

## Asian Employment Forum: Growth, Employment and Decent Work

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### ABSTRACT

#### Rolling back informality

The Fourteenth Asian Regional Meeting held in Busan, Republic of Korea, concluded with a commitment to an Asian Decent Work Decade – for the period up to 2015. One of the priorities for national action identified under this commitment is the promotion of decent work opportunities in the informal economy, especially in rural areas.

The last general discussion of the informal economy by the International Labour Conference in 2002 resulted in Resolutions and Conclusions that provided a new framework for action. This framework proposed the term '*informal economy*' and elaborated on its coverage. The Conclusions further emphasized that promoting decent work in the informal economy requires a comprehensive and integrated strategy that cuts across a range of policy areas, in a way that enhances positive linkages between formal and informal enterprises and workers along a continuum of decent work conditions.

In March 2007, the ILO Governing Body Committee on Economic and Social Policy reviewed the progress made to operationalize the framework since 2002. The Committee noted that while informality is gaining ground and remains an important development challenge, many countries are searching for new policies, innovative solutions and practical responses in order to promote decent work.

This paper on "Rolling back informality" focuses on recent trends and patterns of informality in the Asia-Pacific region; selected challenges and policy responses that are being developed to reduce decent work deficits in the informal economy; and lessons learnt in the course of efforts to roll back informality.

**Recent Trends in the Asia-Pacific.** The Asia and the Pacific region is the fastest growing region in the world. Despite this, however, unemployment rates have risen while manufacturing wages have grown only marginally. Incomes of many workers have therefore deteriorated alongside increased labour efficiency and economic growth. Given limited employment opportunities in the formal sector, women and men find ways of generating livelihood activities to augment household incomes in informal activities. According to recent estimates, informal employment in developing Asia comprises about 65 per cent of non-agricultural employment.

**The Dynamics of Informality in Asia-Pacific.** There are multiple factors underpinning informality. First and foremost is the problem of poverty and the livelihood opportunities and jobs for the working poor. Another factor is the inability of the industrial sector to

absorb labour in more productive jobs. A third factor is related to the increasing flexibility of work in the formal segment of the economy. Finally, informality is also an issue of governance. Identifying the specific factors contributing to the dynamics of formality/informality in national and local contexts and understanding its diversity is therefore a necessary, albeit complex, first step for developing appropriate policy responses.

**Rolling Back Informality: Policy Matters.** A comprehensive set of policy initiatives that cuts across the strategic objectives of the Decent Work Agenda is required.

- ***Policies for growth and quality employment generation.*** Since the informal economy is rooted in the inability of economies to create sufficient numbers of decent jobs, mitigating the spread of informality requires making employment a central concern of economic and social policies. Weak governance has created an environment that is not conducive to job creation or small enterprise development. This challenge will be compounded over the next ten years with the projected growth of the labour force in Asia-Pacific in the magnitude of 240 million, with much of it taking place in countries with the largest informal economies. Sectoral strategies, in addition to macroeconomic, trade and investment policies, must also be addressed in order to encourage the development of linkages within sectors and to enable workers to capture a larger share of the value created.
- ***Promoting labour standards and adapting the regulatory environment and labour protection methods.*** Most labour laws only cover workers that have clear employer-employee relationships; thus, institutions established to carry out labour protection reach out mainly to the formal economy. Administrative decrees and judicial rulings for extending the scope of labour law to the informal economy have been carried out in countries in Asia-Pacific. Furthermore, partnerships have been forged between government ministries as well as within tripartite arrangements in delivering occupational safety and health (OSH) advice to specific sectors and remote villages.
- ***Entrepreneurship, micro-finance and skills development.*** The informal economy is a reservoir of skills, entrepreneurial capacity, and resilience. Yet, workers face a number of constraints which force them to remain in informal activities and to suffer from low productivity and earnings. Policy initiatives should promote the development of an enterprise culture, create a more favourable local business environment, and improve the position of small producers and micro enterprises within value chains. Microfinance must be accessible and should encompass a broader range of financial services. Skills development interventions must be appropriate to the conditions of the target groups in both the formal and informal economy.
- ***Extending social protection to the informal economy.*** Social protection coverage to informal economy workers remains extremely limited. Statutory social security systems often rely on a clear employer-employee relationship where employers have a financial and administrative role to play in linking workers to social security systems. Where this relationship does not exist, workers in the informal economy have little access to state-run social security systems. Nevertheless universal coverage remains a goal for all countries. National governments in Asia-Pacific have implemented both tax-based and contribution-based health insurance schemes and have put this within reach of workers in the informal economy.

- ***Promoting better occupational safety and health.*** The absence of information channels and appropriate technology on OSH for micro enterprises and home-based workers has excluded a vast number of workers from vital safety and health information. The ILO has developed training programmes and practical strategies for workplace improvements suitable for farmers, micro enterprises and home-based workers, using simple, low-cost improvement methods. It has also worked with national governments in establishing OSH programmes and policies.
- ***Investing in integrated local development.*** Municipal and village-level governance units comprise the first level of engagement for informal economy workers and entrepreneurs in many aspects of their lives. Local governance units therefore represent a strategic level of intervention. The ILO's work on local development has focused on developing infrastructure and basic services, as well as on business and industry development. The ILO has developed participatory methods for assessing needs, prioritizing investments and supporting stakeholders in implementing decisions. These tools are being institutionalized within local governance units in a bid to improve institutional practices and methods at the local level.
- ***Organization, representation and social dialogue.*** Organization, representation and social dialogue are important in all aspects of economic and political life. Efforts have enhanced the organisation and representation of informal economy workers and units. Trade unions, local business organizations, cooperatives and community-based associations provide useful lessons in organizing workers in the informal economy. Governments must provide the mechanism for registering member-based organizations and provide seats in local planning bodies to allow broader representation.

**The Way Forward: Comprehensive and Integrated Decent Work Policies.** Rolling back informality through a deliberate, coherent and comprehensive set of policies across the decent work dimensions is key to realizing the Decent Work Decade in Asia and the Pacific. The experiences reviewed show an increasing commitment to take up this challenge in many countries in Asia-Pacific. Further exchanges and knowledge networks can build towards multiplying effective policies and institutions towards realizing decent work in the informal economy in the region.

### Suggested key questions

1. The roots of informality can be traced to poverty, the inability of industrial sectors to create productive jobs and more flexible work arrangements, along with economic restructuring and governance issues. What are the key factors that have contributed to the rise of informality in your country and what aspects of informality require a priority policy response? What types of constraints do you foresee as you address these priorities?
2. The last general discussion on the informal economy at the International Labour Conference in 2002 emphasized that there needs to be a comprehensive and integrated strategy cutting across a range of policy areas to reduce the negative features of informality, while at the same time promoting their inclusion in the mainstream economy and extending social production. How can an integrated and coordinated policy response to the issue of informality be applied in your country?

How key stakeholders be mobilized towards a coordinated response? How can these twin objectives be attained?

3. The legal frameworks of particular importance in the context of informality are labour legislation, business regulations and legal frameworks to secure rights to property and business space. What kinds of policy responses have been designed and implemented with relative success in countries in the region and which can be shared with other countries in the region? How can these approaches be scaled up and institutionalized so that they become part of established rules or practices rather than experiments and special projects?
4. Inter-country and inter-regional exchange of experience and international knowledge networks can serve as the base for disseminating and multiplying effective policies and institutions for promoting decent work strategies for the informal economy workers in the Asia-Pacific region. What are the specific venues in which this exchange of experiences and lessons can take place? What would the role of national stakeholders and national institutions be in building or enhancing this knowledge network?