



International  
Labour  
Office

# ILO Recommendation No. 204: Paving the way out of informality

SECOND SOCIAL PROTECTION FORUM ASIA  
Social Protection in the Informal Economy  
– Incentive or Hindrance to Formalisation?  
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1. ILO Recommendation concerning the transition from the informal to the formal economy (No. 204)

# The significance of the Recommendation concerning the transition from the informal to the formal economy (R.204)

- First international instrument to:
  - focus on the informal economy in its entirety
  - indicate a clear orientation for moving out of informality and transition to the formal economy through integrated strategies
  - encapsulate good practices in transition to formality and at the same time pave the way to policy innovations
  - relevance of ILO values, institutions and guidance to the "other" half of the global labour force and the future of work
- A Recommendation: guidance for action

# The process

- Numerous briefings and information sharing with tripartite constituents
- GB Sessions of November 2014 and March 2015
- Informal consultations on 8-9 April 2015 at the ILO, Geneva
- Nature and content of the outcome informal consultations:
  - shared understanding and growing convergence
- Adoption by the ILC in June 2015 - almost unanimously



# Outline of Recommendation 204

## Preamble

- I. Objectives and scope
- II. Guiding principles
- III. Legal and policy frameworks
- IV. Employment policies
- V. Rights and social protection
- VI. Incentives, compliance and enforcement
- VII. Freedom of association, social dialogue and role of employers and workers organizations
- VIII. Data collection and monitoring
- IX. Implementation

## Annex

[Recommendation concerning the transition from the informal to the formal economy](#) (Transition from the Informal to the Formal Economy Recommendation), 2015 (No. 204).

# Objectives and scope

- (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.

# Approach of Recommendation No. 204

The Recommendation....

- recalls that decent work deficits – the denial of rights at work, the absence of sufficient opportunities for quality employment, inadequate social protection and the absence of social dialogue – are most pronounced in the informal economy, and
- defines a broad and detailed scope of application to all workers and economic units in the informal economy.
- recognizes that most people enter the informal economy not by choice but as a consequence of a lack of opportunities in the formal economy.
- establishes the need to preserve and improve existing livelihoods, as well as the entrepreneurial potential, skills and creativity of those operating in the informal economy, in the process of transition to the formal economy.
- invites Members to design coherent and integrated strategies to facilitate the transition from the informal to the formal economy and sets out **12 guiding principles**.

# Guiding principles

In designing **coherent and integrated strategies to facilitate the transition to the formal economy**, Members should take into account the following:

- (a) the **diversity** of characteristics, circumstances and needs of workers and economic units in the informal economy, and the necessity to address such diversity with tailored approaches;
- (b) the **specific national circumstances**, legislation, policies, practices and priorities for the transition to the formal economy;
- (c) the fact that **different and multiple strategies** can be applied to facilitate the transition to the formal economy;
- (d) the need for **coherence and coordination across a broad range of policy areas** in facilitating the transition to the formal economy;
- (e) the **effective promotion and protection of the human rights** of all those operating in the informal economy;
- (f) the fulfilment of **decent work for all** through respect for the fundamental principles and rights at work, in law and practice;

(g) the up-to-date **international labour standards** that provide guidance in specific policy areas (see Annex);

(h) the promotion of **gender equality and non-discrimination**;

(i) the need to pay special attention to those who are especially **vulnerable** to the most serious decent work deficits in the informal economy, including but not limited to 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;

(j) the preservation and expansion, during the transition to the formal economy, of the **entrepreneurial potential**, creativity, dynamism, skills and **innovative capacities** of workers and economic units in the informal economy;

(k) the need for a **balanced approach combining incentives with compliance measures**; and

(l) the need to **prevent and sanction 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.



## 2. Specific guidance on social protection

# Recommendation No. 204: Guidance on social protection (1)

## V. Rights and social protection:

18. Through the transition to the formal economy, Members should progressively extend, in law and practice, to all workers in the informal economy, **social security**, maternity protection, decent working conditions and a minimum wage that takes into account the needs of workers and considers relevant factors, including but not limited to the cost of living and the general level of wages in their country.

19. In building and maintaining **national social protection floors** within their social security system and facilitating the transition to the formal economy, Members should pay particular attention to the needs and circumstances of those in the informal economy and their families.

20. Through the transition to the formal economy, Members should **progressively extend the coverage of social insurance** to those in the informal economy and, if necessary, adapt administrative procedures, benefits and contributions, taking into account their contributory capacity.

# Recommendation No. 204: Guidance on social protection (2)

## III. Legal and policy frameworks:

11. This integrated policy framework should address ... (n) the **establishment of social protection floors**, where they do not exist, and the **extension of social security coverage**;

12. When formulating and implementing an integrated policy framework, Members should ensure coordination across different levels of government and cooperation between the relevant bodies and authorities, such as tax authorities, **social security institutions**, labour inspectorates, customs authorities, migration bodies and employment services, among others, depending on national circumstances.

## IV. Employment policies:

15. Members should promote the implementation of a comprehensive employment policy framework, based on tripartite consultations, that may include the following elements: ... (d) labour market policies and institutions to help low-income households to escape poverty and access freely chosen employment, such as appropriately designed wage policies including minimum wages, **social protection schemes** including cash transfers, public employment programmes and guarantees, and enhanced outreach and delivery of employment services to those in the informal economy;

# Recommendation No. 204: Guidance on social protection (3)

## VI. Incentives, compliance and enforcement:

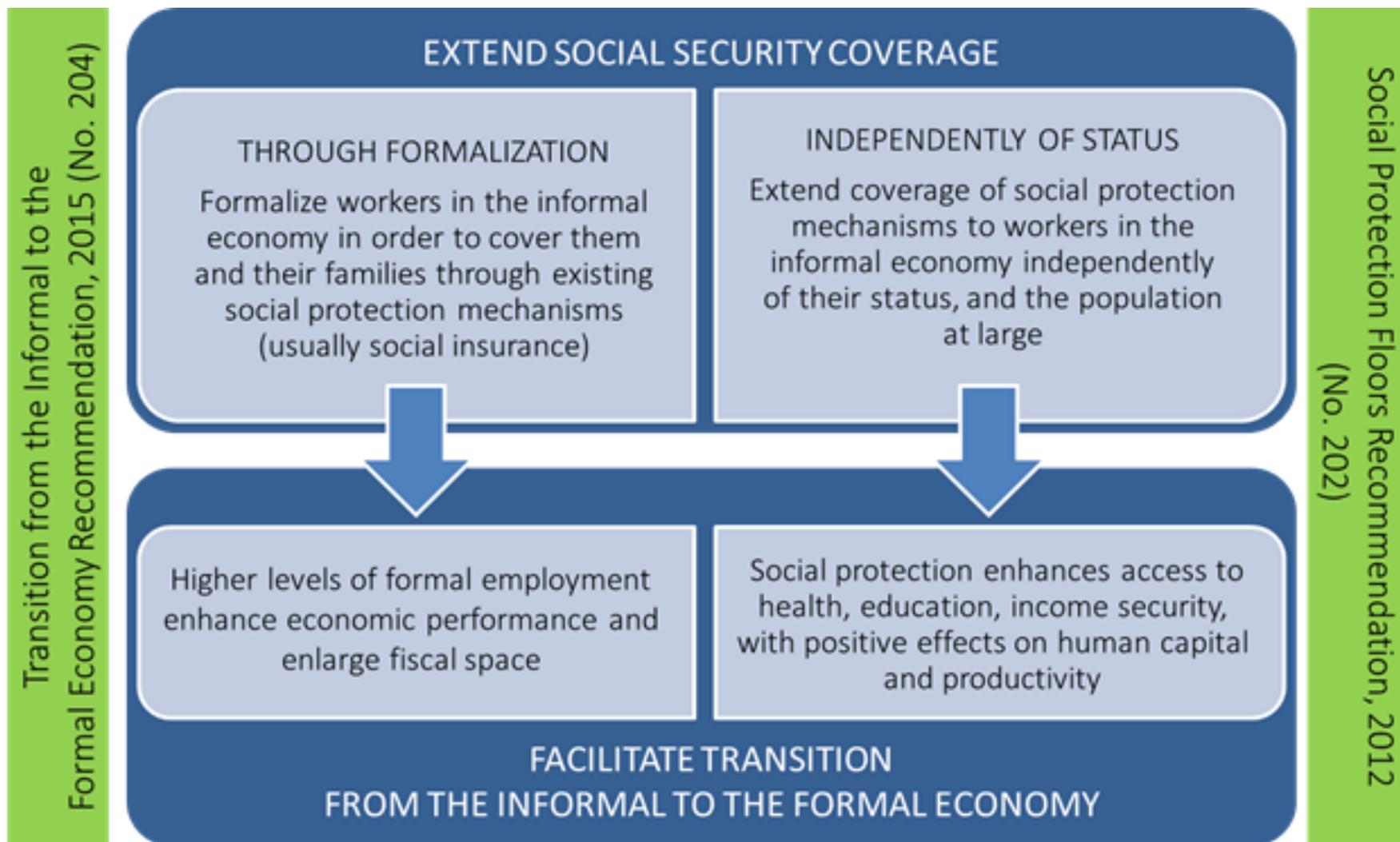
22. Members should take appropriate measures, including through a combination of preventive measures, law enforcement and effective sanctions, to **address tax evasion and avoidance of social contributions**, labour laws and regulations. Any incentives should be linked to facilitating the effective and timely transition from the informal to the formal economy.

25. With respect to the formalization of micro and small economic units, Members should... (b) **reduce compliance costs by introducing simplified tax and contributions assessment and payment regimes**; (f) **improve access to social security coverage.**

## Annex: Instruments of the International Labour Organization and the United Nations relevant to facilitating the transition from the informal to the formal economy

- Social Security (Minimum Standards) Convention, 1952 (No. 102)
- Social Protection Floors Recommendation, 2012 (No. 202)
- Universal Declaration of Human Rights, 1948
- International Covenant on Economic, Social and Cultural Rights, 1966

# Two-track approach reflected in R.202 and R.204



# The global commitment of Recommendation No. 202: Building national social protection floors: At least four nationally-defined guarantees

## NATIONAL SOCIAL SECURITY SYSTEM

Higher levels  
of protection



### NATIONAL SOCIAL PROTECTION FLOOR: nationally defined basic social security guarantees

access to a set of  
goods and services  
constituting essential  
health care including  
maternity care

basic income security  
for children  
providing access to  
nutrition, education, care  
and any other necessary  
goods and services

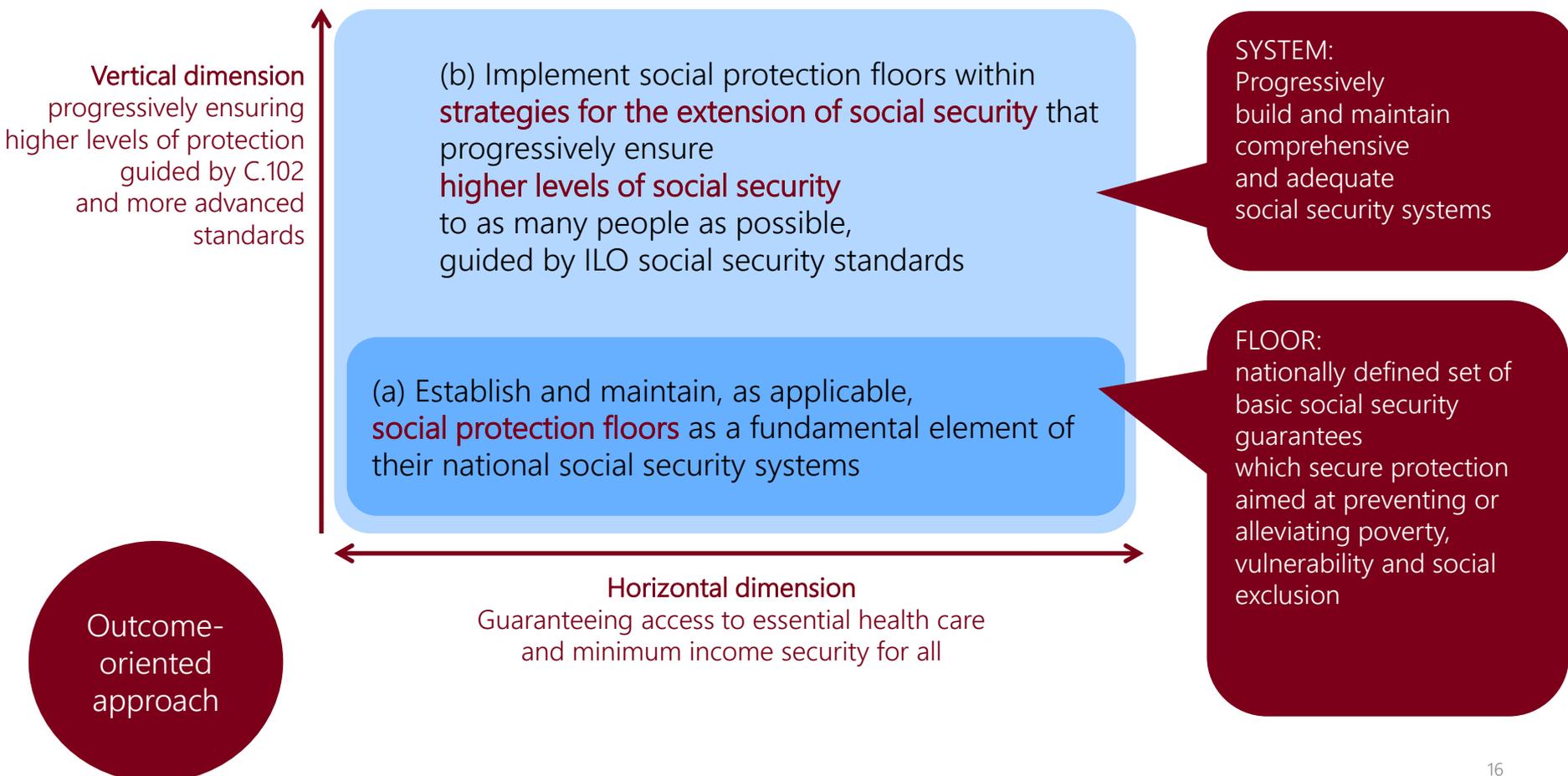
basic income security  
for persons in active  
age unable to earn  
sufficient income

basic income security  
for persons in old age



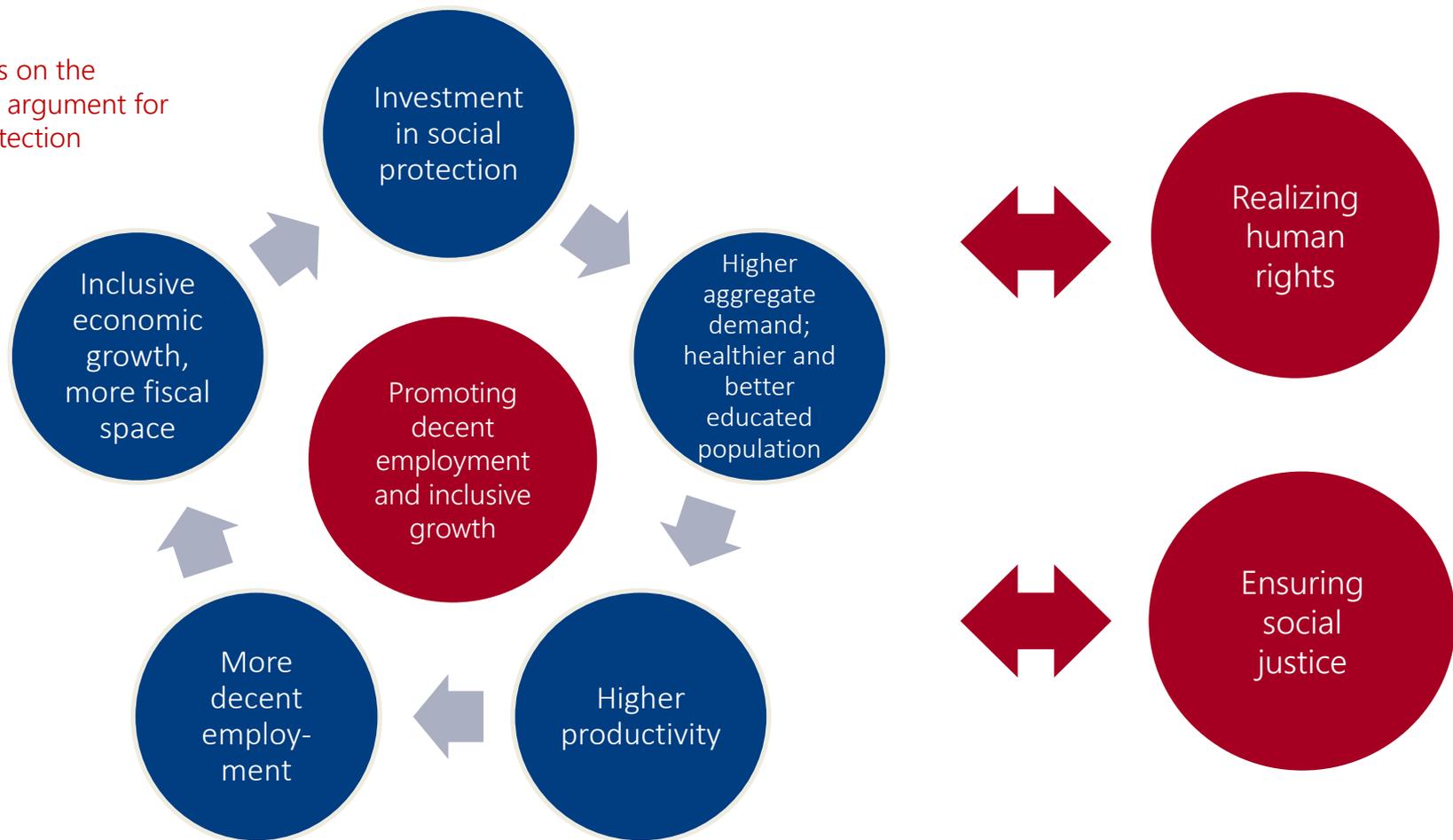
# The two-fold objective of Recommendation No. 202: National social protection system including a floor

The recommendation provides guidance to members to

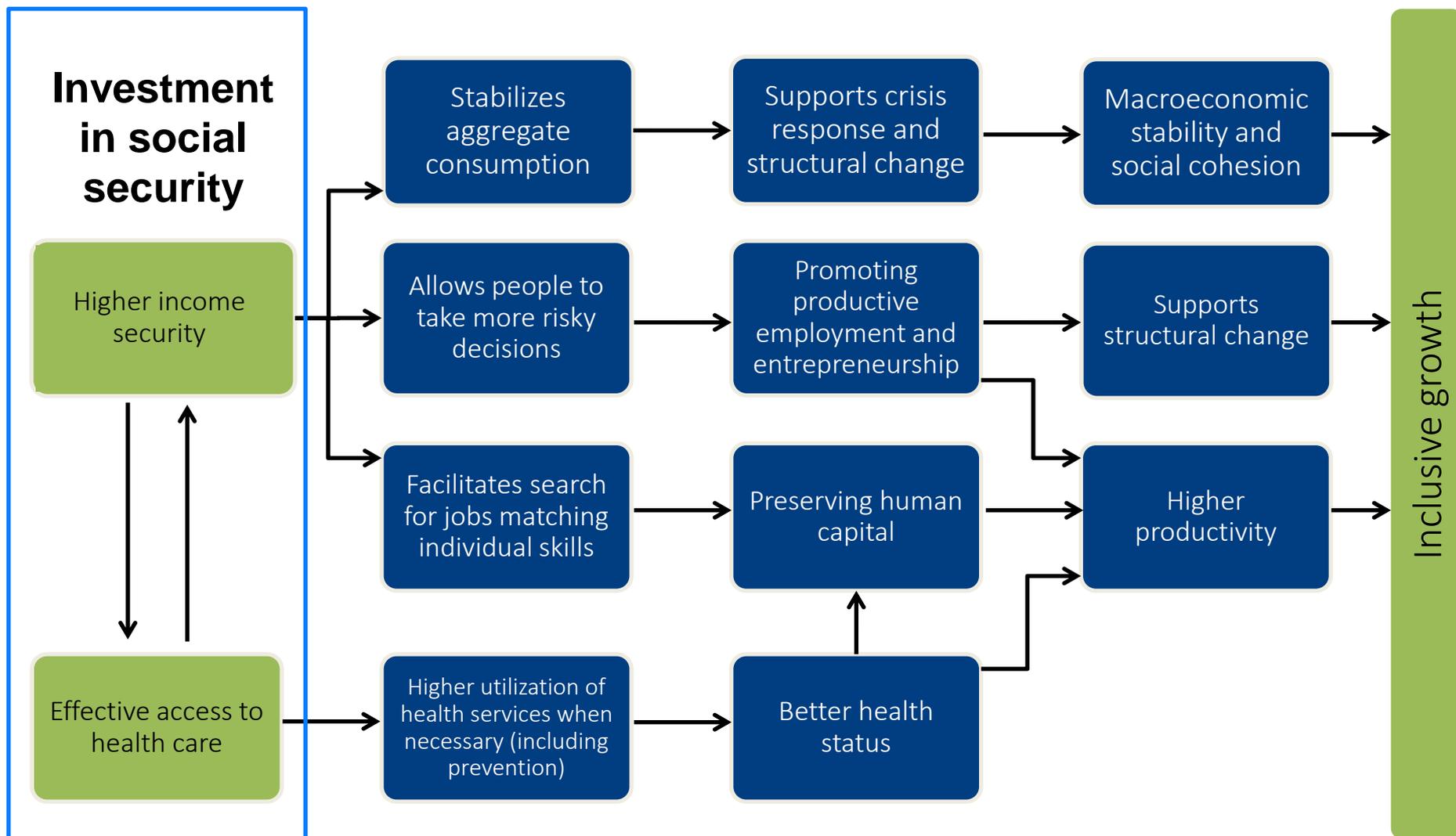


# Changing perspectives: from cost to „investment“: Strengthening the economic argument for social protection (adding to the rights and social justice dimension)

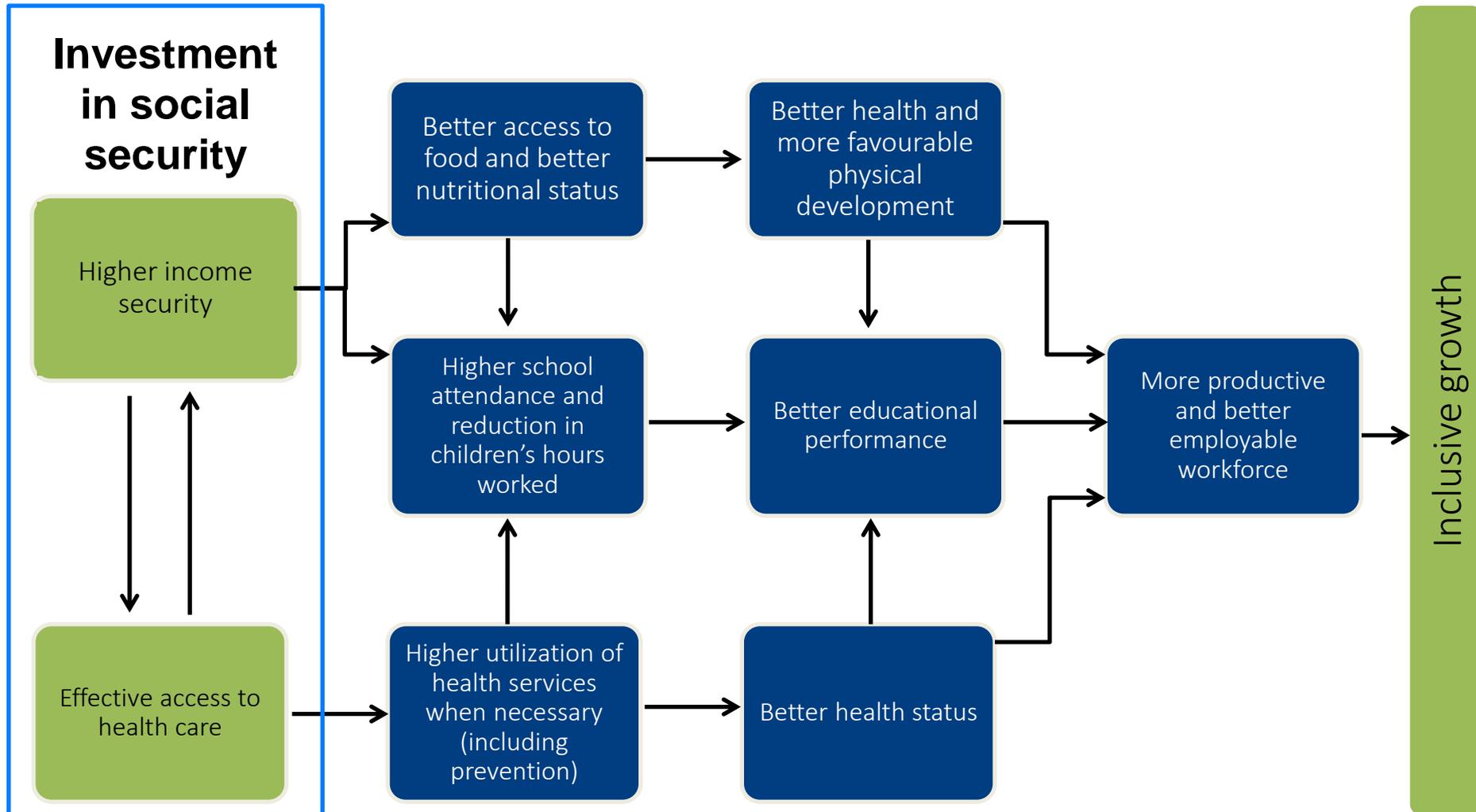
New focus on the  
economic argument for  
social protection



# Social protection contributes to inclusive growth (short term)



# Social protection contributes to inclusive growth (longer term)





## 3. What's next?

# What next?

- Strategic and programmatic orientations
  - specific P&B outcome for 2016-17, cross-cutting with other outcomes
  - Action plan 2016-22 (GB Nov. 2015)
  - SDGs 2016-30
- Regional and country level activities
  - Decent work country programmes
  - Regional initiatives

R.204 guidance to feed into ongoing ILO work on social protection – some examples



# What next? Relevance for the SDGs

Recommendation No. 204 provides a powerful policy tool for the fulfilment of the Sustainable Development Agenda

- Integrated multidimensional strategy
- National ownership
- Addresses several sustainable development objectives



Target 1.3 - **Implement nationally appropriate social protection systems** and measures for all, **including floors**, and by 2030 achieve substantial coverage of the poor and the vulnerable



Target 3.8 - **Achieve universal health coverage**, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all



Target 5.4 - **Recognize and value unpaid care and domestic work** through the provision of public services, infrastructure and **social protection policies** and the promotion of shared responsibility within the household and the family as nationally appropriate

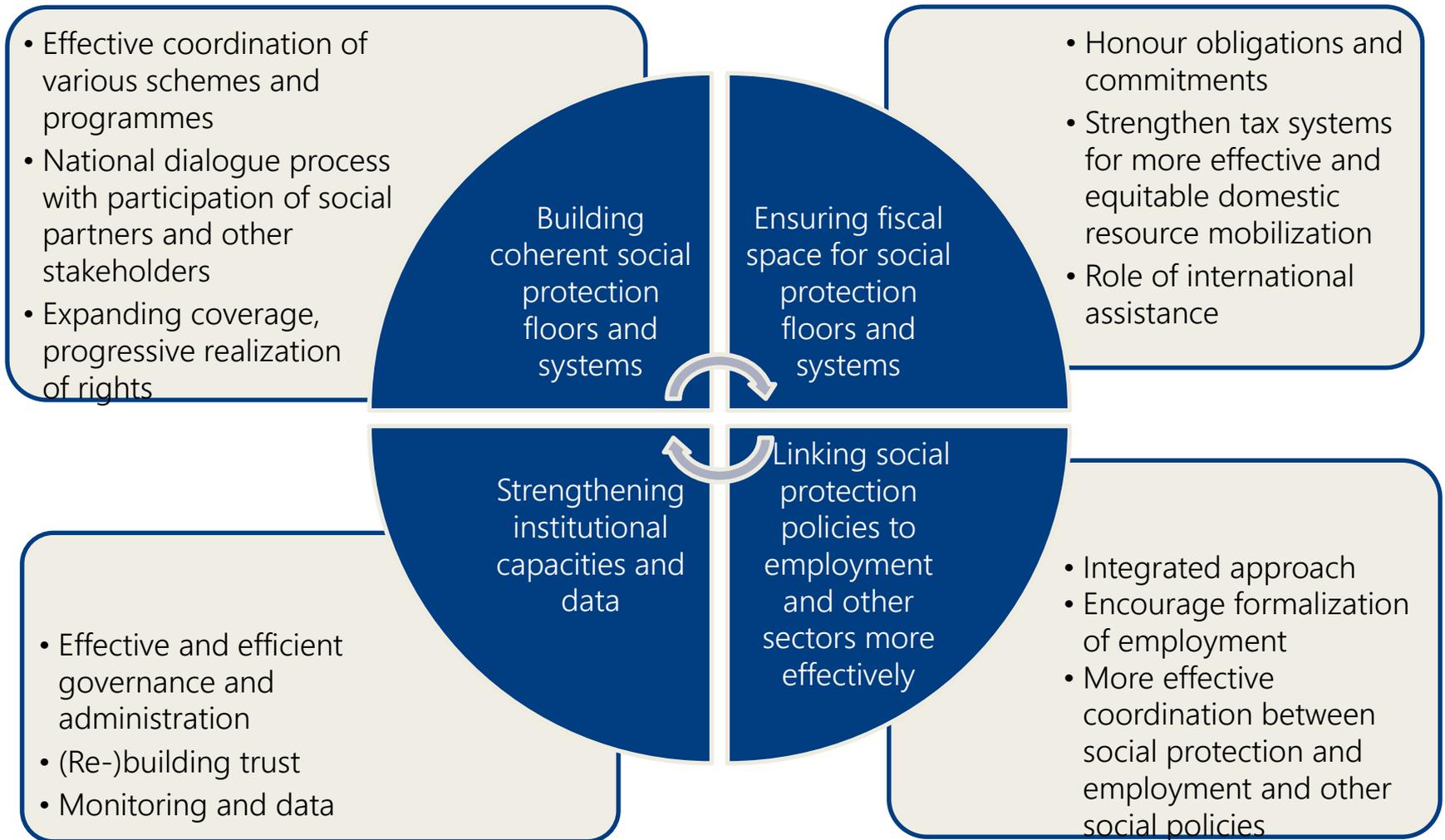


Target 8.5 - By 2030, **achieve full and productive employment and decent work for all women and men**, including for young people and persons with disabilities, and equal pay for work of equal value



Target 10.4 - **Adopt policies**, especially fiscal, wage and **social protection policies**, and **progressively achieve greater equality**

# Integrated and systemic approach necessary to address the challenges ahead



# Reference documents

## ILO social security strategy and Social Protection Floors Recommendation

- [Social protection for all: Building social protection floors and social security systems: The strategy of the International Labour Organization](#), Geneva: ILO, 2012.
- [Recommendation concerning national floors of social protection](#) (Social Protection Floors Recommendation), 2012 (No. 202).
- [Report of the Social Protection Floors Committee](#), Provisional Records No. 14, 101st Session of the International Labour Conference, Geneva, ILO, 2012.
- [Social protection floors for social justice and a fair globalization, Reports IV\(1, 2A and 2B\)](#), 101th Session of the International Labour Conference, Geneva: ILO, 2012.
- [Report of the Committee for the Recurrent Discussion on Social Protection](#) (including Resolution and Conclusions), 100th Session of the International Labour Conference, Provisional Records No. 24), Geneva, ILO, 2011.
- [Social security for social justice and a fair globalization](#), 100th Session of the International Labour Conference, Report VI, Geneva, ILO, 2011.

## More general

- [Recommendation concerning the transition from the informal to the formal economy](#) (Transition from the Informal to the Formal Economy Recommendation), 2015 (No. 204).
- [World Social Protection Report 2014/15: Building economic recovery, inclusive development and social justice](#) (Geneva: ILO, 2014).
- [Extending social security to all. A guide through challenges and options](#) (Geneva: ILO, 2010).
- Social Protection Floor Advisory Group: [Social protection floor for a fair and inclusive globalization](#) (Geneva: ILO, 2011).
- [Sharing Innovative Experiences: Successful Social Protection Floor Experiences](#) (New York and Geneva: UNDP, Special Unit for South-South Cooperation and ILO, 2011).
- Social Protection Platform: [www.social-protection.org/](http://www.social-protection.org/)
- Social Protection and Human Rights web platform: [www.socialprotection-humanrights.org/](http://www.socialprotection-humanrights.org/)

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