



**Asia-Pacific
Economic Cooperation**



FINAL REPORT:

Public-Private Dialogue on Best Practices for the Transition of Economic Actors from Informal to Formal Economy

**APEC Small and
Medium Enterprises
Working Group
NOVEMBER 2024**



**Asia-Pacific
Economic Cooperation**

**Final Report:
Public-Private Dialogue on Best
Practices for the Transition of
Economic Actors from Informal
to Formal Economy**

APEC Small and Medium Enterprises Working Group

November 2024

APEC Project: SME 01 2023

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APEC#224-SM-04.2

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Executive Summary

Executive Summary

The Public-Private Dialogue on Best Practices for the Transition of Economic Actors from Informal to Formal Economy (PPD) was conducted under the APEC Small and Medium Enterprises Working Group's project SME 01 2023, with the goal of addressing the challenges posed by the informal economy across APEC economies. This project focused on solutions such as digitalization, policy incentives and multi-stakeholder collaboration to support the transition of informal economic actors into the formal economy.

The informal economy plays a significant role globally, encompassing over 50% of the world's workforce. Within the APEC region, informal employment varies widely, ranging from 25.8% to 80.2%, with economies showing high levels of informal economic activity. While the informal economy provides essential employment, it also brings significant challenges, such as lower productivity, reduced government revenue and heightened vulnerability for the workforce. The informal economy particularly impacts women, youth and rural populations, exacerbating social inequalities and hampering inclusive economic growth.

The report highlights that several factors contribute to the persistence of the informal economy, including regulatory barriers, high costs for transitioning to the formal economy and limited access to finance. Additionally, social and cultural factors, such as distrust in domestic institutions and reliance on informal networks, further perpetuate the informal economy.

Several case studies highlight successful strategies employed by APEC economies to address these challenges. For example, some have implemented digital platforms that streamline registration and provide access to social

security services. Others have utilized public procurement to drive the formal economy by simplifying tender processes for Micro, Small and Medium Enterprises (MSMEs). Gender-targeted initiatives have also empowered women entrepreneurs, making it easier for them to transitioning their businesses to the formal economy.

The PPD, held in 13-14 May 2024 in Arequipa, Peru, brought together experts from across APEC economies, private sector, international organizations and academia. Discussions focused on the importance of regulatory reform, financial inclusion and gender-sensitive approaches to promote the transition to the formal economy. Experts emphasized the importance of creating incentives to make the formal economy attractive, rather than relying on punitive measures.

The report makes several key recommendations. APEC economies are encouraged to invest in digital infrastructure to streamline the formalization process, making it more accessible and affordable. Financial incentives, such as tax breaks and improved access to credit, are vital in reducing the costs of transitioning to the formal economy for small businesses. Public-private collaboration is also essential in building capacity for businesses and workers to thrive in formal markets. Tailored policies for vulnerable groups, particularly women and youth, are necessary to ensure that this transition is inclusive. Finally, simplifying regulatory frameworks is crucial to lowering the bureaucratic barriers that prevent businesses from transitioning to the formal economy.

Moving forward, APEC economies are encouraged to prioritize digital tools and targeted programs that support vulnerable populations, enhance public-private partnerships and simplify regulations to create a more inclusive and accessible formal economy. These actions will help unlock the full potential of businesses and workers, contributing to sustainable and inclusive economic growth in the region.

Acknowledgments

“I would like to express my sincere gratitude to the experts, speakers, active participants, MoFA team members and volunteers, who contributed to this project. I am especially grateful to the ComexPerú team—Daniela Huertas and Sebastián Elías from Corporate Affairs—for organizing the PPD and preparing this report. Additionally, I would like to extend my appreciation to Daniel Najarro and Paulo Quequezana from the Economic Research team at ComexPerú for their research and contributions to the Preworkshop Report, as well as to Daniela Comitre and Ronald Vargas from PwC for designing and leading the workshop. Lastly, I would like to express my gratitude to Carlos Obando, Program Director and Nor Chahaya Binte Subari, Program Executive, for their valuable guidance”.

*Carolina Carranza
Project Overseer*

Background

Background

About Informal Economy

Global Context of the Informal Economy

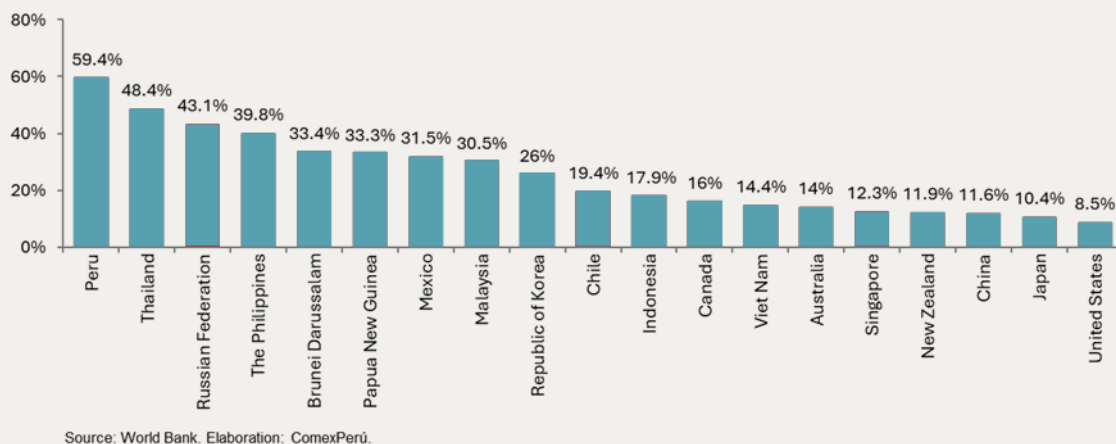
The informal economy is a complex and pervasive aspect of global economic systems, deeply affecting both developed and developing economies. The International Labour Organization (ILO) defines the informal economy as encompassing all economic activities by workers and units that are, in law or practice, not fully regulated by formal arrangements. This indicates that, although these activities exist within the scope of legal frameworks, the law is either not enforced, or the compliance processes may be excessively burdensome or costly for participants.

Globally, the informal economy accounts for over 50% of the world's workforce and more than 90% of micro and small enterprises. In emerging markets and developing economies, the informal sector represents about one-third of Gross Domestic Product (GDP) and 70% of total employment, with self-employment comprising a significant portion of the informal workforce. The informal economy is linked to slower productivity growth, weaker human capital development, reduced access to financial resources and lower fiscal capacity, which all hamper progress toward the Sustainable Development Goals (SDGs).

Informal Economy in APEC Economies

The informal economy is prevalent across all APEC economies, though it varies significantly in scale. According to data from the World Bank's Informal Economy Database and the ILO, the share of informal employment in the APEC region ranges from 25.8% to 80.2%. The contribution of the informal sector to GDP is also substantial, with economies such as Peru (59.4%); Thailand (48.4%); Russia (43.1%); and the Philippines (39.8%) having high levels of economic activity driven by their informal sectors. These figures highlight the critical role that the informal economy plays in the region, while also underscoring the need for targeted strategies for transitioning to the formal economy.

Figure 1: Estimates of informal output (% of official GDP) in 2020



Despite its prevalence, the informal economy poses significant challenges to sustainable development and economic growth:

- **Lower Productivity:** Informal businesses often operate with limited access to capital, advanced technology and formal markets, resulting in lower productivity compared to formal enterprises.
- **Vulnerability:** The workforce in the informal sector frequently lacks access to essential services, such as social protection, healthcare and employment benefits, making it more susceptible to economic shocks.
- **Reduced Government Revenue:** The informal economy limits tax collection, reducing the resources available for public services and infrastructure development.
- **Social Inequality:** The informal economy disproportionately affects marginalized groups such as women, youth and rural populations, exacerbating income and gender inequalities.

Key Drivers of the Informal Economy

Several factors contribute to the persistence of the informal economy across APEC economies:

- **Regulatory Barriers:** Complex, time-consuming and costly administrative processes discourage informal businesses from registering and complying with tax and labor regulations. Bureaucratic inefficiencies, combined with corruption in some economies, further drive the informal economy.

- **Costs of the Transition to the Formal Economy:** The perceived and actual costs of the transition of a business to the formal economy—such as tax compliance, labor law adherence and registration fees—often outweigh the perceived benefits for many informal enterprises.
- **Limited Access to Finance:** Informal businesses typically lack access to formal financial services, which constrains their ability to grow, invest, or innovate. Without access to credit and other financial tools, many remain trapped in a cycle of low productivity.
- **Social and Cultural Factors:** In certain economies, cultural norms and distrust in domestic institutions perpetuate a preference for operating in the informal economy. Additionally, the informal economy can also be a survival strategy in areas with weak institutional governance or where formal job opportunities are limited.

About the APEC project

Overview of the APEC Project

The project aligns with APEC's commitment to strong, balanced, secure, sustainable and inclusive growth under the Putrajaya Vision and Aotearoa Plan of Action, by encouraging the transition of economic actors from the informal to the formal economy.

This document represents the final report of the APEC project, which consists of three main outputs. The report you are reading is the final output of this project.

1. Pre-Workshop Research Report: This report compiled best practices and initiatives from APEC economies through an extensive review of literature, publicly available information and voluntary case submissions from economies. The selected cases showcase how different economies have implemented diverse policies to address various dimensions of the informal economy. These policies include measures aimed at enhancing productivity, reducing entry barriers for smaller businesses by lowering contributions, simplifying administrative processes through digitalization (such as tax declarations and

social security payments) and introducing innovative approaches for promoting and providing incentives to encourage transition.

2. APEC PPD on Best Practices for the Transition of Economic Actors from Informal to Formal Economy: Held on 13-14 May 2024, at the Cerro Juli Convention Center in Arequipa, Peru, during the SOM 2 meetings. The PPD brought together key stakeholders from the public and private sectors, academia and international organizations. Participants discussed the challenges and shared insights on successful strategies for transitioning to the formal economy.

3. Final Report: This document synthesizes the findings and insights gathered from the Pre-Workshop Research Report and the discussions held during the PPD, providing a comprehensive summary and recommendations for the APEC economies.

Objectives of the APEC Project

The primary objective of this project was to enhance the capacity of APEC economies to design and implement policies that promote the transition of informal economic actors to the formal economy by:

- **Providing an Overview:** Offering a comprehensive analysis of the trends, emerging issues and the scope of the informal economy across the APEC region.
- **Showcasing Best Practices:** Highlighting successful cases, best practices and challenges in the design and implementation of policies, including those related to digitalization, inclusive trade, workforce development and environmental and fiscal management.
- **Promoting Dialogue:** Facilitating discussions between the private sector, public institutions and academia to foster collaboration and knowledge sharing.

Case Studies

Case Studies

The Pre-Workshop Research Report and the PPD on the Transition of Economic Actors from Informal to Formal Economy provided a variety of case studies illustrating best practices and challenges faced by APEC economies. These examples, gathered from both research and active stakeholder participation, demonstrate diverse approaches to facilitate the transition to the formal sector and highlight the importance of digitalization, incentives and regulatory reform.

Further details on these case studies can be found in the Pre-Workshop Research Report (Annex I) and the Summary of the PPD, as outlined in the next section of this document. In the interest of brevity, this report highlights six key case studies that illustrate the variety of approaches taken by APEC economies:

1. Peru: Streamlined Business Registration and Incentives for MSMEs

Peru's informal economy is one of the largest in the APEC region, contributing over 50% to its GDP. Recognizing the critical situation, the government has implemented multiple initiatives to make it easier for Micro, Small and Medium Enterprises (MSMEs) to transition into the formal sector. Through the Mi Empresa program, Peru simplified the business registration process, allowing MSMEs to register digitally, lowering the cost of registration and providing access to tax breaks for newly formalized businesses. This initiative also includes access to microcredit programs, enhancing the financial inclusion of small enterprises.

2. Indonesia: Digital Transformation for MSME Transition to the Formal Economy

Indonesia has been a pioneer in leveraging digital tools for facilitating the transition of its informal sector. The TRANSFUMI initiative offers MSMEs an easy-to-use online portal where businesses can apply for a Business Identification Number (NIB), streamlining the formalization process. The use of digital platforms has significantly increased registration rates, particularly in rural areas where access to traditional government services is limited. In addition to registration, Indonesia provides digital tools for tax declaration and social security contributions, further simplifying compliance for small enterprises.

3. Chile: Public Procurement and MSME Inclusion

Chile has focused on public procurement as a key driver of formalization. The ChileCompra platform has enabled MSMEs to access public contracts, providing them with opportunities to grow within formal channels. To encourage MSMEs to register and compete for public tenders, Chile simplified procurement procedures and introduced training programs that help small businesses understand the benefits and requirements of formalization. This approach has expanded MSME participation in government contracts, fostering greater economic inclusivity.

4. The Philippines: Empowering Women Entrepreneurs

The Philippines has adopted gender-focused formalization strategies, particularly addressing the economic empowerment of women in the informal sector. Initiatives under the Gender and Development (GAD) program support women entrepreneurs by simplifying registration processes for female-led businesses and providing them with targeted incentives, such as access to specialized microloans and financial literacy training. This has helped increase the number of formal businesses led by women, promoting gender equality in economic participation.

5. People's Republic of China: Digital Platforms for Workforce Registration

People's Republic of China's approach to the transition to the formal economy heavily relies on the use of digital tools, particularly in urban centers. The government developed a centralized digital platform that allows workers and businesses to register with the social security system and manage their tax obligations. The My Tax app has been a game-changer in reducing the administrative burden of transitioning to the formal economy, especially for self-employed individuals and gig workers. By simplifying these processes, People's Republic of China has seen a substantial increase in tax compliance and participation in the formal economy workforce.

6. Australia: Apprenticeships and Entrepreneurship Support

Australia has implemented programs such as the Apprenticeships Incentive System and Self-Employment Assistance Policy, focusing on transitioning the informal workforce into formal employment through training and financial support. These programs offer wage subsidies to employers who formalize apprenticeships and provide start-up assistance to aspiring entrepreneurs, helping them register their

businesses and access financial services. The dual focus on employability and entrepreneurship has successfully formalized a significant segment of the labor market within the informal economy, particularly the young workforce.

Common Themes Across Case Studies

Several key themes emerge from the analysis of these case studies:

- **Digital Solutions:** Across economies, digitalization has proven to be a powerful tool for simplifying the formalization process, whether through online registration, tax compliance systems, or social security enrollment.
- **Incentives for Formalization:** Providing financial incentives such as tax breaks, access to microloans and simplified procurement processes has been effective in encouraging businesses to transition to the formal economy.
- **Targeted Support for Women and Vulnerable Groups:** for Women and Vulnerable Groups: Gender-focused initiatives in economies have highlighted the necessity for policies that specifically support women and other vulnerable groups in the informal economy.
- **Public-Private Partnerships:** Collaboration between governments and the private sector is crucial in driving formalization efforts, especially through public procurement and workforce development programs.

Conclusion

The case studies presented in the Pre-Workshop Research Report and discussed during the PPD illustrate the diverse strategies employed by APEC economies to facilitate the transition of informal economic actors to the formal economy. While digitalization, regulatory simplification and targeted incentives are common elements, each economy's approach is uniquely tailored to its specific challenges.



Summary of the Public-Private Dialogue

Summary of the Public-Private Dialogue

The APEC PPD on Best Practices for the Transition of Economic Actors from Informal to Formal Economy was held on 13-14 May 2024, in Arequipa, Peru. The event brought together representatives from APEC economies, international organizations, private sector and academia to discuss challenges and effective strategies for transitioning informal economic actors into the formal economy. Key themes included regulatory reforms, digital solutions, financial inclusion and gender-specific approaches to the transition to the formal economy. See PPD program in Annex II.

Keynote Presentations

The keynote presentations in the APEC PPD were delivered by prominent experts from the World Bank, the ILO and the APEC Secretariat. These presentations offered a comprehensive overview of the informal economy across the region, defining the key challenges, trends and emerging issues related to this sector. The session laid the groundwork for understanding the root causes of the informal economy and the potential strategies for the transition to formal economy.

1. Mr. Norman Loayza: A Better Business Environment to Resolve the Informal Economy

Norman Loayza is the Director of the Global Indicators Group at the World Bank. Loayza's presentation focused on the broad scope of the informal economy in developing economies, emphasizing the global scale of the issue, particularly in regions such as Latin America, Sub-Saharan Africa and Asia. He noted that the informal economy accounts for a significant portion of employment in these regions, reaching as high as 90% in some economies.

- **Widespread Informal Economy:** Loayza highlighted that the informal economy is both a cause and symptom of underdevelopment. *“Informality is a widespread feature of most developing economies, contributing to their stagnation in terms of productivity and economic growth”* he explained.
- **Economic Impact of Formalization:** He presented research that suggests that transitioning to the formal economy could result in a 70% increase in GDP per worker. *“When two-thirds of a workforce transitions to formality, GDP per worker can grow by up to 70%. This represents a massive opportunity for economic advancement in many APEC economies”* Loayza noted.

Policy Recommendations: Loayza stressed the need to make the formal economy attractive through two primary strategies: reducing the cost of formalization and improving the benefits of formal status.

“The way to address informality is not by punishing informal businesses, but by making formalization beneficial through better access to finance, markets and public services (...) If you try to eliminate informality by force, you will only create unemployment and social conflict. The goal must be to make formality an attractive and accessible choice”.

2. Mr Carlos Kuriyama: Transitioning to the formal economy

Carlos Kuriyama is Director of the Policy Support Unit (PSU) at the APEC Secretariat. His presentation provided insights into the varying levels of informal economy across APEC economies, with informal output can range from 59.4% of GDP in economies like Peru to 8.5% in the United States. He discussed the challenges that informal economy presents, including lower productivity, poverty and limited government revenues.

- **Vulnerability of Informal Workforce:** Kuriyama highlighted the precariousness of employment within the informal economy, where the workforce lacks access to social safety nets and is more susceptible to economic shocks. He stated, *“Informality is directly linked to higher levels of poverty, as informal workers make significantly less than their formal counterparts”*.

- **Bureaucratic Barriers:** He identified bureaucratic barriers, regulatory complexity and corruption as significant causes of the informal economy. *“For many small businesses, the costs of regulatory compliance are so high that they prefer to remain informal, even though it limits their growth potential”* Kuriyama noted.

Policy Recommendations: Kuriyama emphasized the necessity for simplified tax regimes, improved access to finance for MSMEs and more flexible labor markets. *“To promote formalization, governments must reduce administrative burdens, simplify compliance and provide tangible benefits, such as access to credit and social protection”*.

“Creating an environment where the benefits of formalization clearly outweigh the costs is crucial to transitioning informal economic actors into the formal sector.”

3. Mr Frédéric Lapeyre: Transition from the informal to the formal economy. Challenges and pathways:

Frédéric Lapeyre is the Director of the ILO Priority Action Programme “Formalization”. Joining virtually, Lapeyre provided an in-depth analysis of the global state of the informal economy, emphasizing that nearly 60% of the world’s workforce operates within this sector. He focused on ILO Recommendation 204, which outlines the need for integrated strategies to promote labor formalization.



- **The Informal Economy as a Barrier to Development:** Lapeyre described informal economy as a major obstacle to sustainable development and social justice. *“Mass informal employment is a root cause of poverty and inequality and addressing it requires transformative change”* he emphasized.
- **Heterogeneity of Informal Employment:** He pointed out that informal employment is highly diverse, spanning from undeclared work in the formal economy to informal jobs within small, unregistered enterprises. Lapeyre stressed that this diversity makes it difficult to create one-size-fits-all solutions. *“Policymakers need to consider the complex nature of informal employment and develop targeted policies to address each segment”* he noted.

Policy Recommendations: Lapeyre advocated for an integrated policy approach that combines incentives for transitioning to the formal economy with enforcement mechanisms. He stressed the importance of social protection, access to education and the provision of public services. *“The transition to formality is not just about punitive measures—it must be linked to increasing productivity, creating decent work and fostering social justice,”* he explained.

“Formalization is not an end in itself—it is a means to achieving inclusive development, decent work and social justice. It requires a comprehensive approach, combining incentives and enforcement”.

Key Takeaways from the Keynote Presentations

- **Widespread Informal Economy:** All three speakers agreed that informal economy is prevalent across the APEC region, with significant variations among different economies. Informal economy is both a symptom and a cause of underdevelopment, contributing to lower productivity, reduced government revenue and increased poverty.

- **Incentives for Transitioning to the Formal Economy:** The transition to the formal economy should not be pursued through punitive measures, but rather by creating an attractive environment that highlights the benefits of the transition to the formal economy for businesses and workers. Access to finance, public services and simplified regulations are critical components of this strategy.

- **Integrated Policy Approach:** The transition to the formal economy requires a multifaceted approach that includes labor market reforms, education and skills development, social protection and institutional support. A coordinated effort among government agencies and the private sector is essential.

Multistakeholder Panel Discussion

The second panel of the APEC PPD brought together perspectives from the private sector, public sector, international organizations and academia. Moderated by Carlos Kuriyama, Director of the PSU at the APEC Secretariat, the panel explored challenges and innovative ideas for promoting the transition from the informal to the formal economy. The discussion also examined whether the policy goal should focus on transitioning to the formal economy or adapting to the informal economy to foster positive impacts.

1. Mr Chalee Khansiri, Executive Director, International Industrial Economics Division, Ministry of Industry, Thailand

Big Data and Technology in Facilitating the Transition to the Formal Sector

Chalee Khansiri highlighted the importance of big data and technology in facilitating the transition from informal to formal economic activities. He emphasized that the informal sector plays a significant role in Thailand's economy, particularly in the manufacturing and service sectors. However, the lack of accurate data and technological integration creates challenges for transitioning to the formal economy.



- **Big Data Challenges:** Chalee noted the difficulty in collecting accurate data on informal activities, especially in sectors like recycling. He explained that informal workers often lack the technical knowledge and tools to properly manage waste, which impacts their ability to transition to the formal economy. *“Big data is a challenge, especially for tracking informal activities. Accurate data collection is essential for understanding production and labor dynamics,”* he said.

- **Technology and Innovation:** Chalee emphasized the role of Industry 4.0 and digitalization in enhancing the transition to the formal economy. He advocated for greater capacity building for informal workers, enabling them to integrate with formal markets using technological tools. *“Digitalization is key for informal workers to advance, but we need to provide them with the right education and incentives,”* he added.



We must raise awareness among informal workers about the benefits of transitioning to the formal economy, supported by technology and incentives such as tax reductions”.

2. Ms Heidi Rodrich, Social Protection Coordinator, United Nations Development Programme (UNDP), Peru

Social Protection and Economic Inclusion

Heidi Rodrich discussed the role of social protection policies in facilitating the transition of informal workers to the formal economy. She explained that poverty and the informal economy are deeply interconnected in Peru, where 86% of micro and small enterprises operate informally. Rodrich called for a holistic approach that addresses the socio-economic vulnerabilities of workers within the informal economy.

- **Heterogeneity of Informal Workers:** Rodrich stressed that informal workers are not a homogenous group, and policies must consider the diversity of experiences, including gender, education and migration status. “Not every informal worker is poor and not every poor person is informal. We need targeted policies that address this diversity” she noted.

- **Social Protection Expansion:** Rodrich advocated for expanding social protection services, such as healthcare and financial inclusion programs, to create incentives for transitioning to the formal economy. She mentioned ongoing UNDP initiatives aimed at strengthening value chains and improving financial literacy among informal workers.

“The transition to formality is a gradual process and we need to ensure that social protection services are in place to support workers through this journey”.

3. Mr Luis Chau, CEO, Preauth

Trust and Financial Inclusion for SMEs

As an entrepreneur, Luis Chau shared his insights on the mistrust that exists between informal businesses and formal institutions, particularly within financial systems. He introduced Preauth, a fintech solution that provides alternative collateral management tools to help MSMEs in accessing credit, thereby encouraging their transition to the formal economy.

- **Mistrust and Lack of Awareness:** Chau emphasized the “mistrust gap” between informal entrepreneurs and formal financial institutions, which often prevents informal businesses from accessing credit. “Many informal businesses don’t trust the formal financial system and they are also unaware of the benefits of formalization” he explained.

- **Technological Solutions:** Preauth's technology enables MSMEs to offer alternative forms of collateral, such as future assets or digital wallets, to secure loans. This innovation has been key in helping previously rejected borrowers gain access to financing. *"We need to redefine what constitutes collateral, using technology to expand financial inclusion,"* Chau stated.



Closing the mistrust gap and providing innovative financial tools are crucial steps in formalizing the informal economy”.

4. Mr Justin Kwan, Senior Program Manager, APEC-Canada Growing Business Partnership, Asia Pacific Foundation of Canada

Capacity Building and Policy Leadership for MSMEs

Justin Kwan highlighted the importance of human capital development in the transition to formal economy, particularly through capacity-building initiatives and policy leadership. He shared insights from the APEC-Canada Growing Business Partnership, which focuses on improving MSME performance through training, mentorship and policy reform.

- **Behavioral Mindset:** Kwan stressed the importance of changing the mindset of informal business owners to help them see the benefits of the transition to the formal economy. *"We need to show informal businesses that the benefits of formalization outweigh the costs and this starts with financial inclusion,"* he noted.

- **Mentorship and Local Partnerships:** Kwan discussed the role of mentorship programs, particularly for women entrepreneurs, in guiding informal businesses toward the formal economy. He also emphasized the importance of local-level engagement and partnerships to ensure that policies address the specific needs of workers within the informal economy.

Mentorship programs and targeted capacity-building efforts can help informal businesses transition to the formal economy by providing them with the tools and confidence they need”.

Key Takeaways from the Panel Discussion:

- **Big Data and Technology:** Collecting accurate data on informal economic activities is essential for creating effective policies. Technology and innovation can bridge the gap between informal and formal economies by providing workers with the tools they need to thrive in a formal environment.
- **Social Protection:** Expanding social protection services and financial inclusion programs is crucial for reducing vulnerability and incentivizing informal workers to transition to the formal economy.
- **Financial Inclusion:** Mistrust between informal businesses and financial institutions is a major barrier to the transition to the formal economy. Technological innovations in collateral management can help bridge this gap, enabling more MSMEs to access credit.
- **Human Capital Development:** Capacity-building initiatives, such as mentorship and training programs, are critical for empowering informal workers and guiding them toward formal economic participation.

Showcasing Policy Maker Initiatives (1/2)

This panel session focused on sharing case studies and policy initiatives from People’s Republic of China; the Philippines; and the United States. The panelists discussed their respective economies strategies for promoting flexible work arrangements, supporting women’s economic empowerment and utilizing digitalization to empower small and medium enterprises (SMEs) and informal economic actors.



1. Rajesh Nayak, Assistant Secretary for Policy, Department of Labor, United States

Presentation Title: “Making Flexible Work, Quality Work”

Rajesh Nayak presented the Department of Labor’s approach to balancing flexibility in work arrangements with the need to ensure that informal workers gain access to formal protections. He emphasized that while the United States enjoys a high rate of formal employment, there has been a growing demand for informal, flexible work arrangements in recent years.

- **Balancing Flexibility and Formalization:** Nayak discussed the tension between informal work’s flexibility and the protections offered by formal employment. He highlighted the growing trend of informal work arrangements, particularly among women, minority groups and individuals with caregiving responsibilities. *“In the United States, workers are increasingly seeking the benefits of informality, like flexibility, but this can come at the cost of core protections like minimum wage and unemployment insurance,”* he explained.

- **Two-Pronged Approach:** The United States is employing both regulatory and voluntary measures to support the transition to the formal economy. Regulatory efforts include using a six-factor test to determine employee status, while local-level pilots are testing flexible work platforms that allow informal workers to gain access to formal benefits without compromising their need for flexibility. *“Our goal is to show that formalization and flexibility don’t have to be in conflict,”* Nayak stated.

2. Mr Macario T. Jusayan, Chief Gender and Development Specialist, Philippine Commission on Women

Presentation Title: “Supporting Women’s Economic Empowerment (WEE)”

Macario Jusayan presented the Great Women Project from the Philippines, which focuses on fostering inclusive and sustainable economic growth for women entrepreneurs. The project supports women’s micro-enterprises through training, access to finance and policy advocacy.

- **Great Women Project:** The project, launched in 2009, has trained over 13,000 women and provided assistance to over 800 women-led micro-businesses. The second phase of the project, which began in 2015, focuses on scaling up women-led enterprises, particularly in high-growth sectors. *“The Great Women Project has helped establish the Great Women brand and improve product development, business management and leadership among women entrepreneurs,”* Jusayan noted.

- **Key Achievements:** Through the project, women micro-entrepreneurs gained access to technical assistance, certifications and expanded market opportunities. The project also facilitated the inclusion of women in domestic economy-wide councils and policy dialogues. *“Our goal is to create an enabling environment where women-led businesses can thrive, scale up and contribute to sustainable economic growth”.*

3. Mr Haitao Li, Chief of Entrepreneurship and Innovation Division, SME Bureau, Ministry of Industry and Information Technology, People’s Republic of China

Presentation Title: “Digitalization and Technology Empowerment”

Mr Haitao Li discussed People’s Republic of China’s initiatives to use digital platforms and technology to empower MSMEs and individual economic actors, particularly in rural areas. His case studies showcased how digitalization has transformed the traditional handicrafts industry and food delivery services in People’s Republic of China.

- **Miao Embroidery Artisans:** One of the key examples shared by Li was the digital empowerment of the Miao embroidery artisans in Guizhou Province. By creating a digital platform that connects these artisans to the global market, the government has enabled them to preserve their cultural heritage while improving their income. The platform features a Traditional Pattern Database with over 80,000 designs and a Minority Artisan Database, which provides profiles of over 18,000 artisans.

- **Food Delivery Platform “E Le Ma”:** Another example was People’s Republic of China’s leading food delivery platform E Le Ma, which supports local street vendors and micro-entrepreneurs by providing them access to online customers. The platform also helps merchants access small-scale loans and digital business tools.

Digitalization has created new economic models for small businesses and individual entrepreneurs, giving them access to financial services and expanding their reach beyond local markets”.

Key Insights from the Panel:

- **Flexible Work with Formal Protections:** The United States is experimenting with innovative approaches that allow for flexible work arrangements while ensuring workers have access to formal benefits, offering a model for economies where informal work is on the rise.

- **Women’s Economic Empowerment:** The Philippines’ Great Women Project demonstrates the importance of providing targeted support to women entrepreneurs through capacity building, market access and policy advocacy. This case showcases how gender-responsive policies can drive the formal economy and foster inclusive growth.

- **Digital Empowerment of MSMEs:** People’s Republic of China’s use of digital platforms to facilitate the transition of small businesses and individual economic actors to the formal economy highlights the transformative power of technology. By connecting rural artisans and local vendors to global and online markets, digitalization is opening new pathways for transitioning to the formal economy.

Showcasing Policy Maker Initiatives (2/2)

This section of the APEC PPPD highlighted successful initiatives from Hong Kong, China; Russia; and Chinese Taipei; with a focus on youth employment, self-employment through digitalization and financial inclusion for MSMEs. Each case illustrated different strategies to promote the transition from informal to formal economic participation.

1. Mr Hao-Ming Chen, Section Chief, Workforce Development Agency, Ministry of Labor, Chinese Taipei

Presentation Title: “Youth Stable Employment Program for First-Time Job Seekers”

Hao-Ming Chen began by outlining the challenges faced by first-time job seekers in Chinese Taipei, particularly in the aftermath of the COVID-19 pandemic, which led to an increase in youth unemployment rates. In response, the Youth Stable Employment Program was introduced, integrating two previously separate initiatives: the Youth Employment Awarding Program and the Job Seeking Allowance Program.

- **Target Group:** The program specifically targets non-student youth aged 15-29 who are seeking their first job and have not been employed for at least 90 consecutive days. *“The program aims to assist applicants in finding a stable full-time job and prevent them from becoming long-term unemployed or resorting to informal work,”* Chen explained.
- **Financial Support:** Applicants can receive a Job Seeking Allowance of USD 5,000 per month for up to three months, if they meet minimum job-seeking requirements. Additionally, financial incentives of up to USD 45,000 are provided for those who secure and maintain stable employment.
- **Results:** In the first nine months of implementation, over 10,000 youth participated, with 65% receiving the job-seeking allowance and around 20% securing stable employment. Chen emphasized the importance of promoting government resources to help young people in transitioning to formal economy.



2. Ms Yulia Kostevich, Private Sector Advisor in SMEWG APEC, Russia / Mr Kirill Chernovol, Researcher, Russian Foreign Trade Academy, Russia

Presentation Title: “MyTax App / Public Policy Approach on Self-Employment and Mitigation of Labor Shortage”

Yulia Kostevich and Kirill Chernovol presented Russia’s MyTax App, a digital platform aimed at facilitating formal self-employment by simplifying tax registration and payment processes for micro-entrepreneurs.

- **Digital Registration:** Kostevich explained that registration through the MyTax is a swift process, requiring users to provide their mobile number, scan their passport and take a photograph. Taxes are automatically calculated and deducted at a rate of 4% for individual services and 6% for services provided to businesses.

- **Expansion and Impact:** Launched in 2019, the program began as a pilot in four regions in Russia and has since expanded to 3.8 million users within the first year, reaching 9 million self-employed users by 2023. The app has been particularly effective during the COVID-19 pandemic, enabling individuals find additional income opportunities through formal channels.

- **Addressing Abuse:** Kirill Chernovol highlighted the challenges faced in preventing companies from exploiting the tax regime by rehiring employees as self-employed contractors to avoid taxes. To address this issue, a digital tool was developed to identify such abuses and currently, less than 1% of companies engage in these practices.

3. Mr Nelson Chow, Head of Financial Market Infrastructure Service, Hong Kong Monetary Authority, Hong Kong, China

Presentation Title: “Commercial Data Interchange (CDI)”

Nelson Chow presented the Commercial Data Interchange (CDI) of Hong Kong, China, a financial data infrastructure designed to facilitate financial inclusion for MSMEs by streamlining the credit application process through data sharing.

- **Inclusive Finance:** Chow emphasized that CDI was built to assist banks in extending credit to MSMEs by providing access to alternative data, such as payment records from retailers and import/export declarations. *“The idea is to allow banks to connect to data platforms that provide authentic, real-time data, reducing the need for paper-based documentation and manual investigations”.*
- **Blockchain for Data Security:** The platform uses blockchain technology to ensure data immutability and security. Chow explained, *“We don’t store the data but only act as a bridge between data providers and banks. This ensures trust and minimizes disputes”.*
- **Impact:** With 13 data providers and 26 banks already connected to CDI, the platform has supported numerous MSMEs in Hong Kong, China, particularly during the COVID-19 pandemic. Success stories include a small cookie shop that secured a loan to stock up on raw materials, as well as a gaming accessories shop that expanded in response to the surge in demand for home entertainment.

Key Insights from the Session

This session highlighted three successful initiatives that demonstrate the power of digital tools and government policies in transitioning informal workers and MSMEs into the formal economy. Each case emphasized the importance of lowering barriers to entry and creating supportive infrastructure to ensure long-term sustainability in the formal sector.

Private Sector Initiatives That Promote the Transition to a Formal Economy

This panel, moderated by Orlando Marchesi, Senior Partner at PwC Peru, featured leaders from ABAC Canada, ABAC Australia, Visa Inc. and Walmart who shared insights on how the private sector can play a pivotal role in promoting the transition to the formal economy. The discussion focused on digital solutions, public-private partnerships, workforce development and financial inclusion as critical strategies for transitioning the formal economy.



1. Ms Jan De Silva, ABAC Canada, Canada-ASEAN Business Council Co-Chair

Digital Platforms for the transition to the Formal Economy

Jan De Silva emphasized the role that digital platforms can play in facilitating the transition from informal to formal economies across APEC. She highlighted how digitalization not only simplifies processes but also creates new opportunities for informal workers and small businesses to participate in global markets.

- **Digital Economy and Informal Economy:** De Silva noted the growing role of platforms like Uber, InDrive and Airbnb in creating formal structures for workers within the informal economy. She discussed how platforms such as Airbnb in Chile have revealed a significant potential to facilitate this transition, where 84% of properties listed in Santiago were previously part of the informal economy. *“These platforms are creating pathways to formalization by offering incentives and leveraging data to help informal actors understand the benefits of entering formal markets,”* she explained.
- **Support for SMEs:** De Silva also referenced the success of Shopify, a Canadian digital platform, which has enabled millions of small businesses globally to establish formal online storefronts. This platform exemplifies how digital tools can help MSMEs transition from the informal to the formal economy by providing access to markets and financial services.

“Digital platforms like Shopify and Airbnb are showing us that there’s significant potential for formalizing informal businesses by connecting them to global markets and offering them tangible benefits for formalization”.

2. Ms Gabby Costigan, ABAC Australia, Group Managing Director, Business Development, BAE Systems

Workforce Formalization and Gender Inclusion

Gabby Costigan discussed the role of the private sector in making formal employment more attractive to workers, particularly focusing on gender inclusion and the

importance of workforce development. She emphasized the need for workplace models that reward workers adequately and offer career development opportunities.

- **Private Sector’s Role in Workforce Formalization:** Costigan noted that the private sector must create environments where formal employment is both rewarding and sustainable. “Companies need to provide training, fair remuneration and clear career pathways to encourage informal workers to transition into formal roles,” she said.
- **Gender Focus:** She stressed the importance of supporting women in the workforce, pointing out that women are disproportionately represented in the informal economy and are particularly vulnerable. “Formalization must offer protections and opportunities for women, including equal pay, flexible working arrangements and access to finance,” Costigan emphasized.

“To attract women to formal employment, we need to address the inequalities they face, offer flexible work policies and ensure they can access the financial services they need to grow their businesses”.

3. Ms Cristina Müller, Senior Director Government Engagement – Andean Region, Visa Inc.

Financial Inclusion and Digital Payments

Cristina Müller shared how Visa is promoting financial inclusion for small businesses and informal workers through digital payment solutions. She highlighted Visa’s efforts to provide tailored financial products and education to help MSMEs transition to the formal economy.

- **Digital Financial Tools:** Visa’s Tap-to-Phone technology allows small merchants to accept digital payments using only a smartphone, which has significantly reduced the costs associated with operating in the formal economy. “*This technology is helping millions of small businesses enter the formal economy by enabling them to accept digital payments,*” she explained.

- **Agricultural Focus:** Müller highlighted Visa’s Agrocard, a specialized credit product for agricultural workers, which aligns payment cycles with crop production periods. This product allows informal agricultural workers to access formal financial systems tailored to their specific needs.

“By creating career pathways for entry-level workers and integrating SMEs into our supply chain, we’re helping drive formalization across the board”.

4. Mr Christian Gomez, Director of Global Government Affairs – Latin America, Walmart

Supply Chain Integration and Workforce Development

Christian Gomez discussed Walmart’s role in integrating small and medium-sized enterprises (SMEs) into its global supply chain and emphasized the company’s efforts to develop entry-level workers through on-the-job training and skills development.

- **SME Engagement:** Gomez highlighted Walmart’s Growth Summit, which connects hundreds of SMEs to Walmart’s supply chain. He explained that this initiative has helped SMEs to transitioning their operations to the formal economy by adhering to Walmart’s rigorous standards for procurement, licensing and quality. *“Our goal is to ensure that SMEs can access formal markets through partnerships with companies like Walmart,”* he said.
- **Workforce Development:** Gomez also discussed Walmart’s focus on training entry-level workers, providing them with opportunities to develop digital and soft skills. He pointed to Walmart’s Live Better U program, which offers free college education to its employees, helping them advance their careers within the formal economy.

“By creating career pathways for entry-level workers and integrating SMEs into our supply chain, we’re helping drive formalization across the board”.

Key Insights from the Panel

The panel underscored the significant role the private sector plays in facilitating the transition of economic actors to the formal economy. By leveraging digital tools, creating incentives for this transition and providing workforce development opportunities, businesses can help bridge the gap between the informal and formal economies. Collaboration between governments and the private sector is essential for ensuring that this transition is sustainable and inclusive across the APEC region.

Workshop dynamics

The workshop included two primary activities designed to foster discussion and understanding of the challenges and opportunities in transitioning from the informal to the formal economy.

Activity 1: Small Group Discussions

Participants were divided into small groups, each tasked with discussing specific questions on various themes related to the informal economy. These themes included:

- **Causes and driving factors of the informal economy**
- **The role of technology in the informal economy**
- **Policies and regulations that impact the transition to the formal economy**
- **Financial inclusion and access to services**
- **Environmental and social impacts**

Each group explored key questions, such as how government policies can address unemployment and lack of credit access, how technology impacts the informal sector and what financial services could support the transition to a formal economy. The goal was to generate ideas and strategies for addressing the informal economy from multiple perspectives.

Activity 2: Role-Play Discussions

In the second activity, participants engaged in a role-play exercise, taking on specific roles such as street vendors, government officials, formal business owners



and customers. Each participant discussed key issues related to their role based on questions posed during the workshop. The role-play included discussions on:

- **The challenges street vendors face, such as waste management and health impacts**
- **Government perspectives on regulating the informal economy and promoting digitalization**
- **The impact of formal sellers and their relationship with informal markets**
- **Customer behaviors and preferences when choosing between formal and informal markets**

This activity allowed participants to explore the issues from different viewpoints, encouraging a deeper understanding of the complexities in transitioning informal actors to the formal economy.

Key findings of the CTI Policy Dialogue on promoting inclusive trade to foster MSME growth and transition to the formal economy

Ms Mariella Amemiya, General Director of Foreign Trade Development Policies at the Ministry of Foreign Trade and Tourism of Peru presented the results of the CTI Policy Dialogue held on 12 May 2024. The dialogue focused on the challenges and opportunities faced by MSMEs in APEC economies. The session explored how trade policies and inclusive growth initiatives can support MSMEs—especially those led by women, indigenous communities and other vulnerable groups—in transitioning from informal to formal economic participation.

Key Themes and Findings

- **Importance of Inclusive Trade for MSME Growth:** The dialogue highlighted that MSMEs face numerous barriers to participating in international trade, including lack of access to finance, information gaps, high logistical costs and difficulties in complying with regulations. Inclusive trade policies that address these barriers can significantly enhance MSMEs' productivity, competitiveness and their potential to integrate into global and regional value chains (GVCs). Eliminating

these obstacles can also promote the transition to the formal economy and create better-paying jobs.

- **Public-Private Partnerships and Capacity Building:** The discussion emphasized the importance of public-private partnerships in fostering MSME growth. These collaborations provide essential capacity-building services, such as access to finance, market information and technical training, which are critical for helping MSMEs expand into global markets and integrate their operations into the formal economy.

- **Focus on Women-Led and Indigenous MSMEs:** The dialogue recognized the specific challenges faced by women-led and indigenous MSMEs in accessing international trade opportunities. Tailored initiatives, such as financial inclusion programs and capacity-building efforts, were seen as necessary to support these groups in overcoming obstacles and participating in formal economic activities.

- **Digitalization and Trade Facilitation:** Several speakers stressed the role of digital tools in simplifying trade-related processes for MSMEs. Digital platforms can streamline procedures such as certification of origin, tax payments and access to export promotion services. By reducing the administrative burden, digitalization facilitates the transition of MSMEs from informal to formal economic participation.

Conclusions

The dialogue concluded that inclusive trade policies are critical for fostering the growth of MSMEs and encouraging their transition to the formal economy. Addressing barriers to international trade participation, promoting capacity-building programs and enhancing cooperation between governments and the private sector are key to helping MSMEs access global markets and integrate their businesses into the formal economy.



Asia-Pacific Economic Cooperation



APEC PERU 2024

Second Senior Officials' Meeting (SOM2)

APEC Public-Private Dialogue on Best Practices for the Transition of Economic Actors From Informal to Formal Economy

May 14, 2024

Wi-Fi: APEC2024
Pass: \$AQP24#Apec%

Key findings of the CTI Policy Dialogue on promoting inclusive trade to foster MSME growth and transition to the formal economy

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Ms. Mariella Amemiya
General Director of Foreign Trade Development Policies,
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EMPOWER INCLUDE GROW
APEC PERU 2024

APEC Senior Officials Panel

This panel discussion, moderated by Renato Reyes, APEC Senior Official of Peru, brought together senior officials from Chile; People's Republic of China; Indonesia; the Philippines; and the United States. The officials engaged in an interactive session to discuss the findings from the PPD and the development of a roadmap to promote the transition from the informal to the formal economy across the APEC region. The session also explored strategies for international collaboration to support this transition.

1. Mr Matt Murray, United States Senior Official for APEC

Public-Private Collaboration and Digital Tools for the Transition to the Formal Economy

Mr Matt Murray emphasized the importance of public-private collaboration, highlighting how APEC's unique structure allows for an exchange of ideas between the private sector, civil society and government stakeholders.

- **Public-Private Dialogue:** Murray praised the ongoing PPD as a critical component of APEC's work, emphasizing how these discussions foster innovation in addressing informal economies. *"Public-private collaboration is the secret sauce of what makes APEC special. It allows us to bring together companies, civil society and governments to address complex issues like the transition from informal to formal economies,"* he said.

- **Digitalization and Structural Reform:** He pointed to digital tools as key drivers in helping businesses transition to the formal sector and mentioned the role of structural reform in fostering financial inclusion and anti-corruption measures. He also noted the United States' support for initiatives like the Academy of Women Entrepreneurs (AWE) in Peru, which promotes the transition to the formal economy by helping entrepreneurs access formal markets.





We need structural reform, digital solutions and strong public-private collaboration to create the conditions that will encourage informal actors to formalize”.

2. Ms Marcela Otero, Chile APEC Senior Official

Multi-Stakeholder Engagement and Targeted Policy Interventions

Marcela Otero highlighted the multifaceted nature of the informal economy in Chile, where informal workers tend to be overrepresented in vulnerable groups such as women and youth. She stressed the importance of collaboration across sectors to create effective solutions for these challenges.

- **Stakeholder Collaboration:** Otero emphasized the need for active participation from the public sector, private sector and civil society to design and implement successful strategies for transitioning to the formal economy. *“The public sector provides the legal framework, the private sector leads ambitious actions and civil society offers feedback on public policies,”* she noted.

- **Multi-Variable Solutions:** Otero called attention to the fact that informal economy affects different groups in varied ways, requiring multi-variable approaches that address gender, education levels and age-related vulnerabilities. She also stressed the importance of strategic communication to make the benefits of the formal economy clear to informal workers.



Informality affects women, youth and low-educated populations disproportionately. Our solutions must be tailored to these realities and we need to build strong formal networks to address this issue effectively”.

3. Mr Cheng Lie, People's Republic of China APEC Alternate Senior Official

Digital Platforms for Informal Economy Regulation

Cheng Lie provided insights into People's Republic of China's approach to managing its informal economy sector, particularly through digital platforms that provide workers and micro-entrepreneurs access to formal systems.

- **Gig Economy:** Many participants in People's Republic of China's informal economy operate in gig or internet-based jobs. Cheng highlighted the role of digital platforms in providing these workers with access to services such as payments, regulation and taxation.
- **Government Role:** Cheng stressed the importance of government involvement in creating efficient digital platforms, regulating informal economic activities and offering training to improve the quality of services provided by workers within the informal economy. He called for policies that balance regulation with the promotion of informal sector development.



Digital platforms have helped informal workers participate in the formal economy. The government must continue to offer training and create regulatory frameworks that support their development”.

4. Mr Witjaksono Adji, Indonesia APEC Alternate Senior Official

Public-Private Partnerships for the Transition of MSME to the Formal Economy

Witjaksono Adji shared Indonesia's experience in using public-private partnerships to transition its MSME sector to the formal economy, which plays a critical role in Indonesia's economic development.

- **Omnibus Law:** Adji highlighted Indonesia's Omnibus Law as a central policy aimed at facilitating collaboration between the public and private sectors to support MSME's transition to the formal economy. *"The Omnibus Law provides the legal framework for public-private partnerships that help MSMEs access financing and protect their businesses,"* he explained.

- **Private Sector Involvement:** Indonesia's Startup Go Global program, a public-private partnership, helps startups access global markets through mentoring, training and market access support. The program also encourages women entrepreneurs, furthering the goal of inclusive growth.



Public-private partnerships have been central to Indonesia's efforts to formalize MSMEs and integrate them into the global economy".

5. Mr Charles C. Jose, The Philippines APEC Senior Official

Digital Transformation and E-Government for the Transition to the Formal Economy

Charles Jose discussed The Philippines government's efforts to support informal economic actors through digital transformation, particularly by simplifying government services through its E-Government Master Plan.

- **E-Government Master Plan:** The plan aims to digitize government services, improving access to information, reducing bureaucracy and increasing transparency. "Our goal is to make it easier for informal businesses to comply with regulations and join the formal sector by providing digital tools that simplify processes," Jose stated.

- **Inclusivity:** Jose also highlighted the need for policies that support marginalized groups such as women and unskilled workers. He stressed the importance of training and reskilling programs to help informal workers transition into the formal economy.



Digital transformation is crucial for improving transparency and making it easier for informal actors to transition into the formal economy”.

Key Insights from APEC Senior Officials Panel

The APEC Senior Officials Panel discussed strategies for transitioning from informal to formal economy, focusing on the importance of collaboration among governments, the private sector and civil society. The discussions resulted in the following key insights:

Public-Private Collaboration

The panel emphasized the vital role of public-private collaboration in addressing informal economy. Partnerships between governments, private sector actors and civil society are crucial for developing innovative approaches to facilitate the transition to the formal economy. Public-private partnerships help create solutions that are inclusive and tailored to the needs of different sectors.

Tailored Approaches to the Informal Economy

Recognizing that the informal economy affects different demographic groups in various ways, panelists highlighted the need for solutions that consider the specific circumstances of each group. Women, youth and marginalized communities are often disproportionately impacted by the informal economy and strategic collaboration among stakeholders is necessary to address these diverse needs.

Digitalization and Technological Solutions

Digital platforms and technology play a critical role in the transition of informal economic actors to the formal economy. Digital tools support regulation, enhance credibility and facilitate payment systems, making it easier for informal

workers and businesses to engage with formal markets. The expansion of digital infrastructure offers significant opportunities for transitioning the gig economy and small-scale enterprises to the formal economy.

Gender Inclusion and Economic Empowerment

The panel discussed the importance of integrating gender-focused policies into efforts to transitioning to the formal sector. Initiatives that provide targeted support to women, such as loans and training, have been effective in transitioning women into the formal economy. Empowering women through economic inclusion programs is essential for achieving broader goals related to transitioning to the formal economy.

Role of Education and Upskilling

Education and skills development are critical for helping workers in transitioning to formal employment. Many informal workers lack the necessary skills to participate in the formal labor market, particularly in sectors such as agriculture and services. Governments are addressing this gap by implementing training programs and upskilling initiatives, which are vital for fostering long-term economic participation.

Developing a Comprehensive Roadmap

The panel stressed the need for a comprehensive and adaptable roadmap to guide APEC economies in transitioning to the formal economy. This roadmap should consider the unique challenges faced by each economy and focus on capacity-building, digitalization and inclusive public policy. A flexible approach that can be adapted to different contexts is key to ensuring successful transition to the formal economy.

Leveraging International Cooperation

International cooperation is essential for sharing best practices and learning from the experiences of other economies. Regional collaboration enables economies to address common challenges associated with the informal economy more effectively. By working together, APEC economies can strengthen their efforts to promote the transition from informal to formal economic activity.

These insights emphasize the importance of a collaborative, inclusive and flexible approach to formalization, with a particular focus on digital solutions, gender inclusion and capacity-building efforts.

Conclusions

Conclusions

The key conclusions and recommendations based on case studies, stakeholder discussions and best practices from across the region are the following:

1. Digitalization as a Key Driver of the Transition to the Formal Economy

The report underscores the importance of digital platforms in simplifying the transition to the formal economy. In various APEC economies, digital tools such as online registration systems, tax declaration platforms and social security systems have proven highly effective in encouraging businesses to formalize. The use of digital solutions helps reduce administrative barriers and offers greater access to government services for businesses in both urban and rural areas.

2. Tailored Policies for Specific Groups

Informal economy disproportionately affects women, youth and rural populations. The report calls for targeted support programs that cater to the unique needs of these groups, such as financial inclusion programs, training and access to resources. Gender-responsive policies, like those implemented in the Philippines, have shown that tailored support can greatly improve women's participation in the formal economy.

3. Incentives for the Transition to the Formal Economy

Providing incentives such as tax breaks, microcredit programs and access to public procurement contracts encourages businesses to formalize. Several APEC economies, including Peru and Indonesia, have successfully used financial and regulatory incentives to lower the costs of formalization and make formal market participation more attractive.

4. Capacity Building and Public-Private Collaboration

The report highlights the critical role of public-private partnerships in driving transitioning to the formal economy. Collaboration between governments, the private sector and civil society is essential for creating programs that support MSMEs in their transition to formal markets. Capacity-building initiatives, such as mentorship and workforce development programs, are key to helping businesses and workers gain the skills needed to thrive in a formal economy.

5. Challenges of Bureaucratic and Regulatory Barriers

While there has been significant progress, the report points out that complex regulatory frameworks and high costs remain major barriers to transitioning to the formal economy in many APEC economies. Simplifying administrative procedures and reducing the burden of compliance will be necessary for further progress.

6. Gender Inclusion and Empowerment

Programs that focus on gender inclusion and empowerment, such as those targeting women entrepreneurs, have been effective in promoting the formal economy. Encouraging the participation of marginalized groups, particularly women and rural workers, is critical to achieving a more inclusive economy.

7. Social Protection and Financial Inclusion

Social protection mechanisms and access to formal financial services are vital for supporting workers and businesses during the transition to the formal economy. The inclusion of informal workers in social safety nets, such as health insurance and pension programs, is essential to reduce their vulnerability to economic shocks.

8. Tackling Informal Economy through Policy Innovation

The formal economy represents a powerful pathway to unlocking economic potential, improving productivity and enhancing the livelihoods of millions. However, addressing the informal economy requires tailored policy solutions that reflect the unique circumstances and challenges faced by each economy. Effective strategies should aim to:

- **Expand Access to Credit and Financial Services:** Ensure that formalized businesses can access affordable financing options and banking services that support their growth and expansion. Access to credit and financial services is crucial for businesses transitioning to the formal sector, enabling them to scale operations, innovate and compete in larger markets.
- **Create Market Opportunities:** Connect businesses to new market opportunities, both locally and internationally, through initiatives such as public procurement programs and trade facilitation. By opening doors for businesses to enter the formal economy, especially MSMEs, APEC economies can encourage small businesses to expand and compete in formal markets, promoting long-term sustainability.
- **Strengthen Social Protection:** Formal workers should have access to essential social protections, including healthcare, pensions and employment benefits. Providing these safety nets will make formal employment more attractive to informal workers, reducing their vulnerability to economic shocks and enhancing overall well-being.

Next steps

Next steps

Building on the findings and insights from the PPD, APEC economies can implement targeted actions to accelerate the transition from the informal to the formal economy. These actions are designed to foster inclusive economic growth and unlock the potential of millions of workers and businesses, contributing to sustainable development across the region. The following areas of focus are recommended:

1. Invest in Digital Infrastructure

Strengthening digital infrastructure is critical to making the transition to the formal economy more accessible and affordable for small businesses and informal workers. By expanding access to digital tools and platforms, APEC economies can streamline processes such as business registration, tax compliance and access to government services. Moreover, digital solutions empower informal economic actors in remote and underserved areas to engage with formal markets, promoting greater inclusivity and reducing barriers to entry.

2. Implement Targeted Policies for Vulnerable Groups

Tailored policies that address the specific needs of vulnerable populations—including women, youth and rural communities—are essential for advancing the transition to the formal economy. These groups often face disproportionate barriers to entering formal markets. To address these challenges, APEC economies should develop targeted programs focused on financial literacy, skills training and specialized credit access. Such initiatives will help these populations transition into the formal economy and contribute to broader economic development.

3. Provide Financial Incentives for the Transition to the Formal Economy

Financial incentives are a key lever in encouraging businesses to transition to the formal economy. A range of mechanisms—such as tax breaks, easier access to credit and preferential access to public procurement contracts—can be deployed to reduce the perceived costs of transitioning to the formal economy. By lowering the financial burden, these incentives make it more attractive for businesses to enter formal markets, ultimately enhancing their competitiveness and sustainability.

4. Enhance Public-Private Collaboration

Strong partnerships between the public and private sectors are crucial for developing effective capacity-building programs that facilitate the transition to formal economy. Through collaboration, governments and businesses can co-create initiatives that equip workers and enterprises with the skills, tools and knowledge necessary for success in formal markets. Public-private partnerships are especially valuable in leveraging private sector expertise in areas like financial inclusion, digital tools and market expansion, ensuring a holistic approach to the transition to the formal economy.

5. Simplify Regulatory Frameworks

Simplifying regulatory frameworks and reducing bureaucratic barriers are critical steps to promote the formal economy. High compliance costs, complex administrative procedures and lengthy approval processes often discourage businesses from transitioning to the formal economy. APEC economies should focus on regulatory reforms that streamline business registration and compliance requirements, thus lowering the threshold for participation in the formal sector and fostering greater inclusivity.

Annexes

Annex 1

Pre-Workshop
Research Report



Annex 2

Public Private
Dialogue Program

