried out by the ILO on the ground, which could serve as a model and inspiration for other countries. This model has received tripartite validation at the national level in many countries. Figure 3.3 shows the different steps that could be followed by a diagnosis exercise.

391. The preparatory stage consists of steps 1 to 3, with the objective of bringing together stakeholders, mapping actors and understanding the nature of informality at the national level. A series of sensitization and awareness-raising activities are carried out and a working group appointed with responsibility for the national diagnosis with a clear role. National priorities are identified (and will be fixed in step 7).

511 ibid., p. 32.
The core of the diagnosis are steps 4 to 7. The scope and depth of this stage depend on the type of formalization chosen: national, sectoral or by group of workers or economic units. It is important to obtain the acceptance of the actors involved. If no priority group or sector is identified, a “light diagnosis” on informality can be carried out (a quantitative assessment of the nature and extent of informality). When a group or sector has been identified as a priority, it will be the object of an in-depth diagnosis:

- establishment of a profile of workers or economic units (quantitative, socio-demographic, composition of the economic sector, incidence of informality in the specific group, working conditions, and decent work deficits);
- establishment of a baseline for a subset of selected indicators to be assessed on a regular basis to monitor and evaluate progress (in this regard, it is important to examine the national capacity to produce statistics on a regular basis and agree on what should be evaluated and the set of indicators to be selected);
- identification of the main drivers of informality (see figure 3.2), which may relate to the inability to create formal jobs, an inadequate regulatory framework or weak enforcement, as well as the characteristics of workers (education, skills); experience shows that addressing the diverse drivers of informality in an integrated and coordinated manner produces better results;
- mapping of actors and existing coordination mechanisms in place, which involves the identification and assessment of policies, actors and responsibilities, as well as the coordination that exists between them; this should ideally be carried out with the participation of representatives of the informal economy;
- assessment of the level of integration of measures to reduce decent work deficits in national strategic policy frameworks. This involves determining how policies are translated into programmes, the balance between deterrence measures and incentives, based on the collection of evidence and evaluations.
393. The post-diagnostic phase consists of steps 8 to 10. During this phase, constituents review the results, validate them and decide on priorities as a basis for defining an action plan, which is the final goal. A tripartite validation meeting may be organized with the objective of reaching agreement on the priorities and design of the national action plan with balanced policy recommendations (a mix of incentives and compliance measures), roles and responsibilities. A gradual process of formalization could also be envisaged, but would involve the delicate task of determining one or more specific sectors or groups to be given priority over others.

Examples of diagnoses carried out at the national level

The Committee notes that, based on the methodology adopted by the ILO for the development of national diagnoses, 25 procedures are being currently carried out. They concern the whole economy in some cases, and specific sectors, groups of workers or economic units in others.512 Comprehensive diagnoses of the informal economy at large are being undertaken in several countries, including Brazil, Nepal, South Africa, Swaziland and Viet Nam. In other countries, an approach has been adopted focusing on specific sectors, such as the construction sector in Côte d’Ivoire and Madagascar; the trade sector in Burkina Faso and the entertainment sector in relation to HIV and AIDS in Cambodia. Finally, other procedures are focussing on specific issues, such as: undeclared work in Greece; groups of workers, such as wage workers in microenterprises, in Peru; specific economic units, such as micro and small enterprises in Cameroon; or specific policy areas, such as social security in Zambia. Support is also being provided on measurement issues in the Caribbean, India and Montenegro. National action plans/road maps have been or are being formulated with ILO support, including the road map to tackle undeclared work in Greece, the five-year master plan for Kwazulu Natal Province in South Africa, and the formalization strategy in Zimbabwe. In Latin America and the Caribbean, strategies are being pursued based on multiple interventions, such as those implemented in Argentina and Brazil. It is expected that at least ten countries across the regions will champion the development and implementation of integrated policy frameworks over the 2016–21 period.

394. The Committee notes that some governments have provided information in their reports on the measures taken to carry out a diagnosis and assessment procedure on the incidence of informality at the national level in both urban and rural areas.513 One report refers to the development of indicators that will help to determine future trends.514 Others provide information on the meetings held at the national level to examine and reflect on the informal economy515 which, as indicated by certain governments, provided an opportunity to raise awareness of the Recommendation.516

513 For example, Armenia (in the framework of the National Action Plan), Argentina, Cabo Verde (study carried out in 2015), Gabon (a survey was carried out covering all business units in the country), Indonesia (different studies have been carried out on workers in micro and small enterprises, fisherman’s work requirements, the employment relationship and informal businesses, and the protection of homeworkers) and Seychelles (a study is to be undertaken in 2019 with the assistance of the World Bank).
514 Thailand report.
515 For example, Central African Republic, Colombia and Dominican Republic.
516 For example, Benin.
V. Coherent and integrated policy framework to facilitate transition

395. Paragraph 10 of the Recommendation calls for an integrated policy framework to be included in national development strategies, poverty reduction strategies and budgets, taking into account the roles and responsibilities of the different levels of government. Coordination and cooperation should also be ensured between the relevant bodies and authorities, such as tax authorities, social security institutions, labour inspectorates, custom authorities, migration bodies and employment services (Paragraph 12). Addressing informality requires an assessment of a combination of macroeconomic and institutional factors.517

396. The Recommendation aims to provide guidance on the wide range of policies that are effective in facilitating the transition to formality. The method suggested consists of addressing the underlying causes, and not just the symptoms, through a comprehensive and multifaceted strategy.518 This is based on the shared understanding that an integrated strategy, together with policy coherence, institutional coordination and social dialogue, will facilitate the transition. Interventions are more effective when they are combined and address the different drivers of informality, and the diversity and scale of the informal economy.519 While this is the

397. Paragraph 11 consists of an enumeration of a set of policy areas that are important for the transition from the informal to the formal economy. These policies are based on the 2002 ILC Conclusions and the four pillars of the Decent Work Agenda (employment, rights, social dialogue and social protection). The objective is for a coherent and integrated policy that takes into account the broad range of informal working arrangements and their specific dimensions, while shifting global policy attention towards job quality as a driver of economic development.520

398. The Committee notes that in their reports, many governments indicate that an integrated policy framework has been developed to facilitate the transition to the formal economy.521 In some countries, measures have been adopted within broader national policies to address informality.522 Many of national employment policies listed in chapter I refer explicitly to measures aimed at addressing the informal economy.523 Some reports refer to the adoption of policies or measures for a gradual or progressive transition to formality.524

399. Some governments indicate that they are taking measures to address undeclared work,525 with many referring to the measures taken to ensure the adequate registration of workers.526 Others refer specifically to measures to achieve transition through the registration of certain categories of workers.527 Other reports describe the simplification of registration processes to start new businesses (such as through one-stop shops and online registration).528

For example, Afghanistan, Algeria, Armenia, Australia, Azerbaijan, Bahrain, Bangladesh, Benin, Bosnia and Herzegovina, Burkina Faso, Cambodia, Cameroon, Cabo Verde, Central African Republic, Colombia, Democratic Republic of the Congo, Costa Rica, Croatia, Cyprus, Dominican Republic, Ecuador, Egypt, El Salvador, Eritrea, Finland, Gabon, Georgia, Ghana, Greece, Indonesia, Latvia, Libya, Namibia, Philippines, Poland, Senegal, Seychelles, Sudan, Thailand, Turkey and United Kingdom.

For example, Afghanistan (Afghanistan National Peace and Development Framework), Armenia (Government Decree No. 442-N of 2014 establishing a long-term development strategy), Bosnia and Herzegovina (Reform Agenda of the Federation of Bosnia and Herzegovina), Burkina Faso (Objective 2 of the Sectoral Policy on Labour, Employment and Social Protection), Cambodia (Objective 1.3 of the National Employment Policy 2015–25); Colombia (Labour Formalization Policy, Decree No. 567/2014, which is based on the National Development Plan), Democratic Republic of the Congo (National Employment Policy, item 7.4), Dominican Republic (Act on the National Development Strategy 2030, third strategic objective), Ecuador (National Development Plan 2017–21) and El Salvador (National Policy on Decent Work, strategic objective No. 4).

520 ILO: Transitioning from the informal to the formal economy, Report V(1), 2014, op. cit., p. 52.
521 For example, Afghanistan, Algeria, Armenia, Australia, Azerbaijan, Bahrain, Bangladesh, Benin, Bosnia and Herzegovina, Burkina Faso, Cambodia, Cameroon, Cabo Verde, Central African Republic, Colombia, Democratic Republic of the Congo, Costa Rica, Croatia, Cyprus, Dominican Republic, Ecuador, Egypt, El Salvador, Eritrea, Finland, Gabon, Georgia, Ghana, Greece, Indonesia, Latvia, Libya, Namibia, Philippines, Poland, Senegal, Seychelles, Sudan, Thailand, Turkey and United Kingdom.
522 For example, Afghanistan (Afghanistan National Peace and Development Framework), Armenia (Government Decree No. 442-N of 2014 establishing a long-term development strategy), Bosnia and Herzegovina (Reform Agenda of the Federation of Bosnia and Herzegovina), Burkina Faso (Objective 2 of the Sectoral Policy on Labour, Employment and Social Protection), Cambodia (Objective 1.3 of the National Employment Policy 2015–25); Colombia (Labour Formalization Policy, Decree No. 567/2014, which is based on the National Development Plan), Democratic Republic of the Congo (National Employment Policy, item 7.4), Dominican Republic (Act on the National Development Strategy 2030, third strategic objective), Ecuador (National Development Plan 2017–21) and El Salvador (National Policy on Decent Work, strategic objective No. 4).
524 For example, Afghanistan, Bangladesh, Colombia and Egypt.
525 For example, Armenia, Estonia, Finland, Latvia, Poland and United Kingdom.
526 For example, Estonia.
527 For example, Bahrain (registration of home-based workers) and Chile (telework, as 50 per cent of teleworkers are in the informal economy).
528 For example, Armenia.
1. Guiding principles

400. Paragraph 7(a) to (l) of the Recommendation calls for certain guiding principles to be taken into account in designing coherent and integrated strategies to facilitate transition. Firstly, it is crucial to acknowledge the diversity of characteristics, circumstances and needs of workers and economic units in the informal economy and the need to address such diversity through tailored approaches (Paragraph 7(a)). An integrated and comprehensive strategy across a range of policy areas can ensure progressive transition, although different and multiple strategies may be applied taking into account national contexts and preferences (Paragraph 7(b) to (d)).

401. The strategies should respect human rights and fundamental principles and rights at work. International labour standards provide relevant guidance in specific policy areas (Paragraph 7(e) to (g)), including the promotion of equality of opportunity, and in particular gender equality (Paragraph 7(h)), as well as the elimination of all forms of discrimination and violence, including gender-based violence (Paragraph 11(f)).529 The particular vulnerability of certain categories of workers to the most serious decent work deficits is recognized in Paragraph 7(i) of the Recommendation as an important element to be taken into account, as the informal economy is in many cases the last resort for these workers. This provision contains a non-exhaustive list that includes women, young people, migrants, older people, indigenous and tribal peoples, persons living with HIV or affected by HIV or AIDS, persons with disabilities, domestic workers and subsistence farmers.

402. In accordance with the Recommendation, measures to encourage the transition to formality should not hamper entrepreneurial potential, creativity, dynamism, skills or the innovative capacities of workers and economic units in the informal economy. A balanced approach should be adopted to incentives and compliance measures, involving the prevention and penalization of the deliberate avoidance of or exit from the formal economy for the purpose of evading taxation and the application of social and labour laws and regulations (Paragraph 7(j) to (l)).

2. Gender equality and informality

403. In view of the strong gender segmentation in the informal economy, it is important for gender equality to be mainstreamed in the integrated policy framework (as noted in chapters I and II). Women find it more difficult to gain access to and remain in the labour market, and they are also prevalent in jobs where the employment relationship is less clear.

404. Men are still predominant in higher paid jobs. Within any specific type of formal employment status, women's remuneration is lower than that of men, although the gap has narrowed somewhat in recent decades, based in part on the adoption of laws relating to gender equality. Moreover, in relation to informality, they face the double penalty of being in the informal economy and of being a woman. Women also tend to spend fewer hours in remunerative work than men, in part due to the hours spent in unpaid care work. Responsibilities for unpaid care work reinforce labour market segmentation, as women may be restricted to own-account or home-based work, even if their total hours worked are longer and their incomes lower. Women also tend to be clustered in “traditionally female” economic activities, such as domestic work and home work, which are often poorly paid and are frequently in the informal economy.

405. The formalization of wage employment and the enforcement of minimum wages can be effective means of raising women's wages and reducing the gender pay gap in the lower half of the pay distribution. Moreover, access to affordable child and other care services promotes

529 The recent Violence and Harassment Convention (No. 190) and Recommendation (No. 206), 2019, are applicable to the informal economy.
gender equality and facilitates the transition to formality (Paragraph 21). Measures should also be taken to promote women’s entrepreneurship and to overcome social norms that prevent them from participating in the open labour market. Women and men should have equal access to property and land, skills development, including business development, finance and access to childcare, as well as the possibility of working shorter hours.

CEACR – In its comments concerning Jamaica, the Committee noted the Government’s indication that women are still more at a disadvantage in the Jamaican job market than men and that, as a result, many of them have turned to the informal economy in order to meet their financial needs. The Government added that many rural women are more likely to be found in the informal economy, as they encounter difficulties in acquiring formal jobs in some rural areas, particularly if they have few or no academic or technical qualifications.

406. Paragraph 11(f) of the Recommendation calls on Members to take measures to promote equality and the elimination of all forms of discrimination and violence, including gender-based violence, at the workplace.

3. Ensuring growth and employment

407. Informality has the effect of stifling the more efficient use of resources and improvements in productivity, and therefore has the result of making the economy operate below its potential, with negative impacts on growth. But economic growth alone cannot reduce informality. Indeed, comparative data shows that countries at similar levels of economic development have very different levels of informality. In cases of mass informality, growth patterns cannot create sufficient formal jobs to absorb those who want to work. Indeed, where it exists, informality shows that the objective of full, productive and freely chosen employment required by Convention No. 122 has not been attained. Indeed, the Committee notes that according to latest studies the productivity gap between informal and formal firms is substantial, averaging 75 per cent in a sample of 18 emerging and developing countries. Competition from informal firms also appears to weigh on the productivity of exposed formal firms: the productivity of formal firms that compete with informal firms is only three-quarters that of formal firms that do not compete with informal firms, after controlling for other firm characteristics. Improvements in the business climate, and economic development more broadly, can mitigate some of these negative productivity spillovers from informal to formal firms.

The IOE indicates that productivity is also important to facilitate the transition to the formal economy. In this respect, four events need to occur simultaneously: (1) the productivity of micro and small economic units must grow steadily; (2) costly bureaucratic and administrative procedures and formalities must be kept to a minimum; (3) tax incentives or similar must be revamped; and (4) a better allocation of public resources is required, particularly of resources allocated to encourage entrepreneurship as an occupational choice where there are poor prospects of finding a job as a waged employee in the formal economy.

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530 See also ILO: A quantum leap for gender equality: For a better future of work for all, Geneva, 2019, p. 44.
531 CEACR – Jamaica, C.122, direct request 2017. Similarly, in its report, the Government of Turkey acknowledges the high unregistered employment rate among women, for which reason measures are envisaged for the collection of data on this subject and in relation from rural to urban migration by women.
3. Facilitating the transition from the informal to the formal economy

408. Under the terms of Paragraph 11(a), the integrated policy framework called for by the Recommendation should promote strategies for sustainable development, poverty eradication and inclusive growth, together with the generation of decent jobs in the formal economy. Curbing the spread of informality involves making productive decent employment a central concern of economic and social policy by promoting employment-friendly macroeconomic frameworks and providing support for productive sectors.

409. The economic capacity of enterprises and workers is a key factor of formality, and productivity is an indicator of this capacity. A lack of investment, outdated technology, infrastructure gaps and educational deficits are some of the factors that contribute to low productivity. The goal is clearly to increase productivity and improve the availability of decent jobs. The promotion of sectoral policies may help to harness the highest employment generation potential in each country (Paragraph 11(m)).535 Other elements that need to be taken into account in this respect include environmental sustainability and the promotion of growth in the green sector, as well as the consequent destruction and creation of jobs.

410. Full, decent, productive and freely chosen employment should, as indicated in Paragraph 14 of the Recommendation, be a central goal of the national development and growth strategy. The establishment of targets for employment creation, or for formalization, with measurable commitments, as noted in chapter I, can help in attaining this goal.536

The CGT RA of Argentina indicates that SMEs are the most affected by the latest macro-economic adjustment policies. It further refers to the adoption of a programme aimed at enterprise economic recovery through tax exemptions. This is accompanied with adequate sanctions in case of unregistered workers.

Elements for a comprehensive employment policy framework

411. Paragraph 15 of the Recommendation calls on Members to promote the implementation of a comprehensive employment policy framework and proposes a set of elements that could be included. These elements include pro-employment macroeconomic policies; trade, industrial, tax, sectoral and infrastructure policies; enterprise policies; labour market policies; labour migration policies; education and skills development policies; and activation measures to facilitate the transition from school to work and from unemployment to employment. Moreover, depending on national circumstances, Members should ensure coordination across different levels of government and cooperation between the relevant bodies and authorities dealing with these policy areas (Paragraph 12). This enumeration, which is by no means exhaustive, demonstrates the multifaceted character of informality, which goes well beyond the world of work. In this regard, the Committee notes the wealth of information contained in the country reports on the broad range of measures adopted at the national level. The Committee notes in particular the measures taken to improve the employability of workers, especially the long-term unemployed and other groups encountering greater difficulties to enter the labour market.537

537 For example, Armenia (Government Decree No. 797-N of 2018, Ch. 9.2.1).
Armenia – The National Action Plan gives priority to improving the regulation of legal relations and developing the capacity of the Government and the social partners to facilitate the transition to formality, for which purpose the Government will continue to take measures to reduce the informal economy, formulate a policy to facilitate the transition to formal employment, structural changes, the improvement of education, the expansion of the tax framework and compliance with international standards.

412. Some reports refer to the need to address rural to urban migration, which tends to increase the urban informal economy, while negatively affecting rural development. They consider that more data on this subject is necessary.

413. Several governments refer to measures to improve labour productivity through education and to focus training and skills development on sectors with higher productivity levels. Recognition of skills and prior learning is considered crucial to ensuring labour mobility. Some reports indicate that training and re-training programmes have been established for young graduates, as well as a training fund to facilitate career change and new skills acquisition in existing and new jobs. It is also considered necessary to revise school curricula. Some reports refer to the assistance provided to young persons to enter the labour market, including through: dual training, vocational training, assistance during transition (introductory training and pre-vocational training) and career guidance. Several reports refer to the implementation of the European Youth Guarantee.

Estonia – The main goal of the Youth Field Development Plan 2014–20 is to provide young people with a wide range of opportunities for development and self-fulfilment, including for learning and working, and to ensure that young people are successful in the labour market.

Nigeria – In tertiary education, there have to be links between on-the-job experiential training and classroom education to provide opportunities for young persons to acquire the level of skills required in the world of work. The National Universities Commission (NUC), the Industrial Training Fund (ITF) and similar regulatory bodies are responsible for the implementation of this policy.

414. Some reports refer to specific activation measures, such as labour exchanges, youth mediators (for young workers that are not in training to connect them with an employer). In some countries, measures have been taken for the formalization of certain categories of workers, including homeworkers, or to address the needs of certain groups that are more vulnerable to exclusion. Some refer to the need to create entry level jobs and a better incentives policy, and to streamline labour market information to increase employment.

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538 For example, Sudan.
539 For example, Turkey.
540 For example, Armenia, Argentina and Vanuatu.
541 Canada report.
542 For example, Cabo Verde and Chile.
543 For example, Germany, Hungary and New Zealand.
544 See ch. VI. For example, Bulgaria and Estonia.
545 For example, Bahrain.
546 For example, Trinidad and Tobago.
547 For example, Cabo Verde.
548 For example, Cambodia.
Slovakia – Active labour market measures are regulated by Act No. 5/2004 on employment services, which aims to increase employment, reduce regional differences, lower long-term unemployment and youth unemployment, and create new jobs by making use of various financial incentives to apply measures targeted at various categories, such as school graduates. Section 46 of the Act introduces a specific measure known as “Education and training for labour market needs”, which enables these persons to undertake specific training to improve their employability by taking into account and broadening the skills and qualifications acquired during their education. Young persons participating in these active labour market measures have been noted to have a 72 per cent higher probability of finding a suitable job. There are also active labour market measures to improve the situation of disadvantaged jobseekers, which include financial incentives for their employers to keep them in employment.

CEACR – In its comments concerning Costa Rica, the Committee noted the Government’s indication that, through the implementation of the Empléate youth employment programme, a series of activities have been implemented aimed at catering comprehensively for the beneficiaries of the programme, such as: (i) the creation of a link with the Mi primer empleo (my first job) programme, which promotes the creation of new job opportunities for women, young persons and persons with disabilities through financial incentives for enterprises which hire such workers; (ii) an increase in the number of agreements concluded with enterprises seeking workers whose occupational profile is compatible with the Empléate programme; and (iii) the collection of information on labour market trends and needs.\textsuperscript{549}

CEACR – In its comments concerning Hungary, the Committee noted that the Government referred to the high ratio of persons with low levels of schooling among jobseekers and the high proportion of career starters, young persons and persons who have been unemployed for more than a year, noting that the long-term unemployed make up more than a quarter of jobseekers. In order to improve the employability of these groups, the Government has partially realigned existing active labour market programmes and developed new projects. In addition to tax incentives and other subsidies for employers, measures adopted under general programmes and projects specifically address jobseekers, making it less financially attractive to remain in unemployment and offering mentoring and tailored training based on a new customer classification (profiling) system launched in 2016, and offering housing benefits to make relocation more attractive.\textsuperscript{550}

415. Some governments report the measures taken to promote entrepreneurship, particularly for women and in labour-intensive sectors.\textsuperscript{551} In relation to taxation, some reports refer explicitly to the need to ensure that tax compliance goes hand-in-hand with an effective tax policy.\textsuperscript{552}

\textsuperscript{549} CEACR – Costa Rica, C.122, direct request, 2018.
\textsuperscript{550} CEACR – Hungary, C.122, direct request, 2017.
\textsuperscript{551} For example, Cameroon.
\textsuperscript{552} For example, Latvia (in the framework of the Action Plan for public authorities to combat the “shadow economy” in 2016–20).
3. Facilitating the transition from the informal to the formal economy

**Honduras** – In April 2018, the Honduran Council for Private Enterprise (COHEP) published the survey “Women in business management in Honduras”, the objectives of which are to identify and broaden understanding of the barriers or obstacles that stand in the way of women's advancement in business and management; establish possible means of addressing the challenges; share recommendations on how to overcome these barriers and obstacles; and determine possible strategies for presentation to key actors.

**Saint Vincent and the Grenadines** – The Government plans to develop a training programme for young school-leavers through the Youth Empowerment Service (YES) with a view to building an entrepreneurial culture and a better attitude towards work. The involvement of private sector businesses in the YES programme is promoted through tax incentives.

416. The Committee further notes that, in the framework of the strategy adopted by the Governing Body in 2015 for the implementation of Recommendation No. 204, support has been provided to mainstream and strengthen the objectives of formalization and decent work creation in national employment policies, as well as other national policy frameworks. The measures adopted include employment-intensive investment and public employment programmes. In this context, the Committee notes the ILO supported action carried out in Côte d’Ivoire, Burkina Faso, Democratic Republic of the Congo, Ghana, Madagascar, Nepal, South Africa, Viet Nam and Zimbabwe.553

4. An appropriate legislative and regulatory framework

417. Paragraph 9 of the Recommendation calls on Members to adopt, review and enforce national laws and regulations to ensure appropriate coverage and protection of all categories of workers and economic units. The informal economy is commonly understood to fall de facto or de jure out of the reach of the law and,554 when this happens, workers and economic units are said to be “unrecognized”, “unregulated” or “unprotected”. There may be different reasons for this. Sometimes the reach of the law is limited and excludes certain activities or sectors from its application. Sometimes the law is not clear or the sector is not yet regulated (in the case of new forms of work or of the organization of work). In other cases, it is not a question of the adoption of the adequate regulations, but of governance and the institutional capacity for their implementation (Paragraph 23). In this context, it is important to ensure that existing labour market institutions do not create excessive or unnecessary transaction costs and constraints on economic actors that push them towards informality. Indeed, labour regulation should help to correct market imperfections and redress the inherent inequality between employers and workers, while promoting enterprises and providing clarity concerning employment status, rights and responsibilities.

418. The modernization and strengthening of national legal systems, including compliance,555 as well as the extension of social security coverage to all categories or, more specifically, to new categories of workers,556 are among the issues relating to regulation addressed in country reports.

553 ILO: Outcome 6; Formalization of the informal economy, 2017, GB.329/POL/2, op. cit.
554 ILO: Transitioning from the informal to the formal economy, Report V(1), 2014, op. cit., paras 114 ff.
555 For example, Bahrain, Chile and Finland.
556 For example, Algeria.
419. At the same time, the integrated policy framework called for in the Recommendation should also seek to establish an appropriate legislative and regulatory framework that promotes and realizes the fundamental principles and rights at work and contributes to the creation of a conducive business and investment environment (Paragraph 11(b) to (d)). In their reports, some governments refer in general terms to the need to establish or improve the legal framework.\textsuperscript{557}

\textbf{(a) Ensuring fundamental principles and rights at work, and other labour standards}

420. Fundamental principles and rights at work are also applicable to workers in the informal economy, as recognized in Paragraph 16 of the Recommendation. The Committee has already referred to the serious decent work deficits affecting workers in the informal economy, where forced labour, child labour and discrimination are common and there are significant obstacles concerning freedom of association and collective bargaining. At the same time, it is necessary to extend basic minimum standards on substantive matters to workers in the informal economy. The Annex to the Recommendation contains a list of ILO and United Nations instruments that are relevant to facilitating the transition to formality. Compliance with labour standards has specific positive consequences for workers in terms of better working conditions, better training and fewer work-related accidents. Paragraph 11(r) refers to the need to ensure income security, including appropriately designed minimum wage policies.

\textbf{(b) The employment relationship and informality}

421. In informal arrangements, workers may be holding informal jobs (as such unregistered or under-registered, for example, when they receive part of their earnings informally) (Paragraph 4(c)). They may be in disguised or ambiguous employment relationships. Workers may also be in triangular relationships, in which it is not clear who the employer is. They may even be in special unrecognized and unregulated employment relationships (digital platform workers, domestic workers, homeworkers and rural workers) (Paragraph 4(d)). The diversity of situations in the informal economy requires differentiated legal solutions.

422. This issue is closely linked to the subject matter of Recommendation No. 198. Indeed, recognition of the existence of an employment relationship is critical for formalization. It is through this relationship that workers and employers gain access to regulation intended to protect their respective rights.\textsuperscript{558} Deficiencies in the legal criteria for determining the existence of an employment relationship can blur the distinction between dependent and independent workers, and such a lack of clarity may be at the origin of informality.\textsuperscript{559} For this reason, in some countries legislation places the burden of proof on the employer to demonstrate whether the worker is or not an employee.\textsuperscript{560}

\textsuperscript{557} For example, Azerbaijan, Bosnia and Herzegovina (Brcko District) and Cabo Verde.


\textsuperscript{559} For example in Austria, the Employment Act entered into force on 29 June 2018 provides clarification on the list of employed persons, and section 5 on Informal Employment was added, alongside a definition of the term “informal employment”. In Finland, the scope of application provision in the Employment Contracts Act (chapter 1, section 1) and the definition of an employment contract in this section are mandatory. The parties to an employment contract (or parties to a collective agreement) cannot legally agree that the Employment Contracts Act should not apply to an employment relationship that meets with all the criteria specified for an employment relationship.

\textsuperscript{560} See ch. II on legal presumptions and burden of proof.
3. Facilitating the transition from the informal to the formal economy

Canada—The Budget Implementation Act 2018, No. 2, amended the labour code to address disguised and undeclared employment relationships by: (a) explicitly prohibiting employers in the federally regulated private sector from treating employees as if they were not employees in order to avoid their labour standards obligations (new section 167.1 of the code, not yet in force), and (b) putting the burden of proof on the employer if the employer claims that a person who made a complaint against them is not their employee (new section 167.2 of the code, not yet in force). These amendments will create a disincentive for employers to disguise employment relationships and encourage workers to make a complaint if they feel their employer is not accurately reflecting their employment status.

423. In this regard, Paragraph 4(d) of Recommendation No. 204 indicates that it is applicable to workers in unrecognized or unregulated employment relationships. To address this situation, Paragraph 26 refers to the need to put in place appropriate mechanisms or to review existing mechanisms to ensure compliance with national laws and regulations respecting, among other areas, the enforcement of employment relationships so as to facilitate the transition to the formal economy.

424. It should also be recalled that the majority of workers in the informal economy are self-employed, workers in self-owned enterprises or contributing family members, who are normally outside the employment relationship.

(c) Good governance

425. During the preparatory works, there was broad agreement that informality is closely linked to poor governance. The growth of the informal economy can often be traced back to: inappropriate, ineffective, misguided or badly implemented macroeconomic and social policies, frequently developed without tripartite consultation; the lack of appropriate legal and institutional frameworks; the lack of good governance for the proper and effective implementation of policies and laws; and a lack of trust in institutions and administrative procedures. Three types of legal and institutional frameworks are of particular importance: labour legislation, business regulations and the legal framework to secure property rights, title assets and financial capital. At the same time, good laws and regulations are useless in the absence of strong and effective institutions for their implementation. It is therefore crucial to clarify the current institutional setting and to identify why some economic activities or categories of workers are not covered by formal arrangements, and the reforms or changes that could address this situation.561

426. To improve rights and protection in the informal economy, there is a need to invest heavily in the structures of good governance (Paragraph 23) to ensure the enforcement of contracts, the protection of property rights (including access to credit and capital), personal safety and social stability and the reduction of environmental and public health risks.562

(d) Improving labour administration and labour inspection and ensuring access to justice563

427. In most cases, the challenge lies in the lack of laws that are sufficiently clear as well as in the limited compliance and enforcement of the law. The integrated policy framework should include an efficient and effective labour inspection system (Paragraph 11(q)). In most countries, the scope of labour inspection is defined by the general labour legislation and the determining factor in law is often the existence of an employment or apprenticeship
relationship. Paragraph 27 accordingly refers to the need to have an adequate and appropriate system of inspection that extends the coverage of labour inspection to all workplaces and all aspects of the informal economy (labour, social and fiscal).

428. At the same time, workers in the informal economy should enjoy efficient and accessible complaint and appeal procedures (Paragraph 29). The integrated policy framework should also provide for a balance between prevention and effective sanctions (Paragraphs 22 and 30).

429. The Committee of Experts has called on governments to consider the gradual extension of the labour administration system to cover workers who are not, in law, employed persons.

CEACR – The Committee has noted that in the Republic of Moldova enterprises and workers operating in the informal economy fall within the scope of the legislation on labour inspection and the employment and social protection of persons seeking employment. In this context, the labour inspectorate has identified and helped to legalize informal employment in enterprises operating in the formal sector.564

5. Social dialogue

430. All workers, including those in the informal economy, should enjoy freedom of association and collective bargaining rights, as provided for in the respective ILO Conventions. In this regard, Paragraph 11(e) indicates that the integrated policy framework should include the organization and representation of employers and workers to promote social dialogue. Although there are greater obstacles to social dialogue in the informal economy, social dialogue can be instrumental in ensuring that policies address informality more efficiently and rapidly. For this reason, it is crucial to create an enabling environment for employers and workers to exercise their right to organize and bargain collectively and to participate in social dialogue in the transition to the formal economy (Paragraphs 31 to 35).

431. The diversity of situations in the informal economy requires trade unions and employers’ organizations to deploy multiple strategies to reach all workers and economic units. In some sectors where informality is prevalent and given the difficulties workers face to unionize, there are already structured organizations (trade unions, cooperatives and other types of representation) that represent the interests of workers. Trade unions and employers’ organizations have several entry points to gain access to workers and enterprises in the informal economy, such as training on occupational safety and health and other subjects, and partnerships with associations of informal economy workers. Moreover, the fact that trade unions are present in joint bodies and other collective organizations enables them to represent the interests of workers in the informal economy. Workers from the informal economy should also have the possibility to establish their own unions.

432. The provisions of the Recommendation emphasize the need for the whole process of transition to be accompanied by fluid social dialogue, based on consultations with the most representative employers’ and workers’ organizations, as well as with representatives of workers and economic units in the informal economy. Paragraph 6 of the Recommendation adds that, in the process of identifying the nature and extent of the informal economy and its relationship with the formal economy, the competent authority should make use of tripartite mechanisms with the full participation of the most representative employers’ and workers’ organizations, which should include in their rank representatives of organizations of informal workers and economic units in the informal economy.

433. Recalling the particularly difficult and isolated situation of rural workers, the great majority of whom are in the informal economy, the Committee, with reference to its General Survey concerning the right of association of rural workers, considers that rural workers in the informal economy should enjoy the right to establish and join organizations of their own choosing, and that full account should be taken of the legal and practical implications for outsourced, seasonal, temporary, migrant and informal sector workers, and workers on family farms and small undertakings.565

434. The Committee notes the measures taken at the national level to promote social dialogue with a view to the adoption of measures for the transition to the formal economy. Several country reports indicate that the issue of informality and how to address it is on the agenda of tripartite consultative bodies at the national level.566 Some reports refer to non-regular consultations carried out in the framework of tripartite commissions.567 In other countries, specific action plans have been adopted with the collaboration of the social partners, including members of cooperatives and established ad hoc councils, to address informality with the participation of the social partners.568 In some cases, negotiation forums have been established for each economic sector.569 Some of the formalization plans address the critical role of the social partners in their effective implementation.570 Other reports refer to periodic consultations held with the social partners to assess the nature and extent of the informal economy and means of formalization, which have already produced positive results.571 In some cases, even if there are no structured tripartite mechanisms to deal with the informal economy, regular consultations are held in relation to impact studies.572 In other cases, consultative bodies have been established on specific issues, such as occupational safety and health or social security, with a view to the extension of the corresponding rights to workers in the informal economy.573

CEACR – In its comments concerning the Islamic Republic of Iran, the Committee noted that, as an example of tripartite cooperation on employment and labour market matters, the Government referred to the tripartite consultations held in May 2016 in Tehran during the Conference on the transition from the informal to the formal economy, in which challenges and guidelines were discussed by the tripartite constituents.574

435. However, the Committee notes that very little information is provided in the country reports on the participation of representatives of membership-based organizations of workers and economic units in the informal economy.

566 For example, Colombia, Egypt, El Salvador, Portugal, Romania and Suriname.
567 For example, Uruguay (ad hoc discussions in the Wages Council and the Transport Committee).
568 For example, Azerbaijan, Guatemala (Subcommission for the Transition to Formality), Latvia (Council for the Prevention of the Shadow Economy) and Namibia.
569 For example, Peru (negotiating forums have been established for gastronomic catering, artists, security, fishing and football players).
570 For example, Zimbabwe.
571 For example, Sudan (consultations with the small industries and artisans unions).
572 For example, in Germany, the Federal Government produces a report every four years on the impact of the Illicit Employment Prevention Act (SchwarzArbG). The report includes statements by the Länder, the relevant Federal Government departments and the cooperation authorities under section 2(2) of the SchwarzArbG, as well as comments by employers’ and workers’ organizations.
573 For example, Chile.
574 CEACR – Islamic Republic of Iran, C.122, direct request, 2017.
6. A conducive environment for sustainable business and investment

436. Sustainable enterprises are a principal source of growth, wealth creation, innovation, employment and decent work, and are therefore instrumental in improving standards of living and social conditions over time. While enterprises in the informal economy contribute to national growth, they do not do so to the fullest of their capacity. The fact that they are outside the legal framework excludes them from support and services that would make them thrive, thus improving their growth and productivity. The integrated policy framework should include the promotion of a conducive environment for the establishment of enterprises and the creation of decent jobs (Paragraph 11(c)).

The IOE indicates that the promotion of sustained productivity growth through an integrated strategy aimed at aligning and coordinating institutions, regulatory framework, and public and private policies to create an enabling environment while boosting enterprise-level productive efficiency, and seeking complementarity between government and enterprise actions, is of paramount importance.

437. The simplification of regulation and procedures, the lowering of registration costs and fair taxation may open avenues into the formal economy (Paragraph 25(a) and (b)). A coherent legal, judicial and financial framework that formalizes property rights and access to land is also necessary (Paragraph 13). Effective measures to promote public procurement and improve access to financial and business services, to markets, to entrepreneurship training and skills development, and to infrastructure and technology, are also fundamental for the creation of an enabling business environment and increased productivity (Paragraphs 11(g) to (l) and 25(c) to (e)). The Committee notes in this respect that the 2015 ILC Conclusions concerning small and medium-sized enterprises and decent and productive employment creation call on the ILO to build more robust knowledge on approaches that promote SME formalization and compliance with labour and social legislation.

Supply chains and informality

438. Paragraph 4(c) of the Recommendation refers to employees holding informal jobs in economic units in subcontracting and in supply chains. Supply chains can include large, medium-sized and small enterprises across multiple tiers in both the formal and informal economies. In a cascade of subcontracting relationships, lead firms or their direct suppliers may seek to extract further price concessions from suppliers and subcontractors down the supply chain. In order to respond to the demands for low costs, high quality and speedy delivery, subcontractors frequently adopt highly flexible production and work patterns, which often include informality. Furthermore, intense price competition between potential suppliers creates downward pressure on profits and wages, which can negatively impact working conditions, particularly for low-skilled workers and workers in the informal economy. A “cascade” system sometimes operates among informal labour contractors, whereby contractors use workers provided by or sourced through other contractors or intermediaries.

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575 See also ILO: Conclusions concerning the promotion of sustainable enterprises, 2007, op. cit., para. 5.
577 The 2007 ILC Conclusions on the promotion of sustainable enterprises provided the basis for these provisions.
578 See, for example, ILO: Formalizing domestic work, 2016, op. cit.
582 ibid., para. 34.
Labour abuses, including forced labour, may occur at some tiers of supply chains via unethical labour contractors with links to human traffickers, which provides one of the channels for “modern-day slavery” in the global economy.\(^\text{583}\)

439. A large number of migrant workers experience difficult working conditions, particularly if they are in an irregular situation (and in the informal economy).\(^\text{584}\) Similarly, forced labour and child labour remain a problem, particularly in portions of supply chains linked to the informal economy.\(^\text{585}\)

7. Extending social protection

440. A lack of social protection is a key defining characteristic of the informal economy. Despite their greater exposure to risk and income insecurity, the vast majority of workers in the informal economy do not benefit from social security coverage. The lack of social protection is a major contributor to social exclusion and poverty. But its impacts are also felt in the formal economy, where workers and enterprises have to bear the full burden of funding the social security system through taxes or social insurance.

441. The transition process involves the progressive extension to all workers in the informal economy of social security (taking into consideration their contributory capacity), maternity protection, decent working conditions and the minimum wage. In this respect, the integrated policy framework should provide for the extension of social security coverage and the establishment of social protection floors (Paragraph 11(n)) and include occupational safety and health (OSH) policies (Paragraph 11(p)). Paragraph 17 adds that Members should take immediate measures to address the unsafe and unhealthy working conditions that often characterize work in the informal economy, and to promote and extend OSH protection to employers and workers in the informal economy.\(^\text{586}\)

442. Moreover, when building and maintaining national social protection floors as provided by the Social Protection Floors Recommendation, 2012 (No. 202), particular attention should be paid to the needs and circumstances of workers in the informal economy and their families (Paragraphs 18 to 20). If possible, access to quality childcare and other care services should be made available to promote gender equality in the transition to formality (Paragraph 21).

8. Local development strategies

443. The integrated policy framework should also promote local development strategies, both rural and urban, including regulated access for use of public space and regulated access to public natural resources for subsistence livelihoods (Paragraph 11(o)). In this regard, the Employment Policy (Supplementary Provisions) Recommendation, 1984 (No. 169), highlights the need to take into account specific employment deficits affecting certain regions and declining areas which have not benefited from national development and suggests the inclusion of certain measures in development plans and programmes (Paragraphs 33 and 34). These measures include: creating growth poles and centres; expanding the number and size of small towns to counterbalance the growth of large cities; improving access to essential services; encouraging the voluntary mobility of workers; investing in regional infrastructure

\(^{583}\) ibid., para. 67.

\(^{584}\) ibid., para. 75. Furthermore, the International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families of 1990 provides in Art. 5 that: For the purposes of the present Convention, migrant workers and members of their families: (a) Are considered as documented or in a regular situation if they are authorized to enter, to stay and to engage in a remunerated activity in the State of employment pursuant to the law of that State and to international agreements to which that State is a party; (b) Are considered as non-documented or in an irregular situation if they do not comply with the conditions provided for in subparagraph (a) of the present article.

\(^{585}\) ibid., para. 90.

and promoting the participation of local communities in developing and implementing the respective measures. Local development strategies act as a disincentive for rural-urban migration and informality in urban areas.

Sudan – According to the Government’s report, significant disparities between urban and rural areas are contributing to an increasingly urban informal sector, which accounts for over 60 per cent of GDP. The concentration of investment and services in and around Khartoum state has encouraged rural-urban migration that is weakening agricultural productivity and deepening poverty in both urban and rural areas.

444. Over half of the population in developing countries continues to live and work in rural areas, with agriculture as their most important source of income. Agriculture is the sector in which most of the rural poor are concentrated and, while rural workers play a vital role in food production, they are often among the most vulnerable to discrimination and the absence of rights at work. The great majority of work in rural areas is in the informal economy, further increasing the vulnerability of the workers. Poor rural development fosters rural exodus to large cities increasing urban unemployment. Women represent a large share of the agricultural workforce, and their empowerment is crucial to improving rural livelihoods. Young people in rural areas are more likely to be unemployed, in unstable employment relationships and to leave school earlier than their urban counterparts.

445. In the absence of formal work opportunities, many engage in self-employment, including family work and subsistence farming. Where formal employment opportunities are available, they often take the form of casual or temporary work, for example in plantations. Levels of organization are low, and there is no collective bargaining or social dialogue to improve working conditions in rural areas in many parts of the world. Local development in rural areas can be hampered for various reasons, including the lack of specific rural policies and their implementation, the unavailability of specific rural data and limited emphasis on rural issues, weak local governance structures, limited services and a lack of investment. The Committee notes that many country reports refer to measures taken to promote local development and improve living conditions in rural areas with, in some cases, a positive measured impact on GDP.587

Indonesia – The project to promote sustainable rural livelihoods through decent working conditions and opportunities for workers in oil palm plantations includes among its objectives increasing the capacities of national, provincial and local governments, and workers’ and employers’ organizations to address employment and labour-related challenges in the sector.588

Sri Lanka – The Local Empowerment through Economic Development (LEED) project promotes the inclusion of the poor worker and person in situation of vulnerability in economic activities, including by promoting their organization, skills, and access to markets. The project has directly benefited over 35,000 people, included over 10,000 female-headed households.589

587 For example, Cabo Verde, Cyprus and Dominican Republic.
589 See: Local Empowerment through Economic Development (LEED), ILO Country Office for Sri Lanka and the Maldives.
Cooperatives can be considered as a stepping stone out of informality. In some cases, they facilitate access to markets and to financing. On other occasions, the cooperative model covers workers in the informal and/or rural economy who do not have access to public schemes. Low-income informal economy workers can pool risks and resources through cooperatives, and provide mutual insurance for the various risks that they face, such as death, disability, sickness and loss of assets.

Morocco – Act No. 112.12 enables cooperatives to have access to public procurement.

The Latin American and Caribbean region has been fairly active and innovative in terms of institutional public policy instruments. The countries in the region have explored various strategies to promote formalization, which may be summarized as covering four areas: productivity improvements, standards, incentives and the strengthening of supervision. In some countries, the efforts made have covered several of these areas, and specific approaches have been adopted for groups such as salaried workers, self-employed workers and domestic workers, although in practice such initiatives have been less frequent.

Some countries have adopted productivity development programmes, although this option is the least frequent. Discussions have focused more on regulation, particularly on the cost of applying certain types of regulations to the formalization process. Awareness-raising campaigns on rights have also been undertaken in certain countries to eliminate informality caused by a lack of awareness of workers’ rights. Many campaigns have focused on the simplification of regulation and procedures in such areas as taxation, labour procedures, registration with the social security system and the creation of businesses.

Many formalization incentives are linked to taxation, with the aim of simplifying the process of tax declarations and payments, particularly for small enterprises. Some countries have merged taxes and social security into a single tax (monotributo), with at least 15 countries in the region adopting a simplified tax system.

Emphasis has also been placed on the extension of social security coverage, particularly to specific groups (own-account, rural and domestic workers) who are more difficult to cover. In such cases, non-traditional affiliation programmes have been developed, with the aim of them being progressively be mainstreamed into the general social security system.


590 In this regard, the Promotion of Cooperatives Recommendation, 2002 (No. 193), indicates in Paragraph 9 that “Governments should promote the important role of cooperatives in transforming what are often marginal survival activities (sometimes referred to as the “informal economy”) into legally protected work, fully integrated into mainstream economic life.”

591 For example, India (Yeshasvini Cooperative Farmers Health Care Scheme and Vimosewa for poor self-employed women), Senegal and Nepal (informal economy workers have combined in mutual health organizations to extend social protection coverage).
Figure 3.5

Schema for the formalization programme in Latin America and the Caribbean – A good example of an integrated policy framework

VI. Specific measures for the formalization of micro and small economic units

Paragraph 25 of Recommendation No. 204

With respect to the formalization of micro and small economic units, Members should:

(a) undertake business entry reforms by reducing registration costs and the length of the procedure, and by improving access to services, for example, through information and communication technologies;

(b) reduce compliance costs by introducing simplified tax and contributions assessment and payment regimes;

(c) promote access to public procurement, consistent with national legislation, including labour legislation, through measures such as adapting procurement procedures and volumes, providing training and advice on participating in public tenders, and reserving quotas for these economic units;

(d) improve access to inclusive financial services, such as credit and equity, payment and insurance services, savings, and guarantee schemes, tailored to the size and needs of these economic units;

(e) improve access to entrepreneurship training, skills development and tailored business development services; and

(f) improve access to social security coverage.

447. Going a step further in the process of implementing the integrated policy framework for formalization, Paragraph 25 proposes a series of measures to contribute to the formalization of micro and small enterprises. Such enterprises face numerous constraints to growing and developing efficiently, including in relation to: access to credit and financial markets; low levels of technical and managerial skills; insufficient access to markets; inappropriate or burdensome registration procedures; and discriminatory practices respecting access to public and private procurement. The objective of these measures is to ease restrictions and eliminate discrimination against micro and small enterprises.

Trinidad and Tobago – The Micro and Small Enterprise (MSE) Policy 2013–16 provides the framework for the strategic and effective integration of MSEs into the formal economic structure, thereby allowing them to access resources and services, while simultaneously channelling their economic success towards employment creation. Measures adopted in this area include the National Integrated Business Incubator System (IBIS) and the FairShare Programme, which provide entrepreneurial development and procurement opportunities for MSEs, respectively.592

448. The country reports contain a wealth of information on measures of this type. Some governments have provided information on the various measures adopted with a view to fostering a sustainable enterprise environment, and others refer to measures aimed at reducing unregistered employment in specific sectors (for example, agriculture).593

593 For example, Senegal and Zimbabwe.
594 For example, Turkey.
1. Business entry reforms

449. In some countries, legislation has been adopted to make it easier to set up companies. The registration process has been simplified and shortened through on-line registration, and in some cases one-stop shops or single application models have been established to facilitate the registration process and the payment of taxes. This is sometimes done in the framework of broader E-government portals that enable the digital management of all interactions with the administrative services. 595 Some governments report the establishment of specific centres or agencies for the promotion, registration and establishment of enterprises. 596 Several reports refer to the adoption of specific action plans to reduce the administrative burden and create an enabling environment for business. 597

Estonia – The “entrepreneur account” is a new simple and affordable way of doing business. Once an entrepreneur account has been opened, registration as an entrepreneur is not required nor are accounting and tax reports because tax liability is calculated on the basis of the payments made into the entrepreneur account. An entrepreneur account is useful for people who provide services to other natural persons in areas that do not involve any direct expenses, or for people who sell self-produced goods, handicrafts or low-cost goods. Examples include babysitting, housekeeping, gardening, repair or construction services that do not involve direct costs. An entrepreneur account is also an appropriate solution for new forms of entrepreneurship, such as the payments made by one natural person to another through ride-sharing service platforms.

2. Reduced compliance costs

450. Among the measures taken to reduce compliance costs, some governments refer to the reduction of employers’ contribution rates to promote the formalization of small enterprises, 598 or to the adoption of legislation establishing tax incentives.

Algeria – The law allows the deduction of the employer’s share of the social security contribution for each jobseeker recruited for any employer who recruits jobseekers for a period of at least 12 months, on condition that the employer is in compliance with social security contributions. Other incentives include: a higher allowance for employers recruiting first-time jobseekers; a monthly employment subsidy for three years for each person recruited with a contract for an indefinite period; and exemption from global social security contributions for any employer who provides training or further training for employees.

595 For example, Argentina (Act No. 27349 of 2017 on simplified companies), Armenia, Australia, Azerbaijan, Benin, Cabo Verde, Estonia, Seychelles, Sri Lanka, Sweden, United Kingdom and Zimbabwe. See also CEACR – Algeria, C.122, direct request, 2017.
596 For example, Cameroon, Canada (Manitoba), Gabon and Mauritius. See also CEACR – Costa Rica, C.122, direct request, 2018.
598 For example, Algeria, Argentina, Mali and Turkey.
In some countries, the minimum capital required to register a new enterprise has been reduced, and in others, fees due when creating an enterprise have been abolished. In others, tax exemptions have been established for newly established enterprises, or for micro and small enterprises in general. In order to foster women's entrepreneurship, tax exemptions have been established in one country and access to loans facilitated for enterprises created by women.

In some cases, thresholds for tax exemption have been raised. Simplified tax and payment regimes can also result in the reduction of costs. For example, simplified schemes for accounts, tax returns and payments have been established in several countries. For example, in Latin America, a simplified tax system has been developed in some countries. In some cases, tax incentives have been associated with social security contributions, with the integration of several payments into a single tax, known as the monotributo.

Brazil – The simplified national tax system (Simples Nacional) is a common tax collection, payment and enforcement system for micro and small enterprises established by Supplementary Act No. 123 of 2006, which includes all government bodies (Federal, state, Brasilia and other municipalities). Participants must meet the requirements established by law, including a declaration to that effect in their employees’ employment and social security documents. Repeated failure to comply with this requirement may result in exclusion from the system.

Philippines – the Barangay Micro Business Enterprises (BMBE) Law (RA 9178) is the main policy tool for the integration of informal economic units into the mainstream economy through incentives such as exemption from income tax, fees and the minimum wage for BMBE registrants.

3. Access to public procurement

In some countries, measures have been taken to facilitate access to public procurement for micro and small enterprises. For instance, in certain countries, a percentage of calls for tenders involving contracts for the provision of goods and services to the state are reserved for micro and small enterprises.

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599 For example, Benin, Gabon and Morocco.
500 For example, Togo.
501 For example, Cameroon, Cabo Verde and Mauritius. In Colombia, Act No. 1429 of 2010 establishes tax exemption for newly established micro and small enterprises.
502 For example, Cambodia, Peru (the New Simplified Single Regime (RUS) allows a fixed payment and sales and income tax exemptions) and Uruguay (tax reforms and the measures adopted to promote investment include the reduction of the business tax). See, in this regard, ILO: Recent experiences of formalization in Latin America and the Caribbean, Regional Office for Latin America and the Caribbean, 2014.
503 For example, Nepal (Women Entrepreneurship Development Fund – WEDF).
504 For example, Estonia and Georgia.
505 For example, Canada, Costa Rica (National Strategy for the Transition to Formality, tax simplification target), Georgia and Lithuania.
506 For example, Argentina, Colombia and Uruguay.
507 For example, Cameroon and Finland (National Procurement Act No. 1397/2016, section 2). See also CEACR – Costa Rica, C.122, direct request, 2018.
508 For example, Cabo Verde (25 per cent of calls for tenders for the provision of goods and services and 20 per cent of the amount of the contract in the case of public works), El Salvador (the Act on procurement and contracts for the public administration (LACAP) establishes a threshold of 12 per cent of the annual national budget to be available for micro and small enterprises), Mauritius, Senegal (15 per cent of public procurement is for local artisans) and United Kingdom (the aim is to spend 33 per cent of procurement through the supply chain by 2022).
3. Facilitating the transition from the informal to the formal economy

4. Access to inclusive financial services

454. In some cases, enterprises have to demonstrate a certain level of technology and product quality to have access to public procurement.

**Algeria** – 20 per cent of public contracts have to be allocated to microenterprises.\(^{609}\)

455. Some governments indicate that they are in the process of developing a public procurement system that will include micro and small enterprises.\(^{611}\) In some cases, when enterprises have been subject to a fine, they cannot participate in public procurement.\(^{612}\)

456. Access to finance is crucial for the operation of enterprises, and is also a priority for enterprises in the informal economy. Technology can help in this regard (for example e-wallets).\(^{613}\) However, micro-entrepreneurs and small enterprises in the informal economy struggle to find banks that will provide them with the financial resources they need to develop, and when they eventually obtain credit, it is under more stringent conditions and is often more expensive. They generally only have access to the informal financial market, which is more onerous and risky.

457. In some countries, financial inclusion strategies have been implemented to help develop viable and sustainable microfinance.\(^{614}\) One aspect of the strategy may consist of ensuring that at least a certain percentage of the total loan portfolio goes to micro, small and medium-sized enterprises (MSMEs).\(^{615}\) In some cases, access to credit is facilitated for micro and small enterprises in new and emerging sectors, such as renewable energy\(^{616}\) or the production of certain commodities.\(^{617}\) In some countries, access to microcredit has been improved,\(^{618}\) or preferential interest rates established for enterprises certified as SMEs.\(^{619}\) In certain cases, access to finance has been developed through the establishment of a specific bank for SMEs,\(^{620}\) or other funding and guarantee institutions.\(^{621}\)

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609 Public Procurement Code, section 55 ter.
610 A similar electronic procurement system has been established in Malta (the Electronic Public Procurement System (ePPS), which has also reduced administrative costs and includes training workshops and materials).
611 For example, Norway and Poland.
612 For example, Azerbaijan.
614 For example, Bahrain, Bangladesh, Philippines and Thailand.
615 For example, Philippines (at least 8 per cent of the loan portfolio).
616 For example, El Salvador. See also CEACR – Algeria, C.122, direct request, 2017.
617 For example, El Salvador.
618 For example, Benin, Central African Republic and Indonesia.
619 For example, Mauritius.
620 For example, Cameroon.
621 For example, Cabo Verde (Pro Capital and CV Garante) and Georgia (Credit Guarantee Mechanism).
Botswana – The Botswana Financial Inclusion Roadmap 2015–2021 is a five (5) year plan that lays out the national priorities for the inclusion of all business sectors into the financial inclusion agenda. The Roadmap proposes six (6) priority areas of action which have been identified based on the most urgent customer needs and barriers.

458. In some countries, the measures adopted include “e-wallets”, mobile banking and simplified conditions to open bank accounts or obtain credit cards, particularly for isolated enterprises and persons. In certain cases, the measures adopted for SMEs include a combination of unemployment benefits and credits, consisting of subsidies, allowances or “start-up grants” for unemployed workers to finance new businesses.

Georgia – “Enterprise Georgia” and the Innovation and Technology Agency of the Ministry of Economy and Sustainable Development are adopting tools to encourage SMEs to move from the informal to the formal economy. Enterprise Georgia is implementing various support mechanisms to develop entrepreneurship in the country, including: Micro and Small Business Support, which is designed to provide financial support and consulting services to micro and small businesses throughout the country; and Access to Finance, which is tailored to suit the specific stages of development and the financial needs of businesses. Within the framework of the Micro and Small Business Support programme, financial assistance is available for start-ups and expanding companies in the form of grants.

CEACR – In its comments concerning Burkina Faso, the Committee noted the training and financial support provided to micro and small enterprises in the informal economy. The Burkina Economic and Social Development Fund (FBDES) contributes to the financing of social measures and the SME Financing and Promotion Agency through the Special Job Creation Programme for Young Persons and Women (PSCE/JF) in the context of financing for informal economy actors.

CEACR – In its comments concerning Mongolia, the Committee noted that, to assist in the transition from the informal to the formal economy, the Government has amended the Law on Employment Promotion to expand the provision of financial support to small and microenterprises through the granting of loans to private businesses and to citizens establishing community cooperatives.

459. In certain cases, specific measures have also been established to upgrade the technological level of micro and small enterprises, including capital subsidies to purchase machinery.

622 For example, El Salvador, Republic of Korea and Philippines.
623 For example, Estonia, Finland (the start-up grant ensures the income of a new entrepreneur for 12 months: Unemployment Security Act, Chapter 2, section 5(a)) and United Kingdom (New Enterprise Allowance).
626 For example, India (Credit Linked Capital Subsidy Scheme – CLSS).
5. Access to entrepreneurship training, skills development and tailored business services

460. In some cases, national strategies for the transition to formality envisage an evaluation of specific skills development needs in the labour market and the development of an inclusive national skills strategy.627

Zambia – In relation to women’s entrepreneurship, the Committee notes that the Citizens Economic Empowerment Commission (CEEC) has developed various programmes for youth and women aimed at addressing the skills gap and providing the knowledge needed to engage in business activities.628

461. To maximize entrepreneurial potential, entrepreneurship programmes have been developed in some countries with a view to developing the core competencies of enterprises and individuals. The type and content of the training is dependent on the specific needs of the clients.629 For example, training programmes may consist of record-keeping and cash management, basic business skills, marketing for SMEs, importing and exporting, effective management techniques and stock control.630

462. Some training activities are tailored for microbusinesses or persons in dependent self-employment.631 Some consist of literacy programmes.632 In some countries, targeted measures have been introduced covering some aspects such as the transfer of technologies,633 or specific sectors.634 In some cases, specific institutions have been established to assist micro and small enterprises to develop and strengthen SME networks with a view, for example, to obtaining credit or training, increasing productivity and competitiveness, or ensuring access to technology or skills development in new technologies and digitalization.635 In other cases, business incubators have been created with the assistance of the private sector, or universities.636

Cook Islands – The Cook Islands Tertiary Training Institute provides training and skills development and tailored development services for businesses.

463. Some governments report that awareness-raising workshops are organized periodically for new entrepreneurs,637 or to improve skills in general.638 Studies are being carried on in some countries to study the feasibility of establishing a training institution.639

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627 For example, Costa Rica.
628 See CEACR – Zambia, C.122, direct request, 2013. Similarly, in Cabo Verde skills development training is provided by the Organization of Women of Cabo Verde (OMCV).
629 For example, France, Gabon, Georgia, Kiribati, Namibia and Zimbabwe.
630 For example, Trinidad and Tobago (the National Entrepreneurship Development Company (NEDCO) has established centres nationwide).
631 For example, Republic of Korea.
632 For example, Togo.
633 See CEACR – Algeria, C.122, direct request, 2017.
634 For example, Myanmar (training for electricians and boiler operators).
635 For example, Egypt (Micro, Small and Medium-Sized Enterprises Agency), Georgia (Georgian Innovation and Technology Agency), Ireland (High Potential Start-Up), Malta (Malta Enterprise), Senegal (Agence de Développement et d'encadrement des Petites et Moyennes Entreprises – ADEPME), Sweden (Smart Industry and Digitalization Lift) and Thailand.
636 For example, Libya (in the oil sector), Mauritius, Philippines (Negosyo Centers serve as hubs for entrepreneurial growth) and Zimbabwe (Hypercube Hub).
637 For example, Benin and Cameroon.
638 For example, Cambodia and Slovakia.
639 For example, Central African Republic.
3. Facilitating the transition from the informal to the formal economy

India – “Skill India” is a campaign for skills development and vocational training designed to create appropriate skill sets among rural migrants and the urban poor and to provide training loans for poor students. Various other entrepreneurship and skills development programmes are being implemented in India to promote entrepreneurship. For example, the Skill Development Scheme is designed to motivate various categories of youth, including women, workers with disabilities and persons who are below poverty level to consider self-employment and entrepreneurship as career options. The ultimate objective is to promote new enterprises, build capacity in existing MSMEs and develop an entrepreneurial culture in the country.

464. In one country, training to develop skills and managerial competence has been provided to cooperatives and enterprises in the social and solidarity economy, and observatories of the social and solidarity economy have been established.

Philippines – The DOLE Integrated Livelihood Program (DILP), or Kabuhayan Program, is intended to assist poor, vulnerable, and marginalized workers by promoting entrepreneurship development and transitional employment. It provides grants to assist with capacity building for entrepreneurial ventures.

465. In certain countries, the public authorities have produced tools, brochures and booklets on the steps to be followed to start or register a new business and with a view to the development of an entrepreneurship culture.

6. Social security coverage

466. Several reports make specific reference to the measures taken to ensure social protection for workers in the informal economy, and particularly in micro and small enterprises. Some measures are intended to establish simplified mechanisms to enable enterprises to register workers. In certain cases, the objective is to extend coverage to particular categories of workers.

467. The Committee further notes the efforts made by some countries to integrate unregistered workers in the rural and urban sectors into the formal economy, and the adoption of plans for the formalization of the informal economy. Some governments indicate that they have adopted legislation to extend certain branches of social protection to workers in the informal economy. In some cases, pro-rata contributions have been established for workers in atypical types of employment or reduced contributions for the self-employed. In many cases, these measures are targeted at micro and small enterprises.

Thailand – Under the “Creating Opportunities and Social Equality” pillar of the 20-Year National Strategy (2018–37), the aim is to increase the number of informal workers registered with the social security system and develop an integrated welfare system through the collaboration of ministries, local administrative authorities, community organizations, businesses and civil society organizations.

640 For example, Morocco (Mourfaka Programme).
641 For example, Seychelles.
642 For example, Burkina Faso, Cabo Verde (Act No. 70/VII/2014), Costa Rica (National Formalization Strategy) and Senegal.
643 For example, India (construction workers), Latvia (persons on low incomes) and Pakistan (brick and agricultural workers).
644 For example, Estonia, Turkey and Thailand.
645 For example, Mali (Act No. 2018-074 respecting accidents).
646 For example, Malta.
VII. Measures to ensure policy implementation and review

Paragraphs 38 and 39 of Recommendation No. 204

38. Members should give effect to the provisions of this Recommendation, in consultation with the most representative employers’ and workers’ organizations, which should include in their rank, according to national practice, representatives of membership-based representative organizations of workers and economic units in the informal economy, by one or a combination of the following means, as appropriate:
(a) national laws and regulations;
(b) collective agreements;
(c) policies and programmes;
(d) effective coordination among government bodies and other stakeholders;
(e) institutional capacity building and resource mobilization; and
(f) other measures consistent with national law and practice.

39. Members should review on a regular basis, as appropriate, the effectiveness of policies and measures to facilitate the transition to the formal economy, in consultation with the most representative employers’ and workers’ organizations, which should include in their rank, according to national practice, representatives of membership-based representative organizations of workers and economic units in the informal economy.

468. In the same way as the national employment policy required by Convention No. 122, it is important to review the effectiveness of the policies and measures adopted to facilitate the transition to the formal economy. The measures and policies adopted should be implemented and reviewed in consultation with the social partners and the representatives of workers and economic units in the informal economy.

469. Some governments have provided information on tripartite agreements at the national and local levels concluded to address the various aspects of informality and for the implementation of the Recommendation.

Costa Rica – On 13 October 2016, the Government and the social partners concluded a “Tripartite agreement for the implementation of Recommendation No. 204 on the Transition from the Informal to the Formal Economy in Costa Rica”. The Government reports that measures have also been taken to strengthen social dialogue through the creation of a national forum for tripartite dialogue on the transition from the informal to the formal economy.

647 For example, Honduras and Italy.
648 Such agreements have been concluded in Bulgaria (in 2018 between the AGLI and the two nationally representative trade unions, providing for joint implementation of commitments to combat informal work), Ecuador (National Agreement on employment, productive investment, innovation and inclusion) and Portugal (2011 Agreement on competition and employment and 2012 Agreement on the commitment to competition, growth and employment, which is intended to combat undeclared work).
The CTA Autónoma from Argentina refers in this respect to the lack of consultation with social partners concerning the transition to the formal economy and that the measures adopted by the government to foster formalization have been scarce.

The Confederation of Portuguese Business (CIP) indicates that in the Tripartite Agreement for Competitiveness and Employment of 2011, the social partners declared that the fight against the phenomenon of informality “is essential in the context of the pursuit of fiscal consolidation and a fair tax system, and even more so in terms of the competitiveness of the economic fabric, insofar as it promotes fair competition, especially between Portuguese products and imported products, and gains in efficiency and productivity through the elimination of distortion effects”.
VIII. Conclusions

470. The Committee acknowledges the multifaceted and widespread nature of informality, which goes well beyond the world of work and is also related to commercial, fiscal and developmental aspects. As such, it needs to be addressed within the context of an integrated policy framework, rather than through a piecemeal approach.

471. The Committee wishes to emphasize, however, that addressing informality is a process that takes time and requires tailored measures sustained over time. For this reason, the sooner measures are adopted the better. While the overall strategy is to address informality within an integrated policy framework that is the result of constructive social dialogue and consensus, nothing prevents governments from starting with more modest measures focused on certain aspects or sectors and which will be extended coherently in future phases.

472. Informality is closely linked to employment policy. When the latter is not inclusive and does not promote full, productive and freely chosen employment, informality tends to expand. Moreover, a lack of clarity of labour regulation, and more specifically the absence of clarity concerning the employment status of workers, can contribute to the informalization of the economy. Digital labour platforms are a clear example. Under these conditions, achievement of the objective of the Recommendation is hindered due to the lack of clarity respecting roles and responsibilities, and particularly in relation to labour and social rights.

473. At the same time, multiple-party employment arrangements, especially in local and global supply chains, also have a clear impact on the development of informality. By seeking more work at lower prices in a shorter time, successive layers of subcontracting place excessive pressure on some tiers of supply chains. This pressure, combined with excessive competition between countries and enterprises to obtain the contracts, is also an element at the origins of informality.

474. The Committee considers that it is important for the functioning of labour markets to be organized in a manner that permits better integration between highly productive and less productive sectors, in which employment tends to be concentrated, based on skills and technology transfers, within a culture of compliance, which will foster greater transparency.

475. The Committee considers that the debate concerning the effect of possible rigidities in the labour market and excessive labour costs, which are often identified as hampering business development and acting as a disincentive to regular employment, and the consequent calls for deregulation, needs to be based on fuller data and increased research. Such research should focus on the impact on informality not only of greater flexibility and lower costs, but also of improved productivity. It should focus particularly on how investment in infrastructure and technology, as well as education, vocational training and skills development, can foster productivity and curb informality.