Promoting Productivity and Social Protection in the Urban Informal Sector

The Interdepartmental Project on the Urban Informal Sector (1994/95)

WORKING PAPER

Franchising as an "integrating" approach to the informal sector: Some preliminary ideas

Paul E. Bangasser
Senior Economist
Development Policies Branch

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Preface

The dilemma of the informal sector

The Interdepartmental Project on the Urban Informal Sector carried out research and experimental projects in 1994-95 to demonstrate how to improve the quality of employment, particularly, productivity, social protection and occupational safety and health through enhanced access to resources and markets, collective action and regulatory reforms. Since this requires broad policy packages, it was designed as an integrated multidisciplinary project with many components that need intense ILO interdepartmental cooperation in its implementation.

The conception of the idea of the project dates back to the 78th Session (1991) of the International Labour Conference at which the central theme of discussion was the Director-General's Report on The dilemma of the informal sector. The dilemma, as explained in the Report, was whether to promote the informal sector as a provider of employment and incomes; or to seek to extend regulations and social protection to it and thereby possibly reduce its capacity to provide jobs and incomes for an expanding labour force.

Although it is recognized that the full range of existing laws, regulations and labour legislation cannot be immediately applied in the informal sector without reducing its capacity to create jobs and/or drive it further underground, this project was conceived on the assumption that it is not necessary to make a choice between the above two objectives and that productivity and social protection could be mutually reinforcing. Its activities were meant to show how the two objectives might be reconciled and pursued simultaneously to improve the quality of employment.

The project was implemented experimentally in Bogota, Dar es Salaam and Manila. It was believed that a successful implementation would generate enough interest to facilitate replication in other countries by governments and other agencies. The criteria for selecting the cities were:

- strong commitment of central government, municipal authorities and employers’ and workers’ organizations to the pursuit of the objectives of the project;
- a certain degree of organization among informal sector operators;
- ongoing, related ILO technical assistance and, preferably, ILO institutional presence;
- availability of basic data and prior knowledge on the informal sector.

This working paper focuses on the practical issue of how to integrate the energies and potentials of the informal sector into the mainstream of economic and social life. Franchising has demonstrated itself as a very effective organizational technique for linking large with small economic units, to the benefit of each; cannot this technique also be used to link up the public and formal sectors with units in the informal sector?

The paper first discusses the rationale for integration and how franchising can facilitate this process. It then looks at specific kinds of franchising, with their pros and cons for potential franchisors and franchisees. The paper then suggests some possible examples of activities involving the formal and informal sectors which could be developed along franchised organizational lines. The paper concludes with some specific suggestions for action
to promote informal sector franchising. Finally, attached as annexes are two case-studies (Singapore and Costa Rica) of franchise networks which have effectively integrated into the formal sector small marginal macro-enterprises which would otherwise have drifted into the informal sector.

George Aryee,
Interdepartmental Project on the Urban Informal Sector,
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Introduction and executive summary

In many countries the informal sector has become central to any national development strategy. It is critical, therefore, that approaches to the informal sector focus on its integration into national development efforts. Approaches which deal with the informal sector in a piecemeal fashion or as a secondary or peripheral issue will miss the true nature of the problem. This "logic of integration" suggests at least two distinct lines of action. First is the development of linkages between the formal sector private business community and the informal sector. The second is to integrate informal sector enterprises and communities into the governance process, both as regards formulating public policies and priorities and also delivering public services.

Franchising as a method of organization offers potential in this regard. It has demonstrated itself in a number of advanced economies to be an effective way to reach markets otherwise unaccessible, of getting a maximum application of entrepreneurial and managerial talents over a wide geographic area, and as a means of significantly improving the chances of success for small business ventures. It has also demonstrated a remarkable flexibility in terms of the kinds of goods and services which can be produced and delivered efficiently through franchise networks. Each of these strengths of franchising is applicable to problems facing the informal sector in developing countries. Yet, to date, franchising in the Third World has been mostly in the form of local formal sector enterprises setting up as franchisees of large multinational franchisors.

This paper explores the scope for promoting franchising in developing countries themselves. In particular, why not look at franchising as a method for linking local formal sector private enterprises with informal sector units? The franchising method might also be an efficient way to deliver a variety of public services into the informal sector, with informal sector units acting as franchisees for the respective technical government authorities.

Franchising has developed a variety of modes and styles. These fall mainly into: (a) dealership franchise networks; (b) business format franchise systems; and (c) association franchise networks. Each of these has certain strengths and has developed in response to particular entrepreneurial conditions. Still, there are certain common characteristics to any franchise system, which distinguish franchising from other kinds of business relationship like licensing and subcontracting.

After considering some pros and cons of franchising from the points of view of the informal sector unit and the formal sector enterprise and the public authorities, we then look at three possible areas which seem to offer, a priori, good prospects: (i) dealership and agency franchises for informal sector units from established local businesses in the formal sector; (ii) the provision of public services in the informal sector through business format franchise networks; and (iii) developing association franchise systems among informal sector units themselves.

The paper concludes with five proposed lines of action: (1) raising awareness; (2) creating an enabling legal environment; (3) developing supporting institutions; (4) training public officials; and (5) identifying and documenting successful examples.
I. Towards a "logic of integration" for the informal sector

A. The need for new approaches

For many developing countries, the issue of the informal sector has now become the main development problem. There is now an urgent need to find new and effective and complementary strategies towards the informal sector. These new strategies should build upon the experiences and the knowledge about the informal sector which have been accumulated through research. But they must also be new, innovative, self-sustaining, and reproducible at a fairly rapid rate.

The subject of *The dilemma of the informal sector* was a major agenda item at the 1991 International Labour Conference. Discussing the report prepared by the ILO secretariat, delegations of Employer and Worker as well as Government representatives emphasized repeatedly three basic facts. *First*, the causes and origins of the informal sector lie outside the sector itself. Indeed, its very existence is in large measure an expression of a chronic imbalance in the labour market of the economy as a whole. *Second*, it is neither humanly nor morally nor socially nor politically acceptable to leave the informal sector to fend for itself. Such a policy whether explicit or by default would not only be undefendable; it would also not be sensible from an economic point of view, since this sector represents both a considerable pool of national skills and talents and also a large chunk of the total economy, and in many cases the most efficient and resilient part of that economy. *Third*, and related to the first and second points, the challenge of the informal sector is not a "stand-alone" issue. It must be seen as part and parcel of the whole development challenge. The informal sector provides many services essential for the smooth functioning of the formal sector. Thus, it only makes sense to treat these two sectors as distinct but related parts of the same economic system.¹

In this context, strategies which involve the formal private sector, notably the manufacturing and distribution industries, merit close examination. Is there not some way in which the technical skills and managerial and entrepreneurial finesse of the private formal sector be integrated with the human talents and energies of the informal sector, to the mutual advantage of each?

B. The case for a "logic of integration" towards the informal sector

A major feature of any strategy towards the informal sector, therefore, needs to focus on its integration into the overall economic life of the society as a whole. Concretely, part

of any strategy to help the informal sector should be to strengthen the linkages between it and the formal sector, both public and private. In other words, the leitmotif permeating assistance to the informal sector should be a "logic of integration". The basic strategy should be to draw both the formal and informal sectors together into mutual synergy. Assistance towards the informal sector should not divide it off from the rest of the economy but rather should strengthen and reinforce the linkages between these sectors. The informal sector needs to be integrated into the mainstream of economic life and public attention, not separated off and treated as a separate "problem".

This logic of integration has often been missing from informal sector development strategies to date. Many direct intervention efforts have centred on supplanting or replacing linkages between informal sector units and the private sector, often seeing these relationships as "exploitative". Individual projects have focused on developing alternative linkages for "their" immediate informal sector target groups, typically linkages to non-profit-motivated organizations such as NGOs, which are assumed to be more "benevolent" and therefore more favourable to the interests and sensitive to the needs of informal sector units.

At the policy level, there has been a tendency either to take up the issue of the informal sector as a secondary question, to be addressed as a separate problem on its own once the "main" issues of economic development policy have been settled, or simply to ignore the informal sector as something essentially outside the control of public authorities and therefore not of direct concern or not an important "actor" in national development efforts. Yet the fact of the matter is that the informal sector is becoming the dominant component of national economic life for a number of developing countries.

C. Delivery of public services using informal sector enterprises

In many developing countries, the public sector is in the throws of retrenchment and structural adjustment. This "adjustment" often includes various public services which the government provided in the past but now finds itself unable for a variety of reasons to continue. In some instances, many have started with external assistance. When the external assistance ends, the authorities are obliged to find operating funds from within already extremely tight budgets. In other cases, activities such as retail distribution of basic foodstuffs may reflect a particular economic or political ideology. Sometimes these services involve significant economies of scale (so-called "natural" monopolies) or a critical public welfare

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2 ibid., and also in "Patterns of employment growth under changing conditions of labour supply and demand"; discussion paper prepared for the November 1993 Session of the ILO Governing Body, GB.258/ESP/1/4, op. cit.
aspect (for example, garbage collection) which render them relatively unsuited for an unregulated market mechanism ("no money — no service", and "buyer beware").

Whatever the reasons for offering the service, the public authorities find themselves in a dilemma. They do not want simply to abandon these activities to a "survival of the fittest" market mechanism. But, at the same time, they no longer have the capacity to provide them directly. What to do?

Here again, the energies and talents of the informal sector may be an untapped resource instead of a social liability. In most situations, it is the neighbourhoods of the informal sector which are first to be cut off when the authorities start to cut back. Would it not be possible for informal sector units to take over much of the day-to-day operations of these now publicly provided services, while the respective technical department still retains a degree of quality control over the whole process without itself being responsible for routine and non-technical activities?

If such a programme could be developed, this would effectively kill several birds with one stone. The government would continue to keep a basic control over the specific activity. Employment and income opportunities would be generated in the informal sector. The informal sector would also become an active participant in the development process. And poor neighbourhoods would continue to receive these services, which in some cases like local access to medicines can be a matter of life and death, especially for vulnerable groups such as small children. A franchised structure may even make it possible to provide certain critical services to areas which hitherto have not been served by the government operating the service directly because of organizational costs.
II. Franchising to link the formal and informal sectors

In the preceding section, the case for a logic of integration towards the informal sector was presented. What is needed is a strategy which links up the economic activities of the informal sector with the mainstream of the national economy. Franchising comes naturally to mind as a technique for establishing such linkages.

Franchising as an organization method has demonstrated itself to be effective in many developed market economies, especially for the distribution trades and the service industries. In the United States, franchise networks account for roughly one-third of total retail trade.1 Within the European Union, data from the European Franchise Federation indicates that in 1991 there were slightly over 26,000 registered business format franchisors and nearly 120,000 franchisees.2 Franchise networks have been given special exemption from the European Union's regulations concerning cartels. All these indicate the importance of franchise networks to these developed economies.

Franchising has not yet developed to the same extent in developing countries. There are some interesting and successful initiatives with respect to franchising in India and also in South-East Asia.3 There has also been some franchising activity in Latin America. Interest in franchising has manifested itself in Eastern Europe within the context of the change over to a market economy and the opening up to direct foreign investment.4 These efforts, however, have been mainly in the formal sector, and often consist in a local business in the formal sector being a franchisee of a large multinational franchisor.

This is unfortunate, since franchising offers opportunities for bridging the gap often separating the local formal sector business community from the informal sector and also as a means of maintaining some basic public services at a time when many countries are forced to cut back on public expenditures.

Franchising can also have an important impact on employment and income generation within the informal sector in a way in which techniques used to assist the sector to date have not. Through a franchise relationship, an informal sector unit has an experienced franchisor

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2 W. Frauenhuber: "Franchising in Europe: Situation and strategies", in Public Enterprise, Mar.-June 1993 (Vol. 13, Nos. 1-2) (quarterly journal of the International Centre for Public Enterprises in Developing Countries, Ljubljana).

3 See several other articles in this same issue of Public Enterprise, ibid.

4 ibid.
to turn to in the event of technical or managerial problems. The franchisor is both available and has an economic interest in developing the skills of the informal sector franchisee, as well as helping him or her obtain necessary credit, raw materials, etc. Also important, the franchisor can, through advertising and product development and similar marketing initiatives, develop for the franchisee a wider and more sophisticated market than he or she could normally hope for on his/her own.

Thus, for a number of reasons, a franchising approach to the organization of economic activity offers, a priori, considerable potential for integrating the informal sector into the mainstream of economic life.
In order to consider the scope for promoting franchising in the informal sector, let us first take a closer look at franchising itself. This section considers the different kinds of franchising relationship, the essential characteristics which these various relationships all embody, and how franchising differs from other kinds of close economic relationships among producing units.

A. Types of franchising systems

Three broad types of franchise systems can be identified. Each represents a different entrepreneurial response to a particular set of business conditions and a different set of reciprocal expectations between the franchisor and franchisee.

1. Dealership franchising

As the oldest form of modern business franchising, this method of distribution plus after-sales service through a network of franchised agents was pioneered by the Singer Sewing Machine Company in the latter part of the nineteenth century. Now, virtually all automobile manufacturers in the United States have exclusive geographic dealership franchises as their main distribution networks, as do a number of other manufacturing industries. Typically, the scale economies of manufacturing call for a highly centralized production process while the marketing and supporting services need to be widely dispersed and close to the customer. Hence the recourse to a franchised network of independent dealers.

A variation on dealership franchising consists of franchising out a "secret" or special process for which the franchisor has a patent or similar proprietary control. The process may also require a special raw material. The soft drinks industry is an example of this type of franchising.

1 Different authors use slightly differing definitions of franchising, probably because it tends to take different forms depending upon the country and the business context to which it is applied. See, for instance: Franchising — Its nature, scope, advantages, and development by C.L. Vaughn (Lexington Books, Lexington, Mass., 1979) compared to The guide to franchising (4th edition), by M. Mendelsohm (Pergamon Press, Oxford, 1985). Each emphasizes different aspects of franchising, corresponding to their respective experience and interests.
For both brand representation dealerships and for process licensing dealerships, the dealer-franchisee is usually already a well-established business person, expected to organize the local operation with his or her own capital and largely according to his or her own best judgement. The franchisor is available to help if needed, but the franchisee is normally expected to organize and operate his own outlet.

2. Business format franchising

In the case of business format franchising, however, the franchisor specifies in great detail just how the franchisee is to operate. This includes very precise instructions in virtually all the operational aspects of the business. Following these instructions from the franchisor is not optional. The terms of the franchise contract require the franchisee to follow these operating instructions. In many cases, the right to use these operating procedures is as valuable to the franchisee as the product or trademark itself. This means that persons with little or no experience in this particular line of business or even in business in general can be successful franchisees. Normally a business format franchisor is much more closely and deeply involved in the training, initial start-up, and continuing development of each franchisee than is the case with dealership franchise systems.

The development of business format franchising has been a major factor in the tremendous growth of franchising since the early 1950s. The fast food industry is perhaps the best known example.

3. Association franchising

Not all franchise systems have grown at the initiative of the franchisor of a single enterprise or entrepreneur seeking to expand his/her operations. Some franchise systems have developed as a group response by a number of relatively small businesses to particular market challenges, usually intensifying competition from a large new entrant to their market.

For example, the Independent Grocers Alliance formed the franchised network of “IGA” grocery stores in the United States in the 1930s and 1940s in order to compete more effectively against large supermarket chains which were then arriving on the scene. Another example of association franchising is Best Western Hotels, in which independent hoteliers joined together under a common brand name, common room standards, common price structure and hospitality services, a joint reservation system, and common advertising. In both these examples, the initiative for the franchise system cannot come from an entrepreneur seeking to become the franchisor but from the potential franchisees themselves, who saw the advantages of franchising together.

In the real world, each franchise system, like every business enterprise, is a unique response to the particular entrepreneurial opportunity it seeks to fill and to the particular environment in which it operates. Thus, specific franchise systems will combine features of more than one of the above archetypes; and two systems in the same industry may look quite different from each other.

Two other common structural features of the franchising method of business organization should be mentioned even though they are not themselves distinct kinds of franchise systems.
4. Parallel franchising

Entrepreneurs sometimes turn to franchising even though they already have existing operations organized along traditional lines. These non-franchised parts of the franchisor continue to function even as the firm enters into franchise agreements with other enterprises and the franchise network develops. Thus it is common to find a franchisor also with operating units of its own carrying out functions parallel to those of the franchisees.

This parallel structure has obvious potential conflicts of interest. However, it also ensures that the franchisor has a genuine "hands on" knowledge of the franchisee operation. This fact can be especially important for business format franchising, where it is particularly important that the franchisor have a full and realistic grasp of the conditions under which franchisees function.

Examples of parallel franchising include some of the large integrated oil companies which both operate some petrol stations directly and franchise out others to independent operators who are allowed to use the company's name.

5. "Master" franchising

A number of large franchise networks have become increasingly international in recent decades. Yet cultural settings differ considerably from one country to another, and what appeals to the target market in one region may receive an indifferent or even hostile response in another. This has presented a particular challenge to business format franchising, since the standardization of each franchise outlet is an important part of the overall business strategy.

As a response to this problem, a technique called "master franchising" has developed. The franchisor grants a "master franchise" for, say, a country or subregion. The "master franchisee" has the responsibility of adjusting the standardized operation so as to fit local conditions and especially local tastes and sensitivities. The "master franchisee" normally then has the right to grant further franchises within its specified area. The "master franchisee" typically also has much more financial strength and business acumen than a regular franchisee and thus is rather similar to a dealer franchisee within the business format type of franchising.

B. Essential characteristics of a franchise network

Notwithstanding its wide range of shapes and sizes, franchising has certain minimal basic characteristics.

1. Legally separate units but functionally a single integrated business

Every franchise system is made up of legally separate business entities, but which are operationally all highly interdependent upon each other. By being part of a franchise system, both franchisor and franchisees give up much of the freedom of action associated with

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<th>ESSENTIAL CHARACTERISTICS OF FRANCHISING</th>
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<td>A. Each unit is legally separate but economically interdependent.</td>
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<td>B. Brands, trademarks, licences and other intellectual property belong to the franchisor.</td>
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<td>C. Cash flows from franchisees to the franchisor.</td>
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<td>D. Reciprocal rights and duties between franchisee and franchisor extend beyond the immediate transactions.</td>
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a stand-alone enterprise. This interdependence works both ways. The franchisee is dependent on the franchisor for the actual products, essential ingredients, methods, promotion and advertising, research and development, etc., all of which are needed to keep the network healthy and dynamic. The franchisor, on the other hand, depends upon the franchisees for the actual sales to the final customers, which drives the whole system. Yet, despite giving up many of the entrepreneurial freedoms of an independent enterprise, members of a franchise network are still subject to the legal risks and liabilities faced by a stand-alone business.

2. Intellectual proprietary rights remain with the franchisor

In a franchise system, the ownership of trademarks, brand names, patents, copyrights, operational manuals, etc., remain the legal property of the franchisor. When the franchisee purchases the franchise, he or she acquires only the right to use these intellectual products. The legal title to them remains the property of the franchisor. As distinct from a simple licensing agreement, however, the franchisee also has use rights to any further developments or updates of these methods, patents, etc.

In the case of business format franchises, where the method of doing business is a major part of the franchise, a prospective franchisee may be required to sign some sort of confidential disclosure agreement before he or she is permitted access to any operating manuals or detailed instructions.

3. Cash flows from franchisee to franchisor

All true franchise systems involve cash flow. Specifically, the franchisee pays the franchisor for the rights to the franchise not just initially but over the duration of the franchise relationship. This income from franchisees is normally a main source of income to the franchisor, if not the only source, and hence essential to the franchisor's life as a business enterprise.

The formula for this cash flow varies from system to system. Usually there will be an initial franchise fee and then a continuing fee in the form of a percentage of the franchisee's gross receipts or a fixed amount per unit of sale or a fixed sum for a certain period of time, or some combination of these. There may also be regular formula-driven charges on the franchisees for certain activities such as advertising which the franchisor looks after for the whole system. But whatever the specific formula, regular payments from franchisee to franchisor are part and parcel of the typical franchise relationship.

It would be somewhat of an oversimplification to look upon this cash flow only as a method of internal payments. It also acts as a sort of mortar which holds the units together and gives tangible expression to their mutual stake in the success of the franchise system as a whole. Hence, cash flow within the system is important not just for internally "settling accounts" but also for binding the network into an integrated dynamic business.

4. Reciprocal rights and duties extend beyond immediate transactions

The kind of structural flexibility associated with a strictly market-place relationship, in which the commitments on buyer and seller do not extend beyond the immediate transaction
and each side is then free to pull away, is too unstable to hold a franchise system together. Franchise systems need to be held together by more continuing relationships, which involve reciprocal rights and duties not normally included in simple market-place transactions. For example, a franchisee normally has some sort of geographic area within which the franchisor will not allow another franchisee to set up shop. The franchisee also usually enjoys the rights to sell new or improved products as they are developed by the franchisor. The franchisor, on the other hand, expects a high degree of loyalty on the part of franchisees and the forbearance from opportunistic behaviour which would be quite normal in a purely market-place relationship.

In a formal sector situation, these reciprocal rights and duties of franchisors and franchisees are spelled out in a legally enforceable written contract, which commits each to the relationship for a substantial period of time, rarely less than five years and sometimes as long as 20 years. Some large franchise networks also provide for internal adjudication or arbitration of disputes between franchisee(s) and the franchisor. It is also not uncommon to find the franchisees within a large franchise network forming their own association.

In the situation of the informal sector in developing countries, the use of formal written contracts may not be a practicable approach. However, the need for an established and reliable relationship between franchisor and franchisee, in which both parties can put their confidence, is essential.

C. How franchising differs from licensing, subcontracting and micro-business packaging

To conclude this section on what is franchising, it may be useful to identify also what it is not. How does franchising differ from some other common kinds of inter-business relationships, such as licensing, subcontracting and micro-business packaging?

(i) Licensing

In a licensing set up, the licensor grants to the licensee the rights to exploit a particular process or method to which the licensor retains title. There is, thus, some similarity to franchising. If, however, the licensor develops a new or improved process, the rights to these improvements are normally not included in a licensing arrangement. A new agreement or an addendum would have to be negotiated. Or the licensor may well enter into a separate agreement with a different licensee.

In a franchise system, on the other hand, franchisees normally automatically adjust and incorporate new innovations developed by the franchisor. This is normally an integral part of their franchise: they have the right to exploit any such new developments, and they are also obliged to put them into practice under the guidance and supervision of the franchisor.

Also, under a franchise relationship, the franchisee also has certain rights to the brands and trade name of the franchisor in addition to the rights to a technical process or method. These are not normally included in a licensing relationship.
(ii) Subcontracting

Subcontracting, in which the contractor (usually a larger firm) contracts out some activities, either a direct part of its own production process or an ancillary activity such as maintenance, or the provision of inputs to its production, has become increasingly common. Subcontracting is usually in an "upstream" direction, in which the subcontractee is in a backward linkage relationship to the prime contractor. Franchising, on the other hand, is a "downstream" relationship in which the franchisee is a forward linkage between the franchisor and the final customer or client.

This difference has important implications. Some subcontracting relationships may become extremely close, with a degree of dependence equal to or even greater than that of franchising. The prime contractor may be the principal or only customer of the subcontractor, and may also be providing considerable technical and financial assistance as well. Thus, the scope for growth and expansion on the part of the subcontractor is basically dependent on the prime contractor.

A franchisee, on the other hand, is responsible for delivering the finished product or service to its ultimate user. This means that the principal constraint on its growth is its own ability to merchandise its product or service, assuming of course that the franchisor provides it with the inputs it needs. And the franchisor has every reason to do so, because this is the key to its own growth and earnings. Thus, in a franchise relationship there is more harmony of interest between the franchisee and franchisor and there is also more scope for larger volumes on the part of individual franchisees than is normally the case in close subcontracting relationships.

In addition, a franchisee may be less subject to technological obsolescence than a subcontractor, since a franchise relationship normally includes rights to use new developments and improvements, which is not the case with a typical subcontractor.

(iii) Micro-enterprise packaging

In recent years, vocational training programmes in many countries have been expanded to include assistance to help trainees become self-employed in their own micro-enterprise upon completion of the training programme. This may include provision of the tools needed in the craft, training in a simple bookkeeping system, some financial assistance for raw materials to get started, perhaps even assistance in obtaining a specific location from the public authorities, etc.

This package of training and assistance in setting themselves up has some aspects which are similar to business format franchising at the micro-enterprise level. There are, however, fundamental differences. Once the trainee has set up on his or her own, the relationship normally ends. There is no regular and continuing cash flow to the institute which helped the artisan start up. Most important, there is no intertwining of destinies, so that the success of the micro-enterprise is also the success of the supporting institution, and vice versa; there is no franchisor.
(iv) "Putting out"

Some artisans work under the umbrella of a larger enterprise, or sometimes an assisting organization, in which they effectively receive “production orders” from the larger enterprise or organization, which maintains quality control and looks after marketing the output of its “independent” artisans. The artisans sometimes also receive raw materials or other input “in advance”. This “putting out” of production is closer to a subcontracting relationship than a franchise system. The parent enterprise or organization usually fixes the output price and handles the marketing of the product. The artisan is usually free to organize himself or herself to carry on the production however he or she wishes, and there is no obligation to follow a specific production method developed by the parent institution. And there is generally no trademark or patent which is the property of the parent institution (although there is sometimes a quality mark or certification). And, again, there is not the reciprocal dependence between artisan and parent unit which is so characteristic of the relationship between franchisor and franchisees.¹

¹ These distinctions have been developed more completely in the context of reviewing the international classification schema on status of employment. See: "Revision of the international classification of status in employment", Report II for the ILO Meeting of Experts on Labour Statistics, Geneva, 28 Jan.-6 Feb. 1992.
IV. Pros and cons of franchising in the informal sector

Some franchising exists in the Third World, but most is within the formal sector, often in the form of a local formal sector as a franchisee of a large multinational franchise network. While this kind of franchising has its own pros and cons and is currently receiving the lion’s share of attention in professional franchising circles, it is not the kind of franchising which is the concern of this paper. Our concern here is with the promotion of franchising within a developing country itself, between the local formal and informal sectors and/or between the informal sector and the public sector. This “domestic” or “internal” franchising between the informal sector and the public and formal sectors of the local economy involves four distinct perspectives, each with its specific mix of advantages and disadvantages: (a) informal sector units as prospective franchisees; (b) formal sector enterprises as prospective franchisors; (c) government ministries or technical departments also as possible franchisors; and (d) the interests of the society in general.

A. Informal sector units as prospective franchisees

Why would an informal sector unit be attracted by the possibility of becoming a franchisee? Several reasons come to mind. As a franchisee, the informal sector unit has access to products and production methods. This in turn gives it a significant marketing advantage over other “stand-alone” informal sector units. With this product and technology advantage comes a package of managerial backstopping and support structure to help it make effective commercial use of these advantages. These are areas (quality of product, production technology, and managerial sophistication) in which informal sector units are often weak. Strengthening the unit in these areas not only improves its internal efficiency but also makes it more competitive in the market-place and enables it to enter more up-scale markets and customers who have larger disposable incomes. The ownership of a recognized franchise within an established franchise network creates for the informal sector unit a kind of protected business foundation for the unit, which in turn makes other sorts of investment feasible, such as training of staff or improvement of physical facilities or upgrading of equipment. Many of these investments would be less likely in the atmosphere of uncertainty and “cut-throat” competition typically prevailing in the informal sector.

Many in the informal sector would prefer to be employees in the formal sector but have been unable to find a job and have set up their informal sector enterprise as an alternative. For these, a franchisee status within a recognized franchise network offers them an “attachment” to an established formal sector enterprise that is not quite the employment

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<th>INFORMAL SECTOR FRANCHISEES</th>
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<tr>
<td><strong>PROs</strong></td>
</tr>
<tr>
<td>- modern products and methods</td>
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<tr>
<td>- recognized brand names and trademarks</td>
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<tr>
<td>- managerial assistance</td>
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<tr>
<td>- enhanced competitiveness</td>
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<tr>
<td>- &quot;semi-formal sector&quot; status with authorities</td>
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<td>- enterprise &quot;foundation&quot; for making long-term investments</td>
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<td><strong>CONs</strong></td>
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<tr>
<td>- less freedom of action and Initiative</td>
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<td>- more “visible” to tax authorities and other regulatory bodies</td>
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<tr>
<td>- “tie-ins” for raw materials and supplies</td>
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<td>- geographic restrictions</td>
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relationship they would like but which is better than being entirely on their own. Being part of a franchise network also gives an informal sector unit more “clout” with local officials, which is often a problematic area for informal sector units.

There may also be some disadvantages to an informal sector unit as a franchisee. In the first place, there is significantly less freedom of action and initiative, especially as regards seeking out areas to expand. A franchise normally permits the franchisee to operate only in a specified area. There may also be strict requirements regarding how the unit must function. It is also common for franchisors to require franchisees to buy certain raw materials and supplies either from the franchisor itself or from some other specified supplier. In addition, the informal sector unit may well lose much of the legal and official “invisibility” which some informal sector units want in order to avoid taxes and various regulatory requirements.

B. Formal sector enterprises as prospective franchisors

Why would an enterprise in the formal sector consider getting into a franchisor relationship with informal sector units? Several reasons come to mind.

Setting up a franchise network in the informal sector may open up substantial new markets for the franchisor. While average incomes are undoubtedly low in the informal sector, a casual walk through most slums will reveal television sets, video machines, refrigerators, sewing-machines, etc. Many of these appliances might be considered as “consumer” goods in the formal sector but are actually “investment” goods in an informal sector enterprise. After-sales servicing is likely to be an important consideration in making the decision to buy one brand over another. Thus, for the manufacturer, a reliable distribution network which includes quick and efficient repair services, is an important component of its competitive strategy. Franchising has been shown to be a highly effective and relatively low-cost method for establishing such a structure.

Another basic motive behind franchising is efficient use of limited capital. Historically, entrepreneurs have chosen franchised structures because, among other effects, it has allowed the entrepreneur to concentrate his/her capital on a single central part of the value adding chain (such as the assembly line in the case of automobile manufacturing) while the franchisees provide the capital to set up and operate the ancillary links of the chain. All the links of the chain are essential to its success; but the capital needed for the central process is usually the biggest single item. Thus, a franchised organization permits the franchisor to concentrate on one or two central links of the value adding chain.

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<tr>
<th>FORMAL SECTOR FRANCHISOR</th>
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<tr>
<td><strong>PROs</strong></td>
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<tr>
<td>- access to the informal sector market</td>
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<tr>
<td>- “dedicated&quot; network of local sales and after-sales service agents</td>
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<tr>
<td>- concentration of franchisor’s own equity capital where it is most effective</td>
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<tr>
<td>- greater technical and managerial economies of scale</td>
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<tr>
<td>- establish property rights over managerial methods as well as brands and trade names</td>
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<tr>
<td><strong>CONS</strong></td>
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<tr>
<td>- difficulties to control and enforce quality standards</td>
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<td>- difficulties to prevent copyright and brand piracy</td>
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<tr>
<td>- expanded “responsibility” vis-à-vis authorities for informal sector franchisees</td>
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<td>- constraints on independent entrepreneurial and/or managerial freedom of action</td>
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This takes us to a third advantage, economics of scale both technical and managerial. Many products require rather different optimal scales to produce than they do to sell and service. These scale economies may be in the area of management and organizational culture as well as the more technological or engineering side of economic activity. Franchising generates an organizational flexibility which facilitates each separate activity to move to its own optimum operating scale.

Lastly, franchising allows an entrepreneur in a sense to market his/her own entrepreneurship. Part of the strength of an enterprise lies in the managerial methods, the brand names and customer goodwill and similar kinds of intangible assets which contribute to its success. These intangibles may (or may not) be formalized into legally recognized copyrights and patents and registered trademarks. In either case, the franchise agreement in effect establishes explicitly the ownership of this intellectual property with the franchisor and then “leases” this property out to the franchisee(s).

There may also be some negative aspects of franchising to the informal sector in the eyes of a formal sector enterprise. One is likely to be a concern to assert and protect intellectual property rights, especially those dealing with the use of brand names and trademarks. Commercial piracy is already a matter of concern among formal sector firms at the international level. One can only assume that it would be equally or more acute with respect to informal sector units. The general cloud on their legal status is known. So also is their elusiveness with respect to the enforcement of virtually all regulations of various public authorities. Hence the concern for protecting and controlling the use of intellectual property in the informal sector is probably not unjustified. However, it might be arguable that the formal sector firm could be better off setting up a franchised relationship with at least some informal sector units than it would be if it simply did nothing. At least it would then have some “allies” within the informal sector itself who also have an interest in protecting these intangible assets.

Another aspect of the legal status of informal sector units which might affect a potential formal sector franchisor concerns the implications on the franchisor of any “irregularities” on the part of its franchisees. Normally, the separate legal status of franchisee and franchisor means that the liabilities and regulatory responsibilities of one do not pass through to the other. In the case of a formal sector franchisor/informal sector franchisee relationship, however, the franchisee may well be in a more or less constantly uncertain status, which could undermine its ability to perform effectively. Thus, it might be in the interests of the formal sector franchisor to create for its franchisees in the informal sector a sort of “protective cover” with the authorities. This “protective cover” could be an important benefit to the franchisees for entering into the network. But it could also mean significant changes in the entrepreneurial talents needed from the franchisor.

A third potentially problematic area for the franchisor may be, the constraints on his/her scope for independent entrepreneurial initiative which a franchise network would imply. Franchisees have rights and privileges which must be respected. Also, if franchisees are to be enthusiastic and committed players on the overall team, then their views and opinions will need to be sought out and incorporated into the strategic management of the network. This may call for significant changes in top management style.
C. Government technical departments as franchisors

Many of the pros and cons for franchising into the informal sector by a formal sector enterprise would also apply, mutatis mutandis, to a government technical ministry or department. The development of franchised networks for the delivery of suitable components of various public services such as health care or public transport or water and sewage or garbage collection would facilitate access to areas otherwise difficult to serve, lower the delivery costs of such services, and help to concentrate the energies of key staff on technical and strategic issues, with the “decentralization” of less-skilled and routine tasks to self-managed franchisees.

On the negative side, it would require a considerable change of style and mind-set on the part of civil servants to build effective franchised delivery systems based on “independent” franchisee agents with themselves becoming “franchisors”. There may also be special concerns with respect to quality control and performance standards. Most services which are provided through a government ministry are by their natures not well-suited for a purely market-driven commercial supply. They might be natural monopolies, such as electricity or water supply, where lateral competition on the supply side is not sensible. Or they may be services such as health care where pure consumer sovereignty would not be socially or politically acceptable. These situations would need special attention and innovative approaches to ensure that the “public service” aspects of the operation do not get lost in the shuffle through this semi-privatization which decentralizing into franchised delivery mechanisms would mean.

D. Some general social benefits

So far we have concentrated on the advantages and disadvantages of the prospective franchisors and franchisees. But there are also some benefits likely to accrue to the society as a whole through the development of formal/informal sector franchising.

Undoubtedly the most far-reaching and important social benefit from an effective linking of the formal and informal sectors is the social “unification” this generates. “Poverty anywhere is a threat to prosperity everywhere”. The growing portions of marginalized populations and the economic “disenfranchisement” which much of the growth of the urban informal sector represents constitute serious threats to social and political peace, to say nothing of its basic injustice. The fostering of franchise linkages between these two sectors stimulates a community of interest and an integrating of each into the overall development.
process. This fact can have immense social and political repercussions. ¹

At a more immediate level, a closer integration of informal and formal sector units can also have several other beneficial effects. Firstly, this would facilitate the application of various labour laws to informal sector units. While their association with a registered franchise network would probably not in itself lead to observance of all such laws (and, indeed, some of these laws may be unrealistic or inappropriate and part of the basic causes of the informal sector), the membership in such a franchise network allows for the gradual observance of some very basic labour and employment standards such as minimum occupational safety standards, extremes of child labour, etc. Because of its leadership position at the centre of the franchise network, the franchisor has an interest in seeing that the franchisees observe at least these basic norms of employment and working conditions. The substandard working conditions often found in the informal sector are mainly a consequence of the precarious economic viability of the unit. When the “standing” of the unit is strengthened through a franchise tie-up with a larger formal sector enterprise, and thus there is a more sound foundation on which to invest in productivity, improved safety conditions, etc., the informal sector entrepreneur will be as quick and as responsive as his formal sector cousin. It is to be remembered that good safety practice and well-trained workers can only be economically just if there is a mechanism for this investment to yield a return. ² Membership in a franchise network creates such a mechanism. The franchise network also makes it easier for the public authority responsible for employment and working conditions, which can centre its dealing with the franchisor.

A pattern of franchised networks between the formal and informal sector can also facilitate the “delivery” of other kinds of social programmes such as promotion of family planning, nutritional information and preventive health-care education, adult literacy, etc. The networks of standing relationships of the franchise networks constitute a sort of social fabric which can facilitate other types of activities.

Finally, the development of franchising between the formal and informal sectors also has social benefits with respect to the use of capital resources. These can come about through several mechanisms. First, a franchise agreement with a formal sector enterprise creates a relatively stable foundation for an informal sector unit which significantly improves its

¹ The social and political dangers inherent in the growth of a bipolar economic and social structure, with the fortunate few of the formal sector at one end and the impoverished masses in the informal sector at the other end, and therefore the importance of avoiding this kind of bipolar economic structure, was stressed repeatedly in the discussion of the Director-General’s Report on The dilemma of the informal sector (see: Record of Proceedings, International Labour Conference, 78th Session, 1991).

economic viability. This effectively makes the informal sector unit a more attractive investment than it would otherwise be. This, at the margin, attracts more investment, including funds which may otherwise have been consumed or hoarded. It also encourages the informal sector unit a longer time horizon, which in turn makes other kinds of investment attractive such as training of workers or technological upgrading, which tend to have a cumulative synergistic impact. Also, inasmuch as the impact of investment is relatively higher in the informal sector than in the formal, both in terms of output as well as employment (since an informal sector unit is relatively more labour intensive), there is a greater social return. Thus, inasmuch as franchising enhances investment in the informal sector it fosters a greater net social return on investment.

For these reasons promotion of franchising between the formal and informal sectors deserves careful consideration over and above the private benefits it may generate for its direct participants.
V. Possible areas of informal sector franchising

What specific kinds of franchising might be attractive for the informal sector? Franchising has demonstrated a remarkable flexibility in terms of the different products and services which have been developed into successful franchise systems. The following three main types of franchise systems seem suitable to specific aspects of the informal sector.

- **Dealership franchising by local firms into the informal sector**
  Franchising between formal sector enterprises in developing countries, especially local manufacturing companies, and informal sector sales and after-sales agents would seem well-suited for dealership franchising.

- **Business format franchising of public services**
  The distribution of services from the public sector into the informal sector could be adapted to business format franchising.

- **Association franchising within the informal sector**
  The development of association franchise systems within the informal sector itself would seem an effective strategy for assisting groups within the informal sector itself.

The following paragraphs consider each of these different lines of action in more detail.

A. **Dealership franchising by local formal sector firms into the informal sector**

A lot of people live and work in the informal sector. Even though they are poor they still constitute a substantial market for goods and services. And for the foreseeable future, this market is likely to be a growing one. But, for a number of reasons, it is not easy to tap this market through conventional sales distribution methods. Perhaps a network of dealership franchises with informal sector units offers a window into this growth opportunity. Several kinds of such dealership franchise networks come to mind.

(i) **Sales and service dealerships for locally made appliances**

A substantial portion of informal sector units are already engaged in various kinds of distribution activities. A number are also involved in different kinds of repair services. These units are close to their market. Very often they are physically located directly in and among their customers. They come from similar socio-economic backgrounds. They live in the same neighbourhoods. Their children play together. Because of this physical proximity, an informal sector business is well-placed to handle "after sales" servicing and back-up for

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SALES AND SERVICES DEALERSHIP

Local manufacturing (Franchisor)

Area dealer (Franchisee)  Area dealer (Franchisee)  Area dealer (Franchisee)
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customers in the informal sector. This is an increasingly important service for manufactured products and one which a franchise structure has shown itself to be well-suited to provide.

This is actually how modern business franchising developed, manufacturing companies such as automobile manufacturers sold franchise to look after the sales and after-sales servicing activities in market areas either widely dispersed or hard to get at for one reason or another. This allowed the manufacturers to concentrate their capital resources as well as their managerial time and energies on the manufacturing activities, where they had the greatest strength, and left the selling and servicing activities in the hands of local businesses which knew well the local conditions and customers.

Would this technique not also apply for a local manufacturer (or possibly even an importer) of consumer durables such as refrigerators or sewing-machines or stoves or various kinds of food-processing machines. These products are often capital investments in the informal sector. A stove might be the main piece of equipment for a small informal restaurant or a sewing-machine for a small clothing unit. The linking of sales with after-sales service can be a major issue for a buyer whose own income depends upon the appliance functioning properly. Having a grass-roots dealership network which can also be relied upon for after-sales service would be an advantage for the local manufacturer. So both the customer and the manufacturer and the informal sector dealer stand to benefit.

(ii) Retail distribution franchises

Retailing is an activity in which the informal sector has demonstrated a power competitive strength. Trading and retailing are often the largest single category of activity in the informal sector, from a third to a half or more of all those employed in the informal sector. This informal retail system sometimes operates parallel to a public or semi-public network of shops set up to distribute various staple products, often at controlled or subsidized prices. Sometimes this in effect means the informal sector units are seen as a sort of economic “underground resistance movement”. Would it not be more sensible to build up complementarity instead of competition between these two distribution systems? The public institutions have a natural advantage at the wholesale function while the small informal sector units are efficient at the final retail end.

Perhaps a mutually beneficial division of labour could be set based on central depositories and franchised mobile vendors. This method has been used successfully by both the Migro organization in Switzerland and the Casino Stores in France. Both these now well-established retail systems started out with a small fleet of franchised trucks stocked with a standard range of staple food and other household products and each truck using the same logo but with its own “reserved” route. For example, the Government’s “Superbazaar” system in India could franchise pushcarts the same way that Kuality Ice-cream carts are franchised for the distribution of ice-cream cones in New Delhi. With appropriately located depositories acting as the franchisor hubs, different sections of Delhi or Bombay or Madras could be organized so that some carts carry cleaning products and some carry food staples and some carry perishable fruits and vegetables, etc., but all the carts would be designed and painted so that they were clearly part of the Superbazaar network. Depending upon the country, it may even be feasible to use small motorized vans or three-wheelers. The depository franchisor would then be able to control how many carts or vans are in circulation, and where. This in turn would help to get a handle on the common problem of “over-saturation” of an area by street vendors, which has the effect of keeping the earnings of all
of them at very low levels. It would also enable the depository to concentrate its energies on its comparative advantage, wholesale activities and packaging and customer-friendly labelling, while the franchised street vendors handle the actual retail sales to consumers.

(iii) Commissioned "account agents" for banks

Banking is a chronic problem area in the informal sector, both for the informal sector units and for the formal sector banks. The official banking industry is firmly embedded in the formal sector, with government control and regulation and also because of the typical organizational culture of banking institutions themselves. Much of the work involved in banking concerns activities such as record keeping, loan request appraisal, loan repayment monitoring, and the like. These activities are in many respects similar to the insurance industry, which makes extensive use of franchising through local franchised agencies representing the insurance carrier at the local level. These local agents are normally responsible for finding customers, selling the various insurance "products", packaging the file and submitting it to the central carrier for final approval, and then following up with the collection of fees and settling of claims. This franchised system works well because the local agent knows the locale and the customers much better, and can carry out these many functions cheaper, than an employee of the underlying insurer.

Could not a similar structure be developed to bring formal sector banking into the informal sector, especially for loan portfolio monitoring and development? With an appropriately designed system of forms and procedures and codes designed to link up with the bank's established formal sector operations, a local "agent" from the informal sector itself could take over much of the workload of normal banking operations, earning a percentage on the performing loans or investments which he or she develops. Experience has shown in both the formal and informal sectors that close monitoring is important for repayment rates. This approach would relieve traditional banks of a big overhead burden and open up for them a substantial growth sector, the informal sector. At the same time, it would bring greatly needed access to credit into the informal sector at a price it could afford, even if this is one or two percentage points over the formal sector interest rates.

"AUTHORIZED AGENTS"
for NATIONAL BANKS

- National development bank (Franchisor)
- District branch (Master franchisee)
- Local "authorized agent" (Franchisee)
- Local "authorized agent" (Franchisee)
B. Business format franchising of public services

The provision of basic public services and amenities to the informal sector is notoriously problematic, and increasingly so with the current era of retrenchment of the public sector which is seizing most of the Third World. These services are often essential for the welfare and the smooth functioning of the community; and some sort of public control over the quality standards is necessary. Yet governments find themselves less and less able to undertake the direct provision of these services. Franchising may be a way to continue their provision on a relatively cost-effective basis and still maintain some basic control.

(i) Public transport

Public transport can be a problem in informal sector neighbourhoods. In many countries, various sorts of "colectivos" operate in which private operators ply the roads providing public transport in varying sizes of vehicles and often with virtually no systematic certification on their safety or roadworthiness. Where licensing is controlled by a public authority, there can be exploitation in the form of absentee ownership of the licence. Association franchising may be a partial solution. If owner-operators of "colectivos" are organized into a series of association franchises, each with a specific "charter" from the public transport authority, some of the problems of exploitation might be avoided without undercutting the "market-driven" benefits of the privatization of this public service. Peer pressure within each association would encourage each operator to maintain basic standards of service and also of the vehicle. Different associations could focus on different routes or kinds of traffic according to their respective entrepreneurial judgement. The public authority would be in a position to ensure there is sufficient competition between associations but that the market is not flooded to the financial detriment of all the operators and to the deterioration of the public service.

(ii) Garbage collection

Garbage collection is another perennial problem for informal sector neighbourhoods. Yet, there is money in garbage through various recycling possibilities. Also, garbage collection is something which most folk are quite prepared to pay a reasonable sum for, if they really get the service. Could not this process be organized both to make a closer link between the collection and the payment and also to encourage greater use of the garbage for recycling purposes? The recycling side would seem a natural activity for the informal sector. It is highly labour intensive and unskilled. On the collection side, it is also unskilled and labour intensive, although some sort of vehicle is usually required. But it is also a sort of natural monopoly. It does not make sense to have a number of competing garbage collectors covering the same neighbourhood any more than it is socially efficient to have several telephone companies stringing duplicate wire systems in the same area. Thus, there is a need for a central public authority to organize and oversee the process but not necessarily to carry it out. This could be done more effectively through territorial franchises to private profit-motivated enterprises which would then be free to sort and process and re-sell the collected material. The public authority would need to define the territory, fix the collection fee and monitor the franchisees' performance.
(iii) Public telephone call-boxes

The subject of telephones was mentioned. An innovative way of assisting the handicapped through what amounts to a kind of franchise has been developed in Bangalore, India, using public telephones. Normally a public telephone is designed to be coin operated and is left on its own without an attendant. Thus, it is both a more complex mechanism and is subject to vandalism; and therefore finding a public phone which is actually in working order is not always easy. The caller also has to have the correct coins in order to make a call. In Bangalore, the local telephone company has set up a network of regular telephones in various public locations, each of which is “operated” by a handicapped person. He or she looks after the telephone, places the calls, and charges callers for the total and gives change as needed. This system works well for the telephone company (more calls and less maintenance), for the handicapped persons (earning an income and being in the “mainstream” of community life), and for the telephoning public (reliable and accessible telephone services publicly available with a minimum of hassle). Perhaps this de facto public sector use of business format franchising could be expanded and spread to other locations and perhaps to other similar kinds of public services.

(iv) Basic health-care services

The delivery of basic health care now consumes up to 10 per cent of total government expenditures in the Third World. It requires a wide range of activities, and most of these specific lines of action require more than just medical knowledge and skills if these services are to be delivered effectively to the right place(s) at the right time(s). For example, the distribution of medicines outside of hospitals or clinics constitutes a technical challenge broadly parallel to the retail distribution of other kinds of small and sometimes perishable goods. Ministries of health, which are normally responsible for this technical area, are typically well-staffed in the technical and medical disciplines with regard to these medicines but much less skilled and experienced in the problems of operating and managing a far-flung network retail sales outlets. If the Ministry actually tries to operate this network of retail pharmacies, this can be both costly and frustrating both for the Ministry and the patients. On the other hand, if the distribution of medicines is left entirely to market-driven private enterprises, there seems a good chance that large sections of the population (indeed, those sections probably in the greatest need for proactive medical care) will get effectively left out. Perhaps a franchised structure combined with a carefully orchestrated system of packaging and internal transfer pricing could deliver medicines efficiently to poor areas at a
price people can afford and still not overburden the public coffers. Most medicines are already mixed and prepared into suitable dosages, and in many instances also packaged as well. If these were also pre-priced and labelled, the actual cost to the customer could be controlled. If the distribution network is set up like a business format franchise system, in which the individual outlets get all their stock from the central franchisor (Ministry of Health), then the franchisor has an effective system of inventory control through the return circulation of prescriptions along with re-orders from each franchisee outlet. Also, using a business format franchising method, the central franchisor can set the standards for essential facilities for stock maintenance (e.g., the “cold chain”) without having to take on the day-to-day responsibility of maintaining and operating each location. This in effect takes medical technicians and other highly trained personnel out of the retail distribution management business and frees them to concentrate on what they have been trained to do. It would also create a network for other kinds of proactive health programmes such as nutrition or family planning information in areas which a more formalized institution would have trouble reaching.

Another kind of health care which might be amenable to franchising is ambulance and patient transport services. Once again, this activity requires skills and abilities which are not in the normal “health-care” field. They are also areas in which the service is directly to the customer-user and therefore are susceptible to some degree of cost recovery (i.e., the user can be expected to pay at least something even if it does not cover the full cost of the service). In the United States, ambulance services in some locales include both private and publicly operated services running side by side in de facto competition with each other.

In many Third World countries, the food for patients in the government-run hospitals is the responsibility of their families. This can cause some organizational problems since there may or may not be a place to prepare the food and there may also be people hanging around and getting in the way who are there looking after a relative. Perhaps an element of control over this potentially chaotic side of in-patient care could be achieved through franchising-out a kitchen-kiosk area in which these relatives could cook and prepare the food, perhaps also buy certain basic staples, and congregate away from the wards and the spaces used by the medical staff. Once again, the medical authorities could define what should be provided; the hospital administrators could designate the location(s) and generally oversee the correct observance of the system, and individual franchisees from the informal sector could “operate” the kitchen kiosks.
C. Association franchising within the informal sector

A recurring theme in attempting to help the informal sector is the need for *sui generis* organizations from within the informal sector itself which can both strengthen the sector's ability to compete in the market-place against the formal sector and also articulate the interests of the informal sector vis-à-vis public authorities and in the formulation of public policy. The development of association franchise networks among informal sector units providing similar kinds of products or services would go a long way in this direction. Activities around which such association franchises might be developed could include the following.

(i) Low-cost crèche and day-care facilities

Crèche and day-care facilities are very important to working women, many of whom either live or work or both in the informal sector. This is also an activity which women from the informal sector can undertake. It is also an area in which a certain amount of control and regulation by an appropriate public authority is desirable. As with public transport, it would probably be easier and more efficient to structure the controlled provision of crèche and day-care facilities through a system of overlapping association franchises than either through direct government provision or through entirely stand-alone units. Women working at different levels of the labour market will likely want and be able to afford differing levels of care for their children. But some sort of minimal certification and periodic inspection of the physical facilities and general quality of care for the children is clearly socially desirable. If many individual day-care centres are organized into a series of association franchises, then each association can “reach its own level” in terms of the quality level of the overall market it wants to cater to. The public authority would then be seized with regulating and monitoring a series of internally self-regulating associations rather than the whole gauntlet of self-styled crèches. And with market forces being what they are, working women would likely find a wider and more satisfactory range of day care possibilities than would be the case were the authority to try and provide the care directly.

(ii) Artisans' “registered logo” associations

The use of a quality guarantee of various sorts is an established marketing method by firms in industrialized countries in order to give their products a competitive advantage in the eyes of potential customers. The “NF” (*Norme Française*) logo in France, the BSI (British
Standards Institute) “kite mark”, the “Good Housekeeping Seal” in the United States, the International Wool Mark and the official “Sea Island Cotton” logo: these are all well-known examples of this type of customer assurance. In each case, they “certify” to the buyer that this product meets a standard of quality both with respect to its raw materials and workmanship and design. Some countries also use a registered logo technique to certify the ethnic authenticity of the design of a product, which can be an important aspect of artistic handicraft products.

Another variation on the artisan association franchising could be the organization of different kinds of service trades such as plumbers, electricians, carpenters and masons, all working within a well-defined location such as a housing development. These services are needed in any case within the community, and the housing authority could “plan in” from the original inception of a project the inclusion of an association of artisan service crafts which will be needed for the continuing up-keep and smooth functioning of both the private and public spaces.

This “registered logo” technique could also provide a means for the “reluctant” self-employed to link up with a group larger and stronger than themselves individually. It could also be the basis for a generic “legalization” of informal sector units which may not be directly registered with the municipal authorities but are permitted to “register indirectly” through their affiliation with the officially registered “logo association”.

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1 For instance, the “Cepelia” system in Poland or the Lak Sala network in Sri Lanka.
VI. Action to promote informal sector franchising

In the preceding sections, we have looked at the scope for, and desirability of, developing franchising activities in the informal sector. What, then, can be done to foster the growth of informal sector franchising?

Five distinct but overlapping lines of action can be identified. First, there needs to be a raising of awareness about franchising, especially among the private formal sector entrepreneurial community. To date, most franchising in the Third World has been concentrated in South-East and South Asia and in Latin America and the Caribbean. Other regions should give more active consideration to this form of organization.

In addition to a broader geographic spread, a wider range of kinds of franchise networks needs to develop. The business format franchise has dominated the scene so far, especially the fast-food industry and the large multinational corporations in this line. Also, the Third World has tended to be on the franchisee side of the relationship, with few businesses from developing countries acting as franchisors. Much remains to be done concerning domestic franchising, in which local businesses organize themselves along franchised lines both at the franchisor and the franchisee levels.

A second line of action concerns the legal framework. By and large, a franchise network does not fit comfortably within the existing concepts and definitions regulating economic activity. This is true for developed as well as developing countries. For example, the European Union has had to issue specific exemptions for franchise networks from its anti-monopolies regulations. In some legal systems, franchising is considered a branch of copyright and trademark law; in others it generally comes under partnership law. In either direction, there are potential inconsistencies and lacuna.

This question of an appropriate legal framework is in addition to the issue of enforcement of any legal regime in the conditions of the informal sector. But, as theory must continually struggle to catch up with reality, so the law of the land must also evolve with the economic activities it is charged to order. Both franchising as a business technique and the informal sector as an economic reality are here to stay. So we might as well get on with the task of developing a jurisprudence which brings essential order and predictability into these spheres without stifling either.

A third line of action to foster franchising in the informal sector is to develop a backdrop of supporting institutions. A number of institutions already exist which, at least in theory, provide various kinds of assistance to the informal sector. These need to be educated with respect to franchising and its role in informal sector development and also concerning how each specific institution can participate in this effort. In addition, it may prove useful to establish or at least designate a leading body with informal sector franchising as its specific mandate. In Hungary, for example, the Hungarian Franchise and Distribution Centre has been

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<td>2. Install an enabling legal framework.</td>
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<td>3. Develop supporting institutions.</td>
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<td>4. Train civil servants and government officials about franchising.</td>
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<td>5. Launch pilot projects and document successful cases, especially from the Third World.</td>
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established as part of the institutional reforms towards a market economy. This centre advises the business community, government departments, the legal and accounting professions and financial institutions on how to go about setting up a franchise network. It also acts as a documentation centre and a focal point for information and contacts between potential franchisors and franchisees. Another institution which is needed for an equitable development of franchising is the development of a code of ethics for franchising, both on the franchisor and franchisee sides, plus some sort of arbitration mechanism to settle efficiently and equitably any differences which arise.

A fourth line of action to promote franchising in the informal sector, and one which may prove especially difficult, is to “re-tool” the thinking of government officials and policymakers with respect to the informal sector. It has taken now roughly two decades to get the concept of the informal sector acknowledged at the policy level in many countries, as was demonstrated at the 1991 International Labour Conference, where the “dilemma of the informal sector” was a principle technical agenda item. Yet, even when a senior member of government acknowledges the importance of the informal sector at such a major international forum, this sector may still be de facto left out of the national plans and government expenditure budgets.

For many public servants, the idea of using informal sector enterprises to implement their programmes will call for a radical rethinking of their profession, and probably also a great deal of patience to get the new approach right without a serious drop in quality. Yet the effort is worth it. Staff in the public sector is shrinking back all over the globe. Innovative delivery mechanisms are the only way in which the increasing numbers of people needing these various public services can be met. Informal sector franchising of public services is one such mechanism.

A fifth, and final, line of action, which in many ways stems from the previous four and draws them all together, is the launching of pilot projects and documentation of successful cases. Nothing succeeds like success! And nothing will convince others to take a chance on a new method more effectively than seeing the success of their peers in a similar venture. Pilot projects also enable a certain amount of experimentation to find out just what does and does not work before there is any unconditional endorsement or commitment. There is also sometimes a sort of “Hawthorne” effect in a pilot project. The participants all know the experimental nature of the effort and they work harder than they might otherwise to ensure its success.

Two such successful cases are described in the annexes. Case 1 recounts how small neighbourhood “provision shops” in Singapore were organized into a business formal franchising network. This enabled them to meet the competition from large surface supermarkets and adapt to the major social and economic changes in Singapore in recent decades. Case 2 tells how a group of women guest-house operators formed an association franchise network and were thereby able to benefit much more from official tourism promotion activities. Both cases deal with activities on the economic fringes, in which the individual operators had marginal, at best, prospects for the future. However, through the use of a franchise method of organization, they were able both to very significantly improve their individual economic viability and also to participate in the mainstream of economic and social life. Franchising, in effect, enables these very small marginal units to “integrate” into the formal sector.
Conclusions

In the preceding pages, the need for new and innovative approaches to the growing problem of the informal sector has been shown. It has also been shown how the franchise method of organization offers some attractive features for such an approach. Specifically, franchising has the capacity to bridge the breakdown of factor and commodity markets, which impedes the development of the informal sector, without undermining the demand-driven and profit-disciplined features which give the informal sector its allocative efficiency.

A number of areas show promise as being amenable to the development of a franchised organization method. Some of these would be between the informal sector and private formal sector enterprises. Some would utilize the informal sector, in a franchised structure, as delivery mechanisms for a range of traditional government services. Others would involve the development of franchising within the informal sector itself, in the form of association franchise systems.

Five specific lines of action seem called for in order to move forward along these lines. First, there needs to be the creation of much greater awareness concerning franchising and its potential for the informal sector. Second, a suitable legal framework needs to be developed to encourage an orderly and equitable growth of this business technique. Third, support institutions are needed to promote the franchise approach, and one institution needs either to be established or designated with the principal mandate to develop franchising in the informal sector. Fourth, a major effort is in order to inform and educate civil servants and public policy-makers concerning the scope for utilizing informal sector units, within a franchise network, as delivery vehicles for a wide range of public services. Finally, all these ideas and actions need to be brought down to specifics in a series of well-chosen pilot projects of both an experimental and a demonstrative nature.

The cases described in the two annexes show how two groups of small marginal economic units were effectively organized into franchise networks and thereby successfully integrated into the formal sector.
Annex 1

Case-study No. 1
"Econ Minimart" chain-store network, Singapore

Prior to the 1960s, most retail marketing of food and beverages and sundry household products in Singapore was handled by local neighbourhood provision shops. These local shops were in close contact with their customers and provided home delivery services and often credit to regular customers. During the 1960s and 1970s, however, the situation changed. With independence and the rapid economic growth of this period, there was a massive relocation of residential housing from traditional neighbourhoods to self-contained housing estates, so-called "new towns", which included their own markets and facilities centres. This period also saw the introduction of modern supermarket retailing in Singapore along with these new "towns". Also during this period, with rising incomes and increasing exposure to international trends and fashions, the tastes and expectations of the Singaporean customers were also changing. They began paying more attention to quality and to expect a wider choice of products, and more shopping comfort and convenience.

In 1973, the Singapore Provision Shops Friendly Association, which included 1,200 provision shop owners, established the Provision Suppliers Corporation (PSC) to buy in bulk and provide its member shops with merchandise at competitive prices. The directors of the PSC soon realized, however, that the provision shops which were their customers "would need assistance far beyond common purchasing if they were to be prepared to meet the emerging threats in the fast-changing market environment of Singapore".

In 1983, following a feasibility study on how to modernize and upgrade conventional provision shop operations, a voluntary "chain-store" operation was started with 49 member outlets, selected on a first-come-first-served basis. Each participating member continued to operate independently and to use his or her own business name along with the common "Econ Minimart" trade name and logo, which the PSC promoted through advertising. Each unit also agreed to change its layout and style and display of products, with advice and assistance from PSC, so as to project the image of a modern minimart store. Also as part of the "modern" image being projected by the PSC, each participating outlet had to follow the practice of fixed price labelling and to discontinue credit to customers and home delivery. Each outlet was still free to obtain its merchandise from a variety of sources but it was understood that the first choice of supply would be PSC if the price and other terms were competitive.

From the beginning, the network was a success. Several policies on the part of the PSC seemed to be especially important in this success. First, it placed top priority of its role as supplier to the shops. Because of its size it was able to negotiate lower costs and longer credit terms from the suppliers, which it was able then to pass on to the participating shops. Second, it emphasized service and reliability of supply to its members, with regular visits by salesmen, an expanded fleet of delivery trucks and a guarantee of delivery within 48 hours of a confirmed order and same-day delivery for special emergencies. Third, PSC spent considerable funds on advertising the network's trade name, "Econ Minimart" and promoting

1 The information on the Econ Minimart franchise network in Singapore is based on: Foo Der Rong, "The Econ Minimart (Singapore). The concept and its applicability to developing countries — A case-study"; Public Enterprise, quarterly journal, Vol. 13, Nos. 1-2, Ljubljana, Mar.-June 1993.
its participating shops as “modern, friendly, neighbourhood stores offering a variety of good quality merchandise in a comfortable shopping environment and at a fair price”. Finally, its Operations Department developed shop layout plans, merchandising programmes, pricing guidelines and management systems for the individual shops plus a team of specialists to offer on-the-job training to each member at their own location. As a result of this more scientific approach to shop layout, a typical 70 square metres store was able to increase the number of items offered for sale from 700 up to 2,000 while still improving display and appearance.

These efforts bore fruit. By 1992, the network had increased to 180 outlets. In 1989, a survey of 114 shops which had converted from conventional provision shops to “Econ Minimarts” and had completed at least one full year of operation within the network showed that all experienced an increase in both sales volume and net profits even though about a third had an increase in operating costs. The great majority also showed an increase in stock turnover and a decrease in unit costs of stock. They also reported a reduction in the number of suppliers and the amount of paperwork.

The PSC also benefited substantially from the success of the chain. The sales volume of the Econ Division increased 300 per cent between 1983 and 1987. They were also able to introduce a select range of products under their own brand name. They have moved into a large modern warehouse facility and installed their own main-frame computer for order processing and inventory control and accounting, which has greatly improved efficiency. Plans are in hand to link the computer directly to the member shops. Eventually it is planned to expand the network to 230 shops throughout the Republic, which would allow for a customer base of approximately 1,800 households per member shop. Perhaps the most significant indicator of the success of PSC is the fact that the shops now voluntarily turn to it for over 60 per cent of their merchandise, as compared with only 30 per cent in 1987.
Annex 2

Case-study No. 2
“TUR-CASA” guest-houses, Costa Rica

Tourism is an important industry in Costa Rica. The informal sector benefits from tourism in the form of handicraft purchases, taxi rides, some meals, and similar smaller expenditures. Depending upon the particular tourist’s budget, accommodations can range from a small family-operated guest-house to the local franchisees of a large international chain. The small guest-houses, which are frequently in the informal sector, often benefit relatively less from governmental tourism promotion efforts because they are less prominent and less well-organized than the larger hotels and thus garner fewer guests from these efforts. Small family-run hotels and guest-houses also vary considerably in the quality of accommodation they offer, and thus potential guests are hesitant to commit themselves to lodgings which they may find to be below their expectations.

A group of family-operated guest-houses in Costa Rica found an effective way around these obstacles by joining together to form the TUR-CASA franchise association. In 1991, a group of 15 women micro-entrepreneurs who offered private accommodation for tourists and students at the country’s language schools decided to form an association in order to make their services more widely known and to improve their efficiency and quality of services offered. Through their TUR-CASA association, they established contact with the national Tourism Board and the Chamber of Commerce and similar national bodies which promote tourism on a national scale in order to promote the interests of their members and to identify a special market niche for the TUR-CASA logo, namely family-style accommodation including meals and direct contact with local people. TUR-CASA has established several standards of accommodation which its members offer at standard prices. It advertises in newspapers, tourist guidebooks and special journals and guides for travel agents and at the international airport. It also places advertisements in other languages such as English and Japanese. Through its combined booking services, its individual members can also accommodate tourists travelling in groups. Its central office includes an internationally accessible fax machine.

As it has grown, TUR-CASA has also expanded and developed the services it offers members. It now provides training classes in business management and in dealing with and understanding tourists. It also provides standardized forms and methods for the detailed records and bookkeeping requirements of the members, such as reservation and registration forms for guests. It also has a detailed membership information form which is used to evaluate new applicants and to classify their facilities into the TUR-CASA standard categories. This information enables the association to develop a detailed database of its membership for marketing and group promotion purposes.

Through their participation in the TUR-CASA franchise association individual members are thus able to receive training in the operations of their own business. They also receive national and international support in attracting guests, who are reassured by the TUR-CASA logo. This benefits both the individual members and TUR-CASA, and the visiting tourists as well.

In the few years since it started, in 1991, the association has grown to 230 members, all women micro-entrepreneurs and representing a capacity of 400 accommodations in different categories all over the country, offering tourists and longer staying visitors...
individual attention and family contact. Although men are not allowed to join, a "partner organization" has also developed for transport services, in which many husbands and sons of TUR-CASA members are active.
Annex 3

Dar es Salaam


Informal sector statistics: Coverage and methodologies

* Dar es Salaam informal sector pilot survey Ngoi

* Dar es Salaam informal sector survey 1995 — Operational and technical report Buberwa et al.
Dar es Salaam informal sector survey 1995 — Interviewer manual

Role of the informal sector: Determinants of stagnation, growth and transformation

* Coping with informal sector in Dar es Salaam: Issues and strategies S.V. Sethuraman

Legal and regulatory framework: Nature, impact and need for reform

* Brief on national policy for micro-enterprise and informal sector promotion N.B. Mwaduma

* Regulations and legal framework for informal sector in Dar es Salaam M. Tueros

* Employment relations and labour law in the Dar es Salaam informal sector D. Tagjiman

* Case-study on international labour standards and micro-enterprises promoted by the projects (United Republic of Tanzania, August 1992) Corinne Vargha

Productive resources and markets: Access to financial services, skill training, technology sources and markets

* Financial services M. Bastianen

* Skill acquisition and training in the informal sector M.G. Monji
| * Marketing and sales capacity in the informal sector | A. Tarimo  |
| * Locational strategies for informal trading and services | Pushpa Pathak |
| * Disabled informal sector operators | L.D. Msigwa |
| * Report on community-based training for informal sector operators in Dar es Salaam (draft) | C. Lwoga |
| * A report on business management training for ILO/INTERDEP | Joel Chadabwa for SIDO/SICATA |

**Working conditions**

| * A study for the implementation of occupational health and safety strategies | P.G. Riwa and D. Swai |
| * Improvement of occupational health and safety in the Dar es Salaam informal sector | D. Swai |
| * Provision of occupational health services for the informal sector — Training for first aiders and health-care providers — A test of strategies | P.G. Riwa |

**Social protection**

| * Social protection for the IS: Health-care services provision and health insurance schemes | A.D. Kiwara |
| * Social protection scheme for informal sector cooperatives in Dar es Salaam | M. Laiser |
| * Health insurance for the informal sector (policy paper) | A.D. Kiwara |
| * Social protection for the informal sector: Health-care services provision and health insurance schemes — A project report | A.D. Kiwara |
| * Health protection for the informal sector: Pilot projects for Dar es Salaam | W. van Ginneken |

**Informal sector self-help organizations**

| * Self-help organizations in the informal sector of the Dar es Salaam region | P. Wenga et al. |
| * Informal sector clusters | C.M.F. Lwoga |
* Institutional linkages between trade unions and informal sector associations in Ghana

F.A. Parry

**Metro Manila**

* The International Labour Organization (ILO) project on the informal sector in the Philippines: Report of the preparatory consultancy

S. Endaya

* Report on the inception mission to Metro Manila

S.V. Sethuraman, M. Allal and R. Hussmanns

* New challenges and opportunities for the informal sector — Background notes for the seminar (28-29 November 1995)

Joshi

* An overview of ILO interdepartmental activities in Metro Manila

* Minutes of the Symposium on new challenges and opportunities for the informal sector (28 November 1995)

Informal sector statistics: Coverage and methodologies

NSO

* Urban informal sector survey 1995 — Interviewer manual

Legal and regulatory framework: Nature, impact and need for reform

R. Ofreneo

* Informal sector: Labour law and industrial relations aspects

* Formalization through business registration

L. Roaring

* Process of formalization and informalization

Morato

Productive resources and markets: Access to financial services, skill training, technology sources and markets

L. Roaring

* Subcontracting in Metro Manila: Operations and perspectives

R. Chua

* A survey of micro-finance institutions
People with disabilities in the urban informal sector

Feasibility study for the establishment of a common facilities centre in Marikina for footwear and leather goods manufacturers

Corporate strategy for the workers' mart

Report on community-based entrepreneurship and employment promotion for people with disabilities in Marikina

Food sanitation and entrepreneurial skills in the informal sector — Final report (documentation of the training programme, training manual and recommendations on improvement and replication)

Working conditions

Snapshot of working conditions in the urban informal sector

Copperfield: Child workers in shoe manufacturing activities in Marikina

Promoting occupational health and safety for informal sector workers in partnership with community volunteer health workers — Literature review and action research

Promoting occupational health and safety for informal sector workers in partnership with community volunteer health workers — Assessment and recommendations

Improving working conditions in the informal sector — Background paper to be presented at the November symposium

Training documentation on promoting occupational health and safety for informal sector workers in partnership with community health workers

Dummy for an OSH comics
* Terminal report on community-based child-care centres for women in the informal sector (including end-of-project report, training report, list of participants, seminar kit)

* Urban poor women as care-giver and breadwinner — A report on the urban poor women child-care arrangement

Social development index

* Social protection schemes in the informal sector

R. Clara et al. for the Workers' Fund/KMPI

* Final report on: Information drive on the SSS, PAG-IBIG and cooperativism among Marikina-based shoe workers

M. Cruz for the National Confederation of Labour

Informal sector self-help organizations

* A study of self-help associations (including case-studies)

G. Llanto et al.

* A survey on self-help associations

L. Espinoza

Bogota

* Informe de avance sobre las actividades relaizadas hasta diciembre de 1995

Carlos Maldonado (4 de diciembre de 1995)

* Encuesta al sector informal en Santafé de Botogá — Manual del encuestador

DANE

Informal sector statistics: Coverage and methodologies

* Informe final de resultados de la encuesta al sector informal en Santafé de Bogotá

DANE (Departamento Administrativo Nacional de Estadística)

Legal and regulatory framework: Nature, impact and need for reform

* Legislacion laboral y sector no estructurado

M.E. Pacheco Restrepo
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* Authors: Luis Angel Moreno Diaz, Elsa Marcela Hernandez, Camilo Gonzalez Posso, Julieta de Villamil, Esperanza de Monterroja, Julian Eljach Pacheco, Gilberto Baron, y Lothar Witte, Alvaro Suarez Rivera, Silvia Bello Ramos, Ines Useche de Brill, M. Julio Cely Martinez, B. Herrera and J. Galindo
* Platform for action for trade unions with regard to IS by three national and one city-level union

General

* Informal sector statistics: Coverage and methodologies
  R. Hussmanns

* Informal sector survey, objectives and methodologies
  R. Hussmanns

* Informal sector data collection — International standards and national experiences
  R. Hussmanns

* ILO’s assistance on methodologies concerning informal sector data collection (international seminar in Islamabad) (September 1995)
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Role of the informal sector: Determinants of stagnation, growth and transformation

* The urban informal sector: A note on concept and definition
  S.V. Sethuraman

* Incorporating the informal sector into the macroeconomic information base: Some definitions and conceptual issues
  P. Bangasser

Legal and regulatory framework: Nature, impact and need for reform

* The applicability in the urban informal sector of international labour Conventions dealing with basic social rights, child labour and general principles of occupational safety and health: An overview
  M. Ndiaye

* The applicability of international labour standards in the informal sector
  NORMES (C. Schlyter revising and summarizing Ndiaye), July 1995
Productive resources and markets: Access to financial services, skill training, technology sources and markets

* Economic linkages for promoting the informal sector  
  P. Bangasser

* Franchising as an "integrating" approach to the informal sector: Some preliminary ideas  
  P. Bangasser

* Public services franchising to the informal sector  
  P. Bangasser

Social protection

* Social security for the informal sector: Issues, options and tasks ahead  
  W. van Ginneken