



► ILO Brief

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Enterprises, supply chains and the transition to formality: linkages and innovation

Key points

- Close to 60 per cent of global employment and 80 per cent of enterprises are informal. Widespread informality presents significant challenges for the realization of workers' rights and working conditions. It undermines the rule of law, hinders productivity and has a negative impact on the development of sustainable enterprises, public revenues and governments' scope of action, the soundness of institutions and fair competition in national and international markets.
- More than 75 percent of informal employment is found in enterprises with fewer than 10 workers. In the context of supply chains, these enterprises are usually found in the lower tiers, and generally operate in an environment with weak governance, rule of law and government enforcement of labour laws in informal settings. As a result, a high proportion of workers is found in lower tier MSMEs that are exposed to acute decent work deficits in supply chains.¹
- MSMEs are often linked directly or indirectly to large Multinational enterprises (MNEs) that source goods and services from business partners in different countries. Under certain circumstances, MNEs in supply chains can provide market incentives and productive changes to drive decent work outcomes and the transition to formality.
- Innovative approaches to support the transition to formality from different constituents, regions and industries have been documented in the ILO background report² informing the 2025 113th International Labour Conference General Discussion on Addressing Informality and Promoting the Transition to Formality for Decent Work. This brief focuses on good practices of innovative approaches by enterprises to address informality and promote the transition to formality of economic units and workers in their supply chains through various means, including contracting and procurement procedures, support to the extension of social protection, skills transfer and other efforts to advance decent work. These push factors and innovative approaches have been amply reflected in the 2025 113th International Labour Conference Conclusions concerning the General Discussion on Addressing Informality and Promoting the Transition to Formality for Decent Work³ (hereinafter referred to as 2025 ILC Conclusions).

¹ [Getting Beyond Tier 1: Using a systems approach to improve working conditions in global supply chains](#). ILO. October 2020

² ILO, [Innovative approaches to addressing informality and promoting the transition to formality for decent work](#), ILC 113/Report VI, 2025.

³ ILO, [Conclusions concerning the General Discussion on Addressing Informality and Promoting the Transition to Formality for Decent Work](#), 113th Session of the International Labour Conference, 2025

Introduction

Following the 2025 general discussion on Innovative approaches to addressing informality and promoting the transition to formality for decent work at the 113th International Labour Conference, many innovative practices to support formalization have been identified, and a follow-up action plan has been developed to take into account recommendations for all constituents and the ILO itself to further strengthen the collective efforts to support formalization.⁴

Governments are primarily responsible for developing and implementing an integrated policy framework, in consultation with employers' and workers' organizations, to provide the legal, institutional and enabling conditions needed to facilitate and sustain the transition to formality. This includes notably appropriate and effectively enforced laws and regulations, simplified enterprise registration and compliance, extended social security coverage, and an enabling environment for sustainable enterprises.

Recognising that the private sector can also play an important and complementary role in driving formalization efforts, this brief seeks to explore how market incentives and productive changes through supply chains can be harnessed to drive decent work and more specifically serve as entry points for the transition to formality. It also illustrates some good practices and innovative approaches by MNEs to promote formalization in their supply chains.

Increasing access to supply chains, particularly through multinational enterprises, can connect workers and economic units with domestic and export markets, while providing services, such as capacity-building, skills transfers, support for formalization and improvements in job quality.

► (2025 ILC Conclusions, para 12)

Informality in supply chains: challenges and opportunities

Supply chains refer to goods and services for consumption or as inputs for further production, which in some cases cross international borders.⁵ They are a cornerstone of the economy in many countries and can be powerful engines of inclusive growth, job creation and development, and can contribute to a transition from the informal to the formal economy. Supply chains, both domestic and global, have been identified as critical entry points for the ILO to “leverage opportunities for social and economic progress, provide for decent work, and [be] conducive to full, productive and freely chosen employment”.⁶ By 2020, 70 per cent of international trade involved the participation of multiple countries in the production of one single product.⁷

► What does informal economy mean?

From a policy perspective, as noted in The Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204), the term “informal economy” (a) refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements; and (b) does not cover illicit activities. In 2023, the 21st International Conference of Labour Statisticians adopted a resolution concerning statistics on the informal economy,⁸ which is aligned conceptually with informality as set out in Recommendation No. 204, defines the informal economy as comprising all productive activities carried out by persons or economic units that are – in law or in practice – not covered by formal arrangements, whether or not they are carried out for pay or profit. This conceptual definition is reflected in operational definitions of core elements of the informal economy, namely, informal sector and informal employment.

A wide variety of enterprises operate in supply chains, ranging from MNEs, typically engaged in high added-value activities such as product design, innovation and marketing, to micro, small and medium enterprises (MSMEs). Especially in developing countries, MSMEs are often engaged in labour-intensive and artisanal

⁴ Follow-up to the resolution concerning the general discussion on addressing informality and promoting the transition to formality for decent work, [GB.355/INS/3/1](#).

⁵ ILO, [Gap analysis of ILO normative and non-normative measures to ensure decent work in supply chains](#), 2021

⁶ ILO, [Centenary Declaration for the Future of Work](#), 108th (Centenary) Session of the International Labour Conference, 2019.

⁷ OECD, [Informality and Globalisation: In Search of a New Social Contract](#), OECD Publishing, Paris, 2023

⁸ ILO, [Resolution concerning statistics on the informal economy](#), ICLS/21/2023/RES. I, October 2023.

operations.⁹ Similarly, there is high heterogeneity of workers in supply chains, from highly skilled workers, mainly in the formal economy to millions of workers in the informal economy, often low-skilled and with intersecting vulnerabilities such as migrant status, age and gender. Informal workers are found in all countries, developed and developing, and in all types of enterprises, although up to two thirds can be found in enterprises of less than 5 workers.¹⁰ MSMEs are often found in the lower tiers of supply chains and face systemic challenges.¹¹ They often operate in competitive markets and face entrenched issues such as limited access to finance, inadequate infrastructure, and weak regulatory enforcement, which limit their potential.



Figure 1: Sample tiers of a chocolate supply chain.

The Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204) applies to all workers and economic units – including enterprises, entrepreneurs and households – in the informal economy, in particular including: “ [...] employees holding informal jobs in or for formal enterprises, or in or for economic units in the informal economy, including but not limited to those in subcontracting and in supply chains”. In parallel, the ILO strategy on decent work in supply chains¹² calls for ILO action to pursue inclusive growth and employment opportunities for those categories of workers that are more vulnerable to discrimination and to decent work deficits, recognizing that MSMEs may have less capacity to comply

with national law, which can undermine safe working conditions and the transition to formality of both MSMEs and the workers concerned.

Recognising the heterogeneity of supply chains, this brief focuses on drawing lessons learned and good practices from innovative approaches implemented by MNEs in their supply chains. As such, it is not directly focusing on purely domestic supply chains, given that the presence of MNEs intrinsically involves trade relations between one or more countries to produce a certain product.

Within the integrated policy framework established by governments and while not substituting the unique institutional role that only States can provide, MNEs can contribute to formalization. Under certain conditions, including those related to the national context, and due to their size, reach and supply chain positioning, MNEs can provide market incentives for other enterprises in their supply chains to improve their compliance with national labour and social security laws, often implying or promoting the formalization of their operations and their workers while preventing informalization. Supply chains and access to export markets can offer lower-tier MSME suppliers opportunities to upgrade their production and capture a higher share of value-added by accessing new technologies, capacity and skills and increasing productivity, as well as provide better working conditions as a result of stricter requirements in terms of quality and sustainability, or due diligence¹³. This can help MSMEs grow, create jobs and increase labour incomes, particularly in labour-intensive industries, and support the transition to the formal economy.¹⁴ It must be noted, however, that informality is shaped by many different governance and structural issues rooted in the economic and institutional context of each country. Countries with high levels of informality usually do not have the productive economic units, skilled workers nor fiscal policies that would allow their countries to fully benefit from access to the world economy.¹⁵

⁹ ILO (2023). [World Employment and Social Outlook: Trends 2023](#); Ernst C. et al (2026), “[Foreign Direct Investment, global value chains and labour markets](#)”, ILO Working Paper 160.

¹⁰ ILO. [Women and men in the informal economy: a statistical update](#), 2023.

¹¹ ILO: “Key research findings”, in [Improving safety and health in global supply chains](#), May 2017, Geneva, p. 4. See also, the project Towards Fair and Sustainable Global Supply Chains: Promoting Decent Work for Invisible Workers in South Asia which focus was on upstream supply chain workers, including home-based workers, informal economy workers and subcontractors.

¹² ILO, [ILO strategy on decent work in supply chains](#), 2023.

¹³ Due diligence is a management tool that allows enterprises to uphold their responsibility to respect human rights as outlined in the UN Guiding Principles on Business and human rights and the ILO MNE Declaration (see paragraph 10 d of the ILO MNE Declaration).

¹⁴ ILO, [Getting Beyond Tier 1 : Using a systems approach to improve working conditions in global supply chains](#), 2020.

¹⁵ OECD, Informality and Globalisation: In Search of a New Social Contract, OECD Publishing, Paris, <https://doi.org/10.1787/c945c24f-en>, 2023.

MNEs as supply chain actors promoting decent work

Within the framework of sustainable development policies established by governments, one vehicle in the process of greater formalization has been the activities and interventions of large enterprises such as MNEs. They can contribute to the creation of formal jobs, the prevention of informalization and higher levels of formality by virtue of the commercial relations they establish and promote. In many sectors, MNEs have market dominance. For instance, in the mid-2000s, in the retail sector, more than two-thirds of total supermarket sales of ten countries in Latin America was concentrated within five chains of stores, in which MNEs represented a share of around 70 per cent.¹⁶ Although the majority of enterprises in the world are MSMEs, MNEs have a significant role to play in terms of job creation and working conditions in their supply chains.

As employment in MNEs is typically formal, these enterprises can play a pivotal role promoting responsible business conduct among their business partners, including in supply chains. They can have an impact on formalization processes through their business relationships and procurement practices of goods and services.

When MNEs establish business linkages with SMEs or even indirectly with micro-enterprises as part of their production, distribution or commercialization networks, they pass on knowledge, skills, know-how, technology and provide access to markets. These relationships and knowledge transfers in turn incentivize the transition of both economic units and workers to the formal economy. At the same time, they may serve as a risk management tool, since informal economic units and workers are outside the remit of the law, have less resources, are more vulnerable and less accessible for monitoring by law enforcement, thereby opening MNEs to reputational damage.¹⁷ Relationships with MNEs also entail sustainability and labour compliance requirements. Evidence suggests that workers employed by MNEs or in first tier suppliers to MNEs usually get higher wages, job security and benefits, and training opportunities.¹⁸

MNEs also often provide or facilitate access to finance; promote entrepreneurship programmes, business incubators, or community support projects; and encourage and support small businesses in adopting sustainable practices that improve long-term competitiveness. They do this as a stand-alone practice or as part of government programmes or public-private partnerships.¹⁹

The ILO's instrument for promoting labour standards and principles in the corporate world and the most comprehensive global standard on responsible business conduct and decent work is the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration), first adopted in 1977 and updated various times. Since its update in 2017, the MNE Declaration features within its Employment chapter a specific principle on formalization directly derived from Recommendation 204 which attributes a role to MNEs and other enterprises in the transition to formality. Article 21 of the MNE declaration states that "Governments should develop and implement an integrated policy framework to facilitate the transition to the formal economy, recognizing that decent work deficits are most pronounced in the informal economy. Multinational and other enterprises should also contribute to this aim". The MNE Declaration also states that "to promote employment in developing countries, in the context of an expanding world economy, multinational enterprises, wherever practicable, should give consideration to the conclusion of contracts with national enterprises for the manufacture of parts and equipment, to the use of local raw materials and to the progressive promotion of the local processing of raw materials. Such arrangements should not be used by multinational enterprises to avoid the responsibilities embodied in the principles of this Declaration".

Branches or subsidiaries of MNEs in developing countries, as well as firms that participate in the export market more broadly, tend to provide better working conditions than local enterprises and to invest more in skills. MNEs also provide access to markets, promote technology transfer.²⁰ But with this comes strong competition which may push local suppliers and their workers into informality or prevent them from transitioning out of it. It may also lead local suppliers (as is commonly seen in the garment sector) to

¹⁶ ILO, [Formalization of SMEs in supply chains in Latin America: what role for multinational enterprises](#), 2016.

¹⁷ ILO, "The role MNEs can play in efforts towards formalization of economic units and workers in their supply chains: Innovative approaches, challenges and opportunities", forthcoming.

¹⁸ ILO, "The role MNEs can play in efforts towards formalization of economic units and workers in their supply chains: Innovative approaches, challenges and opportunities", forthcoming; Distelhorst and Fu, 2017. ["Wages and working conditions in and out of global supply chains: a comparative empirical review"](#), ILO ACTEMP Research note.

¹⁹ ILO, "The role MNEs can play in efforts towards formalization of economic units and workers in their supply chains: Innovative approaches, challenges and opportunities", forthcoming.

²⁰ ILO, "Formalization of SMEs in Supply Chains in Latin America: What Role for Multinational Enterprises?", Thematic policy brief, 2016, 17; Distelhorst and Fu, 2017. ["Wages and working conditions in and out of global supply chains: a comparative empirical review"](#), ILO ACTEMP Research note, 2017.

rely on informal or temporary homeworkers or informal economic units thus contributing to and perpetuating informality.²¹

Innovative approaches by MNEs promoting the transition to formality in their supply chains

Some innovative approaches by MNEs have emerged, demonstrating a commitment to supporting the transition to formality, and more should be explored on how that can be achieved and scaled in an accountable and sustainable way.

In Thailand, two MNEs have collaborated to reduce illegal, unreported and unregulated fishing in their supply chains, with the objective of improving working conditions and lessen the environmental impact of fishing. In particular, the introduction of digital technologies such as digital traceability and e-logbooks to their sub-contractors have reduced illegal activities, enhanced compliance with regulations and improved processes in the industry, while indirectly encouraging formalization. The two MNEs did this by implementing a system to formalize supplier relationships by ensuring supplier compliance with sustainability requirements, while fostering long-term and formal business partnerships and contractual relationships. In this context, they recognized the need to financially support their suppliers by covering some of the resulting compliance costs, addressing a significant concern amongst suppliers whose operating margins were already razor thin. Finally, corrective action plans developed in the context of MNE sustainability requirements were used as a tool to support formalization processes, including improved labour practices. As compliance requirements are passed down the supply chain, and capacity-building helps enterprises to build their expertise and processes, these efforts have led to the development of better labour management practices, such as regular labour contracts and payment of overtime wages. While the long-term impact of these initiatives is still to be seen, these are promising technology-driven initiatives helping to reduce decent work deficits, address informality and promote transition to formality in the fisheries supply chain.²²

In the Democratic Republic of the Congo, artisanal cobalt miners often work in dangerous conditions with limited safety procedures in place, tend to lack adequate equipment and technology, and, due to the lack of access to formal marketplaces, they can be exploited by brokers who buy their cobalt at discounted prices. In 2018, a joint project to promote formalization was initiated by a multinational commodities trading and logistics company; a mining company; a formal cooperative for artisanal and small-scale mining; and an INGO. The project aimed to transition informal artisanal miners to a formal status as subcontractors registered in the cooperative, and provided geological information, mechanized assistance, training including to women on accessing higher-paying, male-dominated occupations, safety equipment, and amenities. The project also established a direct link between artisanal miners and the commodities buyer, eliminating the need for brokers, and ensuring better prices for miners and reduced operating costs for participating miners. This led to improved productivity, reduced corruption, better working conditions, increased income and gender equality with female miners earning 2.5 times more than their counterparts working outside the project site. The project also helped to improve the traceability of cobalt, which is important for ensuring that it is ethically sourced. It also contributed to the local economy by creating jobs and generating additional tax revenue. Taken together, the evidence suggests that this project model has significant potential, although further analysis is needed to fully assess its impact and cost-effectiveness.²³

In Indonesia, the ILO and Fast Retailing, the parent company of the UNIQLO clothing brand, joined forces in 2019 to strengthen the social protection and employment services available to workers who face unemployment and job displacement. Born out of a concern over the fate of unemployed garment factory workers, the partnership allowed the ILO to provide technical assistance and support to the Indonesian government and social partners. This effort led to the creation of unemployment insurance in Indonesia in 2021, the provision of employment-related services and a reform of the overall national social protection system in view of promoting further its coverage, governance and effectiveness.²⁴

In Kenya and Côte d'Ivoire, the ILO is implementing a project with ENI, an Italian energy MNE, aimed at improving occupational safety and health (OSH) and access

²¹ OECD, *Informality and Globalisation: In Search of a New Social Contract*, OECD Publishing, Paris, <https://doi.org/10.1787/c945c24f-en>, 2023.

²² ILO, "The role MNEs can play in efforts towards formalization of economic units and workers in their supply chains: Innovative approaches, challenges and opportunities", forthcoming. Also in ILO, *Innovative approaches to addressing informality and promoting the transition to formality for decent work*, ILC.113/Report VI, 2025.

²³ ILO, "The role MNEs can play in efforts towards formalization of economic units and workers in their supply chains: Innovative approaches, challenges and opportunities", forthcoming. This is also in the ILC report.

²⁴ ILO, *"Unemployment Protection in Indonesia: Quality Assistance for Workers Affected by Labour Adjustments (UNIQLO) – Final evaluation"*, Evaluation Summary, 2021.

to social protection, particularly in the field of health, for workers in biofuel supply chains. It aims to cover 150,000 farmers in the two countries. Following an assessment of the drivers and constraints to improving OSH and access to social protection, the project aims to develop improvement strategies throughout supply chains and support their implementation, working together with Government, employers' and workers' organizations in the agri-business sectors.

In Argentina, Aguas Danone de Argentina used its demand for recycled PET to support the integration of informal waste pickers into formally registered cooperatives. Through the *Recuperadores* project, cooperatives received equipment, operational support and training in health and safety, life skills and financial literacy, while workers gained access for the first time to pensions, maternity leave and other social security benefits available through formal cooperative membership. Participating waste pickers can earn three to five times more than informal pickers. The project has formally integrated around 5,000 workers into 48 cooperatives, while also improving cooperatives' negotiating power and direct market access by reducing dependence on intermediaries.²⁵

In the mica supply chain of India and Madagascar, downstream buyers have worked collectively through the Responsible Mica Initiative (RMI), combining traceability systems, workplace standards, community programmes and engagement with public authorities, to support the organization of informal workers and the gradual formalization of economic units. Key elements include the development of the Mica CRAFT Code for artisanal mica mining, community programmes and support for the Jharkhand "Dhibra" policy, which is intended to legitimize and formalize mica picking activities through cooperative structures. Community programmes have supported households through access to education, skills and alternative livelihoods, while supply chain requirements have incentivized improvements in working conditions and compliance. Although full formalization remains a work in progress, such initiative illustrates how due diligence requirements can reduce decent work deficits and create pathways towards formalization in highly informal upstream sectors.²⁶

► MNEs working together to drive formalization of workers through compliance and better working conditions in the garment and footwear sector

[Better Work](#), a unique partnership between the ILO and IFC launched in 2007, aims to improve working conditions and business performance in the global apparel industry. Operating in 11 countries, it covers over 2,000 factories and 3.4 million workers, 69 per cent of whom are women. By integrating the ILO's tripartite approach – engaging governments, employers and workers – alongside partnering with global supply chain actors such as brands, retailers and manufacturers, Better Work operates at the factory, national and global levels. Apparel MNEs play a critical role by using Better Work data to identify non-compliance and drive sustainable improvements in the supply chains where they source. While compliance improvement is rarely linear, enterprises participating in the programme has achieved significant progress, including in the area of formalization. Notably, there is a decrease in non-compliance rates for issues related to employment contracts, with workers receiving written work agreements more often, and in a language they can understand. In Indonesia, for example, non-compliance with written work agreements fell from 74 per cent to 4 per cent over the last decade. In Haiti, this figure dropped from 13 per cent to 0 per cent. Similarly, since the programme's launch in Jordan, non-compliance with employer social security contributions has decreased from 33 per cent to 11 per cent.²⁷

Conclusions

The case studies and innovative approaches illustrated in this brief highlight the potential benefits to be derived from MNEs' engagement in formalization, spanning: i) improved working conditions and safety for workers; ii) improved social protection coverage; (iii) increased productivity; iv) reduced corruption and other illicit practices; v) improved traceability of materials; and vi) wider community development. Not only can these desirable goals be derived from a transition towards a more formal economy; but they can all contribute to the formalization process itself. While decent work cannot be achieved in the informal economy, improved working conditions form part of the

²⁵ IFC, [Empowering Waste Pickers and Improving Working Conditions: How Danone Strengthens Recycling and Supports Base of the Pyramid Workers in Argentina](#), 2023.

²⁶ Responsible Mica Initiative, [2024 annual report](#).

²⁷ ILO, [Innovative approaches to addressing informality and promoting the transition to formality for decent work](#), 2025.

pathway to formality within gradual formalization processes as outlined in the 2025 ILC Conclusions.

The transition to formality does not happen in isolation and is shaped by national institutions, development strategies and global trends. On the one hand, as illustrated in this brief, access to export markets and linkages to MNEs offer opportunities to upgrade production practices in MSMEs, increase productivity, foster knowledge transfer, thereby increasing also value-added content, margins and incomes. These factors are significant drivers to open up opportunities for better working conditions and formalization processes for workers and economic units. On the other hand, the mere participation in the export market and in supply chains does not necessarily translate into more formal jobs. Especially in countries where regulatory frameworks are inadequate or missing, or where legal coverage exists but weak public institutions — including ineffective compliance systems — and poor governance hinder the enforcement of the law, the transition to formality continue to be hampered, and as a result, decent work deficits may persist. Indeed, as recognised in the 2025 ILC Conclusions, “For MSMEs to

participate in supply chains, especially in their domestic tiers, public policies are essential to reduce barriers to formalization, enhance productivity and promote sustainable enterprise growth” (para 12). The Conclusions also affirmed that “strengthening efforts to advance due diligence alongside the promotion of responsible business conduct, in line with the Tripartite Declaration of principles concerning multinational enterprises and social policy and the United Nations Guiding Principles on Business and Human Rights, together with mechanisms that support economic units in adapting to the implied requirements, to contribute to the formalization of work in supply chains” is a crucial strategy to promote an enabling environment for transition to formality.

In view of this, a more systematic and in-depth analysis of the extent to which supply chains and MNEs can promote formalization, the optimal conditions for this to occur, and policies and practices of governments and social partners to maximize the potential of harnessing market incentives and MNE linkages as drivers of formalization would be an important next step to operationalize the 113th ILC Conclusions.