



BASHKIMI I SINDIKATAVE TË PAVARURA TË KOSOVËS

UNIJA NEZAVISIH SINDIKATA KOSOVA

THE UNION OF INDEPENDENT TRADE UNIONS OF KOSOVO

The informal economy in Kosovo:
Which role for the trade unions?

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Introduction

1. ■ The informal economy has been growing rapidly worldwide, especially in transition and developing countries. Only in Central and Eastern Europe, the International Confederation of Free Trade Unions (ICFTU) estimated that there were approximately 10 million workers in the informal economy in 2002. The number was growing every year. The term informal economy has been increasingly used to encompass the complexity and diversity of enterprises and workers operating informally¹. The International Labour Organization describes the situation of workers and entrepreneurs in the informal economy in terms of decent work deficits: poor-quality, unproductive and poorly-paid jobs, not recognized or protected by law and with inadequate social protection. The lack of representation and voice are more pronounced in the informal economy and mostly among women and young workers.

2. ■ Giving voice and representation to workers and entrepreneurs in the informal economy required new organizations, structures and policy approaches. There was no unique and clear-cut strategy to respond to the challenge posed by the diversity and needs of informal economy operators. The first step was, therefore, to understand the causes and their reasons, and identify the groups of workers engaged in the informal economy.

3. ■ To shed some light on the informal economy in Kosovo, the Federation of Independent Trade Unions of Kosovo (BSPK) with the support of the International Confederation of Free Trade Unions (ICFTU) and the International Labour Office organized a roundtable to discuss the magnitude of the informal economy in Kosovo and the role of the government and employers' and workers' organizations in addressing the challenges ahead. The roundtable took place in Pristina on the 19th October 2005 and was attended by representatives of the Provisional Institutions of Self-Government of Kosovo, employers' organizations, trade unions, and research institutes (see annex I). It was chaired by the Deputy President of the BSPK.

4. ■ The present report summarizes the discussion, conclusions and recommendations of the roundtable. It also includes an excerpt of the ILO document *Trade Unions and the Informal Sector: Towards a Comprehensive Strategy*, prepared for an International Symposium of Trade Unions that was held in Geneva in 1999. The English and Albanian versions of the excerpt were distributed to participants as a background document for discussion (see annex III).

¹ ILO, *Pristupačan rad u neformalnoj privredi*, Međunarodna konferencija rada, Sesija 90, (2002), § 5, <http://www.ilo.org/public/english/standards/relm/ilc/ilc90/comreps.htm>. (2005).

Informality in Kosovo: Determinants and context

5. — Measuring the informal economy and informal employment was not an easy task. Participants used the terms informal economy and informal employment interchangeably, indicating that the understanding of the phenomenon and its complexities needed further elaboration. The Chairperson introduced the discussion by stressing that the essence of trade unions' activities was centred on the guarantee of decent working conditions for all workers. Although the phenomenon was considered widespread, there was no accurate information on the magnitude of the informal economy and the working conditions of informal workers. Workers in the informal economy fell generally into three groups: owners or employers of micro-enterprises, own-account workers and dependent workers. The first group corresponded to the owners or employers of micro-enterprises who employed few workers – these normally were not a target for trade unions' activities, but could be negotiating partners when protecting workers' rights. The second group comprised self-employed and own-account workers, sometimes engaging unpaid dependent work. The third group included dependent workers, engaged in full-time or casual employment (e.g. salaried workers, generally without a formal contract and working on a regular or casual basis, unpaid workers, including family members, and home workers).

6. — The concept of informal economy activities should be distinguished from activities of the underground economy and from illegal activities. This definition differentiates those activities which – as a result of the low incomes they generate – cannot afford the cost of legality from those which, despite being profitable, are deliberately concealed from public authority with the aim of avoiding taxes.² Underground activities represent a violation of the civil code. Illegal activities, on the other hand, are activities forbidden by the criminal code (for example drug trafficking).

7. — The informal economy in Kosovo had not yet received the attention it deserved. Most of the efforts focused on facilitating economic and infrastructure recovery, designing a basic constitutional framework and achieving the standards for Kosovo.³ Government priorities aimed at strengthening the public administration, improving access to and quality of education and, increasingly, fostering employment-intensive economic growth. The same Government had recently started the preparatory work for the design of the Kosovo Development Plan, which would detail the action required to ensure sustainable and equitable economic growth.

² ILO: *Decent work and the informal economy*, Report VI(1), ILC, 90th Session (Geneva, 2002), at <http://www.ilo.org/public/english/standards/relm/ilc/ilc90/comreps.htm>, (2005).

³ The standards for Kosovo are eight priority targets that the government has engaged to reach in order to have functioning democratic institutions, rule of law and freedom of movement. These standards, as well as their implementation plan, were agreed between the Kosovo government and the United Nations Mission in Kosovo (UNMIK) in December 2003. For more information see <http://www.unmikonline.org/standards> (2005).

8. ■ During the roundtable, participants gave rise to a heated debate on the determinants of informality in Kosovo. The ILO Report “Decent work and the informal economy” stressed that there are multiple economic, political and sociological forces that determine the size of the informal economy in transition and developing countries. Labour surpluses, weak economic growth and/or economic restructuring, commercial regulation and practices, ineffective labour administration are factors that often contribute to the spreading of the phenomenon.⁴

9. ■ Three types of regulation were usually mentioned with regards to the extent of the informal economy: i) commercial and business regulation governing the establishment and operation of enterprises, ii) the law concerning property rights and iii) labour legislation governing employment relations and the rights and protection of workers. Poorly designed and burdensome rules, coupled with inefficient bureaucracies, increased transaction costs and discouraged compliance. Transaction costs included: the cost and procedures required for registering a business, obtaining a license and acquiring land and services (telephone, water, electricity), as well as costs relating to access to input materials and supply sources, taxes, labour and social costs. Also the way in which laws and regulations were administered posed excessive burdens, especially for small companies.

10. ■ The estimation of the number of informal enterprises was not an easy undertaking. However, the number and characteristics of workers in the informal economy could be identified, for instance, by including in the existing labour force surveys a few additional questions to be administered to all employed persons, irrespective of their status of employment (employees, own-account workers, contributing family members, etc.). Two surveys recently carried out in Kosovo, provided some indications on informal employment practices:⁵ According to the survey conducted by the World Bank, about half of employment in Kosovo was informal. Of the total employed, more than 49 per cent were informally employed according to the following ILO criteria: (i) whether they had a signed contract; and (ii) whether the enterprise was registered. The degree of measured informality was higher by the criterion of whether payroll taxes were paid or withheld (67 per cent of the respondents were informally employed based on this standard).

11. ■ Similarly, the school-to-work-transition survey conducted by the ILO and targeting young people⁶ found that 50 per cent of working youth were workers in the informal economy, with 73 per cent of them not being covered by social security. The lack of accurate population and labour market data in Kosovo made any assessment of informal employment a rather difficult

⁴ ILO: *Decent work and the informal economy*, Report VI(1), ILC, 90th Session (Geneva, 2002), at <http://www.ilo.org/public/english/standards/relm/ilc/ilc90/reports.htm> (2005)

⁵ Corbanese, V., Rosas, G., *Youth transition to decent work: Evidence from Kosovo*, ILO, Geneva (forthcoming); World Bank, *Kosovo labour market study: Policy challenges of formal and informal employment*, Washington D.C., (2003).

⁶ Within the United Nations system, and in all its statistics and indicators, young people are identified as those between 15 and 24 years of age.

undertaking. Another factor requiring greater attention was the estimation of the contribution of enterprises in the informal economy to Gross Domestic Product (GDP), as well as the estimation of revenue losses. During the roundtable, the Ministry of Economy and Finance estimated that a rate of informal employment of approximately 50 per cent would have meant a public budget annual loss of Euro 4 to 5 million in terms of wage tax. The same rate would have represented a loss of pension contributions of roughly Euro 7 to 8 million Euros per year.

12. ■ The regulatory framework in Kosovo was generally considered as being favourable to business development: custom duties, taxes and the costs of labour and social protection were among the lowest in the Central and Eastern Europe (CEE) Region. However, recent surveys carried out among employers identified a number of administrative and fiscal constraints which were *de facto* burdening companies' activities. The Kosovo business community considered trade, VAT and tariffs policies as a constraint for domestic producers who relied on imported raw material and semi-finished goods. Factors preventing enterprise start-up were mostly identified in terms of lack of capital, poor access to financial services and slack competition between domestic and foreign firms. For existing enterprises, the main constraint in running the business was poor access to financial services, unfair or informal competition, level of tariffs and taxes applied to imports of capital goods and raw material, and administrative costs.

13. ■ The tax administration system was of recent establishment and the collection capacity of the public administration, especially at municipal level, was still weak. There were only 300 tax inspectors as compared to 48,000 registered enterprises with a ratio of 1:160. Tax evasion was considered to be widespread (the Tax Authority of Kosovo reported an average tax evasion rate of 50 per cent). The high rate of tax evasion was also due to the fact that many small companies carried out their transactions in cash and did not use financial institutions and bank instruments. The use of cash made the tracking system of the tax administration ineffective. Further, most firms in Kosovo were organized as sole proprietorships or partnerships, employing less than five persons; nearly 92 per cent of the registered enterprises were "personal business enterprises", *id est* individual businesses operating mostly with the help of unpaid family members.

14. ■ One of the key determinants of the informal economy related to the patterns of economic and population growth. Since 1999, most of the economic growth in Kosovo was due to the expansion of the following sectors: building and construction, trade and retail, and public administration. The private sector that had emerged since 1999 was predominantly made of small-scale and low capital-intensive enterprises. The end of the post-conflict reconstruction boom evidenced the problem of unemployment and under-

employment of a young and rapidly growing population. Domestic formal employment creation was unable to absorb such increases in labour supply. In the past, the problem of structural unemployment and chronic underemployment were partly resolved through organized emigration, mainly to Western European countries. Emigration to these countries was becoming more difficult because of more stringent immigration policies and the Kosovars, especially the young, survived by finding employment in the informal economy.

15. — Other factors that contributed to the weak economic performance of the Kosovo economy were identified in: i) the privatization process that was causing a further contraction of formal employment; ii) stringent fiscal policies that were not also considered as instruments to promote economic growth; iii) the fact that domestic investments were based on low value adding activities; and iv) the fragility of economic institutions that were relatively new.

Labour protection instruments and their application

16. — It is often argued that the main reasons for enterprises to operate in the informal economy are related to: i) the costs involved in registering a business and the complexity of administrative procedures; and ii) the costs of compliance with labour legislation. There was little information as to whether the costs of registering businesses and other administrative procedures in Kosovo played a role in the decision of operating in the informal rather than in the formal economy, although a number of interviews conducted among young prospective self-employed suggested that current administrative procedures were playing a role in final decision of setting up their business.⁷ With regards to the costs of compliance with the labour legislation, the analysis conducted by the Ministry of Economy and Finance of Kosovo revealed that current legislation (see box 1 below) was one of the least strict compared to countries in the CEE Region.⁸ It was mentioned that the analysis of the degree of strictness of Employment Protection Legislation (EPL) deserved more attention. Some participants also stressed that workers' protection could not be restricted only to those who worked on the basis of an employment contract.⁹ In that respect, there was no case law that could have provided guidance on the extension of labour protection to workers in the informal economy.

⁷ Corbanese, V., Rosas, G., *Youth transition to decent work: Evidence from Kosovo*, op. cit.

⁸ Ministry of Economy and Finance, *Kosovo mid-term budget framework 2006-2008*, Pristina, (2005). These data were also confirmed by USAID, *Business Conditions Index in Kosovo*, Pristina (2005).

⁹ For the methodology and analysis of the impact of EPL on labour market outcomes in CEE countries see Cazes, S., Nesporova A., *Labour markets in transition: Balancing flexibility and security in Central and Eastern Europe*, chapter 5, ILO, Geneva, (2003).

Box 1

Main provisions of the Essential Labour Law in Kosovo

Discrimination: Prohibition of discrimination in employment and occupation (including access to vocational training) based on race, sex, colour, religion, age, family status, political opinion, social origin, etc. The Kosovo Essential Labour Law also provides for equal remuneration between men and women for work of equal value.

Minimum working age: 15 years of age. Youth between the age of 15 and 18 may only be employed in work that does not harm their health and does not affect school attendance.

Labour contract: The law foresees the written form for the employment contract. The contract has to detail the nature, type and place of work as well as working hours, duration, base salary and any additional entitlement. The law also provides the grounds for employer's termination of the contract.

Working conditions: Work hours cannot exceed 40 hours per week (overtime may not exceed 20 hours per week and 40 hours per month), night work is regulated by the law as well as the right to annual leave, maternity leave, sick leave, etc. The employer is obliged to take all necessary measures in the workplace to prevent accidents and work-related illnesses. The Labour Inspectorate is responsible for monitoring the implementation of occupational health and safety practices.

Pension: employers and employee contribute to the Pension Fund in an equal amount of 5% of the total wage.

Source: Regulation 2001/27 on Essential Labour Law in Kosovo (UNMIK/REG/2001/27) at <http://www.unmikonline.org/regulations/unmikgazette/02english/e2001regs/e2001regs.htm> (2005)

17. — A major factor behind decent work deficits related to the degree of enforcement of current labour legislation. The participants agreed on the need to increase the efficiency and effectiveness of labour administration as well as government intervention in the application of labour law. The labour inspection service was inadequately staffed and equipped to control and promote the enforcement of labour legislation in Kosovo. The regulations that would empower labour inspectors to issue warnings and raise penalties for non-compliance with labour law were still not enacted. There was consensus on the need to update the knowledge and skills of labour inspectors to the modern labour inspection systems and techniques. Finally, the participants highlighted the importance for the labour inspectors to prosecute violations of essential workers rights, while providing advice to employers to redress minor offences.

Enhancing rights in the informal economy: possible actions

18. During the roundtable participants identified the lack of data on the extension of the informal economy as one of the major shortcomings that prevented the development of appropriate measures targeting workers with decent work deficits. To improve working conditions of workers in the informal economy it was necessary to identify the existing legal provisions, assess their degree of compliance (especially at the local level) and identify gaps in labour law enforcement. These activities could have helped improve the application of existing legislation as well as regulate new developments and settle disputes concerning labour cases that were not foreseen by the legislator.¹⁰

19. Workers (especially young workers) in the informal economy were, by and large, unaware of their rights at work. The preparation and distribution of information material describing workers' rights and the provision of legal advice by trade unions could have supported efforts to enforce rights at work. Such activities should have also emphasised the benefits of labour standards in terms of improved workers' performance and productivity.

20. Trade unions have an important role to play in promoting the respect of workers' rights in the informal economy. Some strategies were suggested to overcome the difficulty of organizing these workers. These included: i) the revision of the structure of the trade unions to facilitate the workers' participation (right to membership and participation, including in collective bargaining); ii) the assistance to workers in the informal economy in creating their own membership-based organizations; and iii) the provision of support services (e.g. information, legal advice, training on workers' rights).

¹⁰ This applies, for instance, to those contracts that, although regulated by the civil law, de-facto disguise an employment relationship. A typical example of "civil contract" is the agreement between a company and an individual (formally "a contractor") to undertake tasks that coincide with those of a regular employee.

Conclusions and recommendations

21. ■ The participants concluded that it was necessary to devise an integrated strategy in order to capture and address the current decent work deficits faced by many workers in Kosovo. Understanding the barriers and evaluating the costs for enterprises of operating in the informal economy in terms of registration, licensing, taxation, compliance with labour regulations were crucial to improve the business environment. It was mentioned that in transition countries there was often a lack of cooperation and coordination among several government agencies. Improved governance, including more effective social dialogue, was crucial to design and implement strategies aimed at reducing the magnitude of the problem and protecting workers' rights.

22. ■ The roundtable participants achieved consensus on the facts that the fundamental principles and rights at work applied to all workers (and not only those in the formal economy). There was a need to identify different application methods to ensure that those rights applied also to workers in the informal economy. The rights deficits could be traced to how these rights were expressed and enforced through national law and practice as well as the way workers in the informal economy were empowered and could claim the respect of their rights. In that respect, appropriate labour administration and legal literacy were identified as crucial. The Government, in consultation with the social partners, could have conducted a review to determine how existing labour rights would be practically and effectively extended to workers in the informal economy.

23. ■ It was also important that workers in the informal economy are aware of their rights and the procedures to claim these rights and seek recourse in the case of violation. In this regard, the most important measure was identified in the organization of workers that could have given them voice and representation. Because of the precarious nature of work, workers in the informal economy had limited access to justice. In addition, they were often unable to afford the cost of legal services.

24. ■ The problem of organizing workers in the informal economy was mirrored by that of organizing small enterprises. It was mentioned that employers' organisations worldwide were increasingly recognising that they could not effectively promote and protect the interests of the formal economy without enlarging their scope of action to cover entrepreneurs in the informal economy.

25. ■ The roundtable concluded its proceedings with the following four key recommendations:

- i) A better understanding of the extent of the informal economy and the lack of decent work opportunities should be a priority concern for Kosovo. Research was needed to understand the factors shaping the informal economy as well as the magnitude and impact of decent work deficits. The analysis of the legal framework and practices leading and keeping businesses in the informal economy should be a core area of such research;*
- ii) Improve economic and fiscal governance as well as labour administration;*
- iii) Raise awareness on the negative impact of the informal economy on worker's well-being, enterprises' development and domestic revenues (costs-benefit analysis);*

and (for the trade unions)

- iv) Review current structures and practices in order to identify constraints to the representation and voice of workers in the informal economy, support the self-organization of these workers, improve social dialogue and workers' education, and provide information with regards to their rights at work.*

List of Participants

Annex I

1. Ali Dragusha, BSPK
2. Zeqir Shkodra, BSPK
3. Driton Qehaja, Office of the Prime Minister
4. Ylber Shabani, Ministry of Labour and Social Welfare
5. Shkumbin Demaliaj, Labour Inspectorate
6. Gani Asllani, Ministry of Economy and Finance
7. Kadri Kryeziu, Ministry of Trade and Industry
8. Melihate Termkolli, Ministry of Public Services
9. Mustaf Hasani, Tax Administration of Kosovo
10. Haxhi Ramaj, Kosovo Business Registration Agency
11. Valli Corbanese, ILO, Pristina
12. Anton Leppik, ICFTU
13. Sergejus Glovackas, ICFTU
14. Mustaf Ibrahim, Chamber of Commerce of Kosovo
15. Emine Ramosaj, Chamber of Commerce of Kosovo
16. Muhemet Sadiku, Riinvest (research institute)
17. Mrika Kotorri, Riinvest (research institute)
18. Luan Gashi, USAID
19. Municipalities' Association of Kosovo
20. Leonora Mushica, Social Dialogue Project, European Agency for Reconstruction
21. Haxhi Arifi, Activist, BSPK
22. Alush Sejdiu, Activist, BSPK
23. Miftar Hyseni, Activist, BSPK
24. Qamil Berisha, Activist, BSPK,
25. Asllan Bajrami, Activist, BSPK
26. Gani Xhigolli, Activist, BSPK
27. Habib Basholli, Activist, BSPK
28. Shukrije Rexhepi, Women Network, BSPK,
29. Arbnore Zogu, Youth network, BSPK
30. Naim Haliti, Legal Office, BSPK

Programme

Annex II

Session 1

- 09:00 - 09:45 Registration of participants
- 09:45 - 10:00 Welcome address
Ali Dragusha, Confederation of Free Trade Unions of Kosovo
- 10:00 - 10:20 The informal economy in Kosovo: the trade union perspective
Zeqir Shkodra, Confederation of Free Trade Unions of Kosovo
- 10:20 - 10:40 Overview of Kosovo economic and fiscal policies
Driton Qehaja, Office of the Prime Minister
- 10:40 - 11:00 Labour protection framework and gaps in implementation: the role of the Labour Inspection Services
Ylber Shabani, Ministry of Labour and Social Welfare
Shkumbin Demaliaj, Labour Inspection Services
- 11:00 - 11:20 Economic and financial impact of the informal economy on Kosovo development
Gani Asllani, Ministry of Economy and Finance
- 11:20 - 11:40 Determinants of the informal economy in Kosovo and recent data on formal businesses
Kadri Kryeziu, Ministry of Trade and Industry
Haxhi Ramaj, Kosovo Business Registration Agency
- Discussion*
- Coffee break*

Session 2

- Coffee break Informal economy, informal employment and decent working conditions
Valli Corbanese, ILO Project on Youth Employment
- 12:15 - 12:30 Informal Economy Trends in South Eastern and Central Europe: trade unions strategies and best practices
Sergejus Glovackas, ICFTU
Anton Leppik, ICFTU
- 12:30 - 12:45 Strategies to confront the informal economy in Kosovo
Muhemet Sadiku, Riinvest
Mrika Kotorri, Riinvest

- 12:45 - 12:30 Are the tax regime and fiscal policies in Kosovo favourable to business development?
Mustaf Hasani, Tax Administration of Kosovo
-
- 12:30 - 12:45 Employers' organization strategies towards informal enterprises
Mustaf Ibrahim, Chamber of Commerce of Kosovo
-
- 12:45 - 13:00 The role of good governance and public administration in limiting the extent of informal economy
Melihate Termkolli, Ministry of Public Services
- Questions and Answer session*
- Lunch break*

Session 3

- 14:30 - 15:30 Discussion and recommendations
- Luan Gashi, USAID*
Valli Corbanese, ILO
Sergejus Glovackas, ICFTU
Anton Leppik, ICFTU
Muhemet Sadiku, Riinvest
Mustaf Ibrahim, Chamber of Commerce of Kosovo
Zeqir Shkodra, Confederation of Free Trade Unions of Kosovo
-
- 15:30 - 16:00 Concluding remarks
Ali Dragusha, Confederation of Independent Trade Unions of Kosovo

Trade Unions and the informal sector: Towards a comprehensive strategy¹¹

In most developing and transition countries the informal sector is vast, heterogeneous in terms of activities and occupations, and expanding rapidly. At times, it is characterized as innovative, dynamic and a provider of opportunity for those with entrepreneurial spirit. Yet, working conditions are often unsafe; incomes of unregulated wage earners and the self-employed are usually low; access to social protection, training, and social services is severely restricted; exploitation and infringement of workers' rights are common. For the vast majority of dependent and own-account workers the informal sector is not a stepping stone to improvement, but a strategy for survival.

The term "informal sector" originates from the International Labour Office (ILO). It was used for the first time in reports prepared under the World Employment Programme at the beginning of the 1970s. One of the conclusions highlighted in these reports was that the principal social problem was not unemployment but the existence of a large population of "working poor", struggling to produce goods and services without their activities being recognized, registered or protected by public authorities.

The term "informal sector" has since been used to cover a multitude of characteristics that are specific to the urban "non-modern sector" of developing and transition economies. Thus defined, the notion of "informal sector" covers that part of small-scale income-generating activities which take place outside the official regulatory framework and typically utilize a low level of capital, technology and skills, while providing low incomes and unstable employment.

The concept provided by the ILO for statistical purposes refers to the informal sector as follows:

... consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. These units typically operate at a low level of organization, with little or no division between labour and capital as factors of production and on a small scale. Labour relations where they exist are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees. Production units of the informal sector have the characteristic

¹¹ This paper is an excerpt of the ILO background paper (1999) *Trade Unions and the Informal Sector, Towards a Comprehensive Strategy*, prepared for the roundtable on the informal economy organized by the Confederation of Free Trade Unions of Kosovo (19th October 2005) to serve as a means for discussion.

features of household enterprises. The fixed and other assets used do not belong to the production units as such but to their owners ... Expenditure for production is often indistinguishable from household expenditure...

Activities performed by production units of the informal sector are not necessarily performed with the deliberate intention of evading the payment of taxes or social security contributions, or infringing labour or other legislations or administrative provisions. Accordingly, the concept of informal sector activities should be distinguished from the concept of activities of the hidden or underground economy. This definition distinguishes between those activities which cannot afford the cost of legality and those which, despite being profitable, deliberately do not comply with regulations, so as to evade taxes or the law of the land. For the ILO, the latter are not included in the informal sector, in so far as they are not generally associated with survival strategies of the poor. For the same reason, the term "informal sector" is not to be used to encompass criminal and socially undesirable activities such as drug trafficking or prostitution.

Some knowledge of the size and scope of the informal sector is a prerequisite for trade unions that wish to develop comprehensive policies and strategies. The heterogeneity of informal activities, the mobility of the labour force, the seasonal variations and the deficiency of many data-collection systems in most countries are some of the factors which explain the "invisibility" of the informal sector in official statistics.

The informal economy makes a very significant contribution to production and job opportunities. Consequently, the removal of the informal sector without a dramatic increase in the size of the formal economy would significantly exacerbate problems of unemployment and poverty in these countries. Sectors of the economy involving informal operators include commerce, agriculture, construction, manufacturing, transportation and services in other words, virtually every sector. Almost all crafts and most other occupations can be found in the informal sector: hairdressers, money changers, plumbers and mechanics, garbage pickers, vegetable sellers, kiosk operators, tailors, watch repairers, furniture carpenters and domestic helpers.

The informal sector workforce is generally grouped into three main segments: owners or employers of micro-enterprises, own-account workers and dependent workers. The first segment corresponds to the owners or employers of micro-enterprises who employ a few workers. They do not generally constitute a target group for trade union organizing policies. They may, however, represent a potential negotiating partner since they are directly or indirectly involved in an employment relationship with many of the informal sector workers that trade unions might attempt to represent.

The second segment comprises own-account workers, working alone or with unpaid employees. It includes mainly the self-employed and is the largest segment in the informal sector.

The third segment encompasses dependent workers, engaged in full-time or casual employment. It includes wage labourers engaged in micro-enterprises, generally without a formal contract and working on a regular or casual basis, unpaid workers, including family members, home workers and paid domestic workers.

In many respects, the problems of workers in the informal sector are closely related to their employment status. For example, the problems facing a street vendor differ substantially from those of a home worker. Within the same group of workers, the position of men and women differs. Despite these differences, precariousness and vulnerability apply to both the self-employed and the dependent workers in the informal sector in so far as they operate beyond the scope of legal and social protection.

— **The self-employed** create their own one-person business. They work alone or with unpaid workers, generally family members. The efficiency of their activities is often hindered by a lack of credit for small investments; technical skills for conducting their activity; raw materials and access to water and electricity supplies. They generally do not have access to the loans of credit institutions because they cannot offer sufficient economic security, and often need to borrow sums that are insufficient compared with the administrative costs of loans. They generally cannot afford the fees charged by official training institutions, and the courses offered by the latter are not necessarily adapted to their basic needs. Their workplaces are often unhealthy and hazardous and sometimes located in areas that discourage potential buyers. The situation of the **self-employed in rural areas** deserves special attention, because of the large share of the agricultural labour force in the total economically active population. Reduced trade barriers and other reforms associated with the restructuring of the world economy during the last two decades have resulted in reduced waged employment in agriculture. As a result, the distinction between waged rural workers and the rest of the working population becomes less clear, with everyone working in agriculture facing similar hardships.

— **Street vendors** represent a significant percentage of the workforce in the informal sector. These vendors are certainly the most "visible" component of the informal sector and play an important role as suppliers of a wide range of goods to low- and middle-income families. Because of the public location in which they operate, their goods can easily be destroyed, stolen or confiscated. Access to space and basic facilities, such as water and electricity, are their major concerns.

— **Paid workers** in micro-enterprises often face harsh and unsafe working conditions and generally do not have access to many of the benefits that workers in the formal sector receive, such as old-age pensions, health and invalidity insurance, limits on regular working hours and penalty payments for overtime, paid leave and maternity protection. They have limited or no industrial relations strength, they are usually unorganized, and their wages and employment conditions are determined unilaterally by the owner of the micro-enterprise. They can be engaged on a regular or casual basis. In the latter case, they have limited employment security.

— **Unpaid workers** are mainly family members and apprentices. Women and children represent an important percentage of these workers. This type of employment is not necessarily recorded in statistics and is often unpaid because of cultural traditions. Unpaid work is extensive in rural areas.

Workers engaged as **contract labour in the informal sector** are often at the very end of an invisible chain of subcontractors. In addition to the problems faced by paid workers, they operate in circumstances which enable the employer to avoid legal responsibility for controlling working conditions. This has a direct impact on their occupational health and safety conditions, including hazards due to exposure to chemical agents, or inappropriate weights or technology.

— **Home workers** are one of the most "invisible" groups in the informal sector. The total number of workers within this group is certainly underestimated. Nonetheless, anecdotal evidence suggests that home working is on the increase all over the world. Home work, as defined by the ILO's Home Work Convention, 1996 (No. 177), refers to work carried out by a person, for remuneration, in his or her home or in other premises of his or her choice, other than the employer's workplace, which results in a product or service as specified by the employer, irrespective of who provides the equipment, materials or other inputs used. In general, home workers are not covered under national labour legislation. The majority of home workers work under verbal agreements and therefore their dependent employment status is not recorded and their employer is hidden behind several levels of subcontractors. This deprives them of access to social security.

The above classification of informal sector workers does not adequately reflect the complexity of the sector. In the real world, no clear-cut borders exist between the above segments and there is constant mobility of workers between different employment categories and even occupations, depending on the time of year, the economic situation and the demands of their survival strategies.

The attitude and policy of the government towards the informal sector will significantly affect the magnitude and the quality of employment in this

sector as well as the influence that own-account workers, dependent workers and micro-enterprises in the informal sector exert on other components of the economy. Government policy towards the informal sector varies between countries and has evolved over time in accordance with changing political perspectives on the theory of economic development. The role of the State is critical to any policy discussion among trade unions concerning the informal sector. It is essential that trade unions develop and promote a coherent view as regards what economic, legal and administrative policies governments should adopt in relation to the informal sector.

During the late 1970s and 1980s in most developing and industrialized countries economic growth was either non-existent or insufficient to absorb expanding populations; and job creation was too slow to prevent an explosion of unemployment and underemployment. For those lucky enough to have a regular job, real incomes declined, working conditions deteriorated and job security vanished. For the remainder, the only alternative was to try to scratch a living in the informal sector. The important contribution that the informal sector has made to the economic survival of billions of workers is undeniable, and it is acknowledged that there is often considerable entrepreneurial spirit and creative potential within certain components of the informal sector. Very often, mutual support systems emerge which enable workers to cope with problems and harness new opportunities. Self-help and self-finance networks develop within the informal sector, based on families or friends. In short, informal sector workers are usually innovative, dynamic and flexible but poor.

It is also generally recognized that the quality of work, the standard of living and the degree of exploitation of workers in the informal sector are unacceptable. Consequently, working in the informal sector amounts to little more than a survival strategy or a second-best solution for the vast majority of people who find themselves confined to working in that sector. Nevertheless, many people would say that a low income is better than no income at all and that any job is better than no job. Despite major concern for the welfare of workers in the informal sector, trade unions would generally concur with these sentiments, provided that public policy is directed at trying to improve the position of workers in this sector and integrate them into the formal sector.

In an effort to reduce the exploitation of workers, it being recognized that the informal sector can make a valuable contribution as a survival strategy for those outside the formal sector, attempts have been made to strike a balance. For example, the ILO's Employment Policy (Supplementary Provisions) Recommendation, 1984 (No. 169), calls on member States to recognize the importance of the informal sector as a source of jobs while seeking "progressively to extend measures of regulation to the informal sector", even though account should be taken of the fact that integration of the informal

sector may reduce its ability to absorb labour and generate income, at least in the short term.

However, this strategy of gradual formalization is simply not working. While policies and programmes developed to assist small enterprises are generally addressing entrepreneurs' problems of access to product markets, credit, technical expertise, advanced technology and managerial skills, the improvement of working conditions in the enterprises is rarely targeted as a goal per se. The justification for this lies in the often unstated assumption that once these enterprises take off, workers' terms and conditions of employment will automatically improve. This assumption is based on a "trickle down" theory of economic and social development that has proved to be unrealistic.

According to this line of thought, rather than trying to restrict or regularize the informal sector, governments should concentrate on creating an enabling environment for it. It was argued that the high costs and the time involved in registering a business, the complexity of administrative procedures and the inadequacy of the regulations to meet the informal sector's needs acted as deterrents and discouraged entrepreneurs from legalizing their activities. At the centre of the criticism was the assertion that the costs of compliance with labour legislation were particularly excessive, and that this resulted in firms remaining in the informal sector. In addition, for enterprises in the formal sector it was argued that high labour costs would encourage entrepreneurs to reduce their workforce and substitute more capital equipment for labour.

The response was to remove the barriers between the formal and the informal sectors by eliminating or reforming a range of regulations in fields such as labour legislation, minimum wages, social security, workplace health and safety, and taxes, as well as regulations concerning the registration and administration of an enterprise. The proponents of these reforms argued that they would free private initiative and the economic potential of the self-employed and micro-enterprises operating in the informal sector. The whole emphasis switched to deregulation and withdrawal of the government to ensure that the private sector was not "crowded out" by public investment or overburdened with government red tape.

This policy towards the informal sector was part of the broader *laissez-faire* approach to economic policy and the dominance of sheer self-interest in the 1980s and most of the 1990s. In this period the focus of economic policy narrowed from the pursuit of broad-based development, full employment and high levels of income for all to concentration on fighting inflation, encouraging private investment and promoting market forces at all costs.

The rationale for this policy package was a belief that all government intervention was bad: that government cannot make a positive contribution to

jobs and growth and that the economy should be left entirely to market forces.

The outcome of these policies was detrimental in most countries. The promised economic rebound through export-led growth failed to materialize in most countries, and unemployment and underemployment increased, while access to health, education and other social services diminished. At the same time, however, marked inequalities in income, access to work and the quality of jobs were reintroduced both within countries and between countries.

In most countries the national trade union centres opposed the basic thrust of this policy because of its harsh social impact and failure to produce the promised benefits in terms of economic and employment growth. The international trade union movement consistently pointed to several fundamental problems with the timing, ordering and packaging of stabilization and structural adjustment policies. Trade unions argued that policies should be more country-specific, that the stabilization component was excessively stringent, and that the structural changes should be spread out over a longer period of time and be the subject of tripartite dialogue.

In economies with low development, characterized by an absence of basic infrastructure, by underdeveloped markets and entrepreneurs, and where producers have only a limited knowledge of production technology and market possibilities, it would be unrealistic to expect an automatic supply response to price adjustments. Therefore, trade unions consistently argued that it was important to achieve an improvement in the trade balance through a diversification of the structure of exports rather than simply selling more primary products.

It is evident that the response being advocated by trade unions to the structural adjustment programmes and economic problems of developing countries was, and remains, completely inconsistent with the simplistic notion that economic growth and prosperity can be rapidly generated by removing legislative, tax and administrative controls over industry and the informal sector. The trade union perspective recognized that unconstrained market forces are not a panacea for all manner of economic problems and that the State has a fundamental role to play in correcting market failure and fostering economic development through investments in infrastructure, human capital development and access to credit.

Moreover, respect for workers' fundamental rights is both an objective in itself and a basic means of achieving the other objectives of social policy. These rights are an objective because they are an important part of universally recognized basic human rights, and respect for them is thus a moral imperative. This follows from the fact that these are the enabling

conditions without which workers cannot exercise countervailing power to achieve improvements in working conditions. Moreover, as a key pillar of political democracy, freedom of expression and of association are also essential for ensuring that economic and social policies advance social justice.

In addition to these core international labour standards, there is an extensive body of ILO instruments which seek to provide practical guidance to member States in pursuit of decent and safe working conditions, eliminating poverty and income insecurity and ensuring full employment and rising standards of living.

Labour legislation is an essential means of providing workers with necessary rights and protections and socially acceptable conditions of employment. It can be divided into two components. First, there are basic human rights such as freedom of association and equality. Second, there are usually basic rules for fair treatment on matters such as job security, procedural rules regarding collective relations between trade unions and employers, as well as basic minimum standards on substantive matters such as conditions of work, safety and health, vulnerable groups and income security.

One explanation of why workers in the informal sector are usually denied the rights and protections laid down in labour legislation is to be found in the nature of the employment relationships that exist in the informal sector. A large proportion of workers in the informal sector are own-account workers. Unlike most international labour standards, which are intended to apply to all "workers", the labour legislation in most countries is designed to protect "employees". The legal definition of an "employee" is a complex matter, but in many countries own-account workers, or contract workers, are denied the rights and protections accompanying employee status.

Traditional labour law is premised on the existence of an employment relationship evidenced by a contract of employment in which the employee offers labour to the employer in return for remuneration. Normally, the employer exercises control over the manner in which functions are performed, the work location, working days and hours, etc. Many of these characteristics are absent in informal sector work relationships.

For categories of workers other than own-account workers in the informal sector the application of labour legislation should be less controversial. For example, wage earners in informal sector micro-enterprises should be unambiguously within the scope of labour law. In reality, however, most employers in the informal sector do not extend all labour law provisions to their regular employees. ILO studies reveal that benefits such as paid leave, sick leave and overtime compensation are frequently not granted.

ILO surveys also show that many informal sector workers consider that labour legislation is irrelevant to their situation and that they do not, and perhaps should not, enjoy the protection and benefits provided by the law. This finding would suggest that governments and trade unions should devote more attention to overcoming problems stemming from a lack of awareness of rights provided under labour laws. They could also organize more systematic campaigns to change the negative perception of labour laws and regulations. Given that they are often seen only as a burden by employers, emphasis should be placed on the benefits gained from their application, especially with regard to workers' performance and enterprises' productivity.

In the last decade many national trade union centres have begun to re-examine and reform their perceptions and policies concerning the informal sector. Several centres have openly acknowledged that in the past they adopted an excessively negative view about this sector and now recognize that significant changes are required.

There are several reasons why many national centres remain skeptical about the informal sector. First, it is assumed that this sector is a transitory phenomenon and that it will be absorbed by the formal sector in time and without the need for action by trade unions or the State. This assumption was and still is widely accepted. Unfortunately, however, it does not seem realistic. Instead of diminishing, the informal sector is growing while the formal sector is shrinking because of the outsourcing and subcontracting of many of its activities. It has to be recognized that the informal sector is an enduring element of the labour market and will not be diminished or absorbed into the formal sector without concerted efforts by trade unions and major changes in government policies. Moreover, even if the political will exists within governments to implement the promises that have been made about integration, this would certainly not be achieved rapidly.

Second, trade unions face significant problems in trying to maintain and mobilize their members in the formal part of the economy and do not feel that they are in a position to use scarce resources for the informal sector. Many unions consider that this would not be an efficient use of the trade union movement's human and financial resources. There are often very pragmatic reasons for this, including the heterogeneous nature of employment relations, the difficulties in locating and contacting informal sector workers and the barriers to organizing in the informal sector created by the State. In addition, self-employed workers have been viewed as "entrepreneurs", and thus not potential trade union members or appropriate partners for cooperation. Given these conditions, many trade unions at national level have decided to ignore the informal sector completely; or to the extent that they try to coordinate with or organize the informal sector, their involvement is limited to *ad hoc* events and this is not considered a priority.

Despite this generally pessimistic, but perhaps pragmatic perspective about the returns that national unions are expecting from investments in the informal sector, there are other national trade union centres and lower-level unions that have opted for engagement and are committing substantial amounts of time and resources to organizing and/or building bridges between the formal trade union movement and workers in the informal sector.

The focus in many cases is also on improving the situation of own-account workers and micro-entrepreneurs and/or increasing their access to specific services, such as credit, training in managerial skills, marketing and new technologies, information and advice on current legislation, dispute settlement and educational support.

Trade union strategies regarding the informal economy

A range of issues need to be considered by trade unions at national level in developing a coherent and comprehensive strategy for the informal sector. Ideally, any such strategy should cover the full range of economic, social and industrial relations issues that impinge on the sector, plus a comprehensive review of internal trade union priorities and strategies.

External policies

A) Labour standards and labour legislation

There is overwhelming evidence that many basic rights, which are reflected in the core international labour standards concerning freedom of association, collective bargaining, discrimination, forced labour and child labour, are often flagrantly abused in the informal sector.

The most important ILO Conventions and Recommendations have been adopted on the understanding that they will be applicable to all "workers", regardless of the sector, occupation or type of work they are engaged in. The recently adopted ILO Declaration on Fundamental Principles and Rights at Work states that all governments have an obligation to respect, promote and realize the principles set out in the core international labour standards. It is important to note in the context of this discussion that the Declaration makes no distinction whatsoever between the formal and informal economies. On the contrary, it states that the provision of these fundamental principles and rights will enable all persons to claim their fair share of the wealth they have generated and to fully achieve their human potential.

In practical terms, the implementation of the Declaration would mean that labour legislation and practice should be reformed to ensure the following:

- All workers, including those in the agricultural sector, unpaid workers, casual, self-employed and all the other categories of workers who constitute the informal sector, have the same rights of association as are normally provided to industrial workers.

- Adequate protection is given to all workers, including home workers and all the other groups of informal sector workers, against acts of anti-union discrimination in respect of their employment.

— No work is exacted from any person under the menace of any penalty for which the said person has not offered herself/himself voluntarily.

— Persons under the age of 15 do not work. In the context of the Declaration this would imply that informal sector entrepreneurs should support efforts to move working children from work to basic education.

— The ILO's Discrimination (Employment and Occupation) Convention, 1958 (No. 111) is applied. In practice, this would mean that assistance provided to the informal sector in the form of vocational training should be accessible without any distinction based on race, colour, sex, religion, political opinion, national extraction or social origin.

— The principle of equal remuneration for work of equal value, in accordance with the ILO's Equal Remuneration Convention, 1951 (No. 100) is also applied to the informal sector, and measures are taken by the State to promote compliance with this Convention. Given the large proportion of female workers in the informal sector, this Convention is particularly important.

In some countries the protections provided under labour law are not extended to informal sector employees who are not paid wages but receive remuneration in kind. Labour legislation sometimes draws a distinction between "employees" and "workers", granting certain basic rights to all persons, but with more specific benefits being available only to "employees". Where such distinctions exist, it would seem appropriate to revise labour laws to provide more specific protection for all workers and, as a minimum, to ensure that legislation on issues such as fundamental rights and health and safety applies to all. Legislation should also ensure that all workers receive appropriate benefits and protection in respect of hours of work, holidays and so forth.

Compliance with some aspects of labour legislation, such as health and safety regulations, minimum wages and working hours, tends to improve as the size of the enterprise increases and as its longevity increases. On the other hand, benefits such as sick pay, workers' compensation for accidents or death, annual leave and maternity leave are virtually never provided in the informal sector, regardless of the size or age of the enterprise.

These considerations have prompted many observers to suggest that labour standards and labour legislation should be extended to the informal sector on a gradual and selective basis. This would perhaps suggest concentrating attention on the core labour standards in the first instance and thereafter trying to secure compliance with minimum wage legislation, health and safety regulations, and so on. This approach is certainly consistent with the

international consensus on labour standards that has emerged over the last few years.

b) Promoting good governance and sound labour administration

Previous sections have emphasized the economic and social importance of appropriate labour legislation. However, this does not mean that legislation is always perfect or that the implementation of regulations is without flaws. In fact, one reason often given by people in the informal sector for their non-observance of rules and regulations is a perception that these are costs from which they derive no benefits. Trade unions might, therefore, consider lobbying governments to rationalize expensive regulations and find less expensive means of meeting desired social objectives. For example, with regard to safety and health requirements, alternative and cheaper equipment could be proposed to small enterprises and this facility included in legislation. Another significant problem is the ambiguous way in which regulations are implemented and the corruption often associated with the collection of taxes and enforcement of regulations. This naturally contributes to the perception of government as a leech on the private sector and that all forms of regulations are an unjustified burden. In these circumstances it becomes morally legitimate, and generally acceptable, to avoid paying taxes and complying with labour legislation or other regulations.

These considerations would suggest that rather than reducing the role of government in the economy, policy-makers need to concentrate on improving the efficiency of government interventions. Much has been written and spoken about "good governance". This concept is associated with important "big picture" policies such as promoting democracy, the rule of law, and making the relationship between government, the banking sector and industry more open. However, good governance is equally relevant to the informal sector. Improving the transparency and consistent application of rules and regulations concerning building permits, health regulations, operating licences, registration with local and national tax authorities, and registration with institutions responsible for employment contracts and social security would improve the image of the government organizations responsible for these functions, and in turn this may make a contribution towards greater compliance with these types of regulations.

In many countries the system of labour administration is understaffed and ill-equipped. Increasing the resources and trained staff available for these functions is an obvious policy conclusion that governments should implement, if they are serious about trying to integrate the informal sector into the formal economy. However, this would be an excessively simplistic solution to a complex problem faced by labour inspectors when they try to

enforce the law in micro-enterprises. Labour inspectors are often conscious of the precariousness of the conditions in which these small units operate and of the fact that they cannot afford all the costs of the legally prescribed measures. Consequently, in some countries labour inspections enforce the law in a flexible manner. They decide, on a case-by-case basis, the level of compliance that will be required from each entrepreneur. Trade unions may wish to consider promoting the idea that labour inspectors should draw up a list of alternative and cheaper safety equipment that could be utilized by micro-entrepreneurs until they reach a sufficient level of sustainability. However, on issues such as freedom of association, discrimination and worker exploitation there is no scope for flexibility, and trade unions should be urging governments to ensure that their labour inspectors are adequately trained and rigorous in implementing these essential components of labour legislation.

c) Tax policy and local government regulations

In considering how trade unions might attempt to influence the evolution of public policy on the informal sector, it is also important to remember that this sector is extremely heterogeneous, not just in terms of the functions it performs, but also as regards the degree to which it is really "informal". ILO studies have shown that the informal sector is neither entirely legal nor completely illegal. Many enterprises comply with a few basic regulations at the local level and obtain some licences which provide a minimum threshold for operating. In so doing, the entrepreneur is minimizing the risks associated with total illegality which could jeopardize the survival of the enterprise. On the other hand, the same enterprises do not comply with what they would consider to be more demanding rules that are enforced centrally by the State, such as tax and labour law obligations.

The degree of compliance with the law depends on the geographical location of the enterprise, the size of the unit and the length of time it has existed. For example, enterprises in urban centres are more likely to abide by the law and regulations, while those in rural areas that are less conspicuous, and more distant from any form of inspection, are less likely to comply. Similarly, the more people that are engaged in an enterprise the greater the probability that laws will be honoured, whereas the single-person or family-operated micro-enterprise is less likely to meet its legal obligations.

This evidence has encouraged many to argue that we should aim for the gradual regulation of the informal sector and adopt a step-by-step approach to integration of this sector into the regular economy. This leads to recommendations that reforms be launched at municipal level, where many micro-enterprises already accept and implement some rules and regulations.

Tax and other regulations established at regional and central government level should be extended to the informal sector by a gradual iterative process. There have also been suggestions about how to cut non-wage labour costs by reducing or eliminating taxes that are levied on wages paid and would normally be paid by the enterprise, if it was operating in the formal sector. The desire to reduce the "tax wedge", which is basically the difference between wages and total labour costs, in order to promote employment, is a policy proposal that deserves careful consideration. In theory at least, it would be possible to introduce or increase value-added taxes, capital gains taxes, income tax or any other tax in order to compensate the State for revenue lost through eliminating payroll taxes.

Support for reforms of this nature could help to demonstrate that trade unions are familiar with and concerned about the problems that confront own-account workers and micro-entrepreneurs in the informal sector. Moreover, trade unions can probably accept and support reforms of this nature while simultaneously demanding more systematic intervention by the State in the labour market and with regard to the sound objectives discussed previously.

d) Social protection

A number of surveys have indicated that micro-entrepreneurs working in the informal sector consider the cost of employer contributions to national social protection schemes excessive and cite this as one important reason for operating outside the formal sector. Moreover, many governments are concerned about the budgetary consequences of state intervention in this field and are experimenting with reforms of social security systems that involve privatization of at least some components of social protection. The trade union movement rightly remains opposed to the most radical reform proposals in this field. However, unions are equally concerned about social exclusion and the fact that significant sections of the labour force are denied any social protection. Consequently, there are sound reasons why trade unions are already involved in the debate on the future of social protection, and it would be desirable to find ways of exerting even more union influence over the evolution of government policy in this field.

The key issue in the social security debate should be how to provide protection to those who need it most, including of course workers in the informal sector, at a cost that can be borne by the workers themselves, their employers (if any) and the State. Attempts to provide equitable and universal social protection are seen by many observers, including the trade union movement, as a central factor in diminishing income inequalities in a society.

First and foremost, governments have a critical part to play regarding the redistribution of income to alleviate poverty. Second, it is generally accepted that governments have at least some role in trying to provide all citizens with adequate financial protection in the event of disease, disability, death or retirement. The structure and scope of state intervention need to be carefully considered, in particular:

- (A) what forms and level of basic protection everyone, including informal sector workers, should enjoy;
- (B) sources for financing social protection and how much society as a whole can afford to spend on social protection; and
- (C) mechanisms to administer social protection schemes in an equitable manner.

In any such debate there are a number of general points that trade unions may wish to emphasize. First, concerning the definition of basic protection, many case studies have shown that the priority needs of informal sector workers are for benefits in the event of disability or death of the prime earner in the family unit (survivorship benefits for their families). On the other hand, formal sector workers, who enjoy stable and higher incomes, attach an equivalent or higher priority to income for retirement. In most countries disability and life insurance is relatively inexpensive and normally should not cost more than 3-4 per cent of insured earnings. Trade unions could argue that all countries should be able to afford universal coverage at least for these forms of insurance.

Second, in debates about the financing of social protection trade unions are often confronted by arguments relating to the percentage of GDP spent on social protection. The establishment of a simplistic ceiling on social protection expenditure is unrealistic and undesirable. In the real world it is evident that the amount of money people are prepared to spend on social security is closely related to the type of social security system that has been established. Typically people, and therefore governments, are unwilling to pay very much for schemes that provide "flat-rate" benefits (i.e. benefits that are the same for all regardless of income levels). On the other hand, universal social insurance-based systems, in which contributions and benefits are related to the individual's income level, are often accepted by the population as affordable and desirable, despite the fact that they usually cost two or three times more than "flat-rate" systems.

Third, concerning the mechanisms to administer social protection schemes, the trade union movement may well consider that government intervention and the provision of income transfers are necessary in order to provide the protection needed to workers in the informal sector, given that the take-home pay of workers in this sector is often below the poverty line. From an

administrative perspective, in most countries the existing social security institutions probably cannot adequately provide insurance coverage to the informal sector without major alterations to their traditional structure, which is tailored to servicing formal sector workers.

e) Macroeconomic policies

The criticisms levelled by the trade unions at neoclassical economic policies have won wide support and are starting to have a profound effect on the international financial institutions. The task which trade unions now face is to elaborate on these economic policy proposals and explain why the policy recommendations being advanced by unions are directly relevant to people in the informal sector. Informal sector workers face specific problems, such as insecure or costly access to land. As a result, they often squat on public and private property or simply operate on the pavement or street corners. This in turn means that they do not have normal access to basic services such as water and electricity, and inadequate infrastructure for example, roads, drainage and access to communication facilities undermines their productivity and ability to expand and succeed.

When describing the problems they face, workers in the informal sector often cite the surplus of labour that pushes down incomes, as well as unstable or insufficient demand for their products, rather than the existence of labour legislation and government regulations, as the main reasons why they are forced to operate outside the formal sector. These conclusions would support the arguments presented by trade unions with regard to macroeconomic policy. Trade unions have consistently been at the forefront of the fight against draconian stabilization measures that have reduced incomes, consumption and public expenditure, thereby further suppressing demand and increasing the uncertainty faced by micro-enterprises and individuals operating in the informal sector.

Moreover, these results would suggest that the neo-liberal policy of complete deregulation is counterproductive if we want to increase incomes, profits and productivity in the informal sector. Because deregulation of labour laws is likely to result in lower wages and reduced real disposable incomes, the demand problems cited by operators in the informal sector will be exacerbated. Without any floor to the wage structure a vicious circle will be established, with lower incomes feeding into lower demand and back into even lower wages. The empirical findings about the factors encouraging people to operate in the informal sector would therefore tend to support the importance of labour standards and institutions such as trade unions which act as a "road block" to the establishment of any such vicious circle and help generate a virtuous circle that produces higher incomes, productivity and prosperity.

F) Human capital development

Policies to promote human capital development through better education and training are of vital importance to workers in the informal sector. Consequently, trade union campaigns to promote universal access to free primary education and access to higher levels of education and training are particularly relevant to people in the informal sector. However, trade union policies in this field perhaps require further development to make them more relevant to the specific needs of informal sector workers. People in this sector usually have little schooling and their ability to upgrade their production and marketing processes is hindered by their lack of access to training. Formal training institutions are normally costly and their courses are not designed for illiterate or semi-literate people, which means that people in the informal sector rely almost exclusively on informal apprenticeship schemes to acquire new skills. Reform of the vocational training to better meet the needs of informal sector workers would therefore be highly desirable.

Internal policies

a) Establishing priorities and strategies for organizing

Economic restructuring in recent decades has dramatically altered the way in which work is organized, thus rendering traditional organizing strategies ineffective. A number of other factors have also contributed to a steady decline in union density rates in most countries. What is evident is that the workforce has become more diverse and that "traditional" union priorities and organizing techniques need to be re-examined in this light. Already many unions are attempting to broaden their membership and the mandate of their organizations. It is in this context that the organization of "atypical" workers in the formal sector, as well as employees and own-account workers in the informal sector, has increasingly become a policy issue for the trade union movement. Today the reality of a restructured and fragmented economy and the individualization of employment relationships make trade union organizing more difficult. Organizing does not mean just recruiting new members in the workplace and providing them with services. It is equally about connecting with current members, potential members and other groups in society who share less and less a commonality of interests in order to build a strong social movement. Organizing therefore means that unions need to refocus on workers, regardless of their employment status or link to a particular workplace.

Organizing the unorganized can be a risky decision because the rate of return on the human and financial investment required is uncertain. Moreover, it requires a long-term commitment and may imply re-evaluating the perception which trade unions have of their "base" as well as the way they operate. The trade union movement faces the challenge of needing to reach out to new groups without undermining its traditional support base.

However, where unions have given priority to organizing atypical and informal sector workers, they have generally had encouraging results. When considering whether to devote more time and resources to organizing workers in the informal sector, several elements need to be taken into consideration.

First of all, as voluntary and democratic organizations unions require the support of their membership, leadership and staff in order to make any changes in their policy. Members must feel that they belong to the organization and that they participate in the decision-making process. Staff must be motivated to accept changes. Experience shows that some attempts by trade union leadership to organize non-traditional workers failed because the membership had not been sufficiently involved in the relevant decision-making and was therefore not committed to the changes in resource allocation that these decisions entailed. Internal support is therefore a prerequisite for the development and implementation of viable strategies aimed at organizing workers in the informal sector. One way of building internal support is to increase awareness and convince members that organizing will also benefit them as well as the others. Commitment to increasing resources both financial and human for organizing can result only from the recognition that growing union density improves the collective bargaining position of all workers and strengthens the position of unions in political and social arenas. Trade union congresses and conventions are usually the appropriate forums for discussing trade union involvement in organizing informal sector workers, and decisions taken at this level are a normal prerequisite for subsequent action and the reorientation of programmes within the union structure.

Organizing may imply changes in the way unions operate. Some unions have created special structures with responsibility for mobilizing and organizing atypical workers. Associated with this is the issue of what model of unionism, if any, best suits the organization of the informal sector. The "service model" of unionism is built upon a "transactional" relationship between the union bureaucracy and its members. The latter pay dues to the union in exchange for services. Continued membership and loyalty to the union depend on the satisfactory delivery of services. In most developing countries, unions generally tend to stress the need to provide special services to workers in the informal sector, especially women workers, as a recruitment strategy. One problem with this model, particularly if used for

recruiting the diverse workforce in the informal sector, is that unions may never have enough staff to meet the needs and demands of all members.

The other model is the "organizing model". It is based on the assumption that the empowerment of workers will enable them to find solutions to their problems. The emphasis of this model is therefore on collective action. Recruitment of new members is usually carried out through one-to-one contact between members and their co-workers rather than by union officials. This does not mean that unions cease to provide services. On the contrary, they continue to ensure essential service functions such as compensation advice, delivery of social wage improvements, and advocacy of new benefits, including through research and bargaining. But this model devotes particular attention to mobilizing rank and file activists to do the work of organizing their co-workers and it emphasizes a distinct methodology for achieving trade union objectives. This involves encouraging the active participation of members in campaigns and other forms of trade union action. Under this approach, on every issue, the union is expected to ask the members how they can achieve the objective themselves rather than being passive and leaving all actions to union officials.

There is no single or simplistic formula for success and in fact in the real world there are not two distinct models of unionism. Rather there is a spectrum of approaches with the service and organizing models at each end of a continuum. None of the elements of the organizing model is new to trade unions. But together these elements provide scope for working towards a systematic approach to organizing a diverse and scattered workforce through a bottom-up process. Decisions about the objectives, targets and implementation strategy for organizing campaigns can be made only at national level, where the relevant trade union leaders have the necessary country-specific information and experience to make informed choices.

B) Formalization of access and membership

In many countries legal barriers still prevent atypical workers from joining unions. Some unions changed recently their statutes or internal structures to accommodate atypical workers; these new initiatives should be considered as ways of bringing rural and informal workers under the umbrella of trade union organizations. The constitutional amendments cover not only the right to membership, participation in negotiation teams and coverage in collective agreements, but also in many cases the provision of special services for such workers, including helping them to regularize their employment status. Some unions also offer social services, such as medical insurance, health funds, unemployment benefits, cooperatives and assistance in dealing with government authorities, such as obtaining licences, subsidies and market places (for informal sector workers). However, even when a union amends

its statutes to admit atypical workers as members, these workers may not be eligible under the labour code for coverage in collective agreements. For this reason, decisions that may be contemplated regarding changes to internal union structures and resource allocation must be coordinated with union campaigns directed at government reform of labour legislation or, at least, at extending the scope of coverage.

If unions decide to amend their constitutions or statutes in order to include in their membership workers from the informal sector, the interpretation of the trade union "base" has to be widened to include a broad spectrum of workers, regardless of their employment status. Broadening the organizational base of trade unions through an expansion of membership can certainly be a mid-term objective. But in the short term unions might wish to help informal sector workers establish their own union-type associations and forge closer relations with them. This kind of initiative can be instrumental in developing mutual trust, thereby reducing the reluctance of those workers to join existing unions.

This leads to two major considerations. First, unions have to consider on what basis they will try integrating informal sector workers into existing union structures. If those workers join existing unions or establish new unions that are formally affiliated to the existing national union structure, they should be able to play their part in the management structure on the same basis as other members. On the other hand, if they establish new organizations that are not formally affiliated to the national union centres, the existing trade unions could still consider involving leaders of the informal groups in discussions about priorities and strategies in order to strengthen ties between trade unions and informal sector groups.

Second, regular membership fees can sometimes be a constraint preventing informal sector workers from joining a union. In this case too, alternative solutions may have to be found. Some unions, for instance, have agreed to set lower membership fees for workers in the informal sector. Others offer "grace" periods of up to one year in order not to make fees a prohibitive threshold for membership. It is clear that in both cases endorsement by the existing members is critical for the implementation of such decisions.

c) Building alliances and community unionism

The nature of the workforce in the informal sector makes the work of trade unions difficult. Although it is seen as "unorganized" from the outside, the informal sector has its own rules, where ethnic, family and kinship ties are more important than working-class solidarity. Informal sector workers are very often concerned with day-to-day problems and are not necessarily inclined to join collective protests or participate in industrial action, because

they do not see how such action or membership in a trade union is going to help solve the practical and very basic problems they face. Efforts to forge closer trade union cooperation and involvement are made more difficult by the fact that traditional shop-floor organizing methods are usually inappropriate for reaching out to the informal sector, where workers are scattered and the employers difficult to identify.

Consequently the first and perhaps most difficult step for trade unions is to establish contact with informal sector workers. In practice, this means going and looking for them, but this is not always easy. An increasingly important strategy which should be developed is to keep track of members, as they are more likely in today's labour markets to change jobs, employment, status or workplace or become unemployed several times over their working life. In many cases, trade union members who are employed in the formal sector but have relatives in the informal sector can serve as the "bridge" between unions and the workers concerned. Sometimes, members who have been forced out of the formal sector into non-structured employment can also provide a potential linkage with workers in the informal sector. One way which has proved successful in reaching workers in that sector is also to link up with already established informal sector craft associations. Where access to the workplace is denied or the workplace is unknown, as in the case of home workers or domestic workers, a "community-based" approach may be helpful. This means working intensively in particular communities, linking with community organizations and employing workers within the trade union who already have close contacts with the community.

Criteria for building alliances vary considerably from place to place. However, it has become increasingly obvious for many unions that there is a need for a strong partnership between the labour movement and the community around drives "to organize the unorganized" or mobilizing on social issues. Like any other trade union activity, alliances need clear goals and a well-planned strategy. All the partners involved must feel that they will benefit from taking part and that their interests are fully taken into account. Issue-based alliances are the most common. Women's groups are often very active in the struggle for human rights and are not afraid to take part in demonstrations or engage in strike action, and they are therefore an important potential ally for trade unions.

Although alliances between unions and community groups are usually formed around specific issues, they may also result in more ongoing relationships when several objectives or interests overlap. The rationale for "community unionism" stems from the recognition that unions cannot operate in isolation but must enlist community organizations in their struggles. The community organizations involved include advocacy groups such as civil rights and minority rights groups, religious organizations, environmental groups, and women's rights and senior citizens' organizations. One of the advantages of community unionism is that it facilitates a sense of solidarity among union and non-union workers as regards community goals.

In this way, non-union workers may gain confidence in union organizing efforts.

D) The gender dimension

In many parts of the world women are found working not in organized workplaces, but in locations and occupations that are exempt or hidden from labour inspection and labour legislation. This reality means that there must be a gender awareness in building strategies to improve the conditions facing workers in the informal sector.

One strategy that has proved effective in mobilizing women, especially in rural areas, is to link cooperative economic activities with trade unionism. Cooperatives generally pursue economic and social objectives simultaneously. Training in health issues, family planning, special facilities for child care and literacy courses are often organized around cooperatives. They have proved to be successful in both empowering women and increasing awareness among them about the benefits of unionization. What has also proved to be successful in reaching out to women is the holding of regular events (such as meetings of small study groups, debates, seminars and training sessions) at times and places that are convenient for them (for example on Sundays). Soliciting the views of women and listening to their concerns in forums where they can express themselves seems to be a more effective strategy than merely informing them of their rights.

Among the reasons preventing women from joining unions the following factors in decreasing order of importance can be highlighted: lack of understanding of how unions can help them; fear of reprisals by employers; conflicting family responsibilities; male-dominated culture/activity of the union; lack of confidence to join unions; religious/cultural norms and constraints; unions' lack of sensitivity to the special needs of women workers; predominance of women in atypical forms of work and hence difficulty in reaching out to them; objections by spouses or families; problems in regard to membership dues; negative image of unions portrayed by media, etc.

In the light of the above constraints, it is clear that awareness-raising is critical in order to sensitize women to the benefits of unionization. For unions to be credible and attractive to women in the informal sector, genuine efforts must be made to promote equality in the workplace and in union structures. Within the international and national trade union organizations it is evident that the specialist units dedicated to gender issues have very often played a central role in improving the image of trade unions and developing new services that are relevant to female members, and in implementing the union organizing efforts that have generated the most success. They have also helped to ensure that the particular needs of women are reflected in collective bargaining strategies.

e) Mobilizing young people

Young people in the informal sector constitute an important target group, since they represent the bulk of new entrants to the labour force. Unionization rates among young workers are extremely low in the vast majority of countries. Recently, with a renewed emphasis on organizing the unorganized, many unions around the world have been devoting increased attention to young workers. Rather than talking "about" young people, they have started talking "with" them. But to talk with young people means speaking their language. Many unions have set up structures (such as departments, committees, teams) to establish dialogue and promote programmes specifically for young persons. Some unions are already reaching out to young people in schools, using the latter as allies to promote the benefits of unionization, while other unions operate youth centres or reach young people in their leisure activities. At the local community level, trade unions may wish to consider organizing social activities in conjunction with junior football, softball and other sporting teams in which young people participate. Teams might be sponsored or activities arranged to coincide with sporting activities that attract large audiences. Where possible, unions might consider trying to encourage local sporting idols to help explain the need for collective action and a "team spirit" among workers. The same message can be broadcast through the entertainment industry and will probably reach an even wider audience than the sports medium. In contemplating innovative ways to attract young people it is important that unions clearly link the activity or medium used to concrete trade union issues and do so within an organizing context. It is important that trade unions are not perceived as just another church group or NGO that is promoting youth activities.

Helping people to get their first job is another obvious way for unions to demonstrate their value to young people. This might involve unions in providing training schemes for job search and interview techniques or more elaborate skill development.

f) Awareness-raising and the media

A prerequisite for convincing workers to cooperate with or even join a trade union is to make them aware both of their rights as workers and of the benefits of unionization. In other words, it is important to make them realize that unionization is a present reality and not a thing of the past. Innovative strategies are necessary because workers in the informal sector are generally "invisible" and scattered, and difficult to contact. It is important to strengthen self-confidence and self-respect among these workers and ensure that they do not feel isolated.

One way to build solidarity among workers is to use awareness-raising campaigns that focus not only on their legal rights but also on union successes in improving their position. The focus and strategy of such campaigns certainly need to be adapted to the group targeted.

Positive media coverage is an integral part of raising awareness and mobilizing around union activities. Unions need to be visible to their current members, potential members and the community at large. Especially when unions are improving services or adopting policies that benefit workers in the informal sector, the message should be publicized not only for organizing purposes but also for gaining support among the general public. In addition, governments and employers are more likely to listen to unions if they are aware of the effect that bad publicity can have on the public image of their businesses.

The choice of the appropriate type of medium is an important component of an effective strategy aimed at raising awareness. Informal sector workers generally have a low level of education. The print media are therefore not useful as a means of reaching out to the majority of these workers. Radios have proved to be an effective means of education on health-related issues.

Perhaps unions could think of sponsoring simple advertisements or community advice announcements on the radio. For example, a short message that contains information about a wage increase or some other benefits that the union has recently obtained for members would perhaps help to initiate discussions in local communities and at social events about trade unionism and the benefits that can be derived from collective action. Or a radio campaign with a message such as "Let your voice be heard: join a trade union", followed by the name of the local union and information about how to contact it, might be considered. There are numerous other possibilities that could be explored, including the use of radio programmes that allow audience participation via the telephone.

It is worth recognizing that in most countries the media have so far had a strong tendency to ignore unions or portray them negatively to the general public. Strong relationships with the media should therefore be considered as a strategic means of boosting awareness of the labour movement and its impact in the community. Attracting good media coverage is the result of systematic work and often of ongoing relationships with individual reporters. In some countries ownership of the media outlets may be concentrated in the hands of people opposed to the social and political objectives of trade unions. Naturally, this does not make the task of improving the image of trade unions easy. However, it should not result in despair and disillusionment about bias in the media. Journalists and reporters with a reputation for independence and objectivity can be sought out and encouraged to cover stories that present unions in a more favourable light. Choosing the right person to act as media spokesperson for the trade union

movement is critical; verbal communication skills are obviously important, but it is also important that the spokesperson conveys an image of a dynamic and modern organization that is committed to improving the social and economic situation of a broad spectrum of the population rather than protecting a privileged elite.