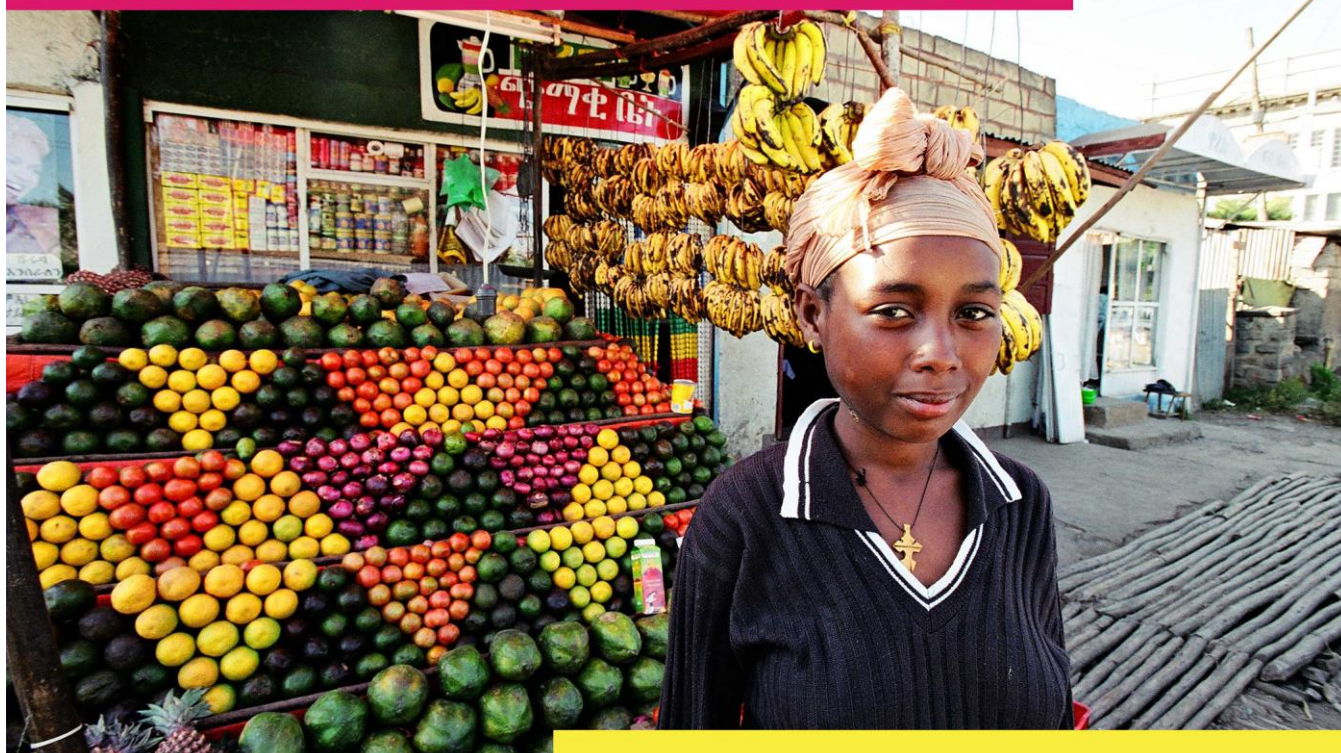


6

YOUTH TRANSITIONING TO THE FORMAL ECONOMY

TACKLING THE INFORMAL ECONOMY,
SUPPORTING QUALITY JOBS FOR YOUNG PEOPLE

THEMATIC PRIORITY OF THE GLOBAL INITIATIVE ON DECENT JOBS FOR YOUTH



1 Decent Jobs for Youth – the global initiative for action

1.1 Objective

Decent Jobs for Youth is the global initiative to scale up action and impact on youth employment under the 2030 Agenda for Sustainable Development. Launched in 2016 with the endorsement of the executive heads of the United Nations, Decent Jobs for Youth is a unique platform for partners to address fragmentation and catalyse effective, innovative and evidence-based action at country and regional levels.

1.2 Partners

Decent Jobs for Youth brings together the resources and expertise of multiple partners to create linkages that maximize the effectiveness of youth employment investments.

The initiative recognizes the important roles of governments, social partners, the UN System, youth and civil society, the private sector, regional institutions, parliamentarians, foundations, academia and the media in promoting decent jobs for youth. The partners of Decent Jobs for Youth subscribe to 15 guiding principles, which steer their actions and investments on youth employment.

1.3 Strategy



Building a strategic alliance to advocate, ensure policy convergence, stimulate innovative thinking and mobilize resources



Scaling up evidence-based action and impact across eight thematic priorities in line with the 2030 Agenda for Sustainable Development



Sharing and applying knowledge by capturing, analysing and sharing best practices, highlighting innovative approaches and facilitating learning



Mobilizing resources by securing high-level commitments from national, regional and international actors

1.4 Priorities for action

Eight thematic priorities to make a difference in the lives of young women and men – and in our world. Thematic plans identify areas for enhanced action and impact on decent jobs.



Green jobs for youth



Digital skills for youth



Quality apprenticeships



Youth in fragile situations



Youth transitioning to the formal economy



Youth in the rural economy



Youth entrepreneurship and self-employment



Young workers in hazardous occupations

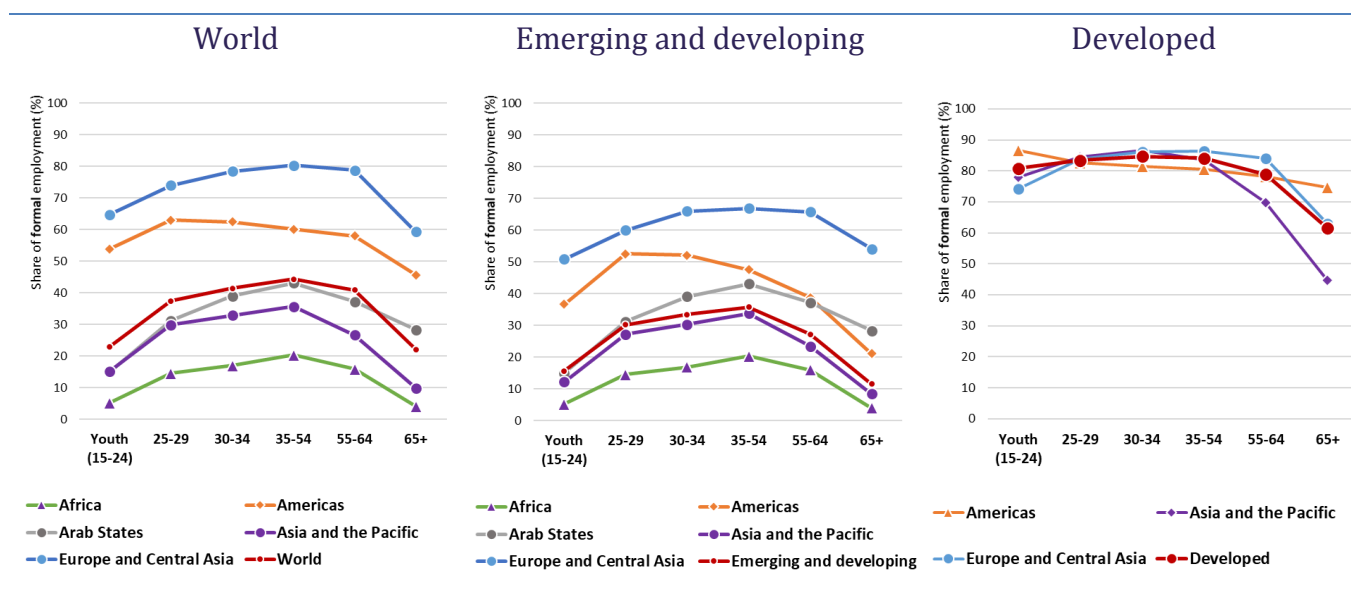
3 Youth Transitioning to the Formal Economy

2 Why action is needed

The informal economy is a significant component of labour markets in many countries. Young women and men seeking an income are often pushed into informal employment as a last resort. Fragmented labour markets, the absence of social safety nets, and low wages in the formal economy, among other factors, are encouraging the growth of informal employment among young people. Informality has a particular impact on vulnerable groups, such as migrants, and causes significant negative spillover effects within households and across generations.

Globally, over three quarters (76.7 per cent) of working young people aged 15–29 are in informal jobs. Informality is more pervasive in developing countries, where as many as 96.8 per cent of all young workers are in the informal economy. In emerging and developed countries, the corresponding figures are 83.0 per cent and slightly less than 20 per cent, respectively.¹ Across regions, Africa, the Arab States and Asia and the Pacific exhibit large shares of informal employment among their young people. Informality is also higher among young people than adults, particularly in developing and emerging economies, as shown in figure 1.

Figure 1: Age profile of formality²



Young workers in poverty often start their working lives in the informal economy, where work is more irregular, unsafe, and less productive. What is more, when the informal economy is the starting point, youth tend to stay in it for the long run. Recent evidence from Latin America highlights the impact of their first work experience on young people's long-term employment prospects.³ Those who started their working lives in formal employment or formal self-employment are more likely to continue in this path and show better labour market outcomes than young workers who started out in the informal economy. In other words, the working

¹ ILO: *Global Employment Trends for Youth 2017: Paths to a better working future* (Geneva, 2017).

² See: ILO, *Women and men in the informal economy: a statistical picture*, 3rd edition (forthcoming).

³ G. Dema et al. *What do we know about first employment programmes and policies in Latin America?* (Lima: ILO, Regional Office for Latin America and the Caribbean, 2015).

4 Youth Transitioning to the Formal Economy

conditions of a young person's first job bring with them a certain momentum and tend to prevail over time.

Despite the high levels of informality, young people still dream of a secure and stable job. The ILO's *Future of Work Survey* captured the perceptions of young people about their work life over the next 10–15 years. Young people value flexibility but prioritize job security and income. They expect to find jobs that provide good wages and possibilities for career development, along with social protection and benefits.⁴ For most of them, expectations of a formal job go beyond earning an income and making a livelihood; young people see quality jobs as the cornerstone of their life project and the pathway to their participation in the broader social and political arena.

The international community has taken on board the urgent need to tackle this problem: the 2030 Agenda for Sustainable Development fosters decent work and encourages formalization as key objectives to be attained worldwide. The 2030 Agenda sets as its 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”. As informal economies are typically characterized by a high incidence of poverty, inequality and decent work deficits, boosting formalization and supporting the transition to the formal economy will have a positive spillover across all the Sustainable Development Goals and targets.

Similarly, several countries have placed high priority on the formal economy as a determinant for job-rich growth. The transition to the formal economy has become a policy target for countries such as Colombia, Costa Rica, Mexico and Peru. The extensive attention now paid by governments to formalization is opening up opportunities for further mainstreaming in the context of the United Nations Development Assistance Framework and in national policies.

3 Evidence and innovations

3.1 Facilitating the transition of young people to the formal economy: what works

3.1.1 Integrated approach to tackle the many disadvantages faced by young workers in the informal economy

Multi-pronged employment interventions more effectively tackle the different driving forces of informality, addressing both the diverse needs of young people and the scale of the informal economy. Evidence from Latin America and the Caribbean indicates that the greatest reduction in informality rates is observed when the interventions are comprehensive. *Juventud y Empleo*, a youth employment programme implemented in the Dominican Republic since 2001, offers at-risk young people aged 16–29 a combination of classroom-based and on-the-job training, covering vocational and core work skills. Trainees also receive a stipend for transport and food costs. Evaluations of the programme demonstrate the significant positive and lasting effects of skills investments on formality, in particular for young men.⁵ The evaluation of *Jóvenes en*

⁴ ILO (forthcoming). *Youth and Future of Work Survey*.

⁵ P. Ibarrarán et al. *Experimental evidence on the long-term impacts of a youth training program* (IZA DP No. 9136, 2015).

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Acción, a similar initiative mounted in Colombia, showed the positive impacts of earnings and employment among young women, primarily in formal employment.⁶

Countries have heeded the lessons learned and boosted the range of integrated measures designed to facilitate the entry of young people into the labour market. In Brazil, the *Aprendiz Pronatec* project combines formal training with work experience through a combination of two existing initiatives, namely: *Pronatec*, the largest national training programme, which delivers technical skills training, and the *Apprenticeship Act*, which provides incentives for the hiring of young people as apprentices or interns. For its part, the European Union has a comprehensive active labour market programme, known as the *Youth Guarantee*. Under this commitment by member States, within four months of leaving school or becoming unemployed anyone younger than 25 (or 30 in some member States) receives a quality job offer, an apprenticeship, a traineeship or continued education.⁷

3.1.2 Access to a quality first job: key objective in an integrated strategy to facilitate the transition of young people to the formal economy

A formal first job experience will ensure quality youth employment and positive long-term prospects. Several measures can facilitate a good start for young women and men in the labour market and prevent them from resorting to the informal economy. These include:⁸

- **Growth and job creation policies**, which foster an enabling environment for investment and innovation, together with strategic partnerships with production sectors that have large potential for youth employment creation. In Jamaica, the Government relies on both labour-supply and demand-side interventions to promote the hiring of young women and men in dynamic sectors such as the digital and animation industries.
- **Institutional accreditation of the knowledge, competences, and skills attained by young people**: Skills certification and the provision of job-relevant and certified training, including on-the-job training, will enhance the employability of young people and can be coupled with the promotion of core work and entrepreneurial skills. The design of skills development training courses must be demand-driven and followed by job placement services. The *Recognizing Informal Apprenticeships* certification system in the United Republic of Tanzania targets training institutes, employers of small enterprises and crafts-workers, and revalidates workers' skills in certain areas in order to improve their employability.
- **Incentives for employers to hire young people and incentives to formalize youth employment**: Through wage subsidy programmes, governments offer a risk discount to employers that reduces their underlying labour costs and encourages the hiring of young workers who would otherwise remain in a catch-22 or opt for the informal economy – unable to realize their potential productivity. Wage subsidies can be

⁶ O. Attanasio et al. "Subsidizing vocational training for disadvantaged youth in Colombia: evidence from a randomized trial", in *American Economic Journal: Applied Economics* (2011, Vol. 3, No. 3) pp. 188–220.

⁷ ILO: *Global Employment Trends for Youth 2017: Paths to a better working future* (Geneva, 2017).

⁸ See: ILO: *What works for youth employment? Innovative experiences in the transition to formality. An Initiative under the ILO's Area of Critical Importance on Jobs and Skills for Youth (ACI 2)*, Workshop report (Lima, ILO, 2015). Available at: http://www.ilo.org/employment/areas/youth-employment/WCMS_381171/lang--en/index.htm, ILO (forthcoming). *Youth informality: formalizing the informally employed youth*, *Employment Policy Brief* (Employment Policy Department, Geneva, ILO, forthcoming). ILO: *Youth transition to formality*, Technical Guidance Note (Employment Policy Department, ILO, Geneva).

transferred through direct payments to employers or employees or effected through general reductions in taxes on earnings or social security contributions. Programmes in Paraguay and Tunisia combined both direct transfers to employers with tax cuts and reductions in social security contributions.^{9,10} In Spain, a tax reduction programme aimed at counteracting insecure employment arrangements with young workers has helped raise the chances of young people securing permanent contracts.¹¹ Similarly, in Turkey, a programme offering a substantial reduction in taxes paid by new recruits on their earnings has had a small positive impact on formal employment. This modest increase is largely attributable to the transition by young men from unemployment and inactivity to formal employment, while only one fourth of this positive improvement was due to the employers' formalization of previously informal workers.¹²

3.1.3 Long-lasting transition ensured by a proper formalization process, with broad buy-in

The following interconnected elements are key to ensuring a proper transition from the informal to the formal economy: first, the availability of trained labour inspectors able to identify barriers and solutions to facilitate access by young people to formal jobs; second, efficient systems for the registration of new enterprises; and, third, measures specifically tailored to young people that guarantee a social protection floor and that foster social dialogue and tripartism. The latter will help to promote better wages and working conditions and can ensure an effective transition to the formal economy. In addition, encouraging the participation of trade unions in oversight activities can help to detect labour arrangements that might place young people at risk of informality and poor working conditions.

The transition of young people into formal employment will be furthered by changing the mindset about job formalization and by highlighting its long-term benefits: There are costs and benefits associated with formalization. The costs arise from the obligation to pay taxes, which are added to the costs entailed by the bureaucratic process of formalization itself. The benefits, on the other hand, include access to credit and other resources vital for business growth. To maximize such benefits, young people – including students, young jobseekers and young entrepreneurs – and also employers must recognize the importance of formal employment as a long-term measure and the value of exercising labour rights and responsibilities.

The transition to the formal economy will be made more sustainable by focusing on providing quality jobs for young people: Measures to guarantee quality employment among youth include:

- promotion of social dialogue;
- investments in quality education and skills development;
- awareness-raising among workers and employers of the importance of social security registration, regardless of their employment status;

⁹ Ibid.

¹⁰ S. Broecke: "Tackling graduate unemployment in North Africa through employment subsidies: A look at the SIVP programme in Tunisia", in *IZA Journal of Labor Policy* (2013, 2:9), 1–19.

¹¹ A. Kugler et al.: *Employment consequences of restrictive permanent contracts: Evidence from Spanish labor market reforms*. IZA DP No. 657, (2011).

¹² R. Barza: *Essays in labor economics*. PhD dissertation (Cambridge, Massachusetts, Harvard University, 2011).

- enforcement of appropriate regulations through labour inspections and penalties for non-compliance with the requirements and conditions defined in apprenticeship contracts for youth;
- adherence to ILO conventions and revision of laws on specific sectors or groups of workers to bring them closer to decent work standards

In Bangladesh, to guarantee decent work conditions in the construction sector, the initiative *Formalization and Decent Work in the Construction Industry* provided on-the-job training and measures were set in place to promote labour rights and safety laws and protocols in an effort to ensure health and safety at work.

3.2 Innovations in the transition of young people to the formal economy

The process of informal employment is gaining ground among young people, and continues to pose a significant challenge to development efforts. In response, policymakers and development partners across the world are searching for and testing innovative policies and practical responses to facilitate access to decent work for the many millions of young women and men engaged in the informal economy.

3.2.1 Promoting the first formal steps in entrepreneurship

Entrepreneurship initiatives are often promoted to improve employment and earnings of young people in the long term. Ideally, these initiatives should form part of a more comprehensive toolkit of programmes and policies designed to integrate young people into quality employment. Entrepreneurship can have a significant impact on labour market outcomes of youth, particularly when combined with other active labour market measures and services designed to surmount the vulnerability of self-employed youngsters.

To boost success among young entrepreneurs, it is important that their first self-employment experience should be one that leads to formalization. Some innovative practices and applications include:

- **Training and mentoring in niche sectors:** The Jamaican programme *Digital Jam 2.0*, in operation since June 2012, organizes training workshops and competitions for developers of mobile phone apps, and helps them obtain what might be termed "mini-jobs" that provide training in intermediate skills.
- **Subsidies to stimulate first formal business ventures:** In Colombia, under the *Formalization and Job Creation Act*, credit benefits, tax incentives, technical assistance, advisory services and training are provided to young women and men with a technical or professional degree who establish their own businesses. In addition, beneficiaries are given a three-year subsidy to cover the cost of the business license registration. In Mexico a programme called *Emprendedores Juveniles* encourages young Mexicans in the 18–29 age cohort to develop business start-ups with a culture of business responsibility and sound productivity standards. The programme provides guidance and economic support to the best projects for the creation of sustainable enterprises. *Start-up Jamaica* speeds up the launching of youth-led enterprises by providing seed capital, training and mentoring to projects selected in a competition.
- **Representation, peer learning, and role models:** In Jamaica, the Young Entrepreneurs Association connects and represents young people who create business projects and offers them a range of benefits, such as: access to a peer mentorship programme, where

groups of between eight and ten young entrepreneurs meet regularly to exchange experiences and concerns about their businesses. The Association also facilitates access to business leaders to exchange experiences and lessons learned.¹³

- **Simplified registration practices:** Innovations in administrative procedures for new enterprises include the establishment of single windows, reduced administrative waiting times and simplified processes for obtaining operating licences and permits.¹⁴
- **Using technology to surmount information barriers:** In Peru, the *Sistema de Información Geográfica para Emprendedores (SIG E)* provides young entrepreneurs with information on how many businesses are already in a specific location, their reported sales and profits, and certain indicators of demand such as the profile of local population groups.¹⁵

3.2.2 Providing incentives for formalization in the rural economy

Formalization offers an excellent opportunity to advance rural economies and shape the rural transformation process. Approximately 88 per cent of the world's 1.2 billion youth – between the ages of 15 and 24 – live in developing countries, many of which, despite rapid urbanization, remain largely rural.¹⁶ Rural youth often rely on self-employment as a coping mechanism, in view of their limited or non-existent alternative sources of income or employment. Supporting their experience in the formal economy will not only improve the pathway for young people into the labour market, it can have a significant positive impact on rural communities as a whole.

Some interesting experiences have been recorded of the promotion of business start-ups by young people in rural areas. These include the *Nossa Primeira Terra* programme in Brazil, which provides financial aid to young rural workers who have little or no land, and to the children of farmers and students of agricultural schools who want to acquire farmland. The kind of support provided includes land preparation, the purchase of tools and technical assistance. In Colombia, the *Jóvenes Rurales Emprendedores* programme targets vulnerable rural youth aged between 16 and 35 with six-month technical assistance and training to develop their skills in strategic sectors. The content of the training measures is specially tailored to the business projects selected. Participants receive support and guidance in how to develop their business plan and to gain access to financing.

¹³ See website of the Young Entrepreneurs Association, Jamaica, available at: <http://www.yeajamaica.com/home>.

¹⁴ See: ILO FORLAC Notes: Formalization in Latin America and the Caribbean (2017). Available at: http://www.ilo.org/americas/sala-de-prensa/WCMS_245916/lang--en/index.htm.

¹⁵ See: Sistema de información geográfica para emprendedores. Available at: <http://sige.inei.gob.pe/sige/>.

¹⁶ United Nations, Department of Economic and Social Affairs, Population Division: *World Urbanization Prospects: The 2014 Revision, Highlights* (United Nations, 2014).

4 Action to facilitate the transition of young people to the formal economy

In June 2015, the International Labour Conference adopted the **Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204)**,¹⁷ which provides guidance to member States on how to facilitate the transition of workers and economic units from the informal to the formal economy, promote the creation of enterprises and decent jobs in the formal economy, and prevent the informalization of formal jobs. The Recommendation builds on the lessons learned from successful and comprehensive strategies such as those outlined above and provides advice on the formulation and implementation of integrated policy frameworks and their inclusion in national development plans.

4.1 Priorities for country-level action

Decent Jobs for Youth aims to promote the implementation of ILO Recommendation No. 204 through the application of modern technology in national integrated policy frameworks. The actions mounted under Decent Jobs for Youth in support of the transition of young people to the formal economy target three specific areas:

- **Upgrading informal apprenticeships:** In addition to the good practices listed above, activities will explore the role played by technology in gathering information on the exposure of apprentices and skills that they acquire. In particular, Decent Jobs for Youth will develop the so-called “Apprenticeship Work Diary”, a smartphone application to enable both skilled crafts-workers and young apprentices to record the learning path of the apprentices, the knowledge delivered, and the skills obtained.
- **Modernizing youth employment services:** In areas with a high incidence of informality, the “Labour GPS”, a smartphone application, is used to map out job vacancies and educational and training opportunities to improve the match between employers and young workers for their first formal job experience.
- **Promoting the establishment of the first formal enterprise:** through financial inclusion. Decent Jobs for Youth will enhance the potential and application of electronic and mobile payment methods as a tool to be used in formalizing new businesses.

¹⁷ ILO: *Recommendation No. 204 concerning the Transition from the Informal to the Formal Economy*, text of the Recommendation adopted by the Conference, International Labour Conference, 104th Session, Geneva, 12 June 2015. Available at: http://www.ilo.org/ilc/ILCSessions/104/texts-adopted/WCMS_377774/lang--en/index.htm.

4.2 Strategic global and country-level approach

In following up on ILO Recommendation No. 204, Decent Jobs for Youth will articulate its actions around five interrelated components, namely:

1. **Awareness raising and advocacy campaign:** A global campaign on the transition of young people to formality through technology will mobilize interest and political will across all interest groups under Decent Jobs for Youth, from governments to social partners, youth and civil society, the UN system and regional institutions, the private sector, and others.
2. **Diagnostics and advice at country level:** In collaboration with its partners, Decent Jobs for Youth will assess the situation and driving forces behind youth informality and carry out a comprehensive review of legal and policy frameworks and practice. The assessment will be followed by the development of a road map for integrated strategies on the transition of young people to formality, mainstreaming the application of new technology tools.
3. **Social dialogue and capacity development:** As mentioned above, social dialogue and tripartism are key triggers of decent work and will be fostered at the country level to ensure that national actions translate into an effective transition to the formal economy. Training materials, methodology and modules on the transition of young people to formality will be developed and applied through national workshops.
4. **Knowledge development, sharing and dissemination:** Decent Jobs for Youth will focus on developing knowledge on the links and transmission channels between financial inclusion and the transition of young people to the formal economy, and also on the application of new technologies to ease the transition. Global and national events will open up opportunities for information exchange and dissemination.
5. **New technology development:** New technologies in this area include, notably, the smartphone applications “Apprenticeship Work Diary” and “Labour GPS”, and also the electronic and mobile payment systems.



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