THE INFORMAL ECONOMY AND DECENT WORK: A POLICY RESOURCE GUIDE

SUPPORTING THE TRANSITION TO FORMALITY

An Overview

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Why a Policy Resource Guide?

The ILO’s mandate and vision is to promote Decent Work for all who work, irrespective of where they work. For the many millions of workers and entrepreneurs in the informal economy around the world Decent Work remains an elusive goal. They may be unprotected and unrecognized by labour law, lacking access to social protection, unable to defend their basic rights in the labour market and very often unorganized and without representation. Their working conditions are often poor – unsafe, insecure, with long working hours, low productivity and low incomes. In many cases there is a strong link between informality, poverty and social exclusion.

The informal economy continues to grow around the world, driven by a range of factors, and is sometimes even impervious to strong economic growth. Informality affects all labour markets though in different degrees and its particular manifestation is specific to country contexts. It generates high economic and social costs for economies, enterprises and individuals.

The ILO has been leading work on informality since the early 1970s. In 2002, a major breakthrough at the International Labour Conference provided an opportunity to systematically address the phenomenon. It recognized the diversity and heterogeneity of the informal economy and broadened the understanding of the phenomenon to encompass

‘all economic activities or economic units that are – in law or practice – not covered or sufficiently covered by formal arrangements,’

Importantly, the ILO tripartite constituents at the conference set in place a comprehensive platform of action to meet the objective of moving out of informality. This comprehensive approach, grounded in the four pillars of Decent Work: Employment, Social Protection, Rights and Social Dialogue, has been the focus of the ILO’s work since 2002.

What has become clear from ILO’s technical assistance to constituents is that there is a great demand for single package that brings together the various dimensions of an integrated approach which takes into account multiple policy dimensions and the heterogeneity of situations and country contexts.

This Policy Resource Guide is designed to meet that demand.

What does the Policy Resource Guide contain?

Consisting of 28 technical briefs across nine thematic policy areas, it draws on the rich experience of the work of governments, employers’ and workers’ organizations in promoting the transition to formality. It has been developed through the collaboration of a number of ILO departments and specialists.

Presented in a user-friendly format, the Policy Resource Guide includes:

- Conceptual issues
- Analytical debates and differing theoretical interpretations
- Policy challenges
- Policy innovations
- Tools and Resources

Who is the intended audience?

The Guide has been designed to assist policy makers and social partners in their work to develop effective strategies to encourage the move out of informality. But it will also be of use to labour market specialists, development practitioners, academia, media and NGOs.
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Part I: Introduction:  
key concepts of informality and the challenges of data collection

Section 1

Decent Work and the Informal Economy:  
key conceptual issues

The informal economy has been subject to much policy debate and research for several decades. Early theories depicting it as a temporary phenomenon - which would dissipate as economies grew and absorbed the surplus labour within it - have given way to more modulated views in light of its growth and persistence in both developing and developed countries. In 2002 there was a significant shift away from the narrower terminology of informal sector, with the International Labour Conference Resolution concerning Decent Work and the Informal Economy. The Resolution underscored the scale and scope of informality – recognizing that it is an economy-wide phenomenon covering a range of sectors and actors in any given country. It also includes casualized and precarious work in the formal economy. While recognizing the resilience and dynamism of workers and entrepreneurs in the informal economy, the Resolution set out a framework for addressing their vulnerabilities. This comprehensive and integrated framework across the Decent Work pillars has the ultimate objective of supporting the transition to formality by bringing the informal economy progressively into formal channels of protection and support, while preserving existing dynamic potentials.

This section of the Policy Resource Guide sets out key issues, debates and concepts behind the analytical discussions on the informal economy. It explains: what is the informal economy, who is in it, what are the main drivers of informality and also details the elements of an integrated approach to move out of informality.
Section 2

Measurement of the Informal Economy: addressing statistical challenges

This section takes a closer look at the challenges involved in capturing the informal economy statistically. It examines what is taking place in terms of the application of new concepts and definitions; where concepts are weak and how certain groups may be excluded; finally it describes some innovative responses from the international statistical community aimed at improving our understanding of the numbers of persons engaged in the informal economy.

Given the scale of informality around the world, countries need reliable accurate and country specific information to develop effective policy responses. Since the 1970s when the terms 'informal sector' became widely used, efforts have been made to come up with clear cut definitions that lend themselves to statistical estimation. The informal sector as a concept has been elusive not only as a category given its many possible associations, but also as a traceable entity given its mobility and lack of visibility. Moreover it was increasingly recognized that employment in the informal sector represents only one aspect of informality. There are also aspects of informality in the formal sector – precarious, irregular and casual work, for example.

Thus a broader concept of informal employment was established at the 2002 International Labour Conference. In 2003 the 17th International Conference of Labour Statisticians approved “informal employment” as a concept and provided detailed categories to capture the phenomenon.

These major innovations by the international statistical community have significantly improved the potential to generate better quality data on informality at the national level as well as at regional and global levels. The challenge remains to promote better understanding of the new statistical concepts and to guide countries in their practical application.
Part II: 
Policies to support the transition to formality

Section 3

■ Growth Strategies and Quality Employment Generation

The informal economy grows in times of economic crisis, but what is more surprising is that it may grow even in periods of robust economic growth. In the same way that it has become well recognized that economic growth on its own is insufficient to reduce poverty, it has also become clear that economic growth on its own cannot curb informality. What is needed is an examination of types of economic growth strategies and patterns of distribution which can either increase or decrease informality.

Analysis of economic growth has shown that for growth to be sustainable, inclusive and pro-poor it needs to be generated in an environment conducive to the creation of productive employment and quality employment. An employment focused approach to growth needs to be based on appropriate interventions to reduce poverty and informality and extend social protection.

This section explores the complex relationships between economic growth and informality. It establishes the importance of employment policies as the key link between growth and poverty reduction and the critical role that redistributive mechanisms and an integrated policy approach can play in curbing informality and increasing formal employment. The section makes the case for the importance of job-rich, inclusive and pro-poor growth strategies and explicitly targeted and integrated approaches for reducing informality.
Section 4

The Regulatory Framework and the Informal Economy

Informality is primarily an issue of poor governance – including weak legal and institutional frameworks and fragmentary and ineffective implementation of laws and policies. Bringing the multitude of workers and enterprises within the informal economy under the protection of the law would be a major step towards Decent Work.

Since its inception the ILO has always affirmed that all those who work have rights at work, irrespective of where they work. International Labour Standards (ILS) set the framework for the application of rights at the national level. They are essential not only from a human rights and social justice perspective but also because they also have profound economic and social benefits. Many benefits derive from ILS. They provide a path for decent work, an international legal framework for a fair and stable globalization, a level playing field that contributes to avoid a race to the bottom, a means of improving economic performance, an important safety-net in times of economic crisis and a strategy for reducing poverty.

The section on Regulatory environment covers several technical briefs in the Policy Resource Guide. It includes briefs on International Labour Standards and their relevance to the informal economy; understanding the employment relationship and its impact on informality; strategies for transforming undeclared work into regulated work; several sections on different groups within the informal such as domestic workers and homeworkers; as well as sections on innovations in outreach for labour inspection and labour administration.
Section 5

**Organization, Representation and Dialogue**

The organization and representation of informal economy actors remains a major challenge. At present informal economy workers and entrepreneurs are either excluded or underrepresented in both employers’ and workers’ organizations, in some cases because this is because they are considered neither employers nor workers. Vulnerable groups such as youth, women, disabled persons, ethnic minorities are amongst those with the lowest levels of organization. Among the many challenges are legal restrictions: democratic, independent, membership-based organizations of actors in the informal economy may sometimes not be allowed to operate under local or national legislation. In other cases the dispersed, diverse, hidden and sometimes clandestine nature of the work poses serious obstacles to organization. This serious representational gap reinforces the lack of other legal and social protections.

Representational security for membership based organizations of informal economy workers and entrepreneurs is a vital tool in the transition to formality. It strengthens bargaining power and enables those in the informal economy to participate in collective bargaining, negotiation with relevant authorities, and opens opportunities for the full enjoyment of a range of rights.

Social dialogue is essential to ensure good governance and the democratization of policy making on the informal economy. Governments have a key role to play in creating an enabling environment for social dialogue within the informal economy. A supportive legal environment which establishes the rights of freedom of association and collective bargaining of all workers and employers, irrespective of where they work, is a cornerstone of this enabling environment. Beyond ensuring these rights, the state must also provide avenues and mechanisms for dialogue including at the national policy level. It is through these democratic mechanisms that effective and sustainable solutions to formalizing the informal economy can be found which can bring the many millions of workers and entrepreneurs currently without voice and representation, into the mainstream of economic and public life.

Trade unions, employers’ organizations and cooperatives have been stepping up to the challenges of organizing informal economy actors. This thematic section within the Policy Resource Guide covers a number of briefs which looks at both the challenges and the many innovations in organizing strategies which have been adapted to specific groups and sectors.
Section 6

Promoting Equality and Addressing Discrimination

Labour market discrimination pushes many vulnerable groups into the informal economy. Unable to find work in the formal economy, many groups such as poor women, youth, disabled persons, migrant workers and ethnic minorities often end up in the informal economy.

The gender dimensions of the informal economy reveal that women tend to be in a much more marginalized position in the informal economy than men. Amongst data revealed in the 2002 ILC discussion on Decent Work and the informal economy were these facts:

- Women are more likely to be in the informal economy than men
- Women tend to be concentrated in certain highly vulnerable segments, making up 80 percent of more of homeworkers (industrial outworkers) and the majority of domestic workers.
- The link between working in the informal economy and being poor is stronger for women than men, not only because of their concentration in the survivalist sections of the informal economy but because of significant wage gaps even where they do the same work. In the higher income segments of the informal economy, women tend to be engaged in smaller scale operations with less growth potential compared to those performed by men.
- Women are more severely constrained by their domestic responsibilities than men. Unpaid work in the home acts as a serious barrier to earning an income, confining many women to low income activities compatible with their household work.

It is therefore critical that policies to move out of informality address the gender dimensions of informality. A gender mainstreaming approach (in which policies take into account the different needs, experiences and impacts on women and men) may need to be accompanied by a gender specific approach (a temporary and targeted approach to overcome the entrenched disadvantage of one sex) where relevant.

Similarly policies need to be inclusive of other disadvantage groups such as the disabled, youth, migrants workers, tribal groups and others. This section on Promoting Equality covers a number of technical briefs examining the types of inclusive approaches and policies which have succeeded in bringing these groups towards the mainstream economy.
Section 7

Entrepreneurship, Skills Development, Finance

This section covers a number of technical briefs including on informal enterprises, skills development and microfinance.

One of the largest sources of employment for men and women in developing countries is in enterprises. Many of these enterprises however are in the informal economy. This lack of compliance with legal and regulatory frameworks often means they are unable to access the supports and services they require. This affects their profitability, sustainability as well as the quality of employment provided by their workers. Enterprises of all sizes exist in the informal economy and are found in all sectors. Policy makers need to take this diversity into account in developing strategies to encourage the move out of informality. Moreover they need to develop the sorts of incentives structures (such as streamlined procedures for registration, tax breaks and graduated tax systems, access to training, business services, credit, markets, public contracts, productive resources among others) which make the registration and formalization of enterprises attractive for entrepreneurs. The brief on entrepreneurship looks at examples and strategies which have supported the move out of informality for enterprises.

Access to skills training can be an important avenue for accessing the formal economy. This technical brief on skills and employability looks at the ways that existing skills training providers have reoriented their services towards the informal economy, as well as the strengthening of informal training mechanisms such as apprenticeships. It covers a range of issues including rebalancing supply and demand for skills and making skills training more relevant to informal economy actors; the recognition of skills gained informally; developing incentives for encouraging formalization; and ensuring flexible delivery and training methodologies.

Microfinance has been an important plank in poverty alleviation strategies. Its role in encouraging the move out of informality has been less well analyzed. But evidence is accumulated that microfinance can support the transition to formality both at the supply and demand side, through appropriate regulatory and supervisory frameworks and through targeting and incentives for clients. This technical brief on microfinance provides innovative examples from around the world on strategies to support the transition to formality.
Section 8

Extension of Social Protection

The lack of access to social security is one of the defining characteristics of the informal economy and a critical aspect of social exclusion, particularly because of the high exposure to risks, as well as income and job insecurity.

Extending social security to the informal economy is one of the essential ways to progress towards formality and Decent Work. Social security is well-established as a universal right. But social security is also a fundamental means of reducing poverty and social exclusion and promoting social cohesion. A growing body of evidence in developing countries shows the important contribution that social security can make in improving access to health, education, and productive opportunities, reducing child labour and facilitating the participation of the poorest members of society in the labour market.

Different types of instruments – often in combination - are being adapted in numerous countries to extend the reach of social protection to the informal economy. These instruments have been adapted to specific groups and/or are part of universalist schemes. Among the successful strategies have been extending coverage of labour-based social insurance, setting up national health insurance, promoting micro-insurance schemes, and launching tax-finance non-contributory schemes such as conditional and non-conditional cash transfers. Evidence from numerous countries discussed in the text shows that extension of social security into the informal economy is affordable even by low income countries.

In addition to the technical brief on social security, this section on Social Protection covers briefs on childcare, maternity provision and HIV/AIDS and the informal economy.
Section 9

**Local (urban and rural) Development Strategies**

Local development strategies – integrated participatory approaches anchored in social dialogue, can generate comprehensive and localized responses to support informal economy workers and entrepreneurs. Local development strategies offer important support to the transition to formality. Local government units represent the first level of contact and engagement for actors in the informal economy. Local development by definition brings together a host of policy areas that affect the working and living conditions of the informal economy and therefore has potential to translate integrated approaches to support formality from the national level to the local level. Among the many strategies and instruments at the disposal of local authorities to encourage the move out of informality are:

- increasing inward investment and local procurement;
- encouraging employment-intensive methodologies in infrastructural development;
- upgrading value chains;
- expanding social protection measures;
- strengthening public-private partnerships;
- streamlining zoning regulations and business registration;
- facilitating market access;
- strengthening social dialogue mechanisms; and
- targeting vulnerable groups such as youth and poor women.

The text of this section looks at examples from around the world where encouraging the transition to formality at local level has resulted in a more dynamic local economy that is economically and socially inclusive, and which has been able to generate revenues and investments that can be channeled back locally.
This Policy Resource Guide was developed through the collective effort of a number of ILO departments and specialists.

The full Policy Resource Guide is available both online and in hardcopy. It will be regularly updated as policy innovations evolve and new technical briefs are added. It can be found via the ILO Employment Policy Department website at http://www.ilo.org/emppolicy/lang--en/index.htm

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