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APEC ECONOMIC POLICY REPORT

Structural Reform to Increase
Participation in the Formal Economy





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in the Formal Economy**

APEC Economic Committee

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PREFACE

The informal economy is everywhere but also nowhere. Each day, informal economy actors trade goods, provide services and engage in business transactions. People and firms in the informal economy generate value in our communities, but their contribution to the economy is largely unseen in economic data. They often shoulder higher levels of risk and vulnerability, but they are generally out of the reach of safety and regulatory bodies. Informal sector firms' productivity is generally lower, and their workers are likely to have less access to development opportunities and protections. While the circumstances for being in the informal sector vary – some are there by choice; for others, it is the only way to participate in the economy – it is clear that pathways to formalisation need to be enhanced for the benefit of firms, workers and the economy.

This year's APEC Economic Policy Report (AEPR) discusses the important topic of Structural Reform to Increase Participation in the Formal Economy, highlighting the challenges and opportunities to opening pathways for formalisation. It analyses the four types of informality and their root causes, and explores the complex relationship between informality and economic growth. It then recommends facilitating pathways to formalisation through strengthening governance and institutional quality, investing in human capital development and recognition, and ensuring that the benefits of formalisation outweigh its costs.

I would like to thank Australia and New Zealand for generously providing direct funding for the preparation of the report. I would also like to express my gratitude to the AEPR 2025 Core Team co-led by Korea and Peru, and supported by Australia; Canada; China; New Zealand; Papua New Guinea; Chinese Taipei; the United States; and Viet Nam. I am pleased to note that 15 APEC Economic Committee member economies provided Individual Economy Reports (IERs) for this AEPR, while three economies also provided case studies on their formalisation policies. These contributions greatly enhanced the substance of the AEPR. Gratitude is also due to the APEC Secretariat's Programme Director for the Economic Committee, Alice McKenzie, for her valuable advice throughout the process and the APEC Policy Support Unit (PSU) for managing the production of the Main Report. The AEPR 2025 was drafted by a team at the PSU comprised of Emmanuel A. San Andres and Eldo Malba Simanjuntak and a team at Svara Institute comprising Titik Anas, Made Suardhini, Ida Ayu Erica Pramesty Utami, Estiana Cahyawati and Yolanda Orient Kusmitha.

This AEPR on Structural Reform to Increase Participation in the Formal Economy contributes to the realisation of the Enhanced APEC Agenda on Structural Reform (EAASR), the Lima Roadmap to Promote the Transition to the Formal and Global Economies (2025–2040) and the Putrajaya Vision 2040. As this is the Economic Committee's flagship publication for 2025, I look forward to members' initiatives to implement the AEPR's recommendations.

James Ding

Chair

APEC Economic Committee

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KEY ABBREVIATIONS

AEPR	APEC Economic Policy Report
APEC	Asia-Pacific Economic Cooperation
APEC PSU	APEC Policy Support Unit
APEC SMEWG	APEC Small and Medium Enterprises Working Group
ASEAN	Association of Southeast Asian Nations
CIT	corporate income tax
DGE	Dynamic General Equilibrium
GDP	gross domestic product
ID	identity document
IER	Individual Economy Report (from APEC member economies)
ILO	International Labour Organization
IMF	International Monetary Fund
MIMIC	Multiple Indicators, Multiple Causes
MRA	mutual recognition arrangement
MSME	micro, small and medium enterprise
NEET	not in education, employment or training
OECD	Organisation for Economic Co-operation and Development
PPP	purchasing power parity
SME	small and medium enterprise
TFP	total factor productivity
WGI	Worldwide Governance Indicators

KEY MESSAGES

- The informal economy refers to a broad range of activities that operate outside the view of government bodies, regulatory agencies and other public authorities. It encompasses individuals' and businesses' activities that occur outside formal arrangements, which are either not covered or only partially covered by regulations and standards, taxation systems, and labour and social protections.
- Informality remains an issue in APEC, with developing economies generally reporting higher informal sector output and employment, while industrialised economies tend to have lower levels of informality. Nevertheless, some progress toward formalisation has been observed since 2000.
- There are four main reasons for people and firms to be in the informal sector. These are: (1) low productivity and lack of competitiveness in the formal economy; (2) avoidance or evasion of taxation or regulatory obligations; (3) inability to comply with administrative or regulatory requirements; and (4) structural gaps in legal or regulatory frameworks. These correspond to what has been defined in this report as Types 1 to 4 informality.
- The root causes of informality include (1) weak governance and poor institutional quality; (2) inadequate human capital development; (3) high regulatory and tax burden; and (4) lack of access to financial services and markets.
- Empirical findings show a complex relationship between informality and economic growth. During economic downturns, the informal sector in industrialised economies may act as a cushion that quickly absorbs workers displaced from the formal sector. At lower income levels, the informal sector could provide avenues for economic activity. However, as an economy develops or recovers from a downturn, informality could be a barrier to progress and slow down growth.
- The role of the informal economy also varies according to the level of an economy's development. In developing economies, the informal economy could provide much-needed avenues for production and employment, allowing people and firms to avoid extreme poverty. In industrialised economies, it is more countercyclical, partially absorbing the impacts of economic downturns or recessions.

Policy Recommendations

In 2024, APEC Leaders emphasised the importance of formalisation efforts through the Lima Roadmap to Promote the Transition to the Formal and Global Economies (2025–2040). By facilitating transitions into formal economic structures, APEC economies can harness untapped productivity and innovation potentials, enhance economic resilience, improve economic opportunities and ensure broader participation in the benefits of economic growth.

Lessons learned from economic literature as well as individual APEC economies' experiences suggest that the following basic elements may be considered to accelerate formalisation of business and employment.

Strengthen governance and institutional quality. Improving governance and institutional quality is essential for formalisation. Ensuring integrity, strengthening the rule of law, closing legal and regulatory gaps and combating corruption are essential to generate trust and participation in the formal economy. These efforts may benefit from utilising digital transformation to enable formalisation processes and assist in enforcement. Policymakers may consider the following actions:

- Facilitate formalisation by promoting digitalisation in government services
- Utilise digital technologies toward effective enforcement mechanisms
- Invest in digital connectivity and supporting frameworks
- Close the gaps by encouraging legal and regulatory pathways to formalisation

Invest in human capital development and recognition. Capacity-building initiatives are needed to upskill and reskill the workforce amid a rapidly changing environment. Raising productivity – particularly for Type 1 informal actors¹ who are characterised by low productivity and limited formal qualifications – will assist in the transition to formal work and entrepreneurial arrangements. Along with access to lifelong skills development, schemes to facilitate the recognition of those skills by potential employers would be important. Policymakers may consider the following actions:

- Develop certified training programmes to support formalisation
- Facilitate formalisation through entrepreneurial skills development
- Implement targeted policies and programmes

Ensure that the benefits of formalisation outweigh its costs. For formalisation to be effective, it should offer clear and tangible benefits that outweigh its costs. Formalisation should be a net positive for workers and firms, especially micro, small and medium enterprises (MSMEs). Workers and entrepreneurs carefully weigh these factors when deciding whether to enter the formal economy or remain in the informal sector. Policymakers may consider the following actions as may be applicable to their domestic circumstances:

- Extend social protection to informal workers, while encouraging registration to facilitate their transition to the formal sector
- Balance labour market flexibility with income security
- Clearly communicate the importance, processes and benefits of formalisation
-

¹ See Section 1.2 for the description of the types.

1. INTRODUCTION

Informality is typically defined as market-based and legal production of goods and services that are hidden from public authorities for monetary, regulatory or institutional reasons (Schneider et al. 2010). This can be a result of activities such as failing to register businesses properly and evading tax obligations, disregarding labour regulations or operating outside the framework of a transparent legal system. The International Labour Organization (ILO) highlights that informality is the segment of an economy where businesses or workers operate outside governmental or legal oversight, potentially evading taxes and regulatory standards (ILO 2013).

The informal economy covers a broad range of activities that differ in composition and size across economies and regions (Dell'Anno 2022). According to the ILO, it includes all economic activities carried out by individuals and businesses that are not covered or only partially covered by regulatory arrangements. However, by its nature, the informal economy is difficult to measure and its value-added is not included in usual economic indicators like gross domestic product (GDP) or trade statistics. Since the activity is commonly hidden from authorities, the informal economy is typically gleaned through census-based household and labour force surveys as well as firm-level surveys that do not rely on rosters of registered firms.

1.1. INFORMALITY IN APEC ECONOMIES

Informality is a global phenomenon that impacts both industrialised and developing economies alike (APEC SMEWG 2024). According to a 2021 ILO study, informality has not decreased over time, but has continued to increase in many economies, contrary to earlier predictions. One of the key challenges in addressing informality is its very nature of being invisible from public authorities. Nevertheless, global efforts to measure informality exist, including by the World Bank and ILO.

Based on the World Bank Informal Economy Database, the size of the informal economy in several APEC economies is relatively large compared to the regional average, as illustrated in Figure 1.1. In 2020, informal output was estimated at more than 30 percent of official GDP in Brunei Darussalam; Malaysia; Mexico; Papua New Guinea; Peru; the Philippines; Russia; and Thailand. Several developing economies showed comparatively lower levels of informal output, such as China (11.6 percent); Singapore (12.3 percent); Viet Nam (14.4 percent); Hong Kong, China (16.6 percent); Indonesia (17.9 percent); and Chile (19.4 percent).

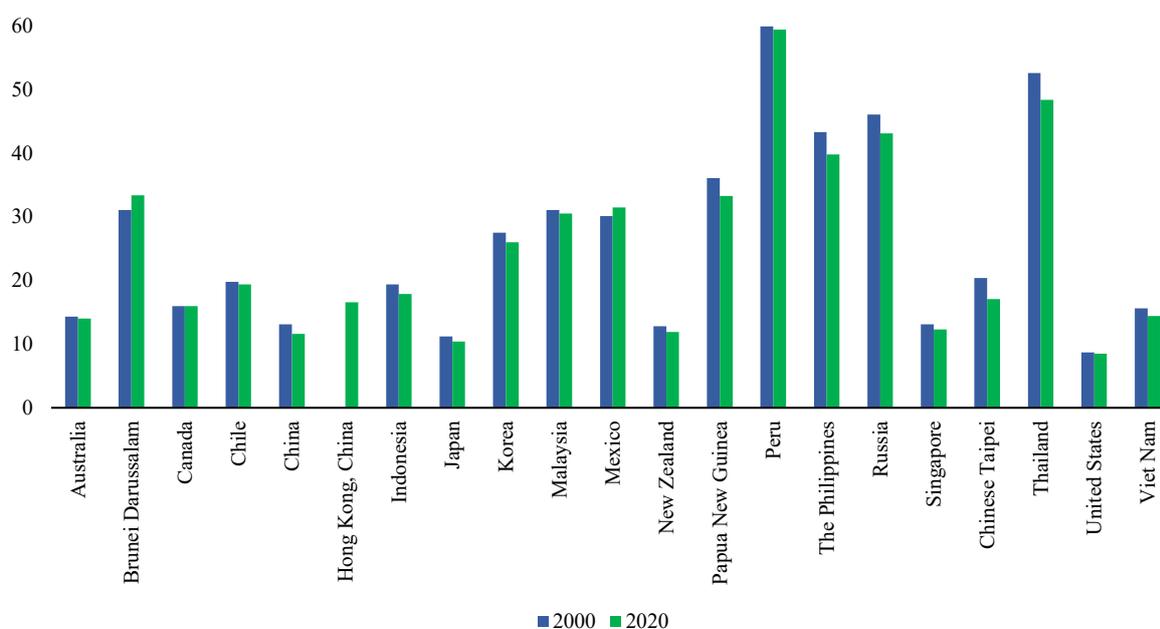
Industrialised economies maintain relatively low levels of informal output, typically below 30 percent of GDP in 2020. The United States recorded the lowest share, at 8.5 percent. Korea had the highest estimated level of informality among industrialised economies in the APEC region at 22.5 percent.

Figure 1.1 also shows that some APEC economies have had some success in shrinking the level of their informal economy between 2000 and 2020, including the Philippines from 43.3 percent

to 39.8 percent; Russia from 46.1 percent to 43.1 percent; Chinese Taipei from 20.4 percent to 17.1 percent; and Thailand from 52.6 percent to 48.4 percent. Figure 1.1 also suggests disparities in informality across APEC members, particularly between industrialised and developing economies, reflecting the different challenges in their regulatory systems, economic structure as well as institutional capacity in transitioning their informal sector into the formal economy.

It should be noted that model-based estimates of the informal economy, such as those found in the Informal Economy Database using Dynamic General Equilibrium (DGE) and Multiple Indicators, Multiple Causes (MIMIC), are based on assumed relationships and derived elasticities between the observed formal economy and the unobserved informal economy. The estimates are based on the best available data and economic relationships at the time, but the models may not continue providing reliable estimates over the medium- to long-term. This is because relationships between formal and informal economic activities may change over time, such as due to changing technologies.

Figure 1.1. Estimates of informal output (% of official GDP), 2000 and 2020



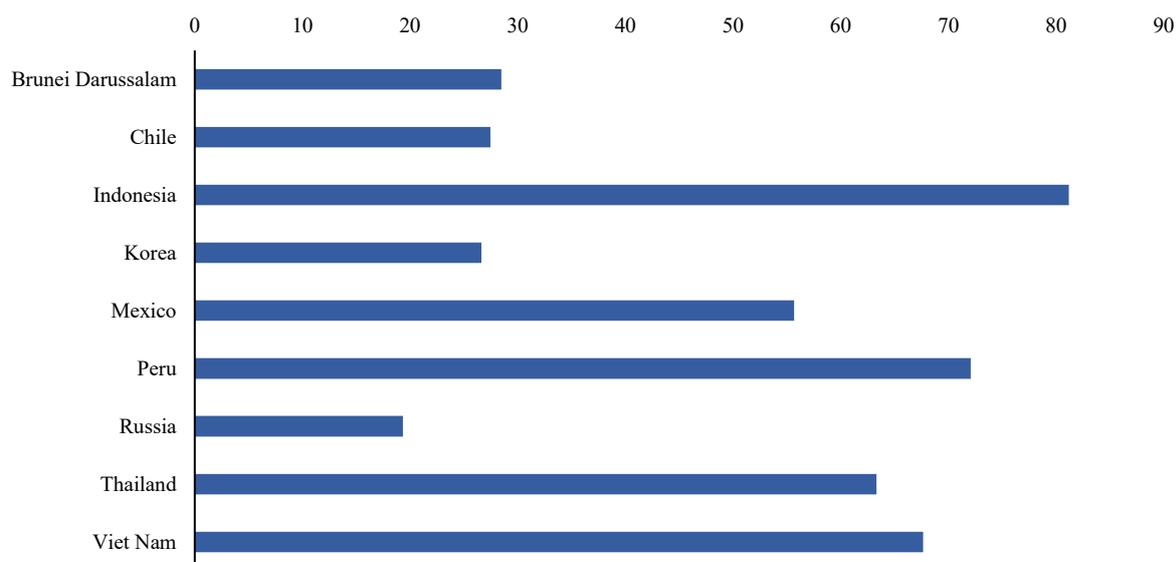
Note: Estimates are based on the Multiple Indicators, Multiple Causes (MIMIC) model. Data for Hong Kong, China; and Chinese Taipei are estimated by APEC Policy Support Unit (PSU) staff using the methodology in Elgin et al. (2021).

Source: World Bank Informal Economy Database (accessed on 21 April 2025) and APEC PSU (2024a).

From the employment perspective, the ILO Statistics on the Informal Economy reports that the proportion of informal employment ranges between 19.3 percent to 81.2 percent of total employment across nine APEC economies with data available from recent years, with Indonesia at the top of the range, followed by Peru (72.1 percent); Viet Nam (67.7 percent); and Thailand (63.3 percent) (Figure 1.2).

According to the Institute for Demographic and Poverty Studies (IDEAS), Indonesia's large informal sector is primarily due to the limited formal employment opportunities. Recent investment has mostly flowed into the non-tradable sector, which typically has low labour absorption. Additionally, the manufacturing sector – a major source of employment – is experiencing premature deindustrialisation, indicated by the lower share of manufacturing in GDP and lower growth relative to their historical rates. These have resulted in lower labour absorption in the formal sector (IDEAS 2024).

Figure 1.2. Proportion of informal employment (% of total employment)



Note: Data as of 2024, except for Brunei Darussalam (2023); Indonesia (2023); Korea (2019); and Viet Nam (2023). Using a survey methodology, Russia reports its share of informal unemployment at 15.8 percent of total employment in 2024 ([Rosstat](#)).

Source: ILOSTAT, Statistics on the Informal Economy (accessed 28 June 2025).

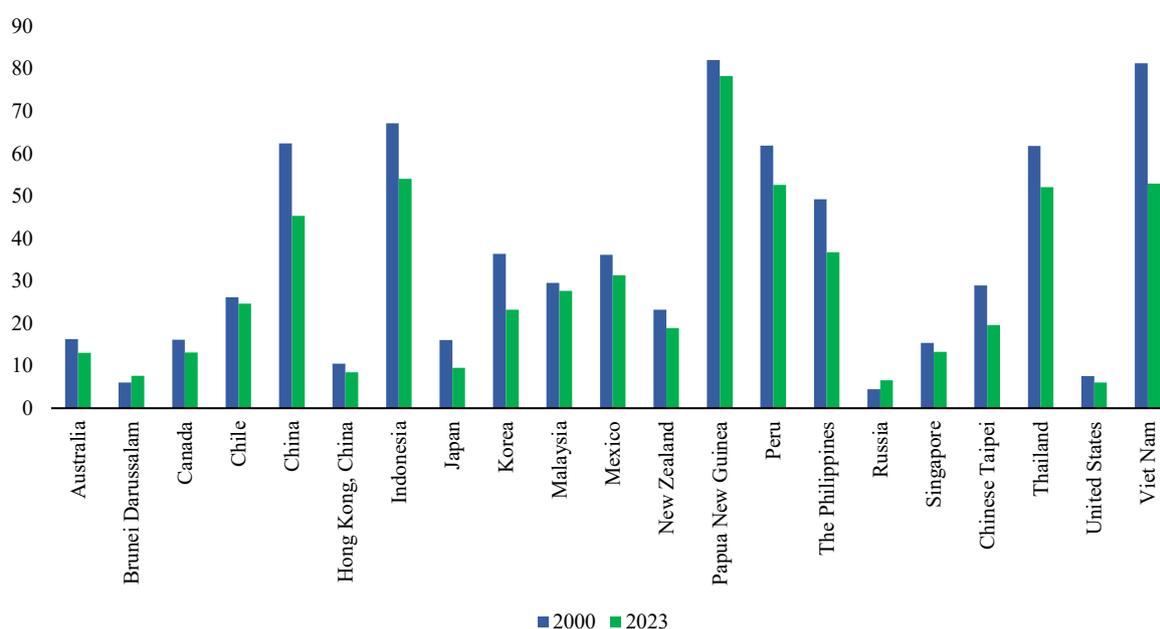
The high rate of informal employment in Peru is primarily driven by the dominance of low-productivity sectors, such as agriculture, trade and services, which dominate job creation in this economy. In addition, the prevalence of small businesses sustains the persistence of informal employment; micro, small and medium enterprises (MSMEs) account for 96.4 percent of all businesses and employ 45.8 percent of the active population in 2022 (América Economía 2024; Martínez 2025). Peru also faces significant challenges in education (Finn 2017; América Economía 2024), which contributes to the low quality of human capital, resulting in the limited capacity of informal actors to navigate and comply with formalisation regulations.

The high rate of informal employment in Viet Nam is attributed to the domestic labour market structure, which is largely characterised by micro- and small-scale businesses (Binh 2022). Besides intentionally choosing to operate under informal arrangements, entrepreneurs operate informally due to limited regulatory knowledge: around 85–90 percent of informal household businesses are unaware of existing regulations. The growth of informal businesses, which subsequently results in widespread informal employment, is also shaped by the educational

profile of the population (Cling et al. 2011; Hoang 2024) and the availability of incentives or benefits that encourage formalisation (Cling et al. 2011).

In Thailand, the majority of informal workers have only attained primary-level education (Bangkok Post 2023). There, a key characteristic of the informal sector is its predominance in rural areas, where access to quality education and formal job opportunities is limited. These structural limitations influence individuals' decisions to engage in informal work. In addition, unavoidable barriers, such as cost of formalisation, present significant challenges for relevant economic actors, forcing them to remain informal due to lack of better alternatives (Korwatanasakul 2021).

Figure 1.3. Self-employed (% of total employment), 2000 and 2023



Source: World Bank, World Development Indicators; ILOSTAT (accessed 17 July 2025).

Due to the limited data availability across many economies, alternative indicators are often used to estimate informal employment. One commonly used proxy is self-employment data, as self-employed workers are more likely to operate outside formal contract arrangements, and therefore tend to fall within the informal sector (Elgin et al. 2021). As seen in Figure 1.3, among developing APEC economies, Indonesia; Papua New Guinea; Peru; Thailand; and Viet Nam have consistently recorded high self-employment rates during the period 2000–2023, exceeding 50 percent of their total employment. Other developing economies, such as Brunei Darussalam; Hong Kong, China; Russia;² and Singapore, recorded lower rates of self-employment, typically below 20 percent.

² In Russia, the status of ‘self-employed’ is a special tax regime introduced to simplify business activity for individuals who work independently without hiring employees. Self-employed persons pay a reduced tax rate – typically 4 percent on income from individuals and 6 percent on income from companies – through an easy-to-

Industrialised economies, such as Australia; Canada; Japan; New Zealand; Chinese Taipei; and the United States, showed low rates of self-employed people, typically below 20 percent in 2023. Similar to the enterprise data, Korea recorded the highest level of informality in the labour market among industrialised APEC economies with a self-employment rate of 23.2 percent in 2023. Over the past two decades, most APEC economies have experienced a decline in their self-employment rates, reflecting broader trends of formalisation.

1.2. TYPES OF INFORMALITY

Economic literature classifies informality into four types, which are based on the reasons for being in the informal economy (APEC 2021; APEC PSU 2022; Lelliott 2022; Kartikeya 2024; EIN 2025).

Type 1 (Survival View) refers to individuals and firms with levels of productivity that are so low that it makes participation in the formal economy unfeasible, even if formalisation costs were removed. These include workers or entrepreneurs who can only survive if they can avoid taxes and regulations and would be uncompetitive if they need to comply with labour or tax regulations. Examples are ad hoc or seasonal manual labourers or roadside vendors who engage in informal work out of necessity to meet their basic subsistence needs.

Type 2 (Parasite View) refers to firms or workers that are sufficiently productive to operate in a formal system if entry barriers were removed. They tend to avoid formalisation through their own choice even when entry barriers are no longer there because it is more profitable. These could include unregistered freelance skilled workers or those who run online businesses operating via social media or social media influencers. They typically choose to remain informal to avoid government requirements, such as tax payments or regulatory compliance, or because they do not perceive any benefit from formalisation.

Type 3 (De Soto's View) refers to firms or workers with sufficiently high productivity but are kept out of the formal economic system due to substantial entry barriers, such as burdensome government bureaucracy or complicated administrative processes. If these regulatory barriers were removed, informal actors of this type would likely transition into the formal economy. This scenario is more likely among small-scale enterprises who may remain informal because formalisation procedures are perceived as complex and overwhelming, and they do not have the resources or skills to navigate the processes. A similar situation may be considered among self-employed workers whose desire to pay taxes or comply with reporting requirements is thwarted by burdensome and time-consuming procedures.

Type 4 (Structural Gaps View) refers to individuals or firms for whom there are no clear pathways to formalisation due to gaps in existing laws or regulations. In Types 1 to 3 informality, people and firms are technically covered by the legal or regulatory frameworks but for several reasons are unable or unwilling to formalise their economic activity. In Type 4, these economic actors have fallen through structural gaps that were not considered when laws

use mobile app provided by the Federal Tax Service. As of July 2025, according to the Federal Tax Service, the number of the self-employed is more than 14 million people.

or regulations were formulated. For example, workers in the online gig economy, such as drivers for ride-hailing platforms, online content creators or freelance business process contributors, may not qualify as formal employees or entrepreneurs as they do not satisfy the legal definitions for these classifications, which were made with brick-and-mortar firms in mind (APEC 2021). These workers in what are now known as non-standard employment terms often lack access to social protection, safety standards or bargaining mechanisms that were developed with in-person, brick-and-mortar employment relationships in mind. This ambiguity in their legal and regulatory status places them at risk of exploitation and unfair treatment and adds to their job insecurity and vulnerability (ILO n.d.).

2. WHY FORMALISATION MATTERS

The formal economic sector is seen as a cornerstone for economic growth, largely because it supports the creation of stable employment, ensures worker protection and contributes to public revenue through taxation (Portes et al. 1989). Several studies also indicate that formalisation can contribute to poverty reduction and promote economic growth (Dewick et al. 2022; ILO 2022). Formal enterprises tend to be more productive due to their wider market reach as well as greater access to public business development services, financial services and insurance services that could help support their productivity (ILO and GIZ 2014). As a result, these enterprises can invest in research and development, pay higher wages and offer better working conditions. When workers operate within the formal sector, they often receive social protections such as health insurance, pensions and safer working environments (ILO 2013). These advantages not only improve individual well-being but also contribute to broader societal progress, since higher levels of disposable income generate consumption and spur economic growth.

While the informal economy can serve a countercyclical role during economic downturns and as a growth opportunity for developing economies, a transition to the formal economy is important for several reasons. First, it provides economic agents with legal recognition, which in turn fosters access to finance and government support. A formally registered business can apply for bank loans at relatively favourable rates, enter into binding contracts and receive government-backed benefits, such as subsidies or tax incentives (Klapper et al. 2019). Second, formality promotes transparency and accountability, which are essential for fighting corruption and improving the business environment (Portes et al. 1989). Third, it is associated with higher tax revenues, which can be used by the government to finance essential public goods and services such as infrastructure, education and healthcare (Bissinger 2023). Recent research in the APEC region shows that high levels of informality can cost economies around 5 percent of gross domestic product (GDP) in potential tax revenues (APEC PSU 2024a).

Research also indicates that widespread informality contributes directly to persistent poverty. According to an International Labour Organization (ILO) study, informal workers earned only 56 percent of the earnings of their formal-sector counterparts (ILO 2023). This wage gap, coupled with limited or non-existent social protections, leaves large segments of the population vulnerable to economic shocks and trapped in precarious employment (APEC PSU 2024a).

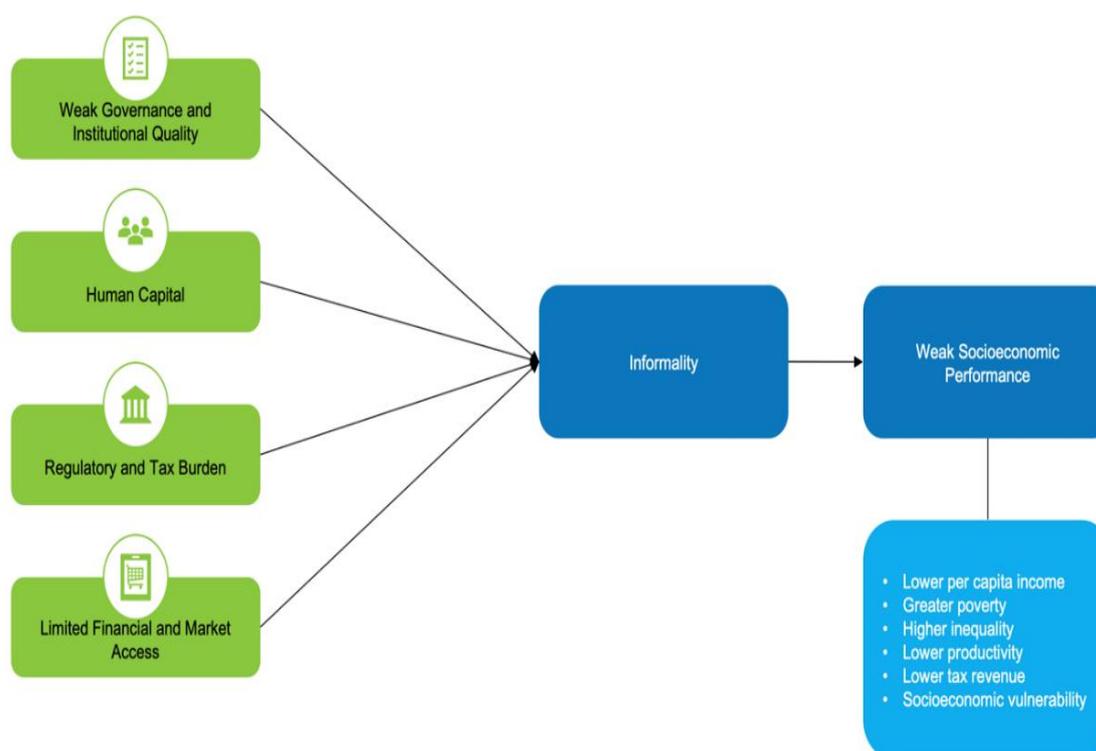
Recent analyses underscore the challenges posed by informality. Based on the World Bank's Informal Economy Database, informal output can range from 8.5 percent to as high as 59.4 percent of GDP across APEC member economies, indicating the scale at which unregulated or underregulated business activity occurs (APEC PSU 2022, 2024a). Prior studies underline a strong negative correlation between a growing informal sector and economic growth, with a 1 percentage point expansion in the size of the informal economy (as a share of GDP) associated with around a 4.9–7.7 percent decrease in GDP growth (Schneider 2005; Schneider and Hametner 2014). Such outcomes highlight how large informal sectors can undermine fiscal capacity and hamper public investment in infrastructure, healthcare and education – factors essential for sustaining high growth trajectories (APEC PSU 2024a).

Furthermore, high levels of informality are associated with lower levels of productivity, competitiveness and economic growth (Hart 1973). Informal businesses often lack access to financing options, preventing them from investing in machinery or employee training (Portes et al. 1989). The lack of social protection provisions can perpetuate poverty. From a governmental perspective, widespread informality erodes the tax base, reducing the public funds available for social services and infrastructure (Schneider et al. 2010).

2.1. THE ROOT CAUSES OF INFORMALITY

The persistence of informality can be explained by several factors, including weak governance and institutional quality, insufficient human capital, inadequate regulatory framework, the tax burden and limited financial and market access (ILO 2021a; APEC PSU 2024a; APEC SMEWG 2024), which are outlined in Figure 2.1. The magnitude of the impact of those factors on the rate of informality, however, differs across economies.

Figure 2.1. Root causes and effects of informality

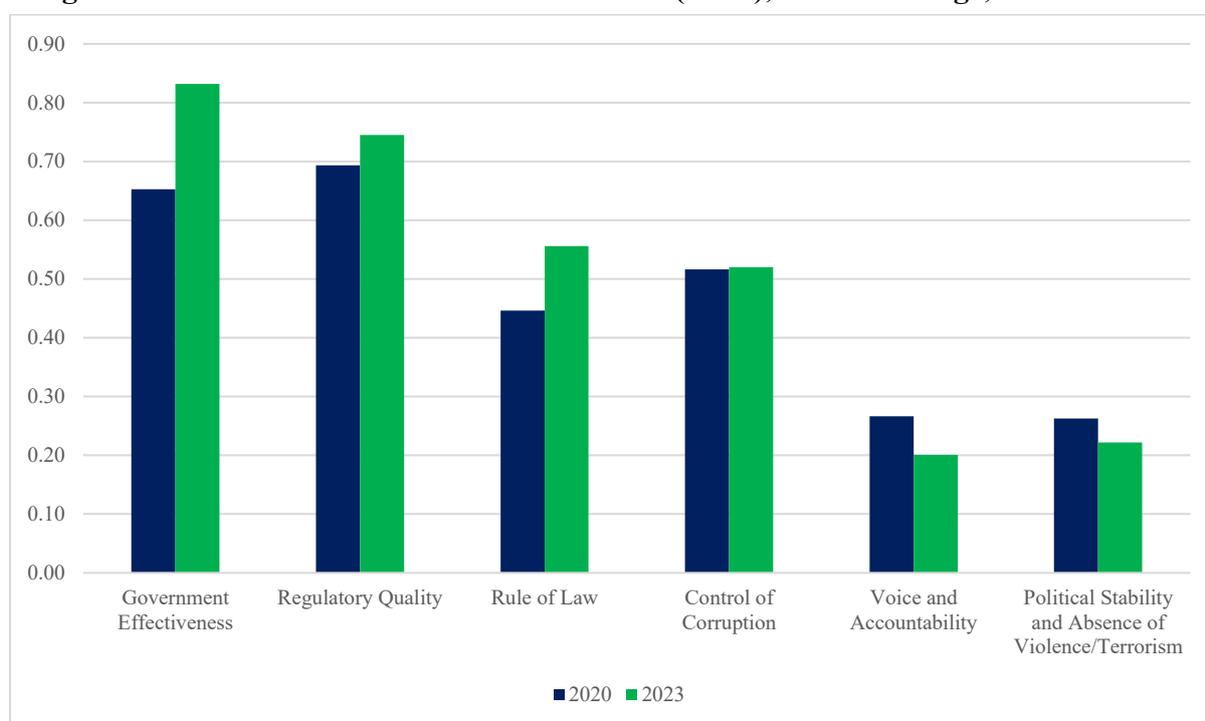


Source: Authors.

2.1.1. Weak governance and institutional quality

Governance and institutional quality are critical factors that explain the presence of informality in many economies. Inconsistent regulatory enforcement, overregulation in the labour market, rampant corruption and rent-seeking practices often drive individuals and businesses to operate outside the formal system to avoid institutional issues (OECD 2009; APEC PSU 2024a). These problems take away from the benefits of formalisation, creating an environment where remaining informal becomes a rational option for workers or firms to survive. Tackling this issue is typically related to addressing Types 2, 3 and 4 informality, as these informal actors might become formal if governance and institutional quality were improved and structural reforms were implemented.

Figure 2.2. Worldwide Governance Indicators (WGI), APEC average, 2000 and 2023



Note:

The score is measured on a scale from approximately -2.5 to 2.5, where the higher value corresponds to better governance. The estimation is presented in a standard normal distribution, meaning that roughly 99 percent of estimates will fall within that range but more extreme values may still be seen in rare cases.

1. **Government effectiveness** captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.
2. **Regulatory quality** captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.
3. **Rule of law** captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police and the courts, as well as the likelihood of crime and violence.
4. **Control of corruption** captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as 'capture' by elites and private interests.

5. **Voice and accountability** captures perceptions of the extent to which an economy's stakeholders are able to participate in the political sphere.
6. **Political stability and absence of violence/terrorism** measures perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism.

Source: World Bank WGI (accessed 29 June 2025).

Governance and institutional quality differ across APEC economies. The World Bank's Worldwide Governance Indicators (WGI) measure perceptions on the level of governance and institutional quality of more than 200 economies over the period 1996–2023 based on six dimensions (Kaufmann and Kraay 2024). Figure 2.2 presents the average of the scores of APEC economies on each of the six WGI dimensions. The data reveal that government effectiveness, regulatory quality and rule of law have shown progress between 2000 and 2023. The most notable improvements were observed in government effectiveness, which increased by 0.18 points, followed by rule of law, which rose 0.11 points. Regulatory quality in APEC economies also recorded a modest improvement, with the average score rising by 0.05 points, from 0.69 to 0.74. These positive trends reflect advancement in the capacity of public institutions, along with improvements in regulatory frameworks and legal enforcement, which contribute to strengthening public trust in government institutions across APEC economies.

Despite these improvements, the average score for control of corruption remained unchanged at 0.52 over the same period, suggesting that efforts to reduce corruption in APEC economies have shown limited or no progress. In addition, the average scores for voice and accountability, and for political stability and absence of violence/terrorism, declined, with average scores falling by 0.07 and 0.04 points, respectively. These declines underscore persistent challenges related to stakeholder participation and social stability in the region, which could undermine trust in formal economic institutions as well.

Inefficient institutions and poor governance can create barriers and deter business actors from entering the formal sector. Studies have shown that there is a strong association between weak governance and institutions and the prevalence of informality (Dabla-Norris et al. 2008; Mazhar 2015). The patterns highlight structural challenges in governance and institutional quality, particularly in economies with high informality. They underscore the importance of governance and institutional quality aimed at building efficient and transparent institutions, which are essential to creating a conducive business environment that promotes formalisation.

The persistence of an informal economy is also driven by the high financial burdens associated with formalisation, lack of information or knowledge on existing policies, and low levels of trust in government institutions (ILO 2021a). These challenges reflect broader issues of weak governance and institutional quality, which further affect decisions to formalise. Addressing these issues requires the implementation of effective monitoring and evaluation mechanisms that comprehensively capture all elements of decent work (ILO 2021a). Such efforts are essential to measuring good governance in public institutions, promoting public accountability and transparency and contributing to public trust in government (OECD 2020; ILO 2021a).

Advanced digital public infrastructure may also reduce the cost of formalisation through reliable digital government services and broader internet coverage (OECD 2024; ILO 2025).

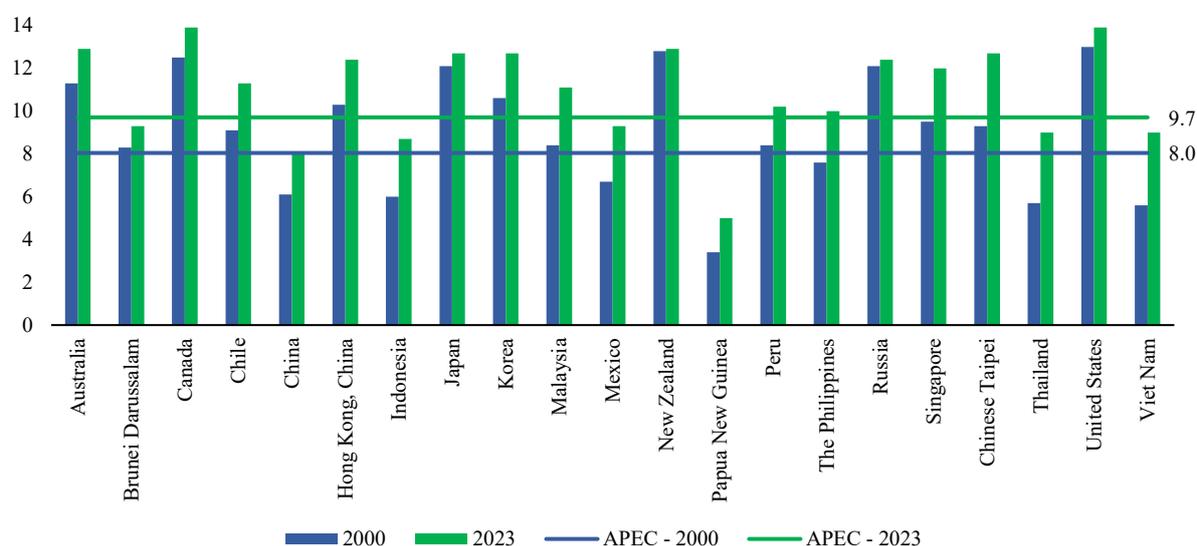
Reliable tools and infrastructure in government institutions will help strengthen and modernise institutional frameworks, fostering higher trust, which would encourage people to register their identities or businesses in the government database.

Improvements in governance and institutional quality are critical in addressing informality issues, particularly among Type 3 actors, who are typically deterred by regulatory burdens, and Type 4 actors, who are not adequately covered by the existing regulatory frameworks. It can also target Type 2 actors, who opt to remain informal due to the lack of effective governance and enforcement mechanisms.

2.1.2. Inadequate human capital development

The ILO (2018) highlights informality as a symptom of underdevelopment: informality is a result of low productivity of workers and firms, which is caused by structural factors such as inadequate human capital development (Loayza 2018). According to the Organisation for Economic Co-operation and Development (OECD), approximately 45 percent of informal workers have, at most, a primary level of education, and around 94 percent of workers with no education work in informal conditions and have very limited opportunities to access skill-enhancing resources (OECD 2024). Due to their lack of proper qualifications, informal employment is often the only option available for those with lower levels of education and skills. They also tend to be less productive due to their limited access to education and skills development. At the same time, employment in the informal sector limits their opportunities for skills upgrading and lifelong learning.

Figure 2.3. Mean years of schooling in APEC economies, 2000 and 2023



Note: Figures shown, including the APEC weighted average, are for population aged 25 years and older.

Source: United Nations Development Programme (UNDP) Human Development Index (HDI) (accessed 4 June 2025); Directorate General for Budget, Accounting and Statistics, Human Development Index (Chinese Taipei), (accessed 4 June 2025).

Over the past two decades, APEC member economies have seen improvements in educational attainment, reflected by the mean years of schooling for populations aged 25 and above, increasing from approximately 8.0 years in 2000 to 9.7 years in 2023 (Figure 2.3). A clear gap exists between industrialised and developing economies: the mean years of schooling in industrialised economies was 13.4 years in 2023, or 4.7 years longer than the average for developing economies in APEC. For APEC economies with mean years of schooling less than the APEC-wide average of 9.7 years, the average rate of informal output is around 4 percentage points higher relative to other economies with higher educational attainment. They also experience significantly higher rates of self-employment, around 26.4 percentage points higher than the rest of the APEC economies. This highlights the critical role of human capital in fostering a formal economy.

On the other hand, it should be noted that increased access to education does not necessarily translate to improvements in the quality of learning. Several studies highlight that schooling is not the same as learning (World Bank 2019c; Angrist et al. 2021; Glawe and Wagner 2022). Despite better educational access, many children and adolescents still lack basic literacy and simple numeracy skills (UNESCO Institute for Statistics 2017; World Bank 2019c). This gap poses a significant challenge to human capital development.

Education plays an essential role in the development of human capital. Beyond enhancing individual self-esteem, it helps expand individuals' access to and opportunities for decent work in the formal sector. Education is also a key driver of long-term economic growth, reducing poverty and spurring innovation (World Bank 2019c). A 2018 study by the World Bank found that without investment in adequate education and health systems – both of which are essential for human capital development – around 56 percent of children could potentially lose more than half of their productivity.

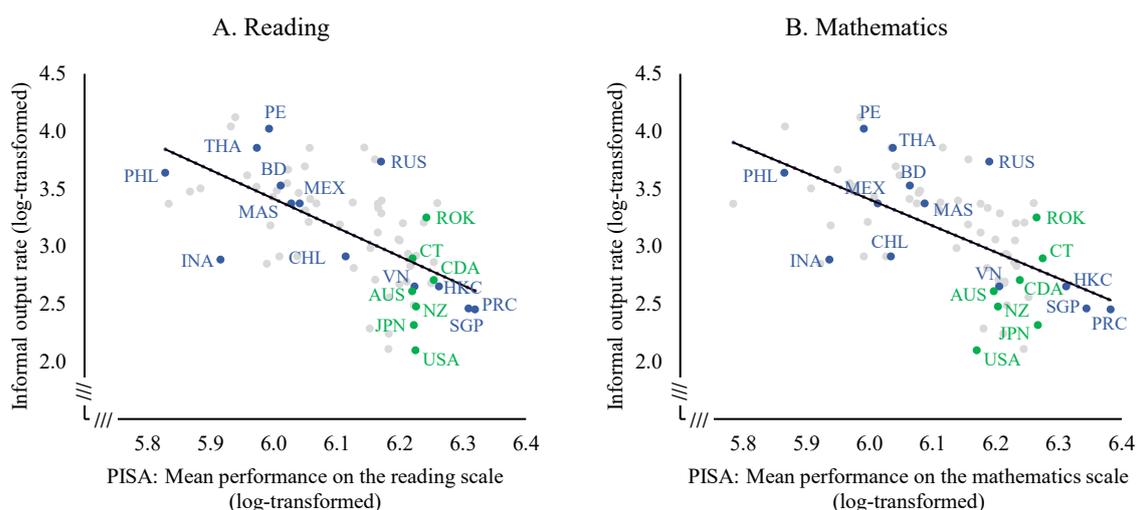
Figure 2.4 illustrates the correlation between learning outcomes and informality levels. Economies with higher learning outcome scores tend to exhibit lower informality levels, while those with poor learning outcomes experience higher rates of informality. This finding highlights the importance of quality education as a key driver of labour productivity, which can improve individuals' opportunities for transitioning into the formal sector (APEC PSU 2024a). It underscores the need to focus not only on expanding educational access but also on improving quality of learning.

In discussing skills development to address informality, it is also important to recognise cases of informal work resulting from mismatch between the skills acquired by an individual on the one hand and labour demand and availability of quality jobs on the other. In many labour markets, over-qualified individuals may work in informal jobs due to such mismatch (McGowan and Andrews 2017; ILO 2019b). This suggests that improving learning outcomes can help reduce informality (Ohnsorge and Yu 2022), particularly among Type 1 informal actors where low productivity is the major barrier to formalisation.

Skills development reflects an essential component of the formalisation process, as Type 1 informal actors are characterised by low productivity and limited formal qualifications (ITC 2015). Strengthening human capital quality through trainings, capacity-building programmes and the acquisition of digital skills is fundamental in navigating the transition from the informal

to the formal sector (Vasquez 2024). These efforts can boost enterprises' productivity and workers' employability, equipping them with new skills and competencies required to move into decent formal work arrangements (ILO 2014). In addition, targeted efforts can help improve workers' productivity and support them during transition, ensuring they are fully informed about their protections and obligations under formal economy arrangements (ILO 2021a).

Figure 2.4. Correlation between learning outcomes and informal output, 2018



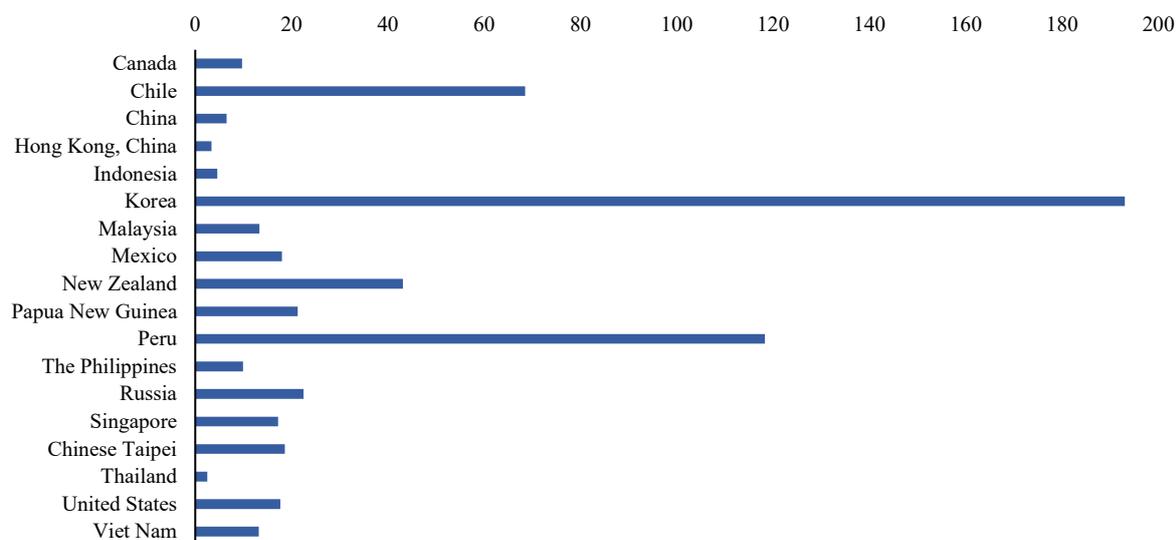
Developing APEC economies in blue. Industrialised APEC economies in green.

AUS=Australia; BD=Brunei Darussalam; CDA=Canada; CHL=Chile; PRC=China; HKC=Hong Kong, China; INA=Indonesia; JPN=Japan; ROK=Korea; MAS=Malaysia; MEX=Mexico; NZ=New Zealand; PNG=Papua New Guinea; PE=Peru; PHL=The Philippines; RUS=Russia; SGP=Singapore; CT=Chinese Taipei; THA=Thailand; USA=United States; VN=Viet Nam

Note: Programme for International Student Assessment (PISA) score data are not available for Papua New Guinea. Informal output utilised by the data analysis is a Multiple Indicators, Multiple Causes (MIMIC) estimation. Source: Calculated by authors based on Organisation for Economic Co-operation and Development (OECD), PISA (accessed 14 July 2025); World Bank Informal Economy Database (accessed 21 April 2025); and APEC PSU (2024a).

2.1.3. Regulatory and tax burdens

Complex bureaucracy, high costs and burdensome administrative procedures can discourage individuals and businesses from formalising their status and operations. This situation is particularly common among micro, small and medium enterprises (MSMEs), which are more likely to employ workers with a low-education background. Their small scale of business and low quality of human capital make formalisation difficult and time-consuming (APEC PSU 2024a).

Figure 2.5. Days to obtain an operating licence

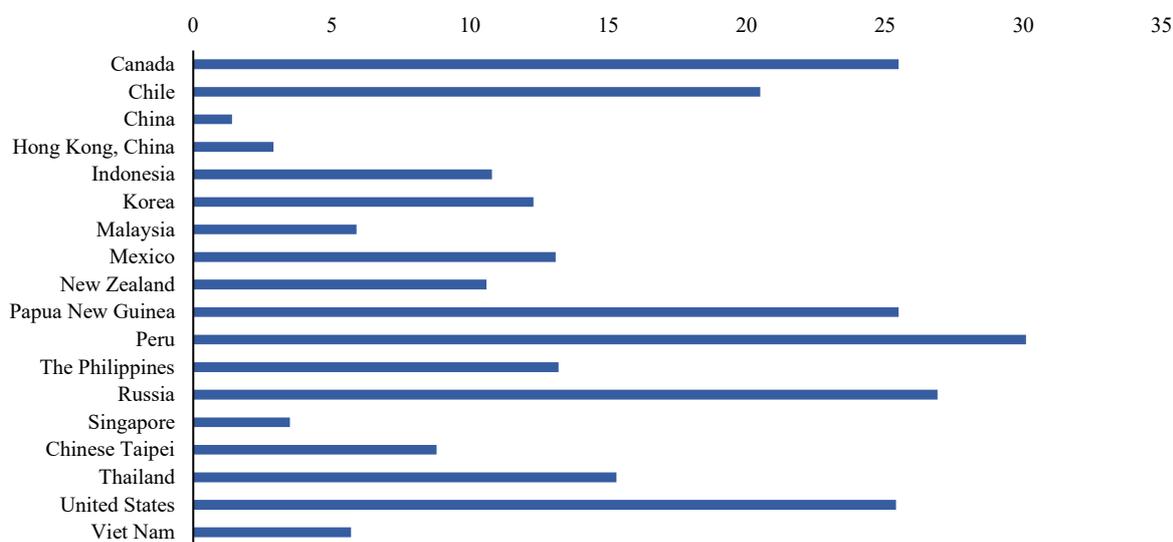
Note: Data as of 2024, except for Chile (2010); Thailand (2016); Russia (2019); and Hong Kong, China; Indonesia; Mexico; Peru; the Philippines; Singapore; and Viet Nam (2023). Data are not available for Australia; Brunei Darussalam; and Japan.

Source: World Bank Enterprise Surveys (accessed 4 June 2025).

Data from the World Bank Enterprise Surveys provide information on regulatory efficiency and procedures around the region. As can be seen in Figure 2.5, licensing procedures and time vary across APEC economies, reflecting wide differences in regulatory efficiency. Among APEC economies with high levels of informal output, Peru has the longest time to obtain an operating licence at approximately 118.3 days. A similar pattern is seen in Korea, which recorded the highest levels of informality among industrialised APEC economies; in that economy, it takes 193.1 days on average to obtain an operating licence.

Informal economies are also marked by high prevalence of tax non-payment (Besley and Persson 2014). Informal actors – often operating as small enterprises and with low income – usually lack the financial capacity to pay taxes and the skills to comply with taxation procedures and reporting requirements. In the face of complex tax administration, burdensome tax rates and weak or ineffective tax enforcement, the benefits of avoiding formal registration and operating outside the formal framework increase significantly for smaller firms. The level of trust that taxpayers have in government institutions is another important factor affecting the level of informality, with low levels of trust discouraging business and tax registration and compliance (Awasthi and Engelschalk 2018). Burdensome tax rates continue to pose a significant challenge to businesses in several economies, which has hindered private sector growth. Figure 2.6 shows the percentage of firms that identify this as an important issue.

Figure 2.6. Percent of small firms identifying tax burden as a major or very severe constraint on business operations



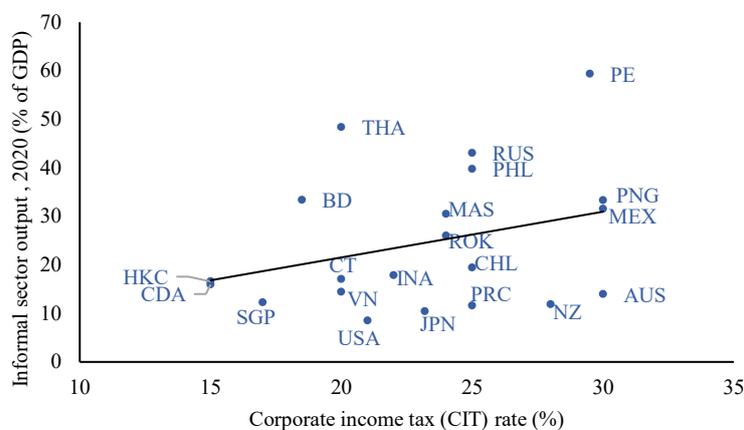
Note: Small firms are defined as those having less than 20 employees. Data as of 2024, except for Chile (2010); Thailand (2016); Russia (2019); and Hong Kong, China; Indonesia; Mexico; Peru; the Philippines; Singapore; and Viet Nam (2023). Data are not available for Australia; Brunei Darussalam; and Japan.
Source: World Bank Enterprise Surveys (accessed 4 June 2025).

However, lowering tax rates alone is not sufficient to induce firms and people to formalise. While higher tax rates are indeed correlated with larger informal sectors in APEC economies, this linkage is relatively weak and only explains 10 percent of the variation in informal sector output across economies when analysed in relation to corporate income tax rates (Figure 2.7). Reducing the tax burden should be targeted carefully to benefit informal workers and sectors who may be least able to pay them, while ensuring that government revenues remain stable.

Interventions should also look beyond reducing tax rates and include reforming tax and social protection systems that can reduce transaction and compliance costs (APEC PSU 2024a). Thoughtfully designed tax reform can serve as a powerful tool for transitioning informal economic activities into the formal sector.

An efficient, transparent and fair tax administration system makes it more likely that firms will be attracted to register and be tax mapped. In contrast, an overly complex and burdensome tax administration process can disincentivise firms from formalising their status and operations (De Leon Miranda and Nguyen 2025). Complexities in tax administration, coupled with burdensome tax rates, contribute to persistent informality. Although taxation is an important source of public revenue, excessive tax burdens and complex tax administration can draw individuals and businesses to the informal economy.

Figure 2.7. Correlation between corporate income tax (CIT) rates and informal sector output



AUS=Australia; BD=Brunei Darussalam; CDA=Canada; CHL=Chile; PRC=China; HKC=Hong Kong, China; INA=Indonesia; JPN=Japan; ROK=Korea; MAS=Malaysia; MEX=Mexico; NZ=New Zealand; PNG=Papua New Guinea; PE=Peru; PHL=The Philippines; RUS=Russia; SGP=Singapore; CT=Chinese Taipei; THA=Thailand; USA=United States; VN=Viet Nam

Source: World Bank Informal Economy Database (accessed 21 April 2025), APEC PSU (2024a), and economy tax data; authors' calculations.

Creating an enabling business environment can encourage the transition into the formal economy, as more accessible and efficient business settings affect informal actors' decision to formalise (APEC PSU 2024a). A comprehensive policy package that includes simple and streamlined regulations, as well as a robust enforcement system, can create a conducive business environment (Ohnsorge and Yu 2022; APEC PSU 2024a), allowing businesses to operate confidently within the regulatory framework.

Beyond regulatory simplification, the willingness of individuals and businesses to formalise will also increase once they realise that the benefits of formalisation outweigh the advantages of staying informal (Olomi et al. 2018; APEC PSU 2024a). To support this, it is crucial to balance well-designed policies with incentives for formalisation, for example, tax exemptions and preferential subsidies, which can help reduce the cost of formalisation and maintain competitiveness (ILO 2025).

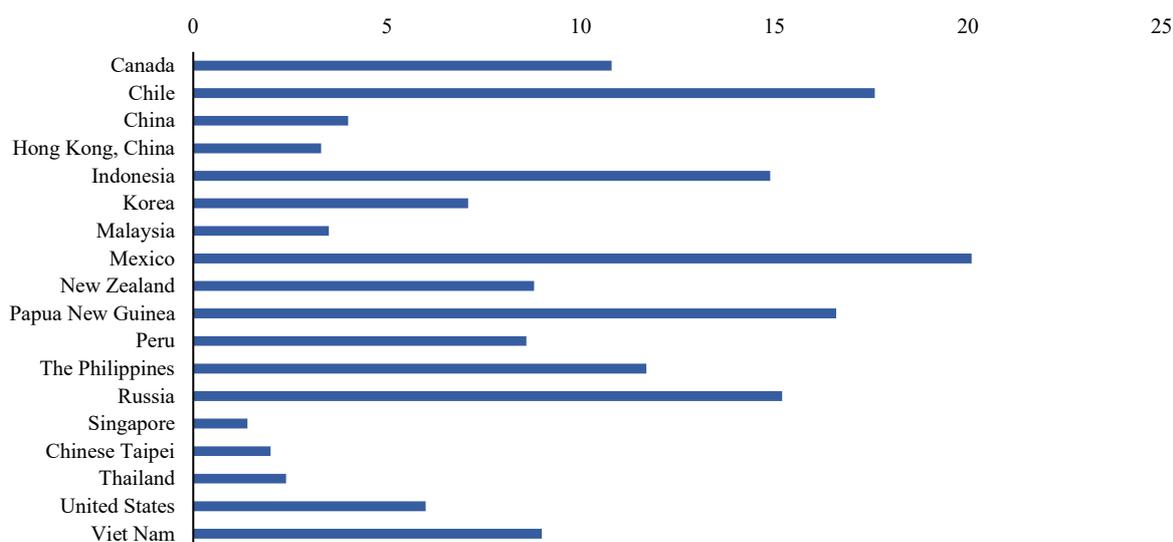
Such efforts are particularly relevant to address Type 2 informality, where choosing the informal economy is perceived as a rational decision to maximise profits, and Type 3, where informality is the result of substantial bureaucratic barriers to enter the formal sector.

2.1.4. Limited financial and market access

Financing is one of the key factors in shaping an individual's or firm's decision to operate within the formal or informal economy (Capasso et al. 2022). Informal sector actors are often credit-constrained and face limited access to finance, an issue that is particularly relevant to

Type 1 informality, which is characterised by low productivity and insufficient resources. As these firms' financial conditions improve and access to credit becomes more available, the opportunity cost of informality increases, encouraging them to shift toward the formal sector. Improved access to finance and broader market opportunities can significantly enhance productivity within the informal sector, thereby facilitating the transition toward formalisation. By reducing barriers to financial and market access, a more dynamic economic ecosystem can be fostered – one that supports business growth, promotes formal employment and contributes to economic growth.

Figure 2.8. Percent of firms identifying access to finance as a major or very severe constraint on operations



Note: Data as of 2024, except for Chile (2010); Thailand (2016); Russia (2019); and Hong Kong, China; Indonesia; Mexico; Peru; the Philippines; Singapore; and Viet Nam (2023). Data are not available for Australia; Brunei Darussalam; and Japan.

Source: World Bank Enterprise Surveys (accessed 4 June 2025).

Access to finance remains a challenge for businesses in several APEC economies, particularly in developing markets. Figure 2.8 presents data on firms' subjective assessment of difficulties obtaining financing. Respondent firms in Chile; Indonesia; Mexico; Papua New Guinea; and Russia reported the highest levels of financial constraint, with 14 to 20 percent of firms identifying access to finance as their main obstacle. Notably, Mexico and Papua New Guinea reported high levels of informal output, both exceeding 30 percent, while Indonesia recorded the highest informal employment rate at 81.2 percent. These patterns highlight a relationship between limited access to finance and the persistence of informality, indicating that better financial access may encourage formalisation.

Limited access to financial resources often hinders the transition to formality. As financial systems develop and credit becomes more accessible, the relative cost of remaining in the informal sector increases, making formalisation a more attractive and viable option (Capasso et al. 2022). Promoting financial access as part of broader strategies to improve access can positively impact all types of informality. For instance, better financial access can boost

productivity for those informally employed due to low efficiency (Type 1), provide incentives for voluntary formalisation (Type 2), reduce structural barriers to financial services (Type 3), and support gig workers by improving their welfare through greater access to credit and financial incentives.

Reducing barriers to MSME financing through non-collateral-based loans can improve access to finance for both formal and informal businesses. As will be discussed in Chapter 3, several APEC economies have introduced innovative non-collateral-based lending solutions, such as community-based lending, e-commerce sales-based financing, and invoice factoring. To ensure credit quality, effective monitoring mechanisms could be established, alongside capacity-building programmes that help borrowers grow their businesses while reducing the risk of loan default.

Credit guarantee programmes designed for registered businesses, can also serve as incentives for informal enterprises to expand and transition into the formal sector. Guarantee schemes help address the lack of credit history, which is often a key barrier to accessing financing. Establishing an effective credit guarantee programme requires strong coordination among key stakeholders, along with robust monitoring systems to ensure the programme's long-term sustainability and impact.

Market access is also a crucial factor contributing to the persistence of informality. Studies have shown that access to markets is one of the key drivers of business growth and economic development (Hochard and Barbier 2017; Cai and Szeidl 2018; Adler et al. 2020). Informal businesses are typically small and newly established, with limited access to broader markets compared to their formal counterparts. This restricted access often leads to lower productivity (Ohnsorge and Yu 2022; OECD 2023a), which is commonly associated with Type 1 informality. In this context, limited market access – whether due to domestic factors (e.g., inadequate infrastructure) or global factors (e.g., trade barriers) – can create significant obstacles for businesses attempting to transition to the formal sector (Ohnsorge and Yu 2022; OECD 2023a).

Furthermore, enabling access to broader market segments, for example, through public procurement opportunities and training programmes to expand to international markets, provides a strong incentive to formalise (ILO 2017). For small-scale business actors, improved market access can help them unlock new opportunities and enhance their competitiveness (J-PAL 2022). Ultimately, financial and market access not only address capacity constraints faced by informal actors, but also empower their transition to the formal economy. Hence, promoting greater MSME involvement in public procurement can begin with a strong policy commitment to allocate a specific percentage of contracts to MSMEs. This could then be supported by the development of user-friendly procurement platforms and tailored training programmes to help MSMEs navigate and participate effectively in the procurement process. The opportunity to access public procurement itself can act as an incentive for formalisation, since only registered MSMEs would be eligible to compete for these contracts.

2.2. ECONOMIC IMPACTS OF FORMALISATION

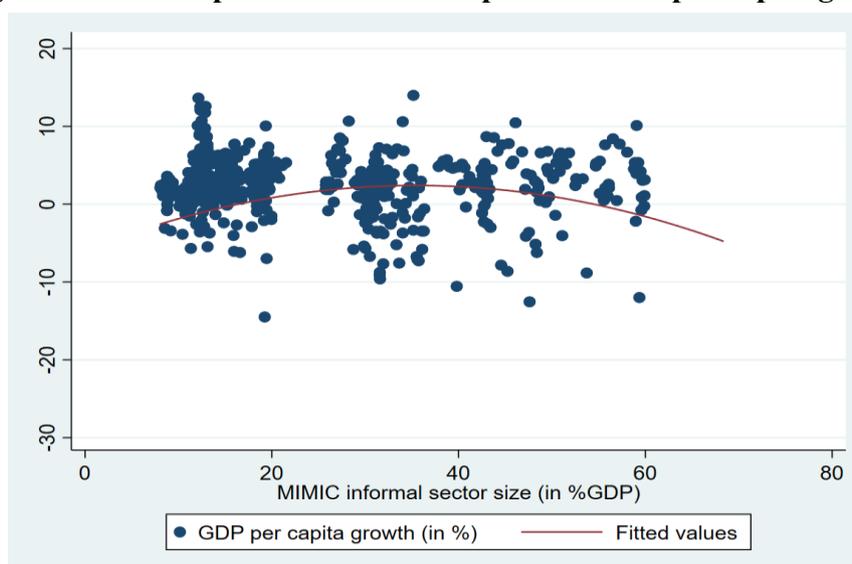
Informality remains a complex and multifaceted issue that continues to pose significant economic challenges. Research has indicated that informal employment and business practices often emerge in response to productivity, regulatory, institutional and market constraints (see section 2.1). While informality can offer short-term economic relief and flexibility, it frequently undermines long-term development goals.

In economies where informality has become a persistent and systemic issue, promoting a transition toward formalisation is not only desirable but imperative. Formalisation can lead to improved working conditions, enhanced productivity and greater economic resilience. However, this transition is rarely straightforward. It requires coordinated policy efforts, institutional reforms, and incentives that address the root causes of informality. Without such targeted interventions, informal actors may remain excluded from the benefits of formal economic participation.

2.2.1. Formalisation and economic growth

Informality and economic prosperity are deeply intertwined, with each influencing the other in complex and context-specific ways. One of the most scrutinised indicators of economic prosperity is GDP per capita, which serves as a proxy for average income and overall economic development. A simple examination of its relationship with global rates of informal output indicates a positive association, possibly pointing to a long-term association. However, the relationship appears to follow an inverted U-shaped pattern where informality is initially associated with higher growth before having a negative relationship (Figure 2.9).

Figure 2.9. Scatterplot of informal output and GDP per capita growth



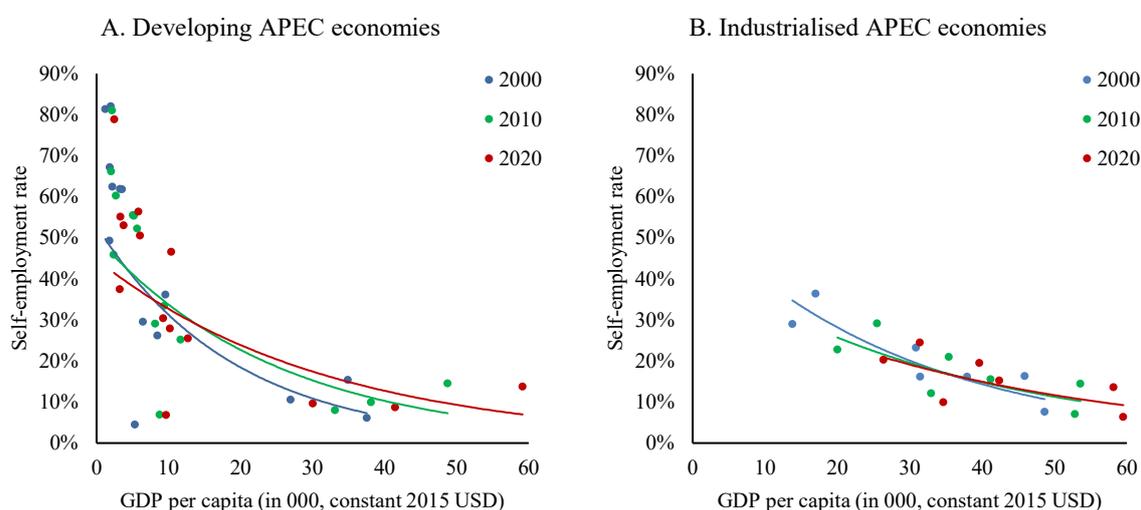
GDP=gross domestic product; MIMIC=Multiple Indicators, Multiple Causes

Note: The fitted-values curve is estimated by replicating the estimation strategy from Elgin and Birinci (2016).
Source: Data from the World Bank (accessed July 2025) and authors' calculations.

The inverted U-shaped pattern reflects the complex interplay between structural transformation, labour market dynamics and institutional capacity during different stages of economic development. In the early stages of development, as GDP per capita begins to rise, economies often experience rapid urbanisation and expansion of low-productivity service sectors (Mendez et al. 2023). These changes would lead to a surge in informal employment as formal job creation lags population growth, particularly in urban areas. Additionally, small enterprises and self-employment may flourish in the absence of strong regulatory frameworks, contributing to a rise in informality despite improving income levels. This phenomenon is indeed observed in developing APEC economies where the income levels are relatively lower (Figure 2.10A).

However, as economies mature and GDP per capita reaches higher levels, the trend typically reverses (see Figure 2.10B). Institutional quality improves, labour markets become more formalised, and access to education and social protection expands. These factors reduce the incentives and necessity for informal work, leading to a gradual decline in informality. In more industrialised economies, the informal sector tends to be smaller and more concentrated in niche areas. It is important to note, however, that movement from informality to the formal economy is not automatic, and formalisation isn't a necessary result of economic growth. As found by La Porta and Schleifer (2014), informal firms rarely transition to formality and can continue growing in the informal sector for decades, leading to a dual economy where the informal and formal coexist. A key factor that prevents formalisation, according to their research, is the lack of entrepreneurial and management skill in the informal sector (Type 1 informality). La Porta and Schleifer point to the need for education and skills upgrading, among others, to address this issue and encourage growth in the formal economy.

Figure 2.10. GDP per capita and self-employment rates in APEC economies

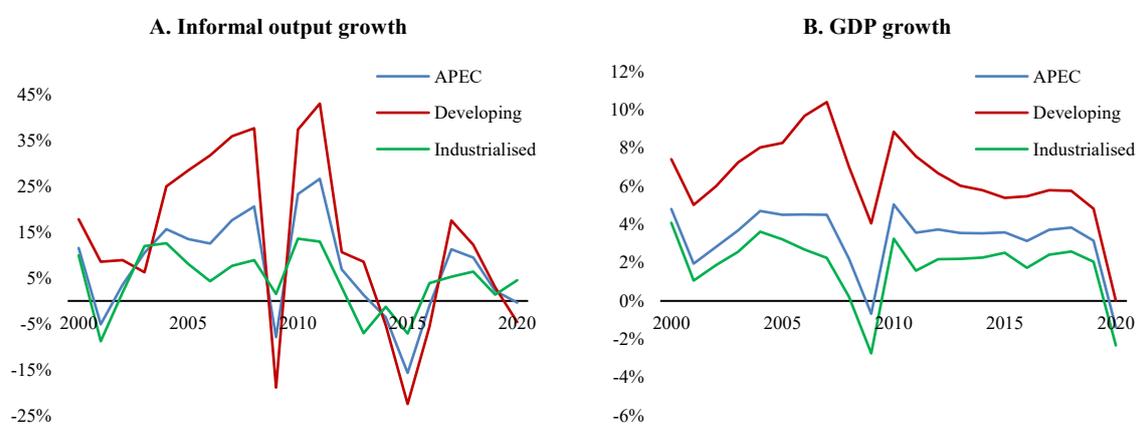


Note: Analysis is limited to years up to 2020 to ensure comparability with Figure 2.9 as informal output estimates are not available for subsequent years.

Source: International Labour Organization (ILO); World Bank; StatsAPEC (accessed 24 July 2025).

The inverted U is also reflected in the dynamics of the formal and informal sectors in economies of different income levels. Where income levels are relatively lower, the informal sector tends to be more volatile than the formal sector (Figure 2.11). For instance, during periods of economic expansion, such as in the post dot-com bubble and post-Great Financial Crisis years of 2000–2007 and 2010–2014 respectively, informal output in APEC developing economies on average grew about 19.7 percent per year. Contrast this to times of crisis, such as in the years 2009 and 2020, when informal output contracted on average by about 11.7 percent. On the other hand, the informal sector tends to be more stable in industrialised economies, with growth rates averaging 5.3 and 3.0 percent during the corresponding years of boom and bust, respectively. The responsiveness of the informal sector in developing economies to the business cycle points to the notion that this sector is one of the main economic engines in these economies.

Figure 2.11. Informal output and GDP growth in APEC



Source: APEC Policy Support Unit (PSU) staff calculation based on data from World Bank; APEC PSU (2024a); and StatsAPEC (accessed 24 July 2025).

It is also interesting to see that in industrialised economies, there is a tendency for the informal sector to be countercyclical, that is, it remains expanding even during the years of negative GDP growth. This represents another evidence pointing to the difference in the nature of the informal sector in developing and industrialised economies. During economic downturns when formal jobs are lost, the informal sector in industrialised economies may act as a cushion that quickly absorbs workers displaced from the formal sector. For instance, during the COVID-19 pandemic, data shows that industrialised APEC economies shed only 60,400 self-employment jobs in Q2 2020 while formal paid employment was reduced by 21 million.³ Considering the pandemic situation at the time, the reduction in self-employment could be considered relatively

³ APEC Policy Support Unit (PSU) staff calculation based on data from the International Labour Organization (ILO). Quarterly data are only available for six industrialised economies (Australia; Canada; Japan; Korea; New Zealand; and the United States).

mented as this represented only a 0.2 percent drop compared to the preceding quarter.⁴ Contrast this to the situation in the developing economies where both self-employment and formal paid employment figures fell significantly, shedding 71 million self-employment jobs and 109 million formal employment jobs during the same period.⁵

An example of the informal sector acting as a cushion can also be seen with the rise of gig workers during the COVID-19 pandemic in early 2020. In the United States, millions of workers turned to gig economy platforms, such as ride-sharing and delivery apps or online freelancing, after losing formal sector jobs. One analysis suggests that between 6.7–12 percent of gig workers had been laid off from previous employment as opposed to 5.4 percent for the overall workforce (Holtz-Eakin et al. 2017). Further, a study from the Massachusetts Institute of Technology (MIT) shows that laid-off workers with access to a ride-hailing platform were 4.8 percent less likely to rely on the unemployment insurance (MIT Sloan School of Management 2020). These studies highlight that, in industrialised economies, the informal sector steps in as a labour market shock absorber during recessions.

Policies aimed at promoting formalisation should emphasise incentives to informal actors rather than penalties. As found by La Porta and Schleifer (2014), policies that make it easier to do business and raise entrepreneurial skills perform better than policies that tax or penalise informal firms. This is especially appropriate in early stages of development when the informal sector plays a more significant role in growing the economy. However, as the economy matures, the informal sector could slow down growth as it faces scale issues, but at the same time it may not yet be able to overcome the barriers to formalise. As such, incentives would ideally be in place to induce informal actors to formalise as soon as they are able to do so. This aligns with Afavi et al. (2023), which highlights that long-term growth policy should incentivise the formalisation of the informal sector rather than constrain its development or focus solely on the formal sector.

2.2.2. Formalisation and broad-based growth

Related to the issue of economic prosperity is the dynamics between the informal economy and poverty, with the two being deeply interwoven and often reinforcing each other. In many developing economies, a significant share of the population works outside the formal sector because formal jobs are scarce. The fact that income levels are relatively lower in developing economies highlights how informality is both a consequence and a cause of underdevelopment. Poorer economies have larger informal sectors, and those large informal sectors in turn make it harder to reduce poverty.

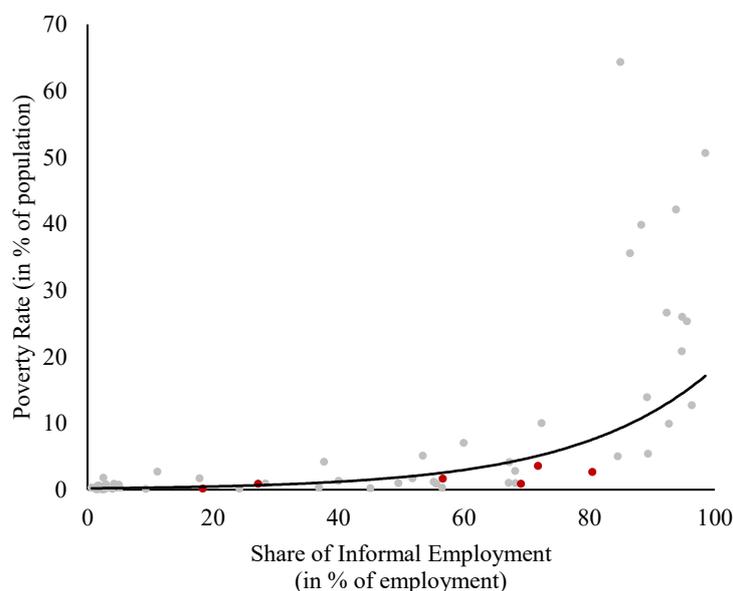
There is a significant overlap between working informally and being poor. Data show that informal workers are far more likely to live in poverty than formal sector workers, and this relationship accelerates with higher informal employment rates (Figure 2.12). Although

⁴ APEC PSU staff calculation based on data from the ILO. There were, respectively, 27.48 million and 27.42 million self-employed individuals in Q1 and Q2 of 2020 in the six industrialised economies mentioned in footnote 3

⁵ APEC PSU staff calculation based on data from the ILO. Quarterly data are only available for seven developing economies (Chile; Mexico; Peru; the Philippines; Russia; Thailand; and Viet Nam).

informality presents economic opportunities for low-skilled workers and prevents them from extreme poverty in the short run, it can nevertheless hinder income convergence between industrialised and developing economies in the long run (Docquier et al. 2017).

Figure 2.12. Correlation between informal employment and poverty rate, 2019–2023



Note: Data for Canada; the Philippines; Thailand, and the United States are not available for informal employment. Data for Brunei Darussalam and Korea are not available for poverty rate. Data for Australia; China; Hong Kong, China; Japan; Malaysia; New Zealand; Papua New Guinea; Singapore; and Chinese Taipei are not available for both informal employment and poverty rate. The poverty headcount ratio is based on the USD 2.15 per person per day (2017 PPP) threshold.

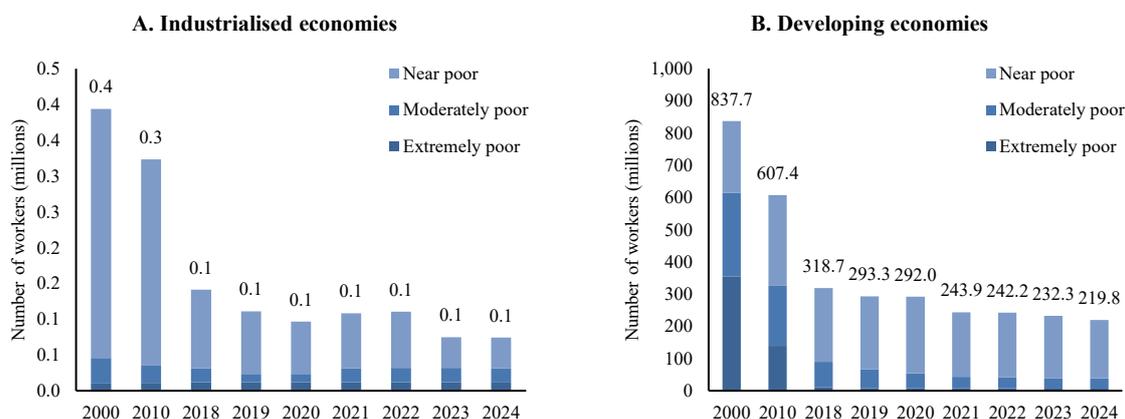
Source: ILO Statistics and World Development Indicators (accessed 23 April 2025), calculated by the Consultant.

The absorptive nature of the informal sector in industrialised economies can be further seen by the spike in the number of near and moderately poor individuals in the years after the COVID-19 pandemic. In these economies, the number of such individuals rose from 85,000 in 2020 to around 96,600 to 98,900 in the subsequent two years, representing a jump of about 14–17 percent from the 2020 figure (Figure 2.13A). On the other hand, the number of extremely poor workers in these economies has remained relatively stable at around 11,000 to 12,000 individuals since 2010. When examined together with the change in informal output and self-employment figures during the same period, this clearly shows the role of the informal sector as a sort of safety net in industrialised economies.

On the other hand, the same data show the subsistence nature of informal employment in developing economies. Despite the impacts of the COVID-19 pandemic, the share of the working poor noticeably decreased in developing economies from 25 percent of working individuals in 2020 to around 20 percent in the subsequent two years, representing a decrease of 49 million individuals (Figure 2.13). The number of better-off workers also kept increasing,

from 875 million to 954 million between 2020 and 2022.⁶ This was attributed especially to the near poor who crossed the poverty line, as shown by the reduction in the share of this group from 20.4 percent of working individuals in 2020 to 16.8 percent in 2022, a 3.6 percentage point reduction over the two years.⁶

Figure 2.13. Number of working poor in APEC economies



Note: Data for Australia; Brunei Darussalam; Canada; Japan; New Zealand; Singapore; and the United States are not available. The poverty rates for the near, moderately and extremely poor groups are at USD 2.15, USD 3.65 and USD 6.85 per person per day, respectively (2017 PPP).

Source: APEC PSU staff calculation based on data from the ILO (accessed 24 July 2025).

Informal employment plays a dual role in relation to poverty. It is both a mitigator of immediate hardship and, in some ways, a cause of longer-term economic stagnation. The informal sector acts as a critical safety net for millions of poor individuals. It provides a means for people to earn something rather than nothing. During crises or recessions, the informal sector often expands as laid-off workers turn to side jobs or self-employment. This absorptive capacity prevents even worse spikes in unemployment and extreme poverty in the short term. In developing economies, an informal job such as selling food by the roadside or doing domestic work is what puts meals on the table each day for millions of people.

The evolution of formalisation and poverty reduction can be assessed from two policy perspectives, that is, labour market and social policy that drive poverty reduction, or institutional and enforcement policy that improves formalisation.

First, studies from Latin America and Indonesia show that a minimum wage can be seen as an important driver of poverty alleviation. However, both contexts suggest that the spillover effects on the informal sector are limited, since a minimum wage primarily targets formal sector workers and may even induce greater informality as firms seek to avoid compliance obligations (Hohberg and Lay 2015; Parente 2024). This underscores the importance of complementary policies, including human capital development, to enable informal workers' transition to the

⁶ APEC PSU staff calculation based on data from the ILO. Data are not available for Brunei Darussalam.

formal sector or institutional and enforcement policy to monitor minimum wage implementation.

Human capital investment can drive poverty reduction not only through direct impacts on productivity, but also through improved opportunities for formalisation. Research highlights that better education incentivises both workers and firms to formalise since more educated or skilled economic actors tend to enter the formal sector, which offers higher income (Haanwinckel and Soares 2017), enabling them to exit from poverty. Second, evidence suggests that formalisation through business registration reform encourages firms to enter the formal sector and it impacts positively on both firms' profits and economic growth (Khamis 2014). Enforcement policy, such as in tax compliance, is also critical to inducing formalisation, which in turn affects poverty reduction as the resulting public revenue could be invested in social services and safety nets. However, it is important to highlight that better governance capacity has a significant role in managing public resources. Therefore, an integrated approach combining employment and social policy and institutional reform may be needed to promote both formalisation and poverty reduction.

2.2.3. Total factor productivity and formality

Total factor productivity (TFP) is an essential parameter in assessing economic development. Rather than focusing on single input productivity, the indicator captures the overall effectiveness of how inputs are transformed into outputs. TFP serves as a key driver of long-run economic growth, enabling economies to increase their economic performance by focusing on improvements in TFP enablers, such as in institutional quality, human capital and technological innovation.

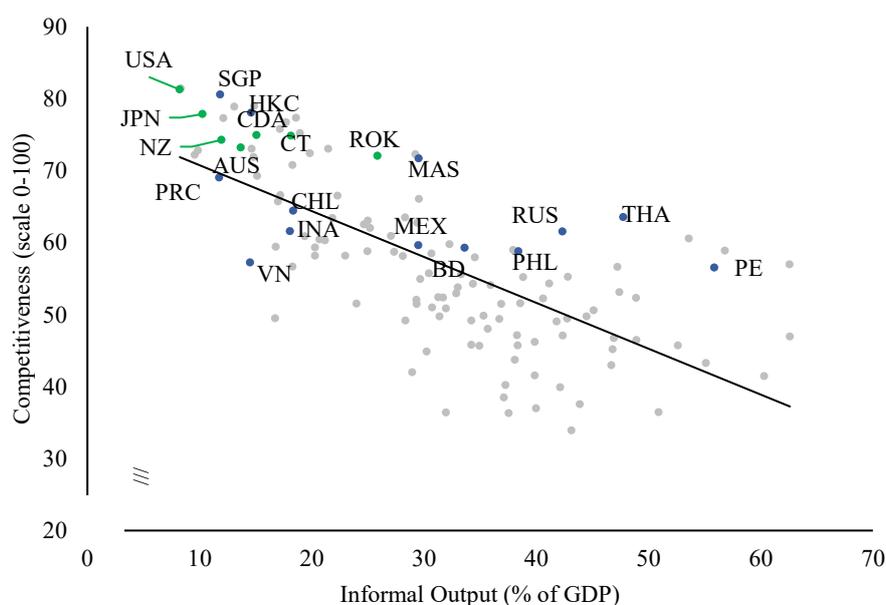
A study by Lambert et al. (2020) shows a gap between formal- and informal-sector TFP, with TFP in the formal sector growing positively while it remains stagnant in the informal sector. Prior studies have also highlighted how formalisation can improve productivity. For instance, a study by Busso et al. (2012) using Mexico data shows that productivity among informal sector firms increases substantially after formalisation. An earlier study by Perry et al. (2007) shows substantial TFP growth in Argentina and Brazil following efforts toward formalisation.

In addition, a study in Viet Nam, using data from small and medium enterprises (SMEs) in the manufacturing sector from 2005 to 2015, also suggests that formalisation, through government enforcement of registration compliance, has a positive impact on firm performance, with registered enterprises exhibiting higher productivity than informal firms (Lay and Tafese 2020). Formalisation can be focused on foundational TFP enablers such as institutional quality and human capital development, wherein those can be interrelated or even become the main drivers of efforts to improve productivity through other enablers such as technology and public infrastructure development (Teixeira and Queirós 2016; Gani 2017; Loayza 2018; Habib et al. 2019).

A strong and negative association is observed between informal output and competitiveness, suggesting that a higher level of informality in an economy is associated with lower competitiveness (Figure 2.14). Industrialised economies consistently exhibit stronger

performance, as shown by their high level of competitiveness and high formalisation. On average, the informal sector contributes only about 14.7 percent to the total GDP of industrialised economies with an average competitiveness score of 76 out of 100. In contrast, developing economies tend to exhibit higher informality, with informal output averaging 28 percent of GDP, and a lower competitiveness score of only 65 out of 100.

Figure 2.14. Correlation of informal output and competitiveness, 2015–2019



Notes: Data is not available for Papua New Guinea.

Source: World Bank Informal Economy Database (accessed July 2025); APEC PSU (2024a); and World Economic Forum, calculated by the authors.

3. STRUCTURAL REFORM FOR FORMALISATION

As discussed in the previous chapter, the informal economy has a nuanced relationship with economic growth, at times providing a countercyclical employment and production cushion during economic downturns. However, the informal economy could also be a drag on productivity and further economic growth, which points to the need for formalisation. Studies also show that formalisation is not an automatic process: informal sector firms tend to stay in the informal sector and an economy's preexisting structure is an important determinant of the speed and trajectory of formalisation (La Porta and Sheifler, 2014; Chacaltana et al. 2022). As such, policy interventions and structural reforms have been implemented by various APEC economies to promote formalisation in their economies.

Table 3.1. Mapping of key policies/programmes on formalisation in APEC economies

Areas	Policies or Programmes in APEC Economies
Quality of human capital	Enhancing skills and capacity to support the transition to the formal economy
	Policies and programmes improving access to formalisation
Governance and institutional quality	Promoting institutional reform and modernisation in government services
	Investing in infrastructure and enablers for digitalisation in public services
Regulatory and tax burdens	Improving business registration and licensing
	Promoting regulatory awareness to support enforcement
	Providing government support and incentives to drive formalisation
	Addressing formalisation through tax reform
Financial and market access	Expanding financial access to promote formalisation
	Programmes to improve market access

Many APEC economies have introduced initiatives aimed at reducing structural barriers to support the transition to formalisation or to improve existing formalisation frameworks in pursuit of economic growth. These efforts primarily target four root causes of informality as discussed in section 2.1: (1) weak governance and institutional quality; (2) challenges in human capital development; (3) regulatory and tax burdens; and (4) limited access to finance and markets. While these initiatives may not directly trigger informal economic actors to formalise, they highlight the benefits of formalisation, from survival-driven Type 1 informality to structural-gap-driven Type 4 informality (see section 1.2). In particular, several APEC economies have begun to address Type 4 informality by including the gig economy within their policy frameworks, either by incorporating it into tax legislation or by launching programmes that support its growth as a crucial driver of future economic development.

This chapter takes stock of policies and programmes across APEC economies that address the root causes of informality (see Table 3.1)⁷.

3.1. POLICIES AND PROGRAMMES TO STRENGTHEN THE QUALITY OF HUMAN CAPITAL

3.1.1. Enhancing skills and capacity to support the transition to the formal economy

Improving skills and building capacity are essential to enable individuals and businesses to transition from the informal to the formal economy. By equipping workers, aspiring entrepreneurs and micro, small and medium enterprises (MSMEs) with the necessary competencies, APEC economies can enhance the quality of human capital required to expand access to formal economic opportunities.

Training and facilitation for individuals to formalise

Across APEC economies, many individuals are constrained by the lack of relevant skills and employment opportunities to enter the formal workforce. To tackle this issue, some economies in the region have introduced a range of programmes to enhance workforce competencies, align training with labour market demand and expand access to employment services. These initiatives can improve employability and potentially facilitate the transition from informal to formal work, especially when supported by certification.

Thailand's Five-Year Skill Development Plan (2023–2027) targets informal workers through dedicated reskilling initiatives. For the 2025 fiscal year, the government aims to reskill 16,000 informal workers through tailored training programmes that support productivity and the transition into formal employment. Furthermore, inter-ministerial coordination and public–private partnerships have enabled the alignment of training content and skill standards with industry needs. Individuals holding certified credentials are entitled to higher minimum wages based on their proficiency levels. This system helps reduce labour market information asymmetries, increases wage transparency and supports the integration of certified workers into formal employment and value chains.

In Indonesia, the Pre-Employment Card (*Kartu Prakerja*) programme was launched in 2020 to help strengthen workplace competencies among jobseekers, laid-off workers and those who need further job skills development. The programme offers more than 6,000 training courses, available both in online and offline arrangements, supported with direct cash incentives for eligible participants successfully completing the programme. As of October 2024, this initiative has served more than 18.9 million beneficiaries. The programme has successfully improved workforce readiness and supported the transition to the formal labour market by boosting beneficiaries' confidence during their job search efforts (CSIS Indonesia 2021) and expanding their chances to be employed (DEFINIT and ADB 2023). According to a 2021 study by Presisi Indonesia, beneficiaries also experience higher incomes after completing the

⁷ The updates in this chapter have been prepared based on economies' submissions, which are not endorsed by the APEC Economic Committee. They are provided for information purposes only and do not guide the work of the Economic Committee.

programme, with female beneficiaries getting 33 percent higher income compared to female non-beneficiaries in Indonesia (Kamalina 2024).

Employment facilitation centres may also provide crucial support for job matching and skills alignment to access formal employment, as seen in China; Peru; and the Philippines. China maintains an expansive public employment services (PES) system, spanning five administrative levels (central, provincial, city, county and street/community). These centres provide ten core services, including policy consultation, information sharing, job matching and employment assistance. In urban centres like Shanghai and Xi'an, essential employment services are accessible within a 15-minute walking distance, called '15-minute employment service circles', integrating employment assistance, entrepreneurship support and skills training services (ILO 2024).

Peru's Integrated Centre (*Centro Integrado Formalizate Ahora* – CIFA) offers career guidance, training, and technical assistance to individuals and businesses interested in formalising their status or learning more about the benefits of being formalised. Through its 34 offices, CIFA has provided a total of 254,737 services throughout Peru in 2024, supporting the achievement of 27,363 formalised individuals – more than doubling that of the previous year, which was recorded at 12,925 individuals. Alongside the implementation of Peru's Policy on Decent Employment and its Labour Formalisation Fairs, CIFA has contributed to lowering the informal employment rate to 70.9 percent in 2024, a substantial decrease from 74.0 percent in 2022 (EPEN⁸).

In the Philippines, only 24 percent of Filipino workers are classified as highly skilled. Additionally, 67 percent of companies in the Philippines cite skill gaps in the labour market as a primary barrier to business transformation. As a response, the government implemented employment facilitation programmes through Public Employment Service Offices (PESO). Local government units (LGUs), in coordination with the Department of Labour and Employment, support jobseekers by offering career guidance, job-matching services and referrals to employers. PESO's online job portal management systems provided referrals to 5.4 million jobseekers in 2023–2024.

Equipping aspiring entrepreneurs with the necessary skills to run a business

Besides its role as a vehicle for job creation, entrepreneurship is also an accessible pathway into the formal economy for individuals lacking access to conventional wage-earning jobs in established firms. However, some people face structural barriers to starting a business, such as limited access to capital, low business acumen and lack of networks, all of which reduce their likelihood of sustaining and growing the business at a later stage. Some APEC economies have experimented with tailored interventions designed to address these issues and encourage higher participation in the formal sector through entrepreneurship.

In response to Viet Nam's broader objectives of fostering innovation and reducing youth unemployment, the government established Youth Entrepreneurship Support (YES) 2022–

⁸ See <https://www.datosabiertos.gob.pe/dataset/encuesta-permanente-de-empleo-nacional-epen-2025-trimestre-m%C3%B3vil-may-jun-jul-instituto>

2030 with the goal of supporting around 12,000 young entrepreneurs, including 2,000 start-ups. Beyond providing training on starting a business, access to capital, and developing distribution channels; this programme also offers guidance and resources from advisory councils and supporting institutions at the provincial level. Furthermore, Viet Nam has integrated entrepreneurship education in vocational/high schools and higher education, under Government Project 1665 – Supporting Students and Young People in Starting Businesses by 2025.⁹ Introduced in 2017, this policy encourages educational institutions to update their pedagogical approaches by introducing an entrepreneurial mindset and business knowledge in the curricula as well as facilitating practical business experiences, such as start-up contests, mentorship and business idea incubation.

In 2018, Bank Islam Brunei Darussalam (BIBD) introduced the Special Underprivileged Mothers Empowerment Entrepreneurship Development (BIBD SEED) programme to empower and facilitate underprivileged mothers to become competitive, resilient and successful entrepreneurs. The 15-month programme consists of four phases that provide continuous monitoring and coaching under close observation and mentoring from representatives in related industries and local training facilitators. As of 2023, a total of 233 women had participated in the BIBD SEED bootcamp. Five female entrepreneurs completed the fourth cohort programme in 2022 (BIBD 2022). This increased to 12 in 2023, with half focusing on the food and beverages sector and the rest in other service sectors (BIBD 2023).

In collaboration with other economies, Brunei Darussalam actively supported aspiring women entrepreneurs through capacity building. For example, the Academy for Women Entrepreneurs (AWE) programme provides business-related learning capacity-building modules over a period of six months to enhance their skills and foster entrepreneurial growth. The programme has been successfully implemented for four cohorts of participants, benefiting 83 women entrepreneurs. Moreover, Enhancing Digital Economy Participation for ASEAN Women MSMEs (known as the IDEAS project), an ASEAN–Korea Cooperation initiative launched in Brunei Darussalam in June 2024, elevates women entrepreneurs through comprehensive modules covering key skills required to thrive in the digital economy, including business model generation, e-commerce and digital marketing.

Strengthening the capacity of MSMEs to participate in the formal economy

MSMEs collectively are the largest employers in many economies, yet they are underrepresented in the formal sector due in part to limited access to resources, knowledge and regulatory navigation tools. Strengthening the capacity of MSMEs, therefore, may also be considered as a key strategy to support their transition to the formal economy. By providing targeted support – ranging from trainings and shared facilities to formalisation assistance – governments can enhance the productivity of small businesses, enhance their regulatory compliance and support economic growth in the long run.

In the Philippines, micro businesses face intense competition from larger firms, often lacking the scale and resources to compete on price, marketing or innovation, thus limiting their participation in the formal economy. To address this issue, the government promotes

⁹ Government of Viet Nam, Prime Minister Decision No. 1665/QĐ-TTg, 30 October 2017.

enterprise-based training programmes, including apprenticeships and dual training,¹⁰ to assist in capacity building for these businesses. In addition, the Shared Service Facilities (SSF) initiative administered by the Department of Trade and Industry provides MSMEs with shared access to modern equipment, technical training and productivity tools. As of 2024, 3,651 SSF projects have been implemented economy-wide, benefiting nearly 700,000 enterprises, over half of them being MSMEs. The SSF initiative has also generated 386,000 jobs in the agri-processing and manufacturing industries (The Philippines' Department of Trade and Industry n.d.)

The model of comprehensive and integrated support delivered through business centres can be found in several APEC economies. Offering one-stop services from advisory to trainings, these centres help MSMEs navigate the formalisation process and enhance operational capacity. Through a network of SME Centres, Singapore firms can gain access to business advisory support, including free business diagnosis. Staffed with experienced business advisors, these centres assist entrepreneurs in identifying capability gaps, and developing robust business plans and growth strategies tailored to their specific needs. The advisors also help connect businesses to relevant government schemes and support mechanisms, while industry specialists provide targeted guidance for sector-specific challenges. This integrated support system ensures that entrepreneurs, especially those new to business ownership, have access to professional expertise and practical assistance as they navigate the early stages of their business journey.

In the United States, over 1,000 Small Business Development Centres (SBDCs) offer wide-ranging assistance – from counselling and trainings (business, financial, marketing, access to capital) to special programmes and assistance, such as in international trade, procurement, or venture capital formation. Established through a collaborative effort among the government, private sector and educational community, the centres had encouraged the creation of 15,794 new businesses and 80,995 new full-time jobs by 2023 (America's SBDCs n.d.). Similarly, *Centros México Emprende* (Mexico Entrepreneurship Centres) provides advisory services and networks to government support/programmes, business and financial consulting, and trainings/courses to support entrepreneurs and businesses through 189 centres across Mexico (Pymempresario n.d.)

Instilling digital literacy to improve employability and productivity

Digital literacy is increasingly recognised as a foundational skill for both individual and enterprise participation in the formal economy, especially in responding to rapid digitalisation post-pandemic (Bashir 2020; OECD 2023b). Digitalisation has the potential to influence business formalisation positively, primarily through increased productivity and business motivation (APEC SMEWG 2025). However, a lack of digital skills remains a major barrier. Several APEC economies have introduced programmes and initiatives to enhance digital readiness to accelerate the transition to formal and resilient business models.

¹⁰ The dual training system, as defined by the Philippines' Technical Education and Skills Development Authority (TESDA), is a learning modality that provides in-school and on-site training interventions following a mutually-designed competency-based curriculum and outcome-based training plan without prior notice and advice to the local government unit concerned.

Aimed at addressing unemployment in Brunei Darussalam, Coding.bn is a learning programme to train youth jobseekers in the necessary in-demand programming skills so they are more employable and industry-ready. For Bruneian MSMEs, the government introduced a new initiative in line with Digital Economy Masterplan 2025 called Tech Clinic, a platform for MSMEs to seek technical advisory services for adoption of digital technologies in their businesses. For rural development, the Philippines' Digital Cities 2025 initiative offers digital literacy trainings to support expansion of Information Technology and Business Process Management (IT-BPM) business districts and investment hubs beyond the capital region (Quitzon and Poling 2024; DICT et al. 2025).

Information technology and digitalisation are enablers of productivity for business operations. In assisting MSMEs' transition to digital operations, the government of the Philippines offers free webinars and resources under the 'Ctrl+Biz Reboot Now!' initiative. Another similar example is found in New Zealand's Digital Boost programme that helps small businesses digitally transform their operating models through the adoption of digital hardware and software, process changes, new skills and capabilities, and deeper insights into their business through data. The programme also has a focus on innovation (e.g., artificial intelligence (AI) and natural language processing (NLP)) to build a small business owners' knowledge, skills, confidence and trust in adopting digital tools for business resilience and growth. The programme has demonstrated a positive impact on business outcomes for participants who registered between April 2022 and January 2023, with around 17 percent of the businesses reporting increased revenue; 26 percent reporting increased business resilience; and 23 percent reporting less time spent on existing business tasks (Rangahau Aotearoa Research New Zealand 2023).

3.2. POLICIES AND PROGRAMMES TO ADDRESS WEAK GOVERNANCE AND INSTITUTIONAL QUALITY

3.2.1. Promoting institutional reforms and modernisation in government services

Efforts to promote formalisation are significantly influenced by the accessibility, affordability and responsiveness of government institutions. According to the International Labour Organization (ILO), the success of formalisation reforms hinges on strengthening governance systems to ensure that regulatory procedures are simplified, transparent and increasingly accessible through digital platforms (ILO 2022). APEC economies have increasingly adopted reform and modernisation of government services to reduce barriers to formalisation and promote compliance with formalisation policies.

Removing cost and information barriers to access public services

The associated costs of formalising are among the main concerns for individuals in transitioning to formal work. To reduce financial barriers for first-time jobseekers, the First Time Jobseekers Assistance Act in the Philippines waives government fees for essential documents required for first-time jobseekers.¹¹ The eGov PH App is a unified mobile platform

¹¹ Republic of the Philippines, *First Time Jobseekers Assistance Act* (R.A. 11261), 2019, https://lawphil.net/statutes/repacts/ra2019/ra_11261_2019.html

that promotes ease of doing business between the government of the Philippines and citizens and supports business formalisation through digital services. It also includes the eBusiness platform for managing registration, compliance and operations.

Barriers to formalisation are also driven by challenges in accessing information related to public services, such as navigating complex information, fragmented information across different agencies, time involved as well as geographical distance to government offices. All of these can be simplified through a single portal (ILO 2022), as implemented by many APEC economies, including Mexico and Russia.

Mexico City's Llave CDMX is a digital platform linked to the Unique Population Registry Code (*Clave Única de Registro de Población* – CURP), which allows users access to public services via a single login. The Llave CDMX platform supports the government's efforts to cut administrative procedures by minimising physical procedures, with 190 procedures being fully digitalised. It has also saved the government around MXN 1.3 billion (USD 69.6 million) by reducing opportunities for corruption as well as providing simplified and clearer processes for the public (Lee Kuan Yew World City Prize 2024). As of August 2023, total Llave CDMX users had reached 5.7 million (Goldsmith and Nagler 2023).

Russia's Unified Portal and App of Federal and Municipal Services (Gosuslugi) facilitates interactions between its people and the government, improving accessibility to government and municipal services. By selecting their region on the portal, users are able to see which services are provided by local departments of federal executive bodies, executive regional bodies, and local government bodies in their region. Gosuslugi.ru, the main e-government website, recorded over 112 million registered users in 2024 – an increase of roughly 30 percent from 2018.¹² The Gosuslugi mobile app is one of the most downloaded apps in the economy.

Promoting effective governance and monitoring mechanisms

Poor institutional capacity – including weak and inadequate compliance systems as well as the lack of transparency and accountability of public institutions – exacerbates the persistence of informality. These challenges reinforce informality not only by creating inefficient public services, but also by eroding public trust in the formal system (ILO 2025). To facilitate compliance, labour inspectorates play a key role in ensuring formal employment. However, many economies have limited capacity in terms of labour inspectors to perform this role (Kring and Elder 2022). The use of information and communication technology (ICT) can assist with labour oversight capabilities, as seen in Peru and Korea.

With its high level of labour informality – further exacerbated by the COVID-19 pandemic – Peru established digital tools to modernise the labour inspection system, namely the *Verifica tu Chamba* (Check Your Job) mobile application and the Documentary Inspection system. These tools empower workers to verify whether their employer has registered them in the electronic payroll system. If the worker is not listed, the system will automatically generate an electronic alert to labour inspection authorities and require voluntary correction to avoid direct

¹² See <https://digital.gov.ru/activity/gosuslugi> and <https://digital.gov.ru/news/podvedeny-itogi-raboty-portala-gosuslug-za-2018-god>.

inspection, such as submission of information related to compliance through the Labour Inspection Information System (*Sistema Informático de la Inspección de Trabajo – SIIT*). The system is supported by interoperability with other applications and close coordination among government agencies for data sharing as well as operational execution.

Verifica tu Chamba has generated over 2 million queries since its launch, contributing to the formalisation of 142,894 workers in 2024 alone. The Documentary Inspection system processed over 156,000 letters in 2023–2024, leading to the formalisation of 207,304 workers in 2024, which represent 56 percent of the 373,367 formalised workers that year. These digital tools not only expanded the reach and efficiency of labour inspections, but also lowered operational costs and improved public confidence in labour oversight.

Another example of digital innovation to assist the labour inspectorate’s role in monitoring compliance is the Electronic Civil Petition System in Korea. This system allows workers or employers to send online petitions to the labour inspectorate – such as wage arrears claims, petitions for labour inspection, and occupational safety and health complaints – eliminating the need to make a physical appearance at the inspectorate’s offices. Furthermore, by performing data analytics, the Information System of Labor Inspection Administration can prioritise inspections based on risk profiling, allowing targeted inspection for enforcement measures (Kring and Elder 2022).

3.2.2. Investing in infrastructure and enablers for digitalisation

Economies with higher levels of economic development often invest in advanced digital public infrastructure, which reduces the cost of formalisation through reliable digital government services and broader internet coverage (OECD 2024; ILO 2025). Reliable data infrastructure in government agencies is crucial for ensuring the data protection of registered workers and businesses, fostering higher trust from stakeholders to register their identities in the government database. As digital infrastructure coverage expands and reaches a wider segment of population in the economy, many individuals throughout the economy have easier access to register or become formal. Beyond internet connectivity, essential frameworks may be needed to facilitate a seamless transition to formality while generating trust in digital systems.

Reducing the digital divide

Many APEC economies face a persistent digital divide, with significant disparities in internet access not only limiting opportunities to participate in the digital economy but also hindering the use of digital tools for formalisation. A study by Korwatanasakul (2024), using firm-level data across 28 economies, shows that there is a significant and positive relationship between digitalisation and formalisation; i.e., a digitalised firm is more likely to formalise. Digitalisation not only raises firm productivity but also reduces compliance costs, both of which contribute to formalisation. The same study finds that digitalisation enables firm participation in global value chains, which raises the benefits of formalisation to tap into international markets.

Indonesia, constrained by its archipelagic geography, is challenged in fostering economic growth by a digital divide. To support digital infrastructure in remote, outermost and frontier

areas, where access to terrestrial networks is limited, the Indonesian government launched the SATRIA-1 satellite in 2023 to provide high-speed internet connectivity for vital public services, such as healthcare, education and government services.

The ‘Broadband China’ strategy has dramatically expanded rural connectivity. Between 2015 and 2022, over 130,000 administrative villages were connected to fibre-optic networks and 60,000 4G-base stations were built in rural areas, lifting broadband coverage in rural China from under 70 percent to 100 percent (Global Times 2022; Wang 2022). The gigabit city programme, launched under the same umbrella policy, further enhances digital access in urban areas, covering a total 110 cities across China (Ecns.cn 2022). This initiative has delivered positive impact on business productivity, business digitisation, labour income level, innovation and entrepreneurship, and knowledge dissemination (He et al. 2024).

Some APEC economies provide free access at selected areas, especially at key public places or targeted areas. The Korean government, in partnership with telecommunication companies, provides free public Wi-Fi (wififree.kr) at frequently visited public spaces, such as buses, community centres and traditional markets. This free public Wi-Fi has been instrumental in reducing barriers to digital access, enabling low-income individuals to engage with online job portals, access government services and participate in digital literacy programmes. Similarly, Mexico City’s free Wi-Fi provides internet access, particularly to the most remote periphery areas, public schools and transportation hubs citywide. From 2019 to 2024, this initiative has increased the number of free public Wi-Fi hotspots from 98 to around 34,000, enabling access to digital services and information for all (Lee Kuan Yew World City Prize 2024).

To improve affordability of access to digital services for low-income households, some APEC economies provide a subsidy scheme as a form of support. Mexico introduced the Connectivity for Well-being (*Conectividad para el Bienestar*) initiative. This programme distributes free subscriber identity module (SIM) cards with a monthly internet quota as well as phone call and short message service (SMS) quotas that cost four times cheaper than the general internet package. As of the third quarter of 2024, over 1.1 million SIM cards have been distributed, particularly targeting individuals in high-poverty areas (Telecommunications Investment Promotion Agency 2025).

Foundational digital tools

Apart from connectivity to access digital services, other enabling infrastructure for digital tools may be needed to support formalisation. Implementation of these tools may facilitate registration for and access to public services, and enhance trust in digital transactions.

Scheduled for launch by the end of 2026, the Digital Corporate Identity (CorpID) Platform is under development in Hong Kong, China to authenticate companies using digital signatures and reduce the administrative burden of manual procedures. This system complements the unique business identifier (UBI), which enables seamless data exchange across government departments and businesses, reducing potential duplication and errors in various transactions and regulatory processes. Singapore has implemented a similar model through the Unique Entity Number (UEN), a standardised corporate identifier used for licensing, taxation and government support schemes. Singapore Corporate Access (or CorpPass) is a corporate digital

identity for business users that utilises each company's unique UEN to securely transact with government agencies and non-government entities online, including transactions related to taxes and other payments.

Korea stands at the forefront of digital identity innovation through the adoption of self-sovereign identity (SSI) frameworks enabled by blockchain technology. The implementation of blockchain technologies, one of the most secure forms of technology available, will assist the economy's efforts to ensure data protection. Furthermore, the decentralised approach in blockchain technology will enable control over personal data, overcoming the lack of privacy that hinders individuals' trust in e-government platforms.

On the other hand, effective deployment of digital infrastructure and tools requires a digitally competent civil service. Korea has institutionalised information technology (IT) trainings for government employees as well as developed a civil service culture promoting continuous skills development linked to professional evaluation systems. The extensive capacity-building effort for the public service in technical areas related to digitalisation has been one of the key factors contributing to the success of e-government in Korea (Kring and Elder 2022).

3.3. POLICIES AND PROGRAMMES TO IMPROVE REGULATORY AND TAX BURDENS

3.3.1. Improving business registration and licensing

Navigating regulatory procedures and the associated costs can be burdensome for individuals and businesses, hindering their willingness to shift to the formal sector. Digitised processes and one-stop-shop systems can drastically lower the time, costs, and knowledge barriers that often deter informal labour and enterprises from formalising (Klapper et al. 2019).

Several APEC economies have adopted digital platforms that serve as one-stop shops to remove those barriers. ChileAtiende is a multi-channel network that connects individuals and businesses with public institutions' services through a single and integrated platform, to simplify procedures and reduce costs of engaging with the government (APEC PSU 2024a). One of the key services provided under ChileAtiende is *Tu Empresa en un Día* (Your Company in a Day) – an online platform that enables anyone to register a business in less than 24 hours using a free electronic form. This platform has successfully reduced the overall registration procedure from around three months to just five days, as well as the cost of registration from USD 790 to USD 27 (ILO 2019a).

The Business Registration Service (register.business.gov.au) of Australia serves as a single place where businesses can apply for key business and tax registrations. It takes around 15 minutes to register a business through the service, and the system provides free educational materials, including a quiz to assess the potential business structure and registrations required. In Brunei Darussalam, the Registry of Companies and Business Names reduced the time to register a business to less than 24 hours. Together with other reform measures, this has helped Brunei Darussalam to jump 42 places to 16th on the indicator for starting a business in the Doing Business 2018 report (OECD and ASEAN 2020).

Hong Kong, China has made substantial progress in digitalising business licensing. Since mid-2024, all licences and government services involving application and approval (about 1,480 items in total) and forms (over 3,800) have been digitalised, enabling submission of the application, payment, and collection of documents by electronic means, with exceptions due to law or international practice. In addition to streamlining the licensing process into a single application, Indonesia's Online Single Submission (OSS) system also provides micro businesses with legal recognition through the issuance of a Business Identification Number (*Nomor Induk Berusaha* – NIB), thus transforming them into formal businesses eligible for access to government incentives and support schemes.

While digital systems offer immense potential for simplifying regulatory procedures, the implementation is not without challenges. The use of online forms for government services in Japan is among the lowest in the OECD, which has hindered the development of digital service provision (Oguro et al. 2021). *Hanko* (physical personal seal) remains widely used for many official procedures. The establishment of the Digital Agency in 2021 marked a major institutional reform for Japan's digital transformation initiatives. As part of its mandate, the agency launched a roadmap for the review of about 10,000 provisions in law, which specify regulations requiring paper-based and in-person processes. In cooperation with the ministries and agencies responsible for law, the agency aims to eliminate such analogue requirements by 2024 (Digital Agency of Japan 2024).

3.3.2. Promoting regulatory awareness to support enforcement

Improvements in business registration and licensing alone may be insufficient to promote formalisation. Knowledge or regulatory awareness can become a challenge that may hinder regulatory compliance. In Indonesia, only 30 percent of MSMEs have utilised the OSS due to lack of awareness and low digital literacy.¹³ The Philippines also faced the same challenges. A study on local tourism business operations in the southern Philippines, for instance, highlights gaps in regulatory awareness and different levels of compliance with mandatory regulations (Jesther et al. 2024).

Other APEC economies like Singapore and Thailand also faced the same issues. Singapore highlighted that among the challenges that businesses may face is unfamiliarity with regulatory procedures, in addition to administrative or compliance costs.¹⁴ Thailand acknowledged that for informal workers, limited awareness of rights and available services prevents the workers from accessing government protections and benefits. For SMEs, Thailand observed that lack of digital literacy and financial knowledge has hindered their ability to comply with formal processes. Fear of audits, tax obligations and lack of understanding of tax incentives discourage registration, while bureaucratic complexity and documentation requirements further deter formalisation.¹⁵

¹³ Indonesia Individual Economy Report (IER).

¹⁴ Singapore IER.

¹⁵ Thailand IER.

Dedicated information centres to support regulatory awareness

To address the lack of regulatory awareness, Indonesia established 100 Integrated Business Service Centres (*Pusat Layanan Usaha Terpadu* – PLUT) in various regions, a collaboration between the central and regional governments. These PLUTs involve local communities, and offer free coaching, mentorship and business consultation to help micro businesses formalise their operations and access market opportunities.¹⁶

While Indonesia relies on brick-and-mortar centres, Australia takes a different approach by leveraging digital technology to raise regulatory awareness among small businesses. The government of Australia recognises that limited time and the cost of understanding regulations are key barriers that prevent small business owners from joining the formal economy. To address this, it established [business.gov.au](https://www.business.gov.au) as a central support platform for the Australian business community. This online portal simplifies access to government services, and provides expert guidance and essential business resources, helping entrepreneurs more easily navigate regulatory requirements. Additionally, Australia recently introduced its first Small Business Strategy, a principles-based framework aimed at improving coordination and collaboration across jurisdictions. The framework emphasises proportionate compliance and administrative processes, particularly for smaller businesses.¹⁷

Thailand adopted a similar approach through SME Connex, a platform developed by the Office of Small and Medium Enterprises Promotion to support SMEs across various sectors in Thailand. Through a unified SME ONE ID, SMEs can engage with government agencies seamlessly, reducing the administrative burden and fostering greater compliance with formal business regulations. These reforms collectively enhance the enabling environment for workers and businesses to transition into the formal economy.¹⁸

Hong Kong, China adopted a hybrid model through the SME ReachOut initiative, which provides dedicated information and advisory services to support SMEs, both online and offline. This service aims to provide SMEs with information on government support measures, help SMEs identify suitable government funding schemes and answer questions relating to applications through one-on-one consultations, promotion activities, visits to chambers of commerce, and virtual platforms such as online social media.¹⁹ In addition to offering support through a dedicated web portal, SME ReachOut also provides free in-person consultations at business premises, co-working spaces and trade chambers (Support and Consultation Centre for SMEs 2025).

¹⁶ Indonesia IER.

¹⁷ Australia IER.

¹⁸ Thailand IER.

¹⁹ Hong Kong, China IER.

Educational outreach through campaigns and events

Regulatory awareness can also be promoted through campaign and event initiatives. The Philippines, for instance, conducted economy-wide campaigns on the benefit of formalisation, to raise awareness and increase understanding of the challenges encountered by informal businesses (ILO 2025).

Peru adopted a slightly different approach that promotes regulatory compliance through its Labour Formalisation Fairs. In the first quarter of 2025, 184 events were held, including 55 fairs, 58 forums and 71 mobile service modules, throughout the economy. Furthermore, the government provides guidance that explains the benefits of formalisation through regulatory compliance. Peru's experience highlights that combining supervision with technical support significantly improves companies' willingness to comply with the regulatory framework applicable to micro and small enterprises in industry and domestic trade. This is because they perceive a government that not only supervises but also facilitates, supports and guides.²⁰

To improve regulatory awareness among workers, employers and other key stakeholders, Mexico introduced the Mexico Awareness Raising Project (MAP) in 2021. The initiative aims to support the promotion of Mexico's 2019 labour reform by helping stakeholders gain a clearer understanding of the new regulations and effectively implement the reformed labour system. MAP was funded by the United States under the United States–Mexico–Canada Agreement and ran for 4.5 years until June 2025. Since its launch, MAP successfully reached over 162 million workers through social media campaigns and has delivered digital trainings to 45 public officials to strengthen their communication on the labour reform (Partners of the Americas n.d.; US Department of Labor n.d.).

Hong Kong, China carried out a similar initiative through its Labour Department, which undertakes a wide range of promotional and publicity activities to raise awareness among employees and employers about their rights and obligations under the labour laws. These efforts include organising seminars and workshops on key labour legislation. Through these initiatives, the government ensures that both employers and employees are well informed on their legal protections and responsibilities, thereby fostering a culture of compliance and harmonious employment relationships while strengthening protection for workers. These efforts may encourage greater participation in the formal labour market.²¹

Enhancing public awareness, running campaigns to highlight the benefits and opportunities of transitioning to, and engaging with, the formal economy are important steps toward economic growth. In addition, complementary instruments such as education and facilitation play a vital role in achieving policy objectives. In response to these challenges, Thailand plans to intensify its awareness campaign in the short term. Led by local governments and community networks, the campaign aims to inform informal workers about their rights, the benefits of formalisation and the services available to support their transition into the formal economy.²²

²⁰ Peru IER.

²¹ Hong Kong, China IER.

²² Thailand IER.

3.3.3. Providing government support and incentives to drive formalisation

Firms and workers assess the costs and benefits of formalisation when deciding whether to participate in the formal economy. De Soto (1989) argues that complex legal frameworks and limited advantages from formalisation discourage engagement with formal markets. While reducing regulatory burdens has always been on the agenda of APEC economies, to address the issue of informality, policymakers adopted a mix of strategies to ensure that the benefits of formalisation outweigh the cost of pursuing it. These include social protection, pension funds, income support for low income or informal workers and financial incentives to selected sectors.

Strengthening social protection coverage

Limited access to social protection is a defining feature of the informal sector in many economies (Kring and Elder 2022). In response, the expansion of contributory social insurance schemes has emerged as a key strategy to promote formalisation in several APEC economies, by extending social insurance to informal workers as an incentive for them to transition into the formal economy (APEC PSU 2024a). By linking formal status to tangible benefits – such as healthcare services, work injury compensation and future pension entitlements – governments can aim to make formalisation more attractive and rewarding. Robust social safety nets that encourage workforce participation and support workforce training, reskilling and upskilling can play a critical role in reducing the economic vulnerabilities that often keep individuals and households trapped in informality. When paired with broader policy efforts, expanding social protection can be a powerful catalyst to gradually integrate more workers into the formal labour market (APEC PSU 2024a).

Some APEC economies have introduced initiatives aimed at improving workers' welfare and broadening access to social protection, including healthcare and pension schemes (APEC 2024b). Hong Kong, China, for instance, developed an employee protection programme where retrenched employees may apply to the Protection of Wages on Insolvency Fund (PWIF) for ex-gratia payment in cases where an employer ceases their business and defaults on severance payments. To enhance the protection for these employees, the Hong Kong, China government raised the maximum amount of ex-gratia severance payment under the PWIF from HKD 100,000 (USD 12,700) plus 50 percent of any excess entitlement to HKD 200,000 (USD 25,400) plus 50 percent of any excess entitlement, starting in March 2025.²³

²³ Hong Kong, China IER.

Strengthening social protection has also become Thailand's agenda. In line with its medium-term strategies, the government has expanded social protection coverage and welfare to all workers, including informal and older workers, by improving contribution schemes and benefits to offer more diverse and flexible options. Thailand's Economic and Social Development Plan (2023–2027) also seeks to amend labour laws to extend protections to new employment models such as gig and platform workers.²⁴

Korea has established an integrated social protection information platform, known as the Social Security Information System, to effectively meet the diverse welfare needs of its citizens and to provide appropriate social protection benefits and services tailored to the requirements of each stage of the life cycle. This platform consolidates various income, asset and personal data, thereby enabling the delivery of a total of 511 types of social protection benefits and services administered by the central and local governments. Furthermore, to ensure the efficient provision of these benefits and services, the Korea Social Security Information Service (SSIS) was established to support the operation of the integrated social protection information platform. To further strengthen labour market efficiency, the Korea Employment Information Service was established to collect, analyse and disseminate comprehensive labour market data, enabling the government to make timely and evidence-based policy decisions (Kring and Elder 2022).

Another important labour market initiative is pension programmes. Chile made a pivotal shift in the economy's Universal Guaranteed Pension (*Pensión Garantizada Universal* – PGU) framework, introducing a structurally mixed pension system that combines individual savings with a new social insurance pillar. It introduced a new 7 percent employer contribution, with 2.5 percent allocated to a redistributive social insurance pillar and 4.5 percent to individual accounts. The reform also introduced benefits and rewards for contributed years to incentivise formal employment over time. The reform also created the Autonomous Pension Protection Fund (FAPP) and extended coverage to informal and previously excluded workers, with a projection of over 435,000 new PGU beneficiaries by 2025. This initiative is being rolled out over nine years to ease the burden on SMEs, and it includes governance improvements to promote competition and lower administrative costs. By linking formal employment to enhanced pension benefits and social protections, the reform not only strengthens social cohesion but also introduces stronger incentives for participation in the formal economy.²⁵

²⁴ Thailand IER.

²⁵ Chile IER and Case Study.

Box 3.1. Formalising gig workers in Malaysia

Technological advancement has significantly reshaped the labour market, leading to a surge in job opportunities via digital platforms and fuelling the expansion of the gig economy. According to McKinsey & Company, gig workers encompass a broad spectrum of individuals earning income outside of traditional employment structures (Manyika et al. 2016). This category includes the self-employed, independent contractors, freelancers, temporary workers, certain small business owners and individuals engaged in short-term assignments through staffing agencies. In some economies, gig work can be classified as being part of the informal sector, with workers operating outside formal labour regulations and, as a result, lacking access to employment benefits and social protection systems (Datta et al. 2023).

People choose to participate in gig work for a variety of reasons, including the desire for flexible working hours, the need to supplement their income or challenges in securing stable, full-time employment. According to the World Bank report, *Working without Borders: The Promise and Peril of Online Gig Work*, global demand for gig work increased by 41 percent between 2016 and the first quarter of 2023, with most of this growth driven by high-income economies (Datta et al. 2023). Within the APEC region itself, the gig economy's share of the total labour force varies widely, ranging from 0.7 percent to 38.1 percent (APEC PSU 2024b). As this sector continues to grow, concerns about inadequate job protections have emerged (Hussein 2023): many gig workers face uncertainty and insufficient protection stemming from their ambiguous legal status (Cohen et al. 2023, cited in Katiyatiya and Lubisi 2024). While governments in many economies have taken steps to establish legal frameworks, these efforts can face resistance and avoidance (Ro 2022).

Recognising these issues, Malaysia has developed policy measures to reduce the vulnerability of gig workers, who accounted for 17.5 percent of its labour force in 2022 (APEC PSU 2024b). To address their unique challenges, Malaysia introduced the Self-Employment Social Security Act 2017 (Act 789), which is aimed at providing basic social protection for self-employed individuals across various sectors. These sectors include passenger transport, goods and food delivery, agriculture, livestock, forestry, fisheries, food services, construction, manufacturing and hawking. Under this Act, self-employed individuals – such as taxi drivers, e-hailing drivers and self-employed bus drivers – are covered by the Self-Employed Employment Injury Scheme, which protects them and their dependents against employment-related injuries, including occupational diseases and accidents during work. The scheme offers a range of benefits, including cash compensation, medical care, physical rehabilitation, vocational training and funeral expenses. Coverage is valid for 12 months from the date the contribution is made, with a monthly contribution rate of 1.25 percent based on the chosen insured salary (MIDA n.d.).

Additionally, Malaysia also introduced i-Saraan, a voluntary retirement savings initiative under the Employees Provident Fund (EPF). This scheme enables self-employed individuals and gig workers with irregular income to contribute to their retirement savings while receiving government incentives, subject to eligibility criteria (EPF n.d.). In 2024, total contributions under this voluntary scheme amounted to MYR 2.6 billion (USD 611.7 million) and incentives from the government reached MYR 114.8 million (USD 27 million), benefiting 529,667 members (The Star 2025).

Furthermore, in order to provide a clear legal framework for Malaysia's rapidly growing gig economy, the government is in the process of drafting the Gig Workers Bill 2025. This proposed legislation aims to address long-standing regulatory gaps by formally defining gig workers and introducing key provisions related to dispute resolution, income protection, mandatory social protection contributions through the Social Security Organisation (SOCSO / Perkeso) and access to skills development and upskilling programmes (Abdul Wahab 2025).

The draft bill was developed following extensive research and engagement with over 3,000 stakeholders. Once enacted, the law will establish a statutory definition of gig workers and clearly outline their legal rights and entitlements under Malaysian law (Seraj 2025).

In parallel with the bill's introduction, the government will also establish the Malaysian Gig Economy Commission (SEGiM) to serve as the primary regulatory body overseeing the sector. SEGiM will be responsible for ensuring the sustainable development of the gig economy by balancing the interests of all stakeholders – including platform providers, gig workers and consumers – through transparent policy enforcement, service quality monitoring and promotion of self-regulation within the industry (Bernama 2025).

Incentives for low-income and informal workers

Evidence also highlights the importance of addressing information asymmetry and reducing administrative complexity in accessing benefits. A study on behavioural insights shows that simplifying procedures can significantly boost participation in formal schemes (OECD 2021).

In an effort to reduce administrative complexity, Canada is promoting measures that aim to streamline tax processes for lower income workers, incentivising them to pursue formalisation. The government introduced automated tax-based transfers and a simplified delivery mechanism, whereby some benefits are automatically calculated and paid based on annual tax filings. The Canada Revenue Agency has simplified the filing process for eligible individuals with lower income and simple tax situations by offering services that ask them a series of a quick questions, then uses their answers along with the information the agency has on file to auto-file and process a tax return on their behalf, and determine eligibility for benefits without requiring complex applications.²⁶

In addition, the Canadian government implemented targeted income support initiatives to promote labour force participation and formal employment. Notable among these are the Canada Workers Benefit (CWB) and the Employment Insurance (EI) Working While on Claim programme. The CWB is a refundable tax credit aimed at low-income individuals who are engaged in employment, providing additional income support to encourage work. The EI programme offers temporary income assistance to individuals who have lost their jobs, and the Working While on Claim provision allows claimants to continue receiving part of their benefits while earning income from part-time or temporary employment, thus helping maintain their connection to the formal labour market (Government of Canada 2025). Furthermore, the government introduced Workforce Development Agreements (WDAs) with provincial and territorial governments, committing CAD 722 million (USD 525 million) annually. These agreements are designed to support individuals who face greater challenges entering the labour market, including those not eligible for employment insurance. WDAs provide flexible funding for skills training, employment assistance and wraparound support targeted at long-term unemployed individuals, persons with disabilities, and other individuals eligible for this support (Government of Canada 2023).

²⁶ Canada IER.

Chile also provides targeted incentives for formal employment. Under the Tax Compliance Law, Chile allows individuals to retain eligibility for social benefits, such as the Single-Family Subsidy, even after entering formal employment. This approach reduces the risk of losing essential support and encourages a smoother transition into the formal labour market.²⁷

Offering sector-specific financial incentives

Some APEC economies developed financial incentives specifically to support the growth of their SMEs. Chinese Taipei, for instance, provides financial support to aspiring young entrepreneurs, encouraging their participation in the formal economy. The programme, called the Youth Entrepreneurship Loan, offers a favourable credit guarantee ratio and includes the option for applicants to participate in entrepreneurship training programmes. The Youth Entrepreneurship Loans provide working capital and capital expenditure, and are available to businesses that have completed their business registration.²⁸

Hong Kong, China offers a Technology Voucher Programme for local entities that use technology services and solutions to improve productivity, transform their business processes or enhance their long-term competitiveness. In 2018, the eligibility for the programme has been relaxed to cover all non-listed local enterprises, regardless of size and duration of operation. This programme is available for enterprises that are registered in Hong Kong, China. Each eligible enterprise will receive a subsidy up to HKD 200,000 (USD 25,400) of the total project costs (Innovation and Technology Commission 2018).

Improvement in the business environment would provide a strong incentive for businesses to be a part of the formal sector. The complex and overregulated business environment along with high cost of registration strongly discourage businesses from formalising (UNESCAP n.d.). A favourable business environment needs to be developed so that the benefits of formalisation will outweigh the cost.

3.3.4. Promoting formalisation through tax reform

Tax revenues generated from the formal economy are essential for the government to provide public goods and services. Government incentives, social protection and other forms of government support can create a welfare multiplier effect for an economy, especially when it is facilitated by an efficient registration process in the formal economy. In addition, since the public programmes primarily target registered businesses and workers, it can incentivise those who are not recorded in the government database to register themselves, allowing them to have easier access to government support (ILO 2014; J-PAL 2022).

Business registration – often linked with tax registration – is a core indicator of formal economy participation. However, for many small enterprises, tax compliance is frequently perceived as a burden that outweighs the potential benefits of formalisation (APEC SMEWG 2024).

²⁷ Chile IER.

²⁸ Chinese Taipei IER.

According to the 2024 World Bank Enterprise Surveys, a notable share of firms across APEC economies still views tax administration as a significant barrier to business operations. In Peru, 17.4 percent of firms identified tax administration as a major or very severe obstacle – the highest among APEC economies – followed closely by Papua New Guinea at 16.6 percent. Although only 3.2 percent of firms in Chinese Taipei reported it as a constraint, authorities there acknowledge that tax obligations can increase operational costs and audit risks, particularly for SMEs, which may deter them from formalising.

Across the eight APEC economies listed in the World Bank B-READY 2024 report, Hong Kong, China; New Zealand; and Singapore rank at the top for the ‘taxation’ topic, reporting scores of 71.74, 70.56 and 70.39, respectively (World Bank 2024). This indicates that these three economies have highly efficient tax systems. They reported lower tax rates, and streamlined tax procedures with fewer payments and faster transaction times, compared with global averages. A medium-sized firm in Singapore, for instance, pays a tax rate of only 27.6 percent of profits, compared with the global average of 44.7 percent (Rikvin n.d.). Meanwhile, Hong Kong, China is characterised by low tax rates, free trade policies and efficient government administration, making it conducive for entrepreneurs seeking to establish and expand their ventures in the economy.²⁹

New Zealand ranks third overall on the OECD International Tax Competitiveness Index in 2024. Among other features, New Zealand’s tax system allows corporate losses to be carried forward indefinitely, allowing businesses to be taxed on their average profitability and enabling them to better manage market risks (Mengden 2024). Both New Zealand and Singapore have low percentage of informality output to GDP: 10.8 percent for Singapore and 11.2 percent for New Zealand in 2020.

Having a fair, transparent and simple tax regime is among the prerequisites to support formalisation in the economy. The cost and length of procedures and the difficulties associated with regulatory compliance could motivate individuals and firms to remain in the informal economy (APEC PSU 2024a).

Lower tax rates as a possible incentive for formalisation

Offering lower tax rates can be a strategy to encourage formalisation. Table 3.2 shows the various tax rates and fees in APEC economies for MSMEs as well as larger corporations. Generally speaking, economies tend to impose lower tax rates on smaller firms compared to larger firms, partly as a way to encourage MSMEs to register, be tax mapped and conduct their business operations formally.

The Philippines reduced its corporate income tax (CIT) rate from 30 percent to 20 percent for SMEs through the Corporate Recovery and Tax Incentives for Enterprises Act (CREATE) enacted in 2021. This reduction is higher than that given to large corporations, whose CIT rate was reduced from 30 percent to 25 percent. This was further reduced to 20 percent under the Corporate Recovery and Tax Incentives for Enterprises to Maximise Opportunities for Reinvigorating the Economy Act (CREATE MORE) enacted in 2024. However, the reduction

²⁹ Hong Kong, China IER.

under CREATE MORE only applies to registered businesses that utilise the Enhanced Deductions incentives (Cruz 2025). Previously, the Tax Reform for Acceleration and Inclusion (TRAIN) law, which became effective in January 2018, had lowered personal income tax rates for the majority of taxpayers, with individuals earning below PHP 250,000/year (USD 4,400) being exempted from paying income tax. This tax reform aims to boost compliance and reduce informality (The Philippines' Department of Finance 2017). In the first quarter of its implementation, the government of the Philippines collected around PHP 619.84 billion (USD 11.1 billion) in revenue, an increase of 16.2 percent compared with previous year (Cervantes 2018).

Indonesia also conducted CIT rate reforms in 2008, offering a flat tax rate with discounts depending on gross revenues. Firms with gross revenue more than IDR 50 billion (USD 3 million) were granted a 28 percent rate. In 2022, according to Government Regulation No. 55/2022, the CIT rate was further reduced to 22 percent. Companies with gross income below IDR 4.8 billion (USD 295,000) are subject to a reduced tax rate of 0.5 percent, categorised under the SME tax rate, and the first IDR 500 million (USD 30,600) of gross income is exempted from tax.

Table 3.2. Tax rates for firms in APEC economies

Economies	SME Tax Rate	CIT Rate	Source(s)
Australia	25% ¹	30%	Australian Government (n.d.)
Brunei Darussalam	N/A	18.5% / 55% ¹⁸	PwC (n.d.)
Canada	9% ²	15% ¹⁹	Driversnote (2024), PwC (n.d.)
Chile	12.5%	25%	PwC (n.d.)
China	5% ³	25%	PwC (n.d.)
Hong Kong, China	7.5 % / 8.25% ⁴	15% / 16.5% ²⁰	PwC (n.d.)
Indonesia	0.5% ⁵	22%	DJP (2024), PwC (n.d.)
Japan	15% / 23.2% ⁶	23.2%	PwC (n.d.), Yamaguchi Consulting (2024)
Korea	9% / 19% / 21% / 24% ⁷	9% / 19% / 21% / 24% ²¹	Updated by Korea
Malaysia	15% / 17% / 24% ⁸	24%	PwC (n.d.)
Mexico	N/A	30%	PwC (n.d.)
New Zealand	17.5% / 39% ⁹	28%	Inland Revenue of New Zealand (n.d.), PwC (n.d.)

Economies	SME Tax Rate	CIT Rate	Source(s)
Papua New Guinea	Fixed tax ¹⁰	30% / 48% ²²	Internal Revenue Commission of Papua New Guinea (n.d.), PwC (n.d.)
Peru	Fixed monthly tax ¹¹	29.5%	IMF (2022), PwC (n.d.)
The Philippines	20% ¹²	25%	PwC (n.d.)
Russia	6% or 15%; 4% or 6% ¹³	25%	Awara Group (2024), TELFA (n.d.)
Singapore	N/A ¹⁴	17%	PwC (n.d.)
Chinese Taipei	0% / 20% ¹⁵	20%	PwC (n.d.)
Thailand	0% / 15% / 20% ¹⁶	20%	PwC (n.d.)
United States	19.8% ¹⁷	21%	J. R. Martin (2024) PwC (n.d.)
Viet Nam	N/A	20%	PwC (n.d.)

CIT=corporate income tax; SME=small and medium enterprise

Note:

SME tax rate

Specific information on the SME tax rate is not available for Brunei Darussalam; Mexico; Singapore; and Viet Nam.

- Australia:** for businesses with turnover < AUD 5 million (USD 3.2 million).
- Canada:** only the federal rate is indicated here. Additional provincial rates may apply depending on their respective laws.
- China:** for small and thin profit enterprises with annual taxable income ≤ CNY 3 million (USD 416,400).
- Hong Kong, China:** 7.5% for unincorporated businesses and 8.25% for incorporated businesses for the first ≤ HKD 2 million (USD 255,000) of income.
- Indonesia:** available until the end of 2025.
- Japan:** For SMEs, 15% on taxable income up to JPY 8 million, (USD 54,000) and 23.2% on part of taxable income > JPY 8 million (USD 54,000).
- Korea:** 9% for taxable income ≤ KRW 200 million (USD 143,600); 19% for KRW 200 million (USD 143,600) < taxable income ≤ KRW 20 billion (USD 14.4 million); 21% for KRW 20 billion (USD 14.4 million) < taxable income ≤ KRW 300 billion (USD 215.5 million); 24% for taxable income > KRW 300 billion (USD 215.5 million).
- Malaysia:** tiered tax rates – 15% for businesses with paid up capital of ≤ MYR 2.5 million (USD 589,000) and gross income < MYR 50 million (USD 11.8 million); 17% for businesses with paid-up capital of > MYR 2.5 million (USD 589,000); and 24% for businesses which more than 20% of its paid-up capital owned by a foreign company or non-Malaysian.
- New Zealand:** 17.5% for Māori authorities and 39% for self-employed or unincorporated businesses.
- Papua New Guinea:** PGK 62.50 (USD 15) for small businesses or PGK 62.50 (USD 15) plus 2% for small businesses with actual sales turnover exceeding PGK 15,000 (USD 3,600) per quarter; and PGK 250 (USD 60) per year for micro businesses.

11. **Peru:** a fixed monthly tax amount of PEN 20 (USD 5.50) for those with annual sales up to PEN 60,000 (USD 16,400) or PEN 50 (USD 14) for those with annual sales of PEN 60,000–96,000 (USD 16,400–24,700).
12. **The Philippines:** for micro, small and medium-sized businesses with a total asset < PHP 100 million (USD 1.8 million) and taxable income of up to PHP 5 million (USD 89,700).
13. **Russia:** 6% for taxation of gross revenue or 15% for taxation of profit (regional authorities can reduce the rates to 1% and 5%, respectively); tax for the self-employed (4% or 6%).
14. **Singapore:** no SME-specific tax rate, but provides the Partial Tax Exemption Scheme which is designed to support SMEs. Under the scheme, all companies – unless claiming tax exemption for new start-up companies – enjoy a 75% exemption on the first SGD 10,000 (USD 7,800) and a further 50% exemption on the next SGD 190,000 (USD 147,300) of normal chargeable income.
15. **Chinese Taipei:** tax exemption for businesses with income ≤ TWD 120,000 (USD 4,000) and 20% tax rate for those with income more than TWD 120,000 (USD 4,000).
16. **Thailand:** tiered tax rates – tax exemption for those with net profit of THB 0–200,000 (USD 0–6,100); 15% for those with net profit of THB 200,001–3 million (USD 6,101–96,000); and 20% for those with net profit > THB 3 million (USD 91,600).
17. **United States:** may vary depending on the business structure, but the average federal tax rate for small businesses is 19.8%.

CIT rate

18. **Brunei Darussalam:** CIT rate of 55% on income from petroleum operations in Brunei Darussalam.
19. **Canada:** only the federal rate is indicated here. Additional provincial rates may apply depending on their respective laws.
20. **Hong Kong, China:** 15% for unincorporated businesses and 16.5% for incorporated businesses.
21. **Korea:** 9% for taxable income ≤ KRW 200 million (USD 143,600); 19% for KRW 200 million (USD 143,600) < taxable income ≤ KRW 20 billion (USD 14.4 million); 21% for KRW 20 billion (USD 14.4 million) < taxable income ≤ KRW 300 billion (USD 215.5 million); 24% for taxable income > KRW 300 billion (USD 215.5 million).
22. **Papua New Guinea:** 30% for resident and 48% for non-resident.

One of the support measures provided by Singapore for SMEs is the Tax Exemption Scheme for New Start-Up Companies. Under this scheme, eligible start-up companies in Singapore enjoy a 75 percent exemption on the first SGD 100,000 (USD 77,500) and a further 50 percent exemption on the next SGD 100,000 (USD 77,500) of their normal chargeable income for the first three consecutive years of assessment.³⁰

Meanwhile, Chile is proposing a new special tax regime to support over 100,000 traditional market vendors, offering a 1.5 percent substitute value-added tax (VAT) on electronic payments as a simplified and accessible entry point into formal taxation. This plan is currently under legislative review.³¹

Optimising tax systems to encourage formalisation

Tax reform that simplifies the existing system – by reducing the number of taxes, limiting exemptions and streamlining procedures – can enhance administrative efficiency and make it easier for taxpayers to understand and fulfil their obligations. Such simplification fosters greater compliance and encourages formalisation, allowing informal actors to clearly recognise the benefits of entering the formal economy (Silvani and Baer 1997). In addition to structural

³⁰ Singapore IER.

³¹ Chile IER.

changes, tax reform may also involve adjustments to tax rates or improvements in tax administration to further support these goals.

One notable example of tax reform can be seen in China, where efforts have focused on optimising the tax structure to better align with the economy's evolving economic development goals. It started in 1994 when China introduced an investment-type VAT. China reduced the tax cost of capital investment, which significantly impacted the labour market. By lowering the cost of capital, it influenced firms' decisions regarding labour, which affected the formal employment landscape. In 2008, China converted the investment-type VAT to a consumption-type VAT, with VAT on capital purchases permitted to be offset against VAT on sales. In 2013–2014, China continued its reforms, integrating local business taxes on services with the VAT levied by the central government. The reform allowed the VAT on service inputs to be offset against sales and exports, which contributed to incentivising businesses to formalise.

An essential element of Mexico's tax reform is the integration of the VAT base with the aim of reducing distortion and minimising tax evasion (Ahmad 2021), replacing the *Régimen de Pequeños Contribuyentes* (Small Taxpayers Regime – REPECOS) with *Régimen de Incorporación Fiscal* (Tax Incorporation Regime – RIF) in 2013. RIF integrated VAT in operation and invoice tracking, which reduced the ability of firms to hide or underreport their transactions. In 2022, Mexico replaced the RIF with the *Régimen Simplificado de Confianza* (Simplified Trust Regime – RESICO), a modern digital income-based system featuring low flat tax rates aimed at encouraging wider and deeper participation in the formal tax system. Businesses benefit from simplified compliance – such as pre-filled returns and monthly payments – along with reduced tax rates (1–2.5 percent). As a result of this tax reform, filing has increased by 30.2 percent in 2023 compared to the same period in 2022 (Opportimes 2023).

Modernising tax administration through digitalisation

Another effective strategy to address tax-related burdens is the use of digital technology to simplify tax administration. A prominent example is Korea's HomeTax system introduced in 2002. This integrated, data-driven digital platform streamlines a wide range of tax services, including taxpayer registration, filing, compliance, and dispute resolution. Over time, HomeTax has evolved to accommodate the growing complexity of tax systems and user needs, culminating in the development of the Next Generation HomeTax portal. The platform offers tailored tax information and services for all types of taxpayers, from large enterprises to self-employed individuals, helping to improve accessibility, efficiency and compliance (Kring and Elder 2022). Meanwhile, Singapore promotes formal economic participation through a combination of financial incentives and support, digital transformation initiatives including through the use of financial technology, and improvement in efficiency of government–business interactions by streamlining processes and ensuring that relevant information is readily available through various digital portals.

Indonesia also carried out comprehensive reforms of its tax administration system in 2002, transitioning into a modern, centralised IT system to handle all tax transactions. To improve the effectiveness of its tax reform, Indonesia restructured the organisation of its tax offices, such that the largest 200 taxpayers is handled centrally by Large Taxpayer Office, the top several hundred taxpayers in the region is managed by a special Medium Taxpayer Office in

their respective region, and the remaining are handled by Primary Taxpayer Offices (Basri et al. 2021). In the early 1980s, there were only 2 million registered taxpayers. This number rose to 2.5 million following the tax reform in 2000. By 2023, it had surged to 50 million.

In January 2025, Indonesia moved further to introduce the Coretax system, aiming to modernise and digitise tax processes, and enhance efficiency and compliance. Coretax is an integrated digital tax platform that consolidates various tax applications, including *e-Bupot* (electronic tax withholding receipt), *e-Faktur* (electronic tax invoice) and the DJP³² Online platform into a unified system. This integration streamlines tax processes for both businesses and individuals. Previously, separate billing codes were required for different tax payments. Coretax introduces a single billing code system, simplifying the payment process. Indonesia's improved tax administration has a higher impact than reduced CIT (Rahmanda 2025).

Hong Kong, China, also continued to strengthen its tax administration. The Inland Revenue Department (IRD) of Hong Kong, China, has been actively promoting tax digitalisation to keep pace with new international standards and developments in international tax administration. Following the introduction of a new mode of e-filing for profits tax returns in April 2023, the IRD launched enhanced versions of its e-filing services in April 2024 to facilitate for businesses the e-filing of tax returns together with supporting documents in specified formats through eTAX.³³

Canada has expanded digital tax filing and improved Canada Revenue Agency (CRA) service delivery to reduce barriers for small businesses and individuals in complying with tax obligations and participating in the formal system. One of the important initiatives is the automation of income support delivery. By streamlining access to tax-based benefits, the government has improved benefit take-up and made it easier for individuals to maintain a connection to the formal economy. This has been especially impactful for low-wage workers, who may face barriers in navigating traditional application processes.³⁴

Another key initiative carried out by Canada is a strategy to fight employee misclassification by discouraging employers from incorrectly classifying employees as contractors. This initiative has been effective in changing behaviours and is well supported by most industry and employee groups. The anti-misclassification strategy uses a range of compliance tools to change behaviours and increase participation in the formal economy. These include information sharing with other departments of the federal government such as CRA, education tools for both employees and employers, and partnering with other levels of government in compliance events.³⁵

Although the main objective of tax reform may not directly impact formalisation, a simple, fair and transparent tax system can serve as an incentive for formalisation (Bruhn 2011). As in other measures, policymakers should consider suitable tax policies that ensure the benefits of participating in the formal economy are greater than any benefit derived from remaining in the

³² DJP stands for *Direktorat Jenderal Pajak* or Directorate General of Taxes.

³³ Hong Kong, China IER.

³⁴ Canada IER.

³⁵ Canada IER.

informal economy. Furthermore, fostering a strong tax culture is essential to ensure the success of reform efforts. Research on informal traders in Peru indicates that improvements in cognitive, behavioural and axiological understanding of taxation correlate positively with traders' willingness to comply with the legal framework. Consequently, tax education and the promotion of ethical principles emerge as critical tools for encouraging the formalisation of economic activities within the sector (Chávez-Inga et al. 2025).

3.4. POLICIES AND PROGRAMMES TO EXPAND FINANCIAL AND MARKET ACCESS

3.4.1. Expanding financial access to promote formalisation

Access to financial services remains the main hindrance to the growth of informal businesses (ILO 2016). Without a credit history or adequate collateral, informal businesses often struggle to obtain loans to expand, reinforcing a cycle of low growth and productivity. Furthermore, research suggests that MSMEs are less likely to obtain loans from formal financial institutions, hence they rely on informal credit channels such as friends, relatives and informal moneylenders (World Bank 2019b). Therefore, access to finance could be a possible incentive for informal businesses to formalise (ILO 2016). According to data from the World Bank Enterprise Surveys, the percentage of firms identifying access to finance as a major or very severe constraint on business operation was still significant in some APEC economies. The highest percentage was recorded by Peru at 18.6 percent while the lowest was recorded by Singapore at 1.1 percent in 2024.

Facilitating access to financing through non-collateralised loans

SMEs often face challenges in accessing credit, primarily due to their lack of collateral and the perception of higher lending risk (APEC 2024a). To overcome these barriers, several APEC economies have introduced non-collateral-based lending solutions, such as community-based lending, e-commerce sales-based lending, and invoice financing.

Community-based lending operates on the principle of mutual responsibility, where group members are collectively accountable for loan repayments. Regular group meetings not only support repayment discipline but also serve as platforms for financial literacy and business development training. A notable example is Mekaar in Indonesia, which offers collateral-free financing to women-led micro-enterprises through a joint liability group model. The loan is disbursed through a group scheme where weekly group meetings are mandatory and where the aim is to make weekly repayments. As of June 2023, the programme has supported around 14.7 million women entrepreneurs (PNM n.d.). Besides Indonesia, Thailand has a similar lending initiative called the Thai Women Empowerment Fund. It offers loans at 3 percent per annum interest rate to women who have poor financial and credit records. They can apply for loans to finance business projects that fall under the following categories: service, arts, home economics, crafts, household industry and agriculture (Yutthaworakool 2024).

E-commerce sales-based lending relies heavily on the growth of digital platforms. These platforms enable small businesses to set up online stores, often without requiring formal legal

registration. The sales performance recorded on these platforms can be crucial in evaluating borrowers' creditworthiness. MYBank in China has adopted this model, which assesses the credit profiles of SMEs based on their sales activity on Alibaba and other e-commerce platforms. Similarly, in the United States, Amazon Lending – integrated within the Amazon ecosystem – partners with third-party financing providers to offer credit to Amazon sellers. Loan eligibility is determined by the seller's transaction history on Amazon, and the facility allows funds to be disbursed in less than 24 hours (Amazon n.d.; Reil Capital n.d.)

Invoice-based lending allows SMEs to access financing by using their unpaid invoices as collateral. There are two types of invoice-based loans: (1) invoice factoring, where the lender takes over debt collection, and (2) invoice discounting, where the borrower retains control over debt collection, maintaining their clients' confidentiality. Mexico adopted invoice-based lending through the *Nafin Cadenas Productivas* (Nafin Supply Chains) programme, which enables small suppliers to use their receivables from large buyers to receive working capital financing. Since its inception in 2001, Nafin has facilitated more than 1.2 million transactions, 98 percent of which were with SMEs (de la Torre et al. 2007). Besides Mexico, Peru has a similar mechanism. In fact, the growth of invoice-based lending in Peru is supported by the enactment of Law 30308 in 2015, which established guidelines for the issuance of electronic invoices that qualify as 'negotiable securities' that can be traded on the Peruvian stock market (Advance Global Capital 2015). Likewise, Peru has a business promotion programme for micro and small enterprises called Impulso MYPERÚ (created by Law 31658). The programme establishes two measures: (1) government guarantees for loans granted to micro and small enterprises; and (2) the granting of a bonus to those enterprises that make timely payment on such loans.

Furthermore, the Bangko Sentral ng Pilipinas (BSP), in partnership with the International Finance Corporation (IFC), is spearheading the development of the movable asset finance (MAF) market in the Philippines. This initiative expands financing opportunities for MSMEs and the agriculture sector by allowing loans to be secured with movable assets such as equipment, inventory or receivables, benefiting those without real property to pledge as collateral. The programme aligns with the Philippines' Strategy for Financial Inclusion 2022–2028, reinforcing its vision of inclusive growth and stronger financial resilience (Bangko Sentral ng Pilipinas 2025).

Leveraging guarantee schemes to improve credit availability

An alternative strategy to address the lack of collateral and reduce the risk of loan defaults is to promote credit guarantee schemes. These schemes enable the transfer of risk from lenders to guarantors, thereby making lending to SMEs more appealing to financial institutions (APEC 2024a). In many APEC economies, participation in such schemes requires SMEs to be formally registered, offering a compelling incentive for businesses to enter the formal sector.

The Philippines also has an MSME Credit Guarantee Facility (MCGF), which provides working capital, capital expenditure or a combination of both with a proportional risk-sharing arrangement. The guarantee can cover 50 to 80 percent of the principal amount with loan amounts of up to PHP 50 million (USD 880,000) per borrower (PhilGuarantee n.d.).

Hong Kong, China has a similar scheme: the SME Financing Guarantee Scheme (SFGS). SFGS aims to help registered SMEs and non-listed Hong Kong, China registered enterprises to obtain commercial loans by giving 80–100 percent guarantee coverage to the credit facilities of eligible enterprises approved by lenders (Hong Kong Mortgage Corporation Limited 2024). In November 2024, the government launched a new round of moratorium on the principal, to allow borrowing enterprises to choose to repay only the interest and delay their repayment of the principal instalment, thereby giving them more room to adjust their cash flow.³⁶ At the end of February 2025, more than HKD 90 billion (USD 36.9 billion) of loans have been approved under the SFGS, benefiting over 65,000 enterprises and 810,000 employees (Hong Kong Mortgage Corporation Limited 2024).

Institutional mandates for microfinance disbursement

Another strategy worth exploring that is related to access to finance involves designating specific banks to deliver microfinance services. In Chile, BancoEstado established a specialised subsidiary, BancoEstado Microempresas, in the mid-1990s. This entity was created to enhance financial access for microenterprises and is complemented by a capacity-building programme (ILO 2021b). As part of this initiative, BancoEstado launched the *Cuenta Emprendedor* (Entrepreneur Account), a bank account tailored to microenterprises, including newly established ones. Opening this account requires only a valid identity document (ID) and proof of address, with no need for a business history, revenue thresholds or complex financial statements (BancoEstado n.d.). BancoEstado also offers business financing for microentrepreneurs. Access to this product typically entails several conditions, such as a valid ID, one to two years of business operations, proof of address (utility bills) and other additional documents depending on the sector, economic activity and the level of formality of the business (BancoEstado n.d.).

The government of Viet Nam has designated the Viet Nam Bank for Social Policies (VBSP) to deliver microfinance and social policy loans. VBSP maintains an extensive network of nearly 11,000 transaction points at the commune and ward levels economy-wide (as of late 2018), ensuring financial access for low-income groups, including the poor and near-poor, ethnic minorities, and residents of rural and remote areas (World Bank 2019a).

In Indonesia, specific banks have been designated to distribute the government's microfinance programme, People's Business Credit (*Kredit Usaha Rakyat* – KUR).³⁷ The government evaluates the performance of these institutions at least once every semester. The government determines the target for KUR disbursement every year. For 2025, the KUR disbursement target is set at IDR 300 trillion (USD 18.4 billion), with 60 percent of the total allocation directed toward productive sectors. In addition to banks disbursing microcredit, Indonesia also relies on Savings and Credit Cooperatives. These are member-based organisations that pool savings from their members and offer loans at competitive interest rates. As of 2023, there were 130,119 cooperatives across the economy, with approximately 70 percent classified as Savings and Credit Cooperatives. This highlights their significant role in expanding access to credit.

³⁶ Hong Kong, China IER.

³⁷ Indonesia IER.

Credit distributed through the KUR channel or cooperatives can be accessed by both informal enterprises as well as individuals.

Fintech lending to improve individual access to financial services

The rapid advancement of technology in the financial sector has significantly enhanced access to financial services. One prominent development is the rise of fintech lending, which leverages digital platforms to expand access to credit. Funding for fintech lending can originate from multiple individual investors – referred to as peer-to-peer (P2P) lending – or be directly provided by the platform in collaboration with financial institutions.

An example is the GCash mobile wallet application in the Philippines. GCash offers various types of personal loans by assessing users' creditworthiness through GScore, a proprietary scoring system based on user behaviour and transaction data. While GCash facilitates the lending process, the actual loans are issued by its partner financial institutions (GCash n.d.) In January 2025, GCash partnered with the Rizal Commercial Banking Corporation (RCBC) to launch *Pasado Loans* (Approved Loans), a 24/7 loan service accessible through a mobile wallet app. The loan requires no collateral, and eligible borrowers can apply for amounts ranging from PHP 30,000 (USD 524) to PHP 500,000 (USD 8,700), payable in six or twelve monthly instalments (Cordero 2025).

A relatively similar approach is adopted in Australia through the widespread use of buy now, pay later (BNPL) services. These services are embedded in many e-commerce platforms and retail outlets, allowing consumers to purchase goods and pay in instalments over time, often without interest. Australia has the highest adoption rates of BNPL among APEC economies, followed by China; New Zealand; and Singapore (Cornelli et al. 2023). While BNPL serves as an immediate fund for consumers' urgent needs, it also potentially encourages impulsive buying by consumers, necessitating regulatory oversight (Ang and Maesen 2024; O'Brien et al. 2024).

Another example is the provision of cash loans to ride-hailing drivers, which addresses the need of financing for informal workers. In 2024, a ride-hailing platform, Grab, disbursed approximately USD 2.2 billion in loans, representing a 46 percent increase compared to the previous year. Currently, about one in three of its active driver-partners holds a loan through the platform (Grab 2025). In the Philippines, Grab supports its drivers by subsidising the first month's social protection contribution for the first 2,000 eligible partners. In Singapore, Grab offers a programme called Cash Loan for its driver-partners, which provides cash loans directly through the Grab digital wallet. Repayments are made through convenient daily deductions from the drivers' digital wallet earnings.

Meanwhile, formal P2P lending for individuals is quite prevalent in Indonesia, demonstrating substantial growth in recent years, reaching 14.7 million registered accounts as of February 2025 (Financial Services Authority of Indonesia 2025b). At the same time, informal and illegal P2P lending has also grown. In 2024, the Financial Services Authority (*Otoritas Jasa Keuangan* – OJK) shut down 3,240 illegal financial service entities, which included 2,930 online lenders (ANTARA 2025). The OJK, through its Task Force for the Eradication of Illegal Financial Activities (*Sistem Informasi Pemberantasan Aktivitas Keuangan Ilegal* – SIPASTI),

receives reports and complaints related to illegal financial entities and/or activities (Financial Services Authority of Indonesia 2025a). In addition, the Task Force also collaborates with the communication and digital affairs authorities to block the phone numbers of suspected illegal online lenders' debt collectors. As of 2024, the OJK had received 16,231 complaints regarding illegal financial services entities, with approximately 93 percent of the complaints related to illegal online lenders (ANTARA 2025). This underscores the critical need for enhanced financial literacy and stronger data protection measures.

Expanding financial access – through non-collateralised lending, public credit guarantees, microfinance and fintech innovations – can serve as a powerful incentive for formalisation by enabling small businesses to grow and meet regulatory requirements. Digital lending platforms play an increasing role in serving unbanked entrepreneurs, offering them access to capital. In several APEC economies, fintech solutions have significantly improved credit access for both MSMEs and individuals, demonstrating the potential of digital finance to integrate informal businesses into the formal financial system.

Beyond digital lending, digital payment systems are instrumental in advancing participation in formal financial markets by creating data trails that can facilitate access to financing and government support, encouraging informal entrepreneurs to formalise their operations. In Indonesia, the Quick Response Code Indonesian Standard (QRIS) serves as the economy's QR code system, adopted by over 34 million merchants as of October 2024, promoting access to financial services through interoperable payment channels. The integration of QRIS with major e-commerce platforms, such as Shopee and GoTo, has facilitated the onboarding of more than 8 million sellers into formal financial and regulatory systems. Similarly, QR Ph is an economy-wide standard for digital payments in the Philippines, allowing for interoperable and convenient merchant payments. As of June 2022, over 2,029,424 merchants economy-wide have adopted the person-to-merchant (P2M) facility of QR Ph.³⁸ The facility enables small enterprises to enter the digital payments ecosystem, particularly within the formal financial system. In turn, it helps them establish their financial profiles, allowing them to access further financial services (Bangko Sentral ng Pilipinas 2020).

3.4.2. Expanding market access to encourage formalisation

Equally important to finance is facilitating market access, which can be an important strategy to encourage the formalisation of informal businesses (ILO 2017). As enterprises in the informal sector are typically small in scale, enabling their participation in larger markets can drive growth and expansion, making them more likely to transition into the formal economy. One notable approach is integrating MSMEs into public procurement systems (ILO 2017). Since only formally registered businesses are eligible to participate, this policy creates a strong incentive for formalisation. Other initiatives include the development of designated areas for street vendors and the provision of financial incentives to support marketing and digitalisation. These programmes also require formal business registration, further promoting the shift from informal to formal operations.

³⁸ Figure from Bangko Sentral ng Pilipinas, Payments Policy and Development Department. The figure does not reflect the number of unique merchants; some merchants work with multiple acquirers, and some acquirers assign multiple merchant IDs to a single merchant.

Public procurement opportunities for MSMEs

Some APEC economies have specific policies to encourage SMEs to participate in public procurement. The objective of supporting SMEs and facilitating their access is usually embedded in their public procurement policies and strategies. Chile, for instance, focused on public procurement as a key driver of formalisation. 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 participate in public tenders, Chile streamlined its procurement procedures and conducted training programmes to help SMEs understand the benefits of and criteria for formalisation (APEC SMEWG 2024). In 2023, Chilean SMEs represented 40 percent of the total value tendered under the ChileCompra procurement system (Burr and Montalvo 2025).

Indonesia has implemented a similar programme aimed at promoting SME participation in public procurement initiatives. Ministries, agencies and local governments are mandated to allocate at least 40 percent of their spending to MSMEs and cooperatives. MSMEs and cooperatives participating in government procurement ranging from IDR 50 million (USD 3,000) to IDR 200 million (USD 12,200) should register their business in the government e-procurement system (*Layanan Pengadaan Secara Elektronik – LPSE*) and follow the requirements of their targeted procurement. Likewise, Russia's Federal Law No. 44-FZ stipulates that purchases from small businesses should account for at least 15 percent of the total procurement.

Japan encourages SME participation in public procurement through its Trade Practices and Public Procurement programme, which promotes fair subcontracting practices and supports the growth of small and medium-sized subcontractors, thereby enhancing their opportunity to secure government contracts.

To boost SME participation in public procurement, the Australian government revised its procurement rules by raising SME procurement targets and enhancing its procurement platform to better identify and engage SMEs on government panels. Starting from July 2024, the government raised the procurement quota for SMEs to at least 25 percent for contracts under AUD 1 billion (USD 646.7 million) and at least 40 percent for contracts under AUD 20 million (USD 12.9 million). In addition, the new rules raised the SME exemption threshold from AUD 200,000 (USD 129,000) to AUD 500,000 (USD 323,000), making it easier for entities to procure from SMEs (Australian Treasury 2024).

Developing programmes that enhance market access for informal enterprises can serve as a strong incentive for formalisation in APEC economies. Facilitating small businesses' entry into broader markets – such as allowing participation in public procurement – can motivate informal firms to register. Since business registration is usually required for participation in public procurement, the development of SME-friendly public procurement platforms has proven to be an effective strategy for encouraging the shift toward formality (Doyle and Bull 2024).

Provision of financial incentives to support market penetration

Besides mandatory allocation for SMEs in public procurement policies, some APEC economies provide financial incentives to support SMEs to expand their market. Hong Kong, China provides a Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund) and an SME Export Marketing Fund (EMF). BUD provides support to develop business in 40 economies with which Hong Kong, China has signed free trade agreements and/or investment promotion and protection agreements. The cumulative funding ceiling per enterprise under this fund is HKD 7 million (USD 892,000). Meanwhile, the SME EMF provides funding support for SMEs to participate in export promotion activities.³⁹

Hong Kong, China also initiated the Digital Transformation Support Pilot Programme, offering a one-to-one matching subsidy to SMEs (up to HKD 50,000 or USD 6,300) in the food and beverage, retail, tourism or personal services sector to adopt ready-to-use digital solutions, such as digital payment systems and shopfront sales, online promotion, and customer management systems.⁴⁰ To benefit more enterprises, the scope of the programme was expanded in December 2024 to cover the tourism and personal services sectors as well.

Meanwhile, the United States Small Business Administration developed the State Trade Expansion Programme (STEP) in 2011, which offers grants to help small businesses cover costs associated with international market expansion. This programme is available to registered small businesses whose goods or services carry a minimum local content of 51 percent (US International Trade Administration n.d.). The grant can be used to support participation in foreign trade missions and market sales trips; to pay subscriptions to services provided by the federal government; to develop international marketing campaigns and products; for website globalisation and participation in e-commerce; as well as for participation in export exhibitions or training programmes. Since its inception, the programme has granted over USD 215 million to more than 13,000 US small businesses (US International Trade Administration n.d.).

Transforming the informal sector via coordinated policy measures

A strong example of coordinated policy efforts to formalise the informal sector can be seen in the initiatives led by China and Singapore, both of which have focused on street vendors as key beneficiaries of structural reform.

In Singapore, the formalisation of street hawkers began as early as 1968, when the government launched a registration drive for approximately 18,000 food hawkers who obtained temporary licences during this period. In the 1970s, a major transition took place as hawkers were systematically relocated from the streets into designated hawker centres. Between 1971 and 1986, the government constructed numerous centres equipped with basic amenities and infrastructure. This was followed by continued improvements under the Hawker Centres Upgrading Programme, which, as of 2021, has enhanced 106 hawker centres through retiling, rewiring, pipe replacements, flue system upgrades and better ventilation. These consistent

³⁹ Hong Kong, China IER.

⁴⁰ 1:1 matching subsidy means that for every dollar (or HKD) the SME spends on eligible expenses under the programme, the government will match it with an equal amount.

efforts led to the professionalisation and regulation of street vending, with the Singapore Food Agency reporting 12,943 licensed hawkers by 2024 (Department of Statistics of Singapore n.d.).

Meanwhile, China has implemented a different yet equally impactful approach to managing its informal street economy.⁴¹ While street vending in China provides essential income for many, it has also posed persistent urban challenges, such as traffic congestion, sanitation issues and interference with the formal commercial environment. Recognising these pressures, policymakers have pursued governance models aimed at balancing broad-based economic growth with urban management. Central to China's strategy is the designation of legal vending spaces – such as 'convenience vending zones' and 'specialty business districts' – governed by a Flexible Space–Time Governance framework. This model allows for adaptive regulation, tailoring operational rules based on the function of the area (e.g., residential, commercial, transit) and dynamic pedestrian movement during different times of the day or week.

Complementing these spatial reforms is a comprehensive restructuring of the governance system. China has introduced a tiered policy framework that differentiates support based on vendor profiles. Subsistence vendors are allocated temporary spaces with essential infrastructure, while development-oriented vendors benefit from streamlined licensing, simplified approval procedures and capacity-building programmes. In addition, authorities promote self-governance groups among vendors, empowering them to manage booth allocation, daily operations and hygiene standards, strengthening both autonomy and compliance. The integration of digital governance platforms has further reduced the time and cost required to engage with formal regulatory systems, making the transition more attractive to vendors.

Beyond spatial and regulatory reform, China is also reshaping how value is defined and supported in the street economy. Vendors are issued electronic IDs (e-IDs) and, where eligible, integrated into broader SME support systems. The creation of a Street Economy Innovation Fund promotes cultural preservation, encourages environmentally friendly business models and facilitates the upgrading of micro businesses into branded enterprises or small chains. These efforts are further reinforced by employment-linked programmes that provide training and microloans to unemployed and low-income groups, enabling entrepreneurship through licensed street vending. Infrastructure investments – such as shared parking, storage, and sanitation facilities – alongside enhanced public transit links, reduce operational burdens and expand consumer access. At the same time, the standardisation of booth designs and vending zone layouts contributes to transforming informal spaces into well-organised, vibrant micro-commercial hubs.

A slightly different approach is adopted by Indonesia's Small and Medium Enterprise and Cooperatives (SMESCO) public service agency. The agency promotes access to markets for MSMEs and supports their business legality. SMESCO has facilitated market access for MSMEs through both online and offline channels, including collaborations with the larger private sector. As of October 2024, the agency has assisted 13,767 MSMEs in marketing their products (ANTARA 2024). In addition, to ease the process of obtaining business legality for

⁴¹ China Case Study.

MSMEs, the agency also provides incubation and assistance services aimed at helping MSMEs obtain a business identification number, halal certification, household industry food certificates, trade business licences and intellectual property rights. Around 82,891 MSMEs have benefited from the support services (ANTARA 2024).

Collectively, these initiatives not only support the formalisation of informal vendors but also align their services with broader urban planning goals and local economic demands. This coordinated, multidimensional approach strengthens economic resilience and promotes greater growth within the urban informal economy.

4. POLICY RECOMMENDATIONS

Informality remains a critical issue across APEC economies. Weak governance and institutional quality, human capital issues, complex regulatory environments, burdensome tax administration, and restricted access to financial services and market opportunities all contribute to the persistence of informality. Empirical evidence indicates that high levels of informality lead to lower productivity, higher poverty and slower economic growth. The findings also show that widespread informal economic activity can reduce government revenue. Furthermore, an inverted U-shaped relationship is observed between informal output and gross domestic product (GDP) per capita growth, indicating that the informal sector initially contributes positively to economic performance, but beyond a certain development level, rising informality starts to dampen overall income growth.

Recognising these adverse impacts, APEC Leaders have prioritised addressing informality through strategic interventions. In 2024, the Leaders emphasised the importance of formalisation efforts through the Lima Roadmap to Promote the Transition to the Formal and Global Economies (2025–2040) and its Implementation Plan was endorsed by Senior Officials in May 2025. By facilitating transitions into formal economic structures, APEC economies can harness untapped productivity and innovation potentials, enhance economic resilience, reduce socioeconomic gaps and ensure broader participation in the benefits of economic growth for all.

Initiatives and programmes to stimulate faster transitions to the formal sector have been undertaken by several APEC economies. Lessons learned from their experiences suggest the following key policy areas could accelerate the formalisation of businesses and employment.

Strengthen governance and institutional quality

Enhancing governance and institutional quality can be important for effective formalisation. Recognising this, APEC economies have consistently implemented initiatives to enhance governance frameworks by intensifying efforts in transparency and anti-corruption measures, strengthening the rule of law, making it easier to do business and improving regulatory quality. Many economies have introduced policies and programmes aimed at streamlining government procedures, reducing bureaucratic red tape and expediting the issuance of business permits and licences. These reforms demonstrate commitment to transparency and competitiveness, and enhance public trust in government. In supporting such efforts, digital transformation across public services may serve as one pathway to enable formalisation processes and assist enforcement mechanisms. These efforts can continue as economies leverage new technologies to improve governance.

- **Support formalisation by promoting digitalisation in government services.** Digitalisation of public services has made formalisation more accessible and affordable, reducing transaction costs and eliminating the issue of distance to visit government offices in person to register a business or perform tax administration. Many APEC economies have adopted digital platforms that function as one-stop services, consolidating government services, licensing and registration processes into a single, streamlined application. This strategy has been found to be effective in some economies, not only in minimising physical interaction but also reducing opportunities for corruption by enhancing transparency and accountability.
- **Utilise digital technologies toward effective enforcement mechanisms.** Many economies are challenged by insufficient capacity to implement laws and monitor compliance. By leveraging digital technology and data analytics, economies can significantly enhance enforcement efficiency, as seen in the implementation of automated compliance alerts, risk-based inspections and self-reporting mechanisms. Continued investment in digital governance solutions such as e-government services for business registration and tax administration may foster trust and compliance within the business community, ensuring that institutional improvements are durable and impactful.
- **Invest in digital infrastructure and supporting frameworks.** The complexity of digital systems, the digital divide and low levels of digital literacy hinder the implementation of digital transformation in government services. Apart from ensuring wide accessibility of internet connectivity, APEC economies may consider investing in interoperable digital infrastructure to promote efficient and seamless data gathering, verification and utilisation across government agencies. This effort can be complemented by policies to improve data protection to build trust in digital formalisation processes.
- **Close the gaps by encouraging legal and regulatory pathways to formalisation.** Existing laws and regulations could sometimes lag behind new economic realities and emerging technologies. Digital technologies have opened opportunities for formalisation, but they have also led to new ways of working and doing business. In many cases, laws and regulations developed under a brick-and-mortar economy are unable to capture these situations, and workers and firms in these sectors have no or limited pathways to formalisation. Structural reform may ensure that laws and regulations – such as those regarding employment and labour, business registrations, taxation and contract enforcement – are aligned with current economic and technological realities and do not prevent certain sectors of the economy from formalising.

Invest in human capital development and recognition

Capacity-building initiatives can help upskill and reskill the workforce amid a rapidly changing environment. Raising productivity, particularly for Type 1 informal actors, will also assist in their transition to formal work and entrepreneurial arrangements. Ensuring access to lifelong skills development needs to be complemented by an ability to communicate the possession of these skills to potential employers. APEC economies have launched various initiatives to improve qualification standards, including the development of occupational standards, skills frameworks and a regional qualifications framework to support alignment and transparency across economies. These efforts are supported by mutual recognition arrangements (MRAs). At the economy level, certification frameworks should be aligned with domestic and international qualification standards as well as formally recognised by employers.

- ***Develop certified training programmes to support formalisation.*** APEC economies could consider certified upskilling and reskilling programmes targeting informal workers and low-skilled jobseekers, with a focus on emerging skills from high demand sectors. These programmes may incorporate practical, job-relevant training and provide clear pathways to employment or entrepreneurship. Furthermore, integrated employment facilitation services – commonly offered by public employment service offices in many economies – are necessary to provide continuous support for job matching and skill alignment with the labour market, such as career coaching, training, and technical support for the formalisation process.
- ***Facilitate formalisation through entrepreneurial skills development.*** To support aspiring business owners, capacity building in management can be introduced through an entrepreneurship curriculum in the formal education system. This curriculum, which is integrated with other skills development modules, could provide practical and hands-on skills in business management, cash flow and navigating government processes. Coaching and networking also play a key role in assisting entrepreneurs to grow their businesses and formalise. In many economies, SME centres have performed these functions effectively. Formalisation pathways can then be reinforced by linking skills development to incentives, such as access to business registration support, tax incentives, start-up financing or eligibility for public procurement, once certification or capability-building programmes are completed.
- ***Implement targeted policies and programmes for formalisation.*** Targeted interventions may also be considered to address specific barriers to formalisation. Establishing skill development initiatives, job placement programmes and employer-based incentives are among ways to improve workers' skills and employability in accessing the formal economy. For example, caregivers may benefit from flexible working arrangements, childcare systems and support for re-entering the workforce. Less experienced workers could benefit from tailored training, career counselling, and apprenticeships, as well as incentives for employers to hire and train them. Reasonable-accommodation standards could enhance formal job participation. Collectively, these efforts may help bridge the gap between informal employment and formal labour market participation.

Ensure that the benefits of formalisation outweigh its costs

For formalisation to be a viable and attractive option, its perceived benefits must clearly outweigh the associated costs. Workers and entrepreneurs carefully weigh these factors when deciding whether to enter the formal economy or remain in the informal sector. Well-designed, comprehensive policy measures can play a vital role in integrating more workers into the formal labour market, while also facilitating the transition of informal businesses into the formal economy.

- ***Extend social protection for informal workers.*** Lack of access to essential employment benefits and social protection systems is both a cause and a result of informal sector work. Opening social protection and pensions to informal sector workers will not only reduce their economic vulnerability, but it can also draw them into the formal sector through registration while preventing them from returning to the informal sector. Structural reforms may be needed to open social protection to informal workers, especially if such systems are currently limited to formal sector workers. Various modalities for this expansion could be explored, from the provision of direct subsidies to voluntary registration and contribution from informal sector workers.
- ***Balance labour market flexibility with income security.*** Labour market regulations and protections need to be flexible enough to allow firms to initiate and terminate employment in response to market conditions. On the other hand, workers could benefit from income security and safety nets that encourage workforce participation and support workforce training, reskilling and upskilling to reduce their economic vulnerability. Previous APEC commitments and policy endorsements (e.g., in the APEC Economic Policy Reports for 2017 and 2021) remain relevant in promoting formalisation, as economies seek to strike a balance between giving firms flexibility while reducing the vulnerability of workers. In the context of formalisation, promoting the concept of flexibility and security through active labour market policies could be revisited and enhanced.
- ***Clearly communicate the importance, processes and benefits of formalisation.*** The need for communication and information cannot be understated. Many informal sector actors may simply be unaware of the importance, processes and benefits of formalisation. Educational and awareness campaigns on formalisation should be conducted for individuals and firms alike, taking into consideration the various barriers and constraints they face.

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