



Addressing informality

An ILO perspective

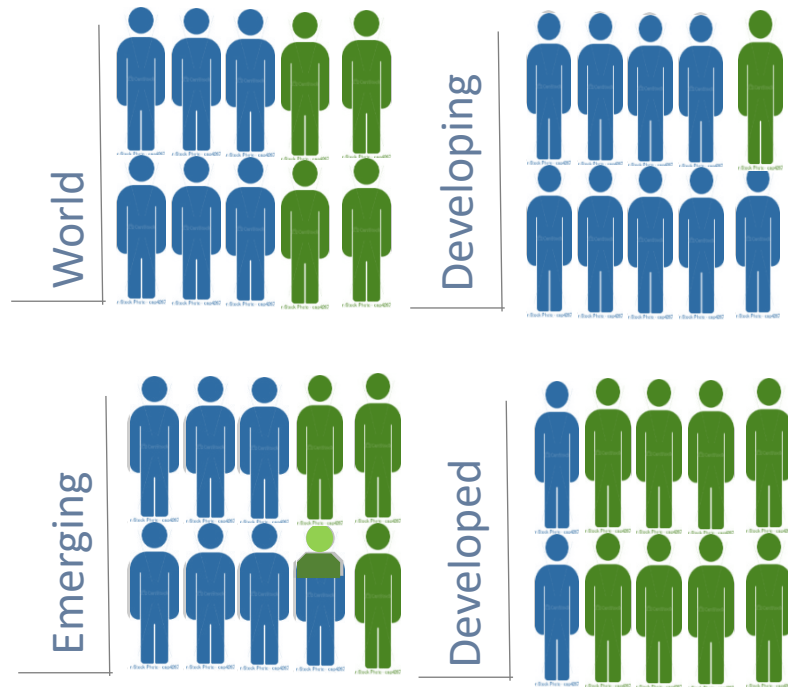
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2 billion people — more than 60 per cent of the world's employed population are in informal employment

 Informal employment

 Formal employment



Informal economic units



Globally, **8 out of 10** economic units are informal

Share of GDP

- from 14% in high-income countries to 36% in low-income countries.

- ▶ **Regional disparities:**
 - From **88-89%** in **sub-Saharan Africa** to **14%** in **Northern, Southern and Western Europe**
- ▶ **A majority of independent workers**
 - **64%** are non-wage workers.
- ▶ **A phenomenon of great magnitude**
 - That has not diminished over time and is even increasing in many countries
- ▶ **Traditional and new forms of informality**
 - Traditional forms of informality persist, and new forms of informality emerge in the wake of technological changes and digitalization, outsourcing and subcontracting

Source: ILO calculations based on household survey micro datasets: *Women and in the informal economy: a statistical picture*

Note: based on 119 countries representing more than 90 per cent of the world's working population. Missing values are estimated based on sub-regional/ income groups averages.



Multiple adverse consequences and drivers of informality – A call for integrated approaches to facilitate transition to formality ³

► Informality has multiple adverse consequences for:

- **Workers:** high exposure to decent work deficits and poverty, low access to opportunities, high vulnerability to external shocks.
- **Enterprises:** informal enterprises source of unfair competition and higher barriers for increasing productivity.
- **Societies:** reduced government revenues and scope of action, undermined rule of law, lower equity and higher inequalities.

Understanding causes of informality is required for designing and implementing adequate policy responses:

Broad range of drivers of informality - embrace but transcend the world of work, and relate to:

- the economic and institutional environment, such as the inability of the economy to create quality jobs, an inadequate regulatory framework or a lack of transparency and accountability of public institutions.
- the characteristics of the persons or enterprises concerned, such as the level of education, poverty or productivity.

Possible causes of informality also include hazardous events such as climate catastrophes or pandemics.

Some drivers are transversal and influence almost all forms of informality while others are specific to a particular group of enterprises or workers or are specific to a particular sector

The significance of the Recommendation 204: Transition from the informal to the formal economy

First international standard to provide both a normative framework focusing on the informal economy

...Acknowledging that most people do not enter the informal economy by choice

Three objectives:

- 1) Facilitate the transition of workers and economic units from the informal to the formal economy;
- 2) Promote the creation and sustainability of enterprises and decent jobs in the formal economy;
- 3) Prevent the informalization of formal jobs.

Some of the **Guiding principles**:

- the necessity to address the diversity of characteristics of workers and economic units in the informal economy with tailored approaches;
- the specific national circumstances, legislation, policies, practices and priorities for the transition to the formal economy;
- the preservation and expansion, during the transition, of the entrepreneurial potential, dynamism, skills and innovative capacities;
- the need for a balanced approach combining incentives with compliance.

The role of **social dialogue (Part VII)**

A broad diversity of possible interventions across a large range of policy areas

- ▶ **Heterogeneity of informal economy** & multiple drivers → broad range of policies influence formalization/informalization.
- ▶ A broad diversity of possible interventions:
 - **Policies that affect the environment/context:** Macroeconomic, trade, industrial, tax, sectoral and infrastructure policies aiming to facilitate structural transformation, enhance productivity and generate quality employment.
 - **Policies that affect transversal drivers of formalization** such as those to ensure effective and accountable labour market institutions, better access to education and skills for all, etc.
 - **Policies tailored to respond to the specific circumstances of groups** of economic units (e.g. MSEs) or workers (e.g. domestic workers) or **types** of informality (e.g. undeclared work in formal enterprises).
- ▶ Formalization goes beyond legal issues (e.g. productivity growth in complement of simplifying legal requirements for registration and compliance for MSE).
- ▶ **Integrated approaches work best!!**
- ▶ New technologies, notably ICT, can foster transition to formality but not address all its root causes and digital inclusion needs attention.

▶ **Thank you for your attention**