



**ILO Recommendation 204: Concerning the Transition from the Informal to the Formal Economy:
*In summary***

1. Background to the Recommendation

The growth of the informal economy has also been accompanied by: high incidence of decent work deficits; violation of workers' rights; social protection; absence of inclusive development and the rule of law; and, the negative impact on the development of sustainable enterprises, public revenues and governments¹.

Given the state of affairs, mentioned above and the need to achieve decent work within the informal economy, the ILO-104th Session of June 2015, established this Recommendation, which may be cited as the Transition from the Informal to the Formal Economy Recommendation, 2015.

The Recommendation acknowledges that most people enter the informal economy not by choice but as a consequence of a lack of opportunities in the formal economy and in the absence of other means of livelihood. It affirms that the transition from the informal to the formal economy is essential to achieve inclusive development and to realize decent work for all. The Recommendation applies to all workers and economic units in the informal economy.

¹ Informal work is now found across all sectors of the economy, in both public and private spaces. In Zimbabwe, informal employment accounts for 94.5 percent of total employment.

Key Definitions

Informal Economy: refers to all economic activities by workers and economic units that are not covered or insufficiently covered by formal arrangements and are not criminal/ illicit activities.

Economic Units: refers to enterprises that: (i) employ workers (ii) are owned by individuals working on their own account (self-employed); (iii) cooperatives and social and solidarity economy units.

2. Objectives

The objectives of the Recommendation are 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 informalisation of formal economy jobs.

3. Guiding Principles, in summary

In designing rational and integrated strategies to facilitate the transition to the formal economy, the following have to be taken into account:

- a. the diversity of characteristics, circumstances and needs of workers in the informal economy;
- b. the fact that different and multiple strategies can be applied to facilitate the transition to the formal economy;
- c. the need for consistency and coordination across a broad range of policy areas in facilitating the transition to the formal economy;
- d. the effective promotion and protection of the human rights of all those operating in the informal economy;
- e. the fulfilment of decent work for all through respect for human rights and rights at work;
- f. the promotion of gender equality and non-discrimination;
- g. the preservation and expansion, of the entrepreneurial potential, creativity, dynamism, skills and innovative capacities of workers and economic units in the informal economy; and
- h. the need for a balanced approach combining incentives with compliance measures.

4. Strategies Towards Formalisation



4-1. *Legal and Policy Frameworks*

An integrated policy framework to facilitate the transition to the formal

economy is included in national development strategies or plans as well as in poverty reduction strategies and budgets, taking into account, where appropriate, the role of different levels of government.

This integrated policy framework should address:

- a. the establishment of an appropriate legislative and regulatory framework;
- b. the promotion of a conducive business and investment environment;
- c. respect for and promotion and realization of the fundamental principles and rights at work;
- d. the promotion of social dialogue;
- e. the promotion of equality and the elimination of all forms of discrimination and violence;
- f. the promotion of entrepreneurship, micro, small and medium-sized enterprises, including cooperatives;
- g. access to: education/skills development (including lifelong learning); financial services; markets; and infrastructure and technology;
- h. effective occupational safety and health policies and effective labour inspections; and
- i. income security.

4-2. *Employment Policies*

In pursuing the objective of quality job creation in the formal economy, Members should formulate and implement comprehensive national employment policy and make full, decent, productive and freely chosen employment a central goal in their national development and growth strategy or plan.

The comprehensive employment policies should include the following elements:

- a. pro-employment macroeconomic policies that support aggregate demand, productive investment and support business confidence;

- b. enterprise policies that promote sustainable enterprises and, in particular, the conditions for a conducive environment;
- c. labour market policies and institutions to help low-income households to escape poverty and access freely chosen employment;
- d. education and skills development policies that support lifelong learning, respond to the evolving needs of the labour market;
- e. measures to promote the transition from unemployment to work, in particular for long-term unemployed persons, women and other disadvantaged groups; and
- f. relevant, accessible and up-to-date labour market information systems.

4-3. *Rights and Social Protection*

Members should take measures to achieve decent work and to respect, promote and realize the fundamental principles and rights at work for those in the informal economy, namely:

- a. freedom of association and the effective recognition of the right to collective bargaining (negotiations);
- b. the elimination of all forms of forced or compulsory labour;
- c. the effective abolition of child labour; and
- d. the elimination of discrimination in respect of employment and occupation.

In the same measure governments should:

- a. take immediate measures to address the unsafe and unhealthy working conditions in the informal economy;
- b. progressively extend to all workers in the informal economy, social security; maternity protection; and decent working conditions;
- c. establishment of national social protection floors within their social security system; and

- d. encourage the provision of and access to affordable quality childcare and other care services in order to promote gender equality in entrepreneurship and employment opportunities.

4-4. *Incentives, compliance and enforcement*

Government should take appropriate measures, including through a combination of preventive measures, law enforcement and effective sanctions, to address tax evasion and avoidance of social contributions, labour laws and regulations.

Members should provide incentives for, and promote the advantages of, effective transition to the formal economy, including improved access to business services, finance, infrastructure, markets, technology, education and skills programmes, and property rights.

As a measure to promote formalisation, governments 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. improve access to entrepreneurship training, skills development and business development services; and
- d. put in place appropriate mechanisms or review existing mechanisms with a view to ensuring compliance with national laws and regulations;
- e. establish an adequate and appropriate system of inspection, extend coverage of labour inspection to all workplaces in the informal economy;
- f. take measures to ensure the effective provision of information, assistance in complying with the relevant laws and

- regulations, and capacity building for relevant actors; and
- g. provide for preventive and appropriate corrective measures to facilitate the transition to the formal economy.

4-5. *Freedom of Association, Social Dialogue and Role Of Employers' and Workers' Organizations*

Members should:

- a. ensure that those in the informal economy enjoy freedom of association (*the right to form or join organisations of their choice*) and the right to collective bargaining;
- b. create an enabling environment for employers and workers to exercise their right to organize and to bargain collectively and to participate in social dialogue in the transition to the formal economy; and
- c. should consult with and promote active participation of the most representative employers' and workers' organizations, representatives of membership-based representative organizations of workers and economic units in the informal economy².

4-6. *Data collection and monitoring*

Members should, in consultation with employers' and workers' organizations, on a regular basis:

- a. collect, analyse and disseminate statistics disaggregated by sex, age, workplace, and other specific socio-economic characteristics on the size and composition of the informal economy, including the number of informal economic units, the number

- of workers employed and their sectors; and
- b. monitor and evaluate the progress towards formalization.

5. Implementation

Members should give effect to the provisions of this Recommendation, in consultation with the most representative employers' and workers' organizations, 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.

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.

In establishing, developing, implementing and periodically reviewing the measures taken to facilitate the transition to the formal economy, Members should take into account the guidance provided by the instruments of the International Labour Organization and the United Nations relevant to the informal economy.

² The ILO can assist in strengthen the capacity of the representative employers' and workers' organizations and, where they exist, representative organizations of those in the informal economy.

For more information:

Labour & Economic Development Research in Zimbabwe (LEDRIZ)
78 East Road, Avondale
Harare, Zimbabwe
Tel: +263 4 308846/ 339833
Email: admin@ledriz.co.zw

