



GLOBAL
ACCELERATOR

Global Accelerator on Jobs and Social Protection for Just Transitions

THEME:
**Transition to
Formality**



**Participating
Agencies:**

ILO
IOM
ITU
UNDP
UN Habitat
UN Women
WHO

Background

The informal economy: a widespread, multidimensional, and persisting phenomenon:

The informal economy absorbs six out of 10 workers and eight out of every 10 enterprises in the world and contributes on average to around 30 percent of GDP in developing countries. Informal employment remains pervasive in developing (90 percent of total employment) and emerging countries (67 percent). From the perspective of many who work in the informal economy, informality is first and foremost a solution – often the only solution to earn a living, including for many women, particularly in the absence of adequate care services.

A complex phenomenon: Informality is driven by multiple factors, including those related to the economic/market and institutional/legal environment, the composition of growth, social norms, the characteristics, including gender, and behaviours of the persons or enterprises concerned. The lack of formal recognition of property rights or clear ownership of assets, lack of access to formal banking and other critical services, lack of information, knowledge, access to skills and/or skills, the lack of social recognition, organization, and voice, as well as the lack of trust in public institutions, can act as major drivers of informality. Moreover, formality has many dimensions both for workers and enterprises, and the formalization of enterprises is a necessary condition for but does not necessarily go hand-in-hand with the formalization of employment in the informal sector.

Some groups, including women, youth, migrants, and people with disability, are more exposed to informality than others: Women are more exposed to informality than their male counterparts in the majority of countries and when in informal employment, are usually found in more vulnerable situations in all parts of the world. Informality is also more prevalent among young workers than among the working-age workforce overall. Migrant workers are also more likely than others to be employed in daily-wage, short-term, or precarious work in the informal economy, not being able to access social protection benefits. Irregular migrants usually find themselves working in the informal economy where they do not need to have documents, residence, or work permits. Generally, because of their gender but also because of their ethnicity, migratory status, lack of officially recognized skills, various kinds of social stigma, the absence of legislation inclusive of non-nationals (as may be the case for social protection), and the intersection of all these factors, many informal workers are relegated to the most insecure kinds of livelihoods.

Informality exacerbates vulnerability to shocks and the impacts of climate change: The COVID-19 crisis has amply exposed and exacerbated the vulnerabilities and deprivations of informal workers and enterprises, including the lack of social protection. Impacts have been most pressing for women workers and women-led enterprises, youth, and migrant workers. It also reinforced gender disparities, particularly in the distribution of unpaid care work. Governments' responses to the COVID-19 pandemic have been vital to mitigate income losses in the immediate aftermath of the crisis. However, they overall fell short of the needs of informal actors (both workers and enterprises), largely due to their lack of visibility. Women, youth, and migrants working in the informal economy may find it more difficult to organize as workers and are less likely to be counted in surveys, statistics, and existing registration mechanisms. Informality is also more prevalent in those sectors most impacted by climate change and environmental degradation, starting with agriculture. In addition, informality makes it more difficult for workers and enterprises to adopt mitigation and

adaptation strategies due to a set of factors, including the lack of income security, leading to the adoption of day-to-day coping mechanisms rather than long-term strategies.

Underinvestment in employment, social protection, formalization policies, and just transition: More investments in jobs and social protection are indispensable to ensure a human-centered recovery and just transition, and these should come primarily from diversified and sustainable sources of domestic financing. The large size of the informal economy in developing countries represents missed opportunities for mobilizing domestic resources and expanding fiscal space for funding employment and social protection policies, as well as the just transition.

Transitions to formality: Lessons learned and opportunities:

Strategies for transitions to formality should be grounded in an in-depth understanding of the informal economy: In particular, there is a need to deepen the understanding of views, perceptions, and aspirations of informal economy actors in various sectors; to take into account the gender dimensions and drivers of informality; to further and meaningfully engage informal economy actors in policy-making (through organization-building, voice, and representation); to achieve a better understanding of the extent to which different policy options and interventions work depending on contexts.

Social protection is a key incentive to the transition to formality: Social protection policies and measures should be developed with the objective to increase employability and facilitate the transition to the formal economy while benefiting from it. Better access to decent employment and a higher level of social protection through contributory schemes increase domestic resources, including the provision of basic social protection, which, in turn, constitutes an enabling factor for the transition to formality.

Integrated strategies work best: Decades of country experience have shown that multiple strategies can be applied to facilitate the transition to formality, including policies and measures that affect the environment/context, policies that affect the transversal drivers of informality, policies targeting specific sectors, technology choices, categories of enterprises or groups of workers, and types of informality (e.g., undeclared work). Integrated strategies that seek to move away from single-point solutions by tackling the multiple drivers (institutional, policy, and other) of informality (see above) work best.

Effective formalization strategies combine interventions to increase the ability of the formal economy to provide decent work opportunities, absorb workers and economic units currently in the informal economy, and strengthen incentives as well as the ability of people and enterprises to enter the formal economy. This two-way logic presupposes actions at two levels: at the level of workers and enterprises in the informal economy, and at the level of the political, policy, and institutional environment

There is scope to take advantage of digital transformation processes to facilitate transitions to formality. Internet and digital technologies are becoming more and more available across countries; the COVID-19 pandemic has accelerated the introduction of digital services into daily life and services.

Moreover, the digital economy (e.g., platforms), the green, blue, and care economy, and the social and solidarity economy could also provide informal workers with opportunities to access formal jobs.

Pathways for safe, orderly, and regular migration also contribute to facilitating the transition of migrant workers to the formal economy.

Renewed collective efforts and transformative action is needed for addressing informality:

The COVID-19 crisis and the spectrum of future shocks, including pandemics and climate disasters, have given a new sense of urgency to this agenda, driven by the need to reduce vulnerabilities, increase tax revenues amidst the growing debt burdens, and support an inclusive and sustainable recovery, given the benefits formality can bring in terms of productivity, job creation, decent work, and social protection. Generally, widespread informality in developing countries represents a persistent missed opportunity for mobilizing domestic resources and expanding fiscal space for funding employment and social protection policies, as well as just transitions.

With this backdrop, the UN Secretary General's **Our Common Agenda (OCA)** calls for "roadmaps to integrate informal workers into formal economies and to benefit from women's full participation in the workforce" (p. 29), alongside efforts to "validate the care and informal economy" (p. 34). In the continuity of the OCA, the Global Accelerator on Jobs and Social Protection for Just Transitions also underscores "transitions from informal to formal sectors, with the participation of women and girls" (p. 13).

This roadmap underscores integrated and transformative action that can chart inclusive, gender-responsive, and equitable paths of structural transformation and decent jobs generation for all in the longer term. **International framework and instruments** such as ILO Recommendation No. 204, Convention No. 189, Convention No. 102, and Recommendation No. 202 provide globally recognized guidelines for promoting the transition to formality, acknowledging the importance of integrated strategies, including amongst employment and social protection approaches.

Outcomes

Through facilitating the integration of informal workers in the formal economy, our main goal is to improve access to rights and protection of the women and men concerned and enhance their capacity to contribute to and benefit from an inclusive, job-rich, resilient, and green recovery. The transition to formality contributes to achieving Sustainable Development Goal (SDG) 8 by promoting inclusive growth and access to decent work; SDG 1 through higher incomes, reduced poverty, and extended social protection coverage; SDG 4 by promoting better access to skilling and re-skilling while contributing to addressing low levels of education; SDG 5 by supporting the economic empowerment of women; SDG 10 by reducing inequality, in particular between women and men in the world of work; SDG 16 through higher respect for the rule of law; and SDG 17 through effective integrated strategies based on revitalized global partnership.

The integration of informal workers in the formal economy is therefore not an end in and of itself but a necessary condition to reach important and interconnected objectives:

- **Access to decent work.** Without transition to formality, access to decent work, including social protection, remains, by definition, an illusion. While ensuring the preservation and improvement of existing livelihoods, the transition to formality is a necessary condition, even though not sufficient, for accessing jobs that are productive, deliver a fair income, provide labour and social protection rights, better prospects for personal development, and the ability for people to participate in the decisions that affect their lives.
- **Empowering workers, in particular women.** Transition to formality can increase economic empowerment by removing some of the barriers which confine informal actors, in particular women, to low-productivity and low-income activities, including through improving access to productive resources (e.g., land or assets), social protection (to take risks), as well as representation and voice. Conversely, improving the conditions of informal workers in these critical areas can also act as an enabler that facilitates the transition to formality.
- **Universal, adequate, and sustainable social protection.** Expanding social protection coverage to informal workers is an important dimension of an integrated approach to formalization and a critical step towards the establishment of universal and sustainable social protection systems that are needed for future shocks and climate change as well as to accompany the just transition.
- **Job creation and sustainable enterprises.** Linked notably to their non-recognition as legal entities, informal enterprises face high barriers in terms of access to capital, financial services, skills development, business services, and markets, all of which have important negative implications for productivity enhancement and business sustainability. By reversing such a situation, the transition to formality can improve the ability of informal enterprises to become productive and create decent jobs. However, reducing the prevalence of the informal economy depends in the first instance on the ability of the economy to create and preserve decent jobs in the formal economy.
- **Just transition.** To support just transition, transition to formality should include the provision of universal social protection guarantees as well as complementary supports such as employment services, skills development, or securing access to land to strengthen people's ability and willingness to change practices and invest in more sustainable ones. Similarly, just transition policies should include mechanisms that will facilitate the transition to formality.
- **Reduced poverty.** Informal economy workers are twice as likely as formal workers to be poor. For the vast majority of households whose members work in the informal economy, low labour earnings translate into low household incomes. It is expected that the integration of informal workers into the formal economy will improve the capacity of workers to earn higher and more secure labour income. This remains conditional on the fact that the formal economy offers productive and decent jobs.
- **Reduced inequalities.** Informal economy workers, particularly women, earn on average substantially less than formally employed workers. Informality appears as both a driver

and a consequence of inequalities. As a driver of inequalities, informal economy workers and economic units face many more obstacles to accessing better opportunities. In addition, a large informal economy constitutes an obstacle for countries to grow a tax base to support effective fiscal policy interventions, including redistributive policies, thus precluding the use of powerful tools to reduce inequalities.

- **Enhancing governments' scope of action through increased public finances and a strengthened social contract.** More broadly, formality benefits society as a whole, as it enhances governments' scope of action, notably by allowing increased public revenues and strengthening the rule of law.

Improved articulation of decent employment and social protection policies calls for increased and integrated public financing. Transition to formality contributes to strengthening the sustainability of social protection systems, broadening the tax base, and creating fiscal space for funding social policies, including the provision of social insurance, non-contributory social protection, and employment promotion programmes, which, in turn, constitute an enabling factor for the transition to formality. Formality also contributes to fairer societies by distributing rights and obligations among its members more equitably. Furthermore, government support in times of crisis, such as the COVID-19 pandemic, is significantly facilitated when workers and enterprises are in the formal economy.

Principles of country-level action

Guided by the principles set out in ILO Recommendation No. 204 and drawing from inter-agency discussions, country-level experiences as well as lessons learned (see above), some key principles for country-level support by the UN and partners include:

No One Size Fits All approach. The informal economy encompasses a variety of situations across and within economies that call for tailored approaches that account for the specific national circumstances, legislation, policies, practices, and priorities. Furthermore, within countries, action should also acknowledge and understand the diversity of characteristics, circumstances, needs, and potentials, as well as aspirations of workers and economic units in the informal economy, particularly women, youth, migrant informal workers, and women and youth-led informal enterprises. Country-level action should therefore consider a variety of pathways to formality, also accounting for potential socio-economic trade-offs both in the short term and long run. Amongst others, policy action should strike an adequate balance between incentives-based and compliance-based measures towards formalization, based on country circumstances and type of informality.

Keep people at the centre and promote gender equality and non-discrimination. Most people enter the informal economy not by choice but in the absence of other means of livelihood. So, for many, the informal economy offers the only opportunity to earn an income. This is why it is necessary to ensure the preservation of existing livelihoods during the transition to formality. Our action on the ground should be rights-based and pay special attention to those, especially women, who are especially vulnerable to the most serious decent work deficits in the informal economy, as outlined in ILO Recommendation 204. It shall contribute to realizing the full potential for transformation of social protection and empower and equip workers so that they do not fall back into informal employment. It

should seek to make heard the voices of people, particularly women and youth, and other marginalized groups, such as indigenous and migrants, in the informal economy, including through the strengthening of informal economy organizations and promoting inclusive social dialogue. It should also ensure that the social impacts, including gender impacts, as well as risks associated with different strategies towards formalization are fully assessed ex-ante and ex-post and lessons are drawn from these assessments.

Integrated, coordinated 'whole of society approach'. Efforts to advance the transition to formality should rely on integrated approaches and ensure policy coherence and coordination across a broad range of policy areas and stakeholders. They should account for the interrelated effects of various policies – for instance, in the context of migration, migration policies, and regulations – that directly or indirectly drive informality and impact informal workers and enterprises and shall seek to address them in an integrated and holistic manner. They should involve strong coordination amongst the ministries and public bodies responsible for labour, social protection, enterprise development, the social and solidarity economy, finance and economy, welfare, rural development, and industry, energy and environment and, critically, ensure a genuine and meaningful engagement of the social partners, informal economy organizations, including women, youth, migrant workers' organizations, and other representatives of the informal economy, in the design, implementation, as well as monitoring and evaluation of policy and programmatic interventions towards formalization.

Strong commitment to joint action within the UN and engagement of international financial institutions (IFIs). Delivering as one is at the centre of OCA and the Global Accelerator. To ensure cooperation and mobilization of UN agencies, challenges related to informality need to be identified and prioritized in Common Country Assessments and support to informality-formality transitions integrated as a priority into national United Nations Sustainable Development Cooperation Frameworks as well as Integrated National Financing Frameworks. UN agencies need to reflect and make sense of their respective work on informality-related issues and identify entry points for synergy and joint initiatives. Moreover, it will be important to coordinate with IFIs, including the International Monetary Fund, the World Bank, and bilateral and regional development banks which are often involved, in cooperation with governments, in the development of fiscal and monetary policies that can affect the incentives of informal actors to go formal. When the informal economy is grounded on cross-border movements of persons or goods, cooperation between countries is also required.

Digitalization and innovation. Digitalization is changing the way transitions to formality are happening and the way to approach the transition to formality. There is a window of opportunity for the UN system to explore how digital solutions could help informal workers (and enterprises) gradually transition to the formal economy, including through better and simplified access to a wide range of services (e-formality).

Suggested strategic objectives and action lines at the country level:

The proposed objectives and indicative interventions are meant to be mutually supportive and enable tangible progress in the transition to formality, tailored to national circumstances in selected pathfinder countries.

A. Strengthened evidence based on the informal economy and the impact of policies to identify effective policy pathways to formality tailored to national contexts and priorities

- Conduct gender and youth-responsive diagnostics of the size, characteristics, causes, and circumstances of informality in the national context, including qualitative gender-sensitive evidence and analysis (perception surveys, etc.) on the challenges faced by women, men, and youth working in the informal economy and in various sectors, as well as on the perceived costs and benefits of the transition to formality.
- Explore innovative approaches including through the application of behavioural science and other collective intelligence methodologies to advance the understanding of the informal economy and its actors and promote learning and transformative change. This includes to:
 - Identify sectors, sub-sectors, and activities, including in the digital, green, blue, care, and social and solidarity economy which have a high potential to create formal jobs and absorb informal workers.
 - Take stock of and assess the effectiveness, benefits, costs, and lessons learned of existing national strategies¹, including social protection, labour, industry, fiscal, and other policies, including migration policies, that directly or indirectly affect outcomes for informal workers (and enterprises); identify promising approaches, gaps, and priorities for further coordinated and integrated action at national or sectoral level.
- Support the establishment and strengthening of effective information, monitoring, and evaluation systems that can help document impact, lessons learned, and good practices, and improve policymaking to advance the transition to formality on an ongoing basis.

B. Development and implementation of integrated, inclusive, and gender-responsive strategies and innovative solutions to facilitate the transition to formality

- Support the mainstreaming of decent work and transition to formality issues in relevant national and sectoral policy and legal frameworks; identify and facilitate policy dialogue on the changes and reforms needed across a wide range of policy areas, overcome obstacles, and create a consistent set of enabling conditions and incentives to facilitate transitions to formality².
- Support the establishment of effective inter-sectoral and multistakeholder coordination mechanisms at national, sectoral, and subnational levels, including through multi-UN agencies and other development partners' joint initiatives.

¹ Including formalization strategies where they exist.

² Policy areas may include macroeconomic, fiscal, investment and trade policies, labour market policies and programmes, social protection, and other social policies, including those related to care services, labour laws, MSME development support policies, including on financial inclusion, access to markets, the elimination of discriminatory practices, etc.

- In alignment and synergy with the Global Accelerator roadmaps for Financing Social Protection; for Jobs and Just Transitions; and for Youth: Raise awareness and support the development of integrated policy frameworks for promoting decent employment, extending social protection coverage to informal workers, and supporting the just transition. Such integrated policies should ensure responsiveness to the needs of women, youth, migrants, and other segments of the population working in the informal economy.
- Explore and leverage digital solutions and initiatives to facilitate transitions to formality, i.e. digitalization of government services, including registration of economic units and workers, tax and other obligations and services, as well as social protection and other key social services, use of digital platforms and other tools to facilitate access to productivity-enhancing services and programmes, including business development, skills development, access to finance, markets, and technology.

C. Develop sustainable financing strategies to facilitate transitions to formality

In alignment and synergy with the Global Accelerator roadmap on Financing:

- Identify options³ to expand the fiscal space for protecting and building capacities of informal workers, including through improved efficiency of public expenditure; analyse the distributional and gender impacts of various options to ensure they do not worsen the burden on vulnerable workers and enterprises.
- Strengthen capacities for public finance management (budget planning, execution, monitoring and transparency, gender-sensitive budgeting) for improved effectiveness and reaching out to target beneficiaries, and other capacity development programmes aimed at facilitating the integration of informal workers into the formal economy.
- Develop and support integrated financing/resource mobilization strategies to implement integrated policies and measures to expand social protection coverage to informal workers, improve their access to decent and productive employment, and facilitate effective pathways to formality, and support the just transition. This includes leveraging Integrated National Financing Frameworks and other relevant initiatives to help cost, align, mobilize, and improve the management of various sources of public, private, domestic, and international finance for investments that can incentivize the transition to formality.
- Strengthen dialogue with IFIs at the global and country levels to secure investments and complementarity with domestic funding in critical areas, including the expansion of social protection and job creation, that can facilitate the transition to formality.

D. (Cross-cutting) Fostering inclusive social and policy dialogue and elevating the voice of informal actors in decision-making for transitions to formality

- Strengthen the capacity of national tripartite social dialogue institutions or mechanisms to address the risks of informalization and foster transition to the formal economy.

³ Including social security coverage, public expenditure reallocation, increasing tax revenues, debt management.

- Support the establishment of national and local platforms and other mechanisms to foster interactions and meaningful policy dialogue between the government, social partners, informal workers, and enterprises and their organizations, including women, youth, and migrant workers' organizations, to ensure that decision-making processes at all levels are more responsive to their needs, rights, aspirations, and realities.
- Support the organization of informal workers, strengthen the capacities of existing organizations, and in particular enhance the interactions between informal economy workers and economic units and their organizations and the representative workers' and employers' organizations based on an assessment of the country's situation and capacities.

Supporting documents/publications

- ILO – [Transition from the Informal to the Formal Economy – Theory of Change](#)
- ILO – [Transition from the Informal to the Formal Economy Recommendation 2015 \(No. 204\)](#)
- ILO – [The Informal Economy and Decent Work: A Policy Resource Guide Supporting Transitions to Formality](#)
- ILO web pages on [“Informal Economy”](#); [“Extension of Social Security to Workers in the Informal Economy”](#); [“Transitioning to the Formal Economy through Technology, or E-Formality”](#); [“Upgrading Informal Apprenticeships”](#)
- ILO – [Extending Social Security Coverage to Workers in the Informal Economy: Lessons from International Experience.](#)
- ILO & FAO – [Extending Social Protection to Rural Populations: Perspectives for a Common FAO and ILO Approach](#)
- IOM – [COVID-19 Analytical Snapshot #49: Impacts on Migrants in Informal Economies](#)
- UN Women & ILO – [Assessing the Gendered Employment Impacts of COVID-19 and Supporting a Gender-Responsive Recovery \(Applied Policy Tool, 2021\)](#)
- UN Women – [Addressing the Economic Fallout of COVID-19: Pathways and Policy Options for a Gender-Responsive Recovery \(Policy Brief, 2020\)](#)
- UNDP – [Informality and Social Protection in Africa](#)
- UNDP – [Innovations in COVID-19 Social Protection Responses and Beyond](#)
- UNDP – [Mapping successful financing strategies and models for MSMEs and informal sector enterprises in the WAEMU](#)
- UNDP – [Informal Innovation: It’s not a bug, it’s a feature \(2020\)](#)
- UNDP – [What Does Going Digital Mean for Informal Economies? \(2021\)](#)
- UNDP – [Digitalizing Informal Business: What Systems Mapping Reveals about Drivers and Effects \(2021\)](#)
- WHO – [COVID-19 Health Equity Impact Policy Brief: Informal Workers \(Policy Brief, 2020\)](#)



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