Thematic Report

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THE YOUTH TRANSITION TO FORMALITY
Acknowledgements

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Introduction

Statistics indicate that working young people are more likely to be in informal employment as compared with working adults in other age groups.¹ This has been confirmed by recent information from ILO, which estimates that the share of informal employment among young people between the ages of 15–24 is 77 per cent, which is higher than the global average of about 61 per cent.² There are approximately 362 million young people engaged in informal employment globally, with more than half of these individuals located in sub-Saharan Africa and Southern Asia. Furthermore, 37 per cent of this total is comprised of young women, who are particularly overrepresented in informal employment statistics in low-income countries.

Figure 1. Global informal employment by age group, 2016 (per cent)

![Bar chart showing distribution of total employment by age group.]

**Source:** ILO, 2018. Calculations are based on national labour force and household surveys. Detailed sources are available in ILO, 2018.

**Note:** Breakdown by region is provided in Annex A1, figure A1.1.

¹ Unless noted otherwise, generally this report uses the United Nations definition of youth: the 15–24 year old age group within the general population.

² These figures are estimates by ILO based on household survey micro datasets from 110 countries representing more than 85 percent of the working population globally. In order to allow for comparisons and the calculation of global and regional estimates, a harmonized definition of employment in the informal sector and of informal employment was applied systematically to each of the 110 countries examined (ILO, 2018). In line with the ILO Resolution concerning statistics of employment in the informal sector, adopted by the Fifteenth International Conference of Labour Statisticians (ICLS), Geneva, 1993, the operational definition to identify workers employed in the informal sector is based on the institutional sector, the final destination of production, the absence of registration or of a complete set of accounts. Alternatively, the size of enterprises combined with the place of work and, for employees, the absence of social security contributions by the employer, were used as proxy criteria. As per ILO Guidelines concerning a statistical definition of informal employment adopted by the Seventeenth ICLS, Geneva, 2003, an operational definition of informal employment includes the following components: i) among own-account workers and employers, the formal or informal nature of employment depends on the formal or informal nature of the economic unit; ii) among employees, informal employment is defined by the absence of social security gained through employment (via employer and employee contributions) or, in case of missing information, by the absence of entitlement and benefits related to annual paid leave and paid sick leave; iii) all contributing family members are involved in informal employment.
A large amount of literature exists on informality and its nature, causes and consequences. Less attention has been paid to the processes surrounding the transition to formality, although such research has proven particularly useful in policy creation.3

In this report, these elements are discussed specifically with young people in mind. In particular, we have tried to respond to certain policy questions, including, why are informality rates higher among young people? Do we need specific policies to address the transition of young people to formality? We address these questions using recent data produced by ILO.

The age formality profile

The relationship between formality and age shows a concave, or inverted U-shape in the charts below. Formality rates are very low in the beginning of an individual’s working life (23 per cent), and although those rates increase with age, reaching a maximum of 44 per cent among workers between the ages of 35–54, the rates begin to drop off for older workers. Formal employment rates for those older than 64 are as low as those in the group of young people.4 This phenomenon may be considered an empirical regularity and may be observed worldwide (see Figure 2, panels A to D and results by region in Annex A1, Figure A.1.2).

Although the overall extent of formal employment and its age-related variations show significant differences depending on the income groups of a country, the concave chart shape remains. In low-income countries, formal employment rates are low in all age groups, and mostly stand at less than 10 per cent. This is especially evident when agricultural work is included in the statistics.5 Less than 5 per cent of those 15–24 and less than 10 per cent of those in the 25–29 age group are employed formally. Formal employment barely reaches 10 per cent among those in the 30–54 age group, and it declines with the older age groups. Formal employment rates are generally higher in middle-income countries, at an average of 33 per cent overall, and the rates of youth employment and employment for adults aged 35–54 years are at 17 per cent and above 35 per cent respectively. In middle-income countries, the link between access to formal employment and older age, as well as an increase in experience and assets is more pronounced than in low-income countries. In high-income countries, formal employment is the norm: approximately 82 per cent of total employment, regardless of age, is formal, with a gender breakdown in formal employment of 81.1 per cent for men and 82.4 per cent for women. In high-income countries the rate of formal employment for young people 15–24 is 81 per cent, the majority starting as employees.

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3 In 2015, ILO adopted Recommendation No. 204, Concerning the Transition from the Informal to the Formal Economy.
4 Low formality rates among adults aged 65 years old and over could be related to working after retirement, either in combination with or as a substitute for a retirement pension. This issue should be discussed in a separate paper since this report is focused on youth employment.
5 ILO, 2018.
Figure 2. Age formality profile for overall and non-agricultural employment – globally and by country income groups, 2016

Panel A: Age formality profile – world

Panel B: Age formality profile – low-income countries

Panel C: Age formality profile – middle-income countries

Panel D: Age formality profile – high-income countries

Source: ILO calculations based on national labour force and household surveys. Detailed sources are available in ILO, 2018.

Note: Breakdown by region in Annex A1, Figure A1.2

Confirmation of empirical regularity in the age formality profile has many implications including the following: young people are not alone in the labour markets, rather they work alongside other generations, and their formality rates may be influenced by and also have an influence on the formality rates of other generations. In this sense, formality may be seen as part of the overall labour trajectory of an individual person, and may be a decisive factor in their working life success. Therefore, from a policy perspective, formality initiatives may be most effective if designed with a lifetime approach in mind.

It should be noted that the age to earnings profile demonstrates a similar statistical trajectory, although earnings do not fall as drastically as formal employment does after reaching retirement age.\(^6\) It is not surprising that the trend is for formal employment to increase up to a certain age, after which both formality and earnings, begin to decrease. Formality is product of the labour market,

\(^6\) The age to earnings profile is generally used to assess the effects of experience, or age, on earnings. See Mincer, 1974; Murphy and Welch, 1990.
similar to outcomes regarding employment levels and earnings. Formality is closely associated with the quality or level of functionality within the labour market.

As shown in Figure 3 panel A, the overall rates of formal employment and the accompanying patterns that occur over the course of an individual’s working life are largely determined by the structure of the labour market and an individual’s employment status. In other words, the respective proportions of workers in employment statuses that are more likely to be employed informally, including contributing family workers and own-account workers influence the overall share of informal employment. Variations in the inverted U shape, based on individual employment status, is also noteworthy. Globally, formal employment rates increase rapidly with age and reach their highest rates for those who are employees, and to some extent employers, but remain flat and below 20 per cent across all age groups for own-account workers. The chart also shows a decrease in all the categories as workers age.

In low-income countries, the overall data on both young people and other age groups is driven by the situation of own-account workers, which represent the majority of those employed in the labour market. The main difference in formal employment rates between young and prime age adults occurs in the categories of employees and employers, where there appear to be some opportunities to move from informal to formal employment. Among employees in middle-income countries there are viable opportunities for transitioning to formal employment in the higher age brackets, and that influences formal employment rates overall. However, as is the case in low-income countries, in the absence of dedicated interventions or changes to the macroeconomic context, own-account workers in middle-income countries show lower levels of formality at all ages and limited prospects of formalization during the course of their working lives. In high-income countries, the situation is significantly different, particularly among employers and own-account workers, with a clear trend towards a transition to formality as the age and experience of workers increases (at least until reaching retirement age). In high-income countries, formality among employees is high overall with formality rates of 85 per cent for young people. The predominance of employees within the total employment numbers largely explains the high rates observed in the total employment data.

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7 See employment distribution by status and age group in Annex A.1, Figure A1.4.
8 For employers, older age tends to increase access to critical factors including, assets, finances, networks and experience. Formality rates increase from approximately 30 per cent for the 15-24 age group, to nearly 48 per cent for the 35-54 age group.
The fact that formality rates are higher for employees and lower for own-account workers has been extensively studied, although not from the perspective of the trajectory of work over a lifetime. The figures demonstrate that reasons surrounding why many individuals have informal jobs vary greatly, and therefore, there is no “silver bullet” for facilitating transitions to formality. As Recommendation 204 suggests, an integrated approach to policy development is needed, and this involves simultaneous intervention and coordination, combined with an assessment of needs. This topic will be discussed later in the report.
Causes and consequences: evidence from the School-to-Work Transition Surveys (SWTS)\(^9\)

While there is much research and discussion on the causes and consequences of informality in general, there is less debate regarding young people and the same issue. However, the very low formality rate for youth employment merits an explanation. Why does the trend occur?

One possible explanation could be due to the demand side and/or the structure of labour markets. In some countries, informality seems to be the major point of entry for young people into the labour market. In those cases, unemployment is not an option, so these young people must enter the labour market even if the work is not formal employment. This scenario is especially true for those who leave the education system prematurely because of a financial need to work.

Figure 4. Share of the unemployed and employed populations in 34 low and middle-income countries, ages 15–29

Panel A: Low- and middle-income countries

Panel B: Low-income countries

Panel C: Lower-middle-income countries

Panel D: Upper-middle-income countries

Source: Calculations based on ILO SWTS. In the case of a country with two rounds of SWTS, the most recent year was used.

Note: Data that did not include information on formality were not included in the calculations. The graph shows formal employment, informal employment and unemployment as a percentage of the economically active population. See breakdown by region in Annex A2, Figure A2.1. All data gathered from 34 low and middle-income countries.

Based on this information, a relevant question becomes: what jobs are available to young people? We observed that the majority of young people, especially those younger than 18 years old, begin their working lives as unpaid workers in businesses run by their families, which are generally small businesses or microenterprises, mostly informal (see Figure 5). The labour market share of employees greatly increases with the age of workers, and is always higher than the share of own-

\(^9\) This section made use of SWTS that interviewed individuals between the ages of 15–29. The SWTS database includes surveys from 34 low and middle-income countries.
account workers in the overall labour market for all income groups shown in the charts except “Low income”.

**Figure 5. Employed population by status and age (15–29 years old)**

Panel A: Low- and middle-income countries

Panel B: Low-income countries

Panel C: Lower-middle-income countries

Panel D: Upper-middle-income countries

**Source:** Calculation based on ILO SWTS. In the case of a country with two rounds of SWTS, the most recent year was used.

**Note:** Less frequently occurring employment statuses, including members of a cooperative or similar designation, are not represented in the graph. All data gathered from 34 low and middle-income countries. See breakdown by region in Annex A2, Figure A2.2.

Contributing family workers are informal by definition, and as mentioned above, informality among own-account workers is also very high. Why do young people fall into these categories? Based on the research surveys, the most frequent response recorded for own-account workers was a desire for independence, especially among young men. In the case of unpaid family work, family obligations were cited as a primary reason, accounting for 62 per cent of men and 72 per cent of women respondents.° This response is the most likely rationale given when a family business is involved. For both family workers and own-account workers, lack of finding a salaried job is the second most often cited reason. In addition, in all scenarios women are more often influenced by family obligations than men.

° Based on data availability, the first round of SWTS is used in these calculations.
Another possible explanation for the preponderance of informal work among young people could be due to the characteristics of employed youth (the supply side). Young people are at a stage of life in which they are still accumulating certain assets, including skills and funds, and those will be useful for their working lives in future.

For example, this phenomenon of accumulation is applicable in the area of education. Young people are still learning skills needed in the labour market, both at school and at work. As can be expected, a clear positive correlation may be observed between the education level of the labour force and formality rates in work. Literature on the school-to-work transition has shown heterogeneity of young people in this regard since circumstances may vary, with some young people not having started the transition to work, some being in transition, and others having fully completed the transition into the labour market and decent job.

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### Figure 6. Survey reasons for working as own-account workers among young people 15–29 years old (per cent by gender)

<table>
<thead>
<tr>
<th>Why are you in own-account work?</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Low and middle-income countries)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>could not find wage work</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>greater independence</td>
<td>29</td>
<td>31</td>
<td>30</td>
</tr>
<tr>
<td>more flexible working hours</td>
<td>42</td>
<td>27</td>
<td>36</td>
</tr>
<tr>
<td>higher income level</td>
<td>7</td>
<td>12</td>
<td>9</td>
</tr>
<tr>
<td>required by family</td>
<td>13</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>other</td>
<td>7</td>
<td>14</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>5</td>
<td>4</td>
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<tr>
<td>(Low-income countries)</td>
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<td></td>
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<tr>
<td>could not find wage work</td>
<td>33</td>
<td>36</td>
<td>35</td>
</tr>
<tr>
<td>greater independence</td>
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<td>26</td>
<td>31</td>
</tr>
<tr>
<td>more flexible working hours</td>
<td>7</td>
<td>9</td>
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<tr>
<td>higher income level</td>
<td>12</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>required by family</td>
<td>9</td>
<td>17</td>
<td>13</td>
</tr>
<tr>
<td>other</td>
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<td>3</td>
<td>3</td>
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<tr>
<td>(Lower-middle income countries)</td>
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<td></td>
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<tr>
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<td>more flexible working hours</td>
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<td>higher income level</td>
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<td>required by family</td>
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<tr>
<td>other</td>
<td>6</td>
<td>10</td>
<td>8</td>
</tr>
</tbody>
</table>

**Source:** Calculations based on ILO SWTS. In the case of a country with two rounds of SWTS, the most recent year was used.

**Note:** Missing values not included in the calculations. Based on 34 low and middle-income countries.
Figure 7. Share of informal employment by education level among young people 15-29 years old

Panel A: Low- and middle-income countries

Panel B: Low-income countries

Panel C: Lower-middle-income countries

Panel D: Upper-middle-income countries

Source: Calculations based on ILO SWTS. In the case of a country with two rounds of SWTS, the most recent year was used.

Note: Missing values not included in the calculations. Based on 34 low and middle-income countries. See breakdown by region in Annex A2, Figure A2.3.

In the case of workers who make the transition to owning a business or being self-employed, instead of working as employees, other assets become relevant in their work skill set. Entrepreneurial training is key, but funding to start a business is also crucial. Although no data has been specifically collected from those aiming to start a business, the SWTS asked those individuals who were employers or own-account workers how they had been able to acquire funding for their entrepreneurial activities.

To further elaborate on this point, Figure 8 shows that the most common answer to this question for the youngest workers was, “no money needed”. This response indicates that these individuals started businesses or own-account work without significant capital. On the other hand, the chart indicates that “own savings” grow with age, as do “private loans”, while help from family and friends remains relatively flat, at around 30 per cent across all age groups. The result is that young entrepreneurs and own-account workers lack financial assets in their early years, but they begin to accumulate them in later years.
Figure 8. How did you acquire funding to start your business? (15–29 years old)

Panel A: Low- and middle-income countries

Panel B: Low-income countries

Panel C: Lower-middle-income countries

Panel D: Upper-middle-income countries

Source: Calculations based on ILO SWTS. In the case of a country with two rounds of SWTS, the most recent year was used.

Note: Based on 34 low and middle-income countries. See breakdown by region in Annex A2, Figure A2.4.

In terms of asset accumulation, young people are generally at a disadvantage. The most notable exception to this phenomenon, and this is characteristic of the current generation, is access to and the ability to learn and utilize new technologies. Several studies have shown that since new technologies have developed rapidly in recent decades, generations born more recently are more used to them.\(^{11}\) A relevant question is, what is the relationship between new technologies and formality? Certain recent studies demonstrate that new technologies have the potential to generate new forms of informality, while others note that they also have the potential to facilitate the transition to formality.\(^{12}\) In order to develop youth-centred policies, approaches could explore this dimension further.

What are the consequences of low formality rates among younger people? Since formality rates have a pattern that follow an entire working life, interventions for improving the transition to formality aimed at younger people could impact an individual later on in life.

This hypothesis was demonstrated by a recent study in Latin America that compared the characteristics of the current jobs and the first jobs\(^ {13}\) of a group of individuals and found that in four of the countries in the study, those who had had a good start in their working lives had a greater chance of obtaining a formal job later. Figure 9 shows this same phenomenon by income group on a global level. These charts compare the informality status of a current job with the type of agreement

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\(^{11}\) World Bank, 2016.


\(^{13}\) Chacaltana, Dima and Díaz, 2015. The four countries analysed in the study were Brazil, El Salvador, Jamaica and Peru. The median rate of those currently employed formally was approximately 50 per cent higher in Brazil, Jamaica and Peru and nearly double in El Salvador among those who had formal employment at the beginning of their careers, as compared with those with precarious first jobs.
that existed in a first job. In this particular case, we have assumed that a written agreement is more formal and binding than a verbal agreement. Overall, 50 per cent of those working informally in their current job had a written agreement in their first job, whereas 80 per cent of those with only a verbal agreement in the first job were working informally in their current job. Similar differences exist in low-income countries.¹⁴

Figure 9. Share of workers with informal employment in current job, according to type of agreement in first job – by income groups

Panel A: Low- and middle-income countries

Panel B: Low-income countries

Panel C: Lower-middle-income countries

Panel D: Upper-middle-income countries

Source: Author extrapolation based on SWTS.
Note: Based on 34 low and middle-income countries.

¹⁴It should be noted that these differences were not controlled for in the data. Interestingly, another case study on Peru indicated that these differences persist at rates of around 17 per cent even when controlled for as characteristics. See Cavero and Ruiz, 2016.
Policy discussion

Recommendation 204 provides a comprehensive policy framework for the transition from the informal to the formal economy. A consequence of the existence of an empirical age earnings profile is that there could be different policy implications for different age groups. Figure 10 shows that formality in work increases with age at a certain point, it decreases, but that the employment to population ratio remains the same. The difference between the employment to population ratio and the formality rate is the informality gap, and this must be addressed with specific policies. From this graph, it is clear that while some transversal policies are applicable to all age groups, certain aspects could be emphasized for specific groups. For example, policies applicable to young people are not necessarily identical to those applicable to older adults.

Figure 10. Informality gap

![Informality gap graph](image)

**Source:** Calculations done by the authors.

For example, young people require comprehensive measures to facilitate school-to-work transitions. These measures could include, such as Youth Guarantee Schemes to provide access to training and ongoing productive employment. Policies aimed at providing childcare and access to productive assets would benefit women, and younger women in particular. Policies intended to improve legislation and regulatory frameworks to address the exclusion of certain individuals, including domestic and agricultural workers for example, would be needed in order to bring them under the scope of formal work arrangements.

Policies for addressing the traversal drivers of informality include pro-employment macroeconomic policies that support aggregate demand, productive investment and structural transformation for formal job creation, and measures to improve the efficiency of social security systems and services.

What are the most common approaches for supporting the transition of young workers to formality? An examination of this point requires an analysis of the ILO YouthPOL database, which includes 485 policy documents concerning young people in 65 countries around the world. This database classifies various policy types, including from training to macroeconomic measures.\(^\text{15}\)

Figure 11 includes policies that are most relevant to the youth workforce transition to formality. The most common approaches to promote youth employment are related to “incentives for labour

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demand” – mainly for work as employees and “enterprise development”, for those working as entrepreneurs. These types of policies are generally known as “first job” and/or “first business” initiatives. However, it may also be noted that initiatives for both business and employment formalisation are not very common: there are only 11 documents concerning promoting registration/compliance of existing enterprises in the informal economy and only ten documents for providing incentives to promote the transition of informal young workers from the informal to the formal economy out of 485 total policy documents in the YouthPOL database.

Figure 11. Documents concerning policy approaches to youth employment and formality

<table>
<thead>
<tr>
<th>Total policy documents in YouthPOL</th>
<th>Total</th>
</tr>
</thead>
<tbody>
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</tr>
<tr>
<td>Is education and training addressed in the document?</td>
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</tr>
<tr>
<td>Are labour market policies addressed in the document?</td>
<td>239</td>
</tr>
<tr>
<td>Is enterprise development addressed in the document?</td>
<td>173</td>
</tr>
<tr>
<td>Is there an explicit strategy for ensuring access to non-financial services?</td>
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</tr>
<tr>
<td>Is there an explicit strategy for ensuring access to finance?</td>
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</tr>
<tr>
<td>Is there an explicit strategy for any other measures regarding self-employment?</td>
<td>90</td>
</tr>
<tr>
<td>Is there an explicit strategy for enterprise start-ups for young people?</td>
<td>79</td>
</tr>
<tr>
<td>Is there an explicit strategy for promoting registration/compliance of existing enterprises in the informal economy?</td>
<td>11</td>
</tr>
<tr>
<td>Is labour law and legislation addressed in the document?</td>
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</tr>
<tr>
<td>Is labour demand addressed in the document?</td>
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</tr>
<tr>
<td>Is there an explicit strategy for raising incentives for employers to recruit young people?</td>
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<tr>
<td>Yes</td>
<td>80</td>
</tr>
<tr>
<td>Yes, on tax rebates</td>
<td>13</td>
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<tr>
<td>Yes, on wages subsidies</td>
<td>40</td>
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<tr>
<td>Yes, on waiver for social security contributions</td>
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</tr>
<tr>
<td>Yes, on other measures to reduce labour costs</td>
<td>23</td>
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<td>No</td>
<td>23</td>
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</tr>
<tr>
<td>Have these policies been evaluated? Yes.</td>
<td>37</td>
</tr>
</tbody>
</table>

Source: YouthPOL, ILO (2017).
Note: See breakdown by region in Annex A3, table A3.1.

Regarding “first job measures” aimed at promoting salaried jobs, the most common approach is to provide incentives, in particular, by providing wage subsidies for formal enterprises to hire young people. That measure allows authorities to monitor the hiring practices of formal entities. Other approaches include social security contribution waivers, tax rebates, vocational training subsidies and discounts on small loans, all with the aim of bringing young people into the labour market. In addition, amending laws to ensure job security, promoting cooperation between employers and educational institutions, offering special training contracts and labour experience programmes that aim to aid poor and vulnerable young people, are common non-financial means of support to facilitate access for young people in obtaining their first job.
Figure 12: Type of financial and non-financial support in youth policies focused on first jobs and the formalization of informal employment among young people

Source: YouthPOL, ILO (2017).
Note: Examples of measures created for young people entering the work force and beginning their first job are provided in Annex A3, with a focus on the Latin America and Caribbean (LAC) region in tables A3.2 and A3.3 and other regions in table A3.4. Examples of measures to support the formalization of jobs for young people are outlined in Annex A3, table A3.5.

A more detailed review of the ten policy documents intended to promote the transition of young workers from the informal to the formal economy, reveal that these documents include measures to: enact laws/regulations to facilitate formalization, promote a voucher system, and design special contractual regimes and vocational training programmes (Figure 12).

As shown in Figure 13, in the case of “first” business interventions, the most common policy approach is to provide general non-financial services to young people. For example, that approach could include laws and regulations to support youth entrepreneurship and solidarity economy, provide opportunities for young people to engage with enterprises, training, start-up support and follow-up guidance and mentoring and lastly, through the building of infrastructure, including incubators and one-stop-shop access aimed at improving the business environment. Since it is more difficult to monitor whether a start-up enterprise will be formal, there is a greater need for a more focused approach to formality. In some cases, interventions related to formality are concentrated on social security contribution subsidies, the strengthening of enforcement bodies, the building of legal frameworks and awareness, and mobilization.
The question to be asked is, are these policies effective? Indeed, very few of these policies have been evaluated. According to YouthPOL data, only 8 per cent of all youth employment policy documents have been analysed. In general, literature on the impact of formalization policies is rather new and there is not that much available.

Jessen and Kluve (2018) conducted a systematic search and review for English and Spanish language documents and found approximately 30 impact studies. A review of those studies revealed interesting results. For example, the "formal jobs/labour registration" factor, also known as labour formalization, has a much higher probability of a positive and significant impact on labour market outcomes than other factors, including firm registration, wages, firm profitability, tax revenue and investment. Jessen and Kluve concluded that this is an important finding and it may indicate that worker registration is a key factor in labour market formalization. Addressing that issue could potentially be more promising than interventions that target other aspects of formalization.

Overall, most evaluations on youth have focused on the impact of Active Labour Market Policies (ALMP) (Kluve and others, 2016) and very few of these studies cited formality as a target variable. Interestingly, while reviewing the impact of ALMP in the LAC region, one recent study found that, as compared to other outcomes, including employment, earnings or hours worked, formal employment was the outcome with the highest probability of having a significant positive impact on the labour market.\(^\text{16}\)

\(^{16}\)Escudero and others, 2017.
Figure 14. LAC study results: formality as an outcome of ALMP

Source: Escudero and others, 2017.
Note: The number of total observations in the four outcome categories are: 89, 108, 59 and 37.

More studies are needed that examine the impact that formalization interventions have on the labour market. Particular attention should be given to youth-focused issues including first jobs and first business interventions, in order to verify to what extent these programmes actually lead to formality, and for how long, and to determine other policy measures that could facilitate transitioning young people from the informal to the formal economy.
Conclusions

This report analyses the transition of young people to formality and emphasizes the need for a life course, or trajectory, approach to examining formality in the labour market. The report has described the age-related formality profile and its characteristics, causes, consequences and policy implications.

The most important conclusion to be drawn from the information contained within this report is that policies aimed at the transition of young people to formality affect not only a young worker's current situation, but rather the lifetime formality profile of that individual. Hence, current youth employment strategies should make young people aware of the long-term implications that a good start to their working lives has on their entire careers.

In many developing countries, young people begin their working careers as unpaid family workers. This phenomenon highlights the importance of finding ways to facilitate worker transition to formality within this context, including, for example, through informal apprenticeships.

At present, youth formality policy approaches are primarily focused on first jobs, including through wage subsidies and first business strategies. While there is a lack of information available regarding the effectiveness of these strategies in terms of formalization of the overall labour force, there is even less information on youth employment formalization and on informal enterprises operated by young people. More evaluations on policy interventions that facilitate the transition of young people to formality are needed.

Most current policy approaches to both individual employment and business generation, assume that the employment created by those policies is formal. However, that is not necessarily the case. Therefore, more policies should be directed at addressing the transition of young people to formality. Based on the perspective gleaned from ILO data, this report concludes that it is not simply a greater number of jobs that are needed, but rather, good jobs must be created to facilitate full and productive employment for individuals and promote the decent work agenda.

In terms of the causes of higher informality rates among young people, this report demonstrates that the reasons for those higher rates may be attributed to both the demand and the supply sides. Factors contributing to the demand side include the fact that young people often work in sectors with higher rates of informality, while a lack of key assets that contribute to better labour market outcomes, including education, skills and financing, affect the supply side.

However, young people have ample access to a new and critical asset: new technologies. For this reason, the use of new technologies to improve formalization for young people, is very promising. Applying new technologies has become a critical part of the world of work and this is expected to continue, thus shaping the future of work. The role that technology plays in facilitating the youth transition to formality in the twenty-first century labour market deserves attention, especially with regard to using technology in the financial inclusion of young people and in delivering public services by capitalizing on technological improvements.

It is important to note that goals regarding the achievement of transitioning young people to formality should also take into account policy guidance outlined in Recommendation 204, including, applying the three fold objectives of creating formal employment, transitioning workers and economic units from the informal to the formal economy and preventing the informalization of formal employment.

17 See Chacaltana and others, 2018.
References


Martha Chen, 2016. “Technology, informal workers and cities: insights from Ahmedabad (India); Durban (South Africa) and Lima (Peru)”, International Institute for Environment and Development, volume: 28 issue: 2,(October 1, 2016), pgs. 405-422.

Guillermo Dema, Juan Chacaltana, Juan José Diaz, “What do we know about first job programmes and policies in Latin America?” Youth Informality, (Lima, ILO, 2015)


International Labour Organization, Promoting formal employment among youth: innovative experiences in Latin America and the Caribbean (Lima, 2015).


International Labour Organization, Non-standard employment around the world: Understanding challenges, shaping prospects (Geneva, 2016).


Jacob Mincer, Schooling, Experience and Earnings (New York, National Bureau of Economic Research, 1974).


Annex

A1. Age formality profile by region

Figure A1.1. Formality and informality by region among young people and older adults, 2016

Note: Regional estimates based on data gathered from 110 countries.
Source: Author calculations based on labour force surveys or similar national household detailed sources available in ILO, 2018.
Figure A1.2. Share of formal employment by region and age group, 2016

Panel A: Overview of all regions

Panel B: Focus on Africa

Panel C: Focus on Asia and the Pacific

Panel D: Focus on the Americas

Panel E: Focus on Europe and Central Asia

Note: Regional estimates based on data gathered from 110 countries.
Source: Author calculations based on labour force surveys or similar national household surveys. Detailed sources are available in ILO, 2018.
Figure A.1.3. Share of formal employment by age groups and employment status within regions, 2016

Panel A: Africa

Panel B: Arab States Region

Panel C: Asia and the Pacific

Panel D: Latin America and the Caribbean

Panel E: North America

Panel F: Europe and Central Asia

Note: Regional estimates based on data gathered from 110 countries. Source: Author calculations based on labour force surveys or similar national household surveys. Detailed sources are available in ILO, 2018.
Figure A1.4. Employment status distribution – shown by age and income group globally and by region, 2016
Panel F: North America

Panel G: Europe and Central Asia

Source: Author calculations based on labour force surveys or similar national household surveys. Detailed sources are available in ILO, 2018.
A2. SWTS by region

Figure A2.1. Share of unemployed and employed population 15-29 years old in 34 low and middle-income countries by region

Panel A: Africa

Panel B: America

Panel C: Arab States Region

Panel D: Asia and the Pacific

Source: Calculations based on ILO SWTS. In the case of a country with two rounds of SWTS, the most recent year is used.

Note: Data that did not include information on formality were not included in the calculations. The graph shows formal employment, informal employment and unemployment as percentages of the total population that is economically active.
Figure A2.2. Employment status distribution - shown by age and region

Panel A: Africa

Panel B: Americas

Panel C: Arab States Region

Panel D: Asia and the Pacific

Panel E: Europe and Central Asia

Source: Calculations based on ILO SWTS. In the case of a country with two rounds of SWTS, the most recent year is used.

Note: Less frequent employment statuses, including being a member of a cooperative, are not depicted in the above graphs. Based on data from 34 low and middle-income countries.
Figure A2.3. Share of informal employment by education level (population 15-29 years old)

Panel A: Africa

Panel B: Americas

Panel C: Arab States Region

Panel D: Asia and the Pacific

Panel E: Europe and Central Asia

Source: Calculations based on ILO SWTS. In the case of a country with two rounds of SWTS, the most recent year was used.

Note: Missing values not included in the calculations. Based on 34 low and middle-income countries.
Figure A2.4. Funding sources by region (population 15-29 years old)

Panel A: Africa

Panel B: Americas

Panel C: Arab States Region

Panel D: Asia and the Pacific

Panel E: Europe and Central Asia

Source: Calculations based on ILO SWTS. In the case of a country with two rounds of SWTS, the most recent year was used.

Note: Incomplete data are not included in the calculation. Based on 34 low and middle-income countries.
### A3. Policy approaches to youth formality

Table A3.1. Policy approaches to youth formality

<table>
<thead>
<tr>
<th></th>
<th>Africa</th>
<th>Americas</th>
<th>Europe</th>
<th>Arab States</th>
<th>Asia</th>
<th>Total</th>
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<td>Total policy documents in YouthPOL</td>
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<td>221</td>
<td>7</td>
<td>104</td>
<td>485</td>
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<td>19</td>
<td>22</td>
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<td>68</td>
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<td>Is there an explicit strategy outlined for ensuring access to non-financial services?</td>
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<td>Is there an explicit strategy outlined for ensuring access to finance?</td>
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<td>29</td>
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<td>22</td>
<td>19</td>
<td>28</td>
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<td>Is there an explicit strategy outlined for enterprise start-ups for young people?</td>
<td>15</td>
<td>15</td>
<td>31</td>
<td>0</td>
<td>18</td>
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<td>Is there an explicit strategy outlined for promoting registration/compliance of existing enterprises in the informal economy?</td>
<td>1</td>
<td>5</td>
<td>4</td>
<td>1</td>
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</tr>
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<td>103</td>
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<td>Is there an explicit strategy for raising incentives for employers to recruit young people?</td>
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<td>10</td>
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<td>0</td>
<td>14</td>
<td>80</td>
</tr>
<tr>
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<td>10</td>
<td>52</td>
<td>0</td>
<td>14</td>
<td>80</td>
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<td>3</td>
<td>4</td>
<td>0</td>
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<td>Yes, on wage subsidies</td>
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<td>6</td>
<td>26</td>
<td>0</td>
<td>5</td>
<td>40</td>
</tr>
<tr>
<td>Yes, on waivers for social security contributions</td>
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<td>1</td>
<td>18</td>
<td>0</td>
<td>1</td>
<td>21</td>
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<tr>
<td>Yes, on other measures to reduce labour costs</td>
<td>1</td>
<td>1</td>
<td>13</td>
<td>0</td>
<td>8</td>
<td>23</td>
</tr>
<tr>
<td>No</td>
<td>4</td>
<td>7</td>
<td>8</td>
<td>0</td>
<td>4</td>
<td>23</td>
</tr>
<tr>
<td>Is there an explicit strategy outlined for incentives to promote the transition of informal young workers to the formal economy?</td>
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<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Is there an explicit strategy outlined for any other measures aimed to boost demand of labour for youth?</td>
<td>5</td>
<td>6</td>
<td>6</td>
<td>0</td>
<td>5</td>
<td>22</td>
</tr>
<tr>
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<td>7</td>
<td>16</td>
<td>0</td>
<td>11</td>
<td>45</td>
</tr>
</tbody>
</table>

*Source: YouthPOL, ILO (2017).*
<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
</table>
| Training contract modalities | • Special contracts: the objective is to promote workplace training for young people and as such these contracts do not create a legal commitment to the firm if the young employees are in a training programme.  
• Emphasis is placed on the training component of work tasks.  
• Certain countries, including Brazil, Colombia and Paraguay establish a minimum quota for apprenticeships, while other countries, including Peru, set an upper limit for the number of apprenticeships available.  
• In some countries, including Paraguay and Uruguay, firms that hire apprentices are provided with subsidies. |
| Training and labour experience programmes | • Intended for poor and vulnerable youth with little or no work experience and with limited labour market skills.  
• Technical training: approximately three months of theoretical training at a learning institution and three months of practical training at a firm. In some cases, both the first and second parts of training are organized by a firm.  
• Emphasis is placed on identifying the demands of the private sector. Training institutions must reach agreements with private sector firms in order to guarantee that the practical phase will be successful.  
• New generation of programmes: emphasis placed on soft skills and lifetime competencies. In some cases, entrepreneurship training is also included. |
| Employment subsidy programmes | • Subsidies are oriented towards increasing the demand for youth labour in private firms.  
• Sometimes the subsidy is provided exclusively to the firm, as is the case in Brazil, Mexico, and Panama, while in others, the young person employed receives part of the subsidy, as is the case in Chile.  
• Subsidies may be directed towards paying part of the cost of wages, in Brazil, Chile, and Panama, for example, or to offset social security contributions, as is the case in Chile, Colombia and Mexico.  
• For some programmes, including those in Colombia and Mexico, the subsidy is not paid at the beginning of an employment term because it is hoped that a time lag of payment will promote an extension in the length of employment duration. |
| Special regimes for young people | • Legislation has been introduced in some countries regarding special types of labour contracts for young people with no work experience.  
• In some cases, these special contracts involve subsidies so that the social benefits of young people are not reduced.  
• In other cases, including Paraguay and Peru, legislation that included alternate legal treatment of young employees was introduced in the past, but such measures were either not voted into law, or were repealed after their approval. |

Source: Dema and others, 2015.
Table A3.3. Examples of policy measures with subsidies to promote first job experiences – LAC region

<table>
<thead>
<tr>
<th>Measure</th>
<th>Description</th>
<th>Evidence</th>
</tr>
</thead>
</table>
| Programme for 40,000 first jobs Colombia (2015) Intended for young people | Eligibility:  
- High school and intermediate school graduates.  
- University graduates with minimal experience.  
Subsidy:  
- Firm: wage and social benefits for those hired.  
- Young employee: transport stipend  
- Duration: six months (participating firms must guarantee an additional six months for at least 60 per cent of the beneficiaries). | Between 47,000 and 52,000 young people were beneficiaries during 2009 – 2010. Impact: subsidy generates increased rates of employment and participation. |
| Youth employment subsidy Chile (2009) Intended for young people ages 18-24 | Eligibility:  
- Family of the young person must be classified as vulnerable.  
- Income must be less than CLP$360,000 (Chilean peso) per month.  
Subsidy:  
- Variable, but up to 30 per cent of the minimum wage – 20 per cent for the young person and 10 per cent for the firm.  
- The subsidy is reduced as wages increase and is no longer provided when an employee’s wage reaches CLP$360,000 per month. | |
| First job Mexico (2007) Intended for young people | Eligibility:  
- No previous formal work experience.  
Subsidy:  
- Firms: employer contributions to social security.  
- Maximum period: 12 months, subsidy is reduced as wages increase. There is a three-month lag in payment, meaning the subsidy begins in the employee’s fourth month.  
- In 2019, a new programme “Young People Building Their Future” was created. | |
| First Job Stimulus Programme Brazil (2003 – 2007) Intended for young people ages 16-24 | Eligibility:  
- No previous work experience.  
- Per capita family income must be less than half of the minimum wage.  
- Enrolled in basic or adult education.  
Subsidy:  
- Fixed amount of R$250 (Brazilian real) for six months for full-time employment and scaled proportionally for part-time employment. | Approximately 600,000 people were beneficiaries between 2003 and 2007. |

Source: Dema and others, 2015.
### Table A3.4: Examples of policy measures to increase the demand for “first jobs”

<table>
<thead>
<tr>
<th>Country</th>
<th>Policy/strategy</th>
<th>Feature/measure</th>
</tr>
</thead>
</table>
| China   | Employment Promotion Plan, 2011 – 2015                                           | • Provide social security subsidies for enterprises that employ college graduates.  
• Provide vocational training subsidies for enterprises that offer six months of training for recruited college graduates.  
• Encourage local governments to match local industry needs with those of college graduates by providing internship opportunities.  
• Offer a basic living subsidy during a trainee’s probationary period that will be paid for by the trainee department and local government.  
• Local governments prioritize the needs of SMEs that recruit a certain quota of college graduates by offering support through funding and discounted loans that are intended for technical development.  
• When small labour-intensive enterprises employ a certain number of previously unemployed college graduates, they become eligible for guaranteed small loans up to RMB2 million (Yuan), with discounted interest rates. |
| France  | Contrat de generation, 2013                                                       | • Grant aid to enterprises with less than 300 employees when employing a person 26 years old or younger, or a person with occupational disabilities 30 years old or younger, or, if retaining an older employee aged 57 or older. |
| Germany | Code of Social Law book II – basic security for jobseekers (Grundsicherung für Arbeitsuchende nach Sozialgesetzbuch II (SGB II)) | • Grant wage subsidies to employers if they employ individuals entitled to benefits. This measure helps with covering additional employer costs. |
| Greece  | Action Plan of Targeted Interventions to Strengthen Youth Employment and Entrepreneurship, 2013-2015 | • Stimulate employer demand for young people through enterprise support for the employment of highly specialized personnel, culturally-focused community service programmes, wage subsidies, including a programme for business grants, and the National Network of Immediate Social Intervention, which aims to tackle poverty by offering social, psychological and material support for those in need. |
| Hungary | Technical and Vocational Education and Training (TVET) reform in line with economic needs, 2011 | • Offer subsidies to employers for a student's completion of a student work contract. |
|         | Act CXLVII/2012 to amend certain laws necessary for the job security action plan 2012 | • Exempt employer from paying a vocational training contribution during the first two years of employment for the following categories of employees: those under the age of 25 who have been employed for less than 180 working days; for employees who were unemployed for at least six of the previous nine months; for employees returning from parental leave.  
• Reduce social contributions by 14.5 per cent, putting the rate for social contributions at 12.5 per cent for employees under the age of 25.  
• Reduce social contributions to zero for the first two years of employment for an employee under the age of 25 with less than 180 days of work experience.  
• Reduce social contributions to zero for the first two years of employment and increases it to only 12.5 per cent for the third year for those who were previously long-term unemployed and for those returning from parental leave. |
<table>
<thead>
<tr>
<th>Country</th>
<th>Policy/Measure</th>
<th>Description</th>
</tr>
</thead>
</table>
| Republic of Korea | Special Act on the Youth Employment Promotion (Presidential Decree No. 21889)  | - Allow for partial or full subsidizing of expenses incurred by a SME when employing young people or providing skills development training in the workplace.  
                        | Consolidated up to 2013, with an additional amendment in 2013                        | - Provide tax relief grants for public institutions and local public enterprises based on youth employment results as a performance indicator.  |
|                 | Comprehensive measures for youth employment 2013                              | - Provide wage subsidies of KRW800,000 (won) for social enterprises that employ young people who were previously unemployed.                  |
| Ukraine         | Decree No. 532/2013, Strategy for the state youth policy development for the period up to 2020 | - Establish cooperation between employers and educational institutions regarding first-time employment contracts for recent graduates.          |

*Source: YouthPOL, ILO (2017).*
Table A3.5: Examples of policies measures that provide incentives to formalize youth informal employment

<table>
<thead>
<tr>
<th>Country</th>
<th>Policy/strategy</th>
<th>Feature/measure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>• Raise awareness and disseminate information.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Provide tax incentives.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Undertake administrative reform.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Facilitate greater cooperation and coordination between relevant authorities,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>including tax inspectors.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Implement preventative policies regarding social security.</td>
</tr>
<tr>
<td>Italy</td>
<td>Employment Law n. 92 of 28 June 2012, (Legge 28 giugno 2012, n. 92 – Disposizioni</td>
<td></td>
</tr>
<tr>
<td></td>
<td>in materia di riforma del mercato del lavoro in una prospettiva di crescita)</td>
<td>• Stipulate that a single employer may not pay a worker more than EUR 2,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>in a given year if the worker is involved in sporadic work with multiple</td>
</tr>
<tr>
<td></td>
<td></td>
<td>employers that the worker earns less than EUR 5,000 total annually.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Stipulate that in the agricultural sector, this working scheme can only be</td>
</tr>
<tr>
<td></td>
<td></td>
<td>used in the case of work undertaken as seasonal employment by pensioners and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>by people younger than 25 who are also enrolled in secondary education or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>university studies.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Allows employers to pay workers for sporadic work with hourly “vouchers”.</td>
</tr>
<tr>
<td>Tunisia</td>
<td>The social contract of 2013</td>
<td>• Facilitate the progressive migration from the informal to the formal sector</td>
</tr>
<tr>
<td></td>
<td></td>
<td>by ensuring that vocational training is provided.</td>
</tr>
</tbody>
</table>

**Source:** YouthPOL, ILO (2017).

---

[8] Although young people are not mentioned explicitly in relation to the informal economy, the share of young people working in the informal economy is quite high. One can assume that they will be affected by this policy.
Table A3.6 Examples of policy measures to promote the start up of a first business by young people

<table>
<thead>
<tr>
<th>Country</th>
<th>Policy/strategy</th>
<th>Feature/measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambodia</td>
<td>National Policy on Cambodia Youth Development, 2011</td>
<td>• Promote and provide opportunities for young people to engage with small, medium and large enterprises and gain access to credit to start and expand their own businesses.</td>
</tr>
</tbody>
</table>
| China   | Employment Promotion Law 2011 – 2015                                          | • Reduce current business, city maintenance and construction taxes, educational surcharge and individual income tax, up to RMB 8,000 annually for three years for self-employed college graduates.  
  • Improve administrative fee waivers and offer other incentives, and facilitate market access to encourage entrepreneurship among college graduates.  
  • Promote the construction of incubators and support college graduates who leave school to work at internet start-ups.  
  • For college students at the incubators, enterprises provide training and career guidance, offer policy support, improve the entrepreneurship success rates and support the longevity of the enterprise. |
| Colombia| Law 375 of 1997 (Ley 375 de 1997 por la cual se crea la ley de la juventud y se dictan otras disposiciones) | • Support social solidarity economy and the creation of enterprise associations, cooperatives and all types of organizations that benefit young people. |
| Costa Rica| Action Plan, 2010 – 2013 (Pública de la Persona Joven y su Plan de Acción, 2010 –2013) | • Create guidelines but with few requirements, making it easier for young people to set up their own businesses. |
| Egypt   | Youth Employment National Action Plan, Summary 2010 – 2015                     | • Establish a one-stop-shop in each governorate while giving priority to the governorates with the highest rates of youth unemployment and is also linked to the Social Fund for Development. |
| Greece  | Law 3908/2011 – Aid for Private Investment to promote Economic Growth, Entrepreneurship and Regional Cohesion | • Allocate aid for virtually all costs (including operational) for five years from the start of a new business. Youth entrepreneurship is included in the aid scheme for special investment plans. |

*Source: YouthPOL, ILO (2017).*
### Table A3.7: Examples of policy measures to promote registration/compliance of existing enterprises in the informal economy operated by young people

<table>
<thead>
<tr>
<th>Country</th>
<th>Policy/strategy</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td>Youth Guarantee Implementation Plan, 2014 – 2020</td>
<td>• Provide a grant/subsidy for up to 12 months of social security contributions for self-employed young people up to 24 years old in order to limit informal work among this group and to support young people in professional careers.</td>
</tr>
</tbody>
</table>
| North Macedonia          | Action Plan for Implementation of the National Youth Strategy 2015              | • Strengthen labour inspections to tackle informal employment, especially among young workers.  
• Promote measures to move informal enterprises set up by young people to the formal economy, including financial and non-financial services.  
• With the cooperation of workers’ organizations in North Macedonia, young people, both those enrolled in school and those who have left school, should be informed about and made aware of their rights at work. |
| United Republic of Tanzania | National Youth Employment Action Plan (NYEAP), 2007 – 2010                       | • Objective: “Create an enabling environment that will augment the transformation of the informal sector into formal sector activities”.  
• Strategy: Review the legal framework to improve the formalization of informal sector businesses.  
• Actions: (1) Review the measures designed for the formalization of the informal sector "MKURABITA", also known as the Property and Business Formalization Programme (2) Conduct awareness raising and mobilization workshops on the aforementioned legal framework. |

*Source: YouthPOL, ILO (2017).*

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SCALING UP ACTION & IMPACT ON YOUTH EMPLOYMENT

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