The dilemma of the informal sector

Report of the Director-General (Part I)
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INTRODUCTION

In selecting the informal sector as the theme of my Report to the 78th Session of the Conference, I am aware that I am venturing into relatively unexplored and controversial territory.

It is relatively unexplored because, in spite of a considerable amount of research and data-gathering, our understanding of what the informal sector is, why it is there and how it operates is still far from adequate. It is significant that, even after two decades of investigation by scholars and international civil servants, there is still no generally accepted definition of the term “informal sector”. All that we know for certain is that it exists.

It is controversial because there are many different viewpoints from which one can observe the informal sector. It can be viewed in a positive way as a provider of employment and incomes to millions of people who would otherwise lack the means of survival. It can be viewed more negatively as a whole segment of society that escapes regulation and protection. It can be romanticised as a breeding ground of entrepreneurship which could flourish if only it were not encumbered with a network of unnecessary regulation and bureaucracy. It can be condemned as a vast sea of backwardness, poverty, crime and insanitary conditions. Or it can simply be ignored.

If I am taking the risk of proposing this complex and controversial subject as a central theme of discussion at the Conference, it is because I feel that it is high time to have a full airing of views among the ILO’s entire membership on the problems to which it gives rise. It can no longer be ignored. It raises many issues of fundamental importance to the ILO; and it presents a dilemma for the ILO and its
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member States. The dilemma, put simply, is whether to promote the informal sector as a provider of employment and incomes; or to seek to extend regulation and social protection to it and thereby possibly reduce its capacity to provide jobs and incomes for an ever expanding labour force. Do we have to make a choice between these two objectives, or is there some way of reconciling them and pursuing both simultaneously?

Chapter 1 of the present Report is an attempt to describe the concept of the informal sector. This is in itself a hazardous undertaking, but it seems an essential first step to establish what the Report is about.

Chapter 2 elaborates on the dilemma that the informal sector presents to policy-makers and suggests how the dilemma should be approached.

Chapter 3 suggests some possible elements of a strategy to resolve the dilemma.

Chapter 4 suggests how the ILO and its tripartite membership should respond to the challenge.
WHAT IS THE INFORMAL SECTOR?

One of the ILO's most distinctive contributions to development thinking has been the concept of the "informal sector". The first appearance of this term in an official document was in the report of the ILO's comprehensive employment mission to Kenya which visited that country at the request of its Government in 1972.¹ One of the mission’s main findings was that, in a developing country like Kenya, the main employment problem was not unemployment, but the existence of large numbers of "working poor", many of them working very hard indeed in the production of goods and services, but whose activities were not recognised, recorded, protected or regulated by the public authorities. This phenomenon was defined in the report as the informal sector. The mission suggested that certain informal sector activities, if given a modicum of support and legal protection, had the potential to offer more, and more secure, employment.

This important finding has given rise to a large amount of research, data-gathering and promotional activities during the past 20 years, much of it by the ILO itself or under its auspices. While this work has contributed to a fuller understanding of the phenomenon of the informal sector in different national and cultural contexts, it has so far proved impossible to reach a clear and generally accepted definition of the concept. There is far from universal agreement on what constitutes an "informal" activity or what distinguishes it from a "formal" production unit. Indeed, there continues to be some controversy as to whether the concept is useful or appropriate either for
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analysis or for policy-making, or whether the phenomenon that it describes can in any way be called a “sector”.

I would merely note that the term “informal sector” is now widely used and accepted and is found not only in academic literature but also in many official documents and policy statements. And while there has been, and will no doubt continue to be, disagreement on precisely what types of activities and what categories of workers it covers, there does at least seem to be some common understanding about the main characteristics of the informal sector and where the main issues lie.

The term “informal sector” will in this Report be understood to refer to very small-scale units producing and distributing goods and services, and consisting largely of independent, self-employed producers in urban areas of developing countries, some of whom also employ family labour and/or a few hired workers or apprentices; which operate with very little capital, or none at all; which utilise a low level of technology and skills; which therefore operate at a low level of productivity; and which generally provide very low and irregular incomes and highly unstable employment to those who work in it. They are informal in the sense that they are for the most part unregistered and unrecorded in official statistics; they tend to have little or no access to organised markets, to credit institutions, to formal education and training institutions, or to many public services and amenities; they are not recognised, supported or regulated by the government; they are often compelled by circumstances to operate outside the framework of the law, and even where they are registered and respect certain aspects of the law they are almost invariably beyond the pale of social protection, labour legislation and protective measures at the workplace. Informal sector producers and workers are generally unorganised (although informal local associations of those engaged in specific activities may exist), and in most cases beyond the scope of action of trade unions and employers’ organisations. Being unorganised, beyond the protection of the law, and working at very low levels of productivity and income, they generally live and
work in appalling, often dangerous and unhealthy conditions, even without basic sanitary facilities, in the shanty-towns of urban areas.

Beyond these generalisations, it has to be recognised that the informal sector manifests itself in different ways in different countries, in different cities within the same country, and even in different parts of the same city. It is important for the purposes of policy-making to recognise the very considerable heterogeneity of the informal sector. It consists both of enterprises that employ labour, and of activities performed by only one person. At one end of the spectrum of informal sector activities is the relatively thriving small-scale manufacturing enterprise; at the other end are street vendors, shoe-shiners and other individuals engaged in petty service activities whose incomes barely enable them to survive. In between these two extremes are a whole range of (primarily service) activities such as informal transport services, small shops, laundries, etc. There are very considerable inequalities in the sector. Most people engaged in it, but not all, are very poor; some are quite destitute while others earn incomes that are higher than the minimum wage in the formal sector.4

Even though, as noted earlier, average capital requirements are low, some informal sector activities such as small workshops or taxi services require some capital; others, such as street vending, may require very little or none at all.

In spite of their heterogeneity, however, what all informal sector activities have in common is their vulnerability. Their vulnerability is due to the fact that they have to rely as best they can on self-supporting and “informal” institutional arrangements which operate separately and independently of the institutions of the modern economy. Lacking, for instance, access to the modern capital market, informal sector enterprises have to obtain credit from other sources, and often on much more unfavourable terms. Lacking access to formal training institutions, they acquire skills through their own, informal, apprenticeship schemes. Lacking access to official social security schemes, they have to rely on family or group solidarity or on unofficial organisations.
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Their vulnerability is due also to the fact that to a large extent they operate beyond the law, and receive little or no legal protection. This deprives them of the right to appeal to the courts for contracts to be enforced or to claim security of tenure. But the "illegality" of the informal sector with which we are concerned in this Report has nothing to do with criminal activities. If informal sector activities are in any way "illegal", it is because they are unable to comply with existing regulations. Compliance with all regulations would impose an impossible financial burden on the micro-enterprises and the poor households of the informal sector. Another way of looking at the problem is that certain laws and regulations are quite irrelevant to the needs and conditions of those whose only means of livelihood is to be found in informal sector activities, and, by raising the cost of formal activities, may in some cases have been such as to force people into the informal sector. The dilemma that the so-called "illegality" of the informal sector presents to policy-makers will be examined elsewhere in this Report. The point to be made at this stage is that the existence of an informal sector on the fringes of the law has often led public authorities to confuse it with criminal activities, and therefore to subject it to harassment and repression.

However, in spite of its segmented, precarious and semi-legal existence, the informal sector cannot exist in total isolation from the modern sector. Although it largely serves markets which the modern sector is too inflexible or too high cost to reach, modern sector workers are informal sector customers. The informal sector also constitutes a huge "labour reserve" on which the modern sector can draw in times of expansion, or to which labour can be returned in times of contraction. However, the nature of formal-informal sector relations varies. Some informal sector enterprises are highly dependent on modern enterprises for inputs; but modern sector enterprises can function as monopolies which raise the price of the inputs required. Others may act as subcontractors to the modern sector, but their weak economic power makes them vulnerable to exploitation by modern enterprises. Other activities, consisting of jobs performed on
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an individual basis, are likely to be less directly linked to the formal sector, although even apparently independent street vendors have sometimes been found to be part of well-organised commercial networks controlled by large-scale modern enterprises.

Thus, the informal sector is vulnerable to the, at best, ambivalent and, at worst, hostile attitudes of public authorities, as well as to changes in the strategies of formal sector enterprises. Furthermore, informal sector workers can be among the most vulnerable to a general downturn in the economy, since they have no social safety net to protect them or (except in very few cases) savings to fall back on. On the other hand, the products they sell are often necessities whose market share rises in a recession.

Within this vulnerable sector, two groups stand out as being particularly vulnerable: women and children. Women are disproportionately represented in the informal sector partly because they are under-represented in the formal sector. Discrimination against women in the formal sector, due in large measure to the perceived higher costs of employing women, leaves many of them no alternative but to seek employment in the informal sector, where in any event many stereotyped-female occupations are located. Data available in a number of countries show that women generally account for a third, or more, of total informal sector employment; and that half, or more, of total women’s employment is in the informal sector. Moreover, within the informal sector, they tend to be concentrated in the most precarious and lowest paid forms of employment. A large majority of them are found in petty trading and service activities where it is possible to start an activity with little or no capital and little or no skills. Many also work at home, performing piece-rate work for manufacturing enterprises – a hidden form of employment which is particularly vulnerable to exploitation but which, because it is invisible, is hard to quantify.

The plight of children in the informal sector is perhaps the most tragic aspect of the problem. Although child labour is prohibited in the legislation of most countries, millions of them are working, often
in the most deplorable and hazardous conditions, in the informal sector – and sometimes clandestinely in the formal sector as well. They work in small manufacturing establishments, where their docility and dexterity are highly appreciated, but where they can be most severely exploited, often working long hours and in dangerous conditions for a pitifully low wage; or they may work in a family unit; or as “self-employed” in the streets, shining shoes or selling cigarettes. Children can be subjected to the most extreme and degrading forms of exploitation such as prostitution, or, in some countries, tied or bonded labour, where children are hired out by their families in settlement of debts. Whatever form it takes, child labour is an extreme manifestation of poverty, since the poorest families have to rely on their children’s labour in order to survive; but it also results in a perpetuation of poverty, since it prevents children from acquiring the education and skills that would equip them for better employment, and better paid jobs, in their adult life.

WHY DOES THE INFORMAL SECTOR EXIST?

The persistence of the informal sector is due to the inability of the other sectors of the economy – agriculture or other rural activities on the one hand, and modern industry and services on the other – to provide adequate incomes or employment opportunities to a rapidly growing labour force. The steady stream of migration from rural to urban areas which has taken place, without interruption, during the past three or four decades has resulted in the well-known phenomenon of an unprecedented rate of urbanisation, with all the problems of congestion that it entails in the developing world. The urban population in low-income countries increased from 17 per cent of total population in 1965 to 35 per cent in 1988, and from 42 to 58 per cent in middle-income countries. At the same time, many urban-based modern activities have been unable to absorb more than a fraction of the burgeoning urban labour force, as they produce
goods which require relatively capital-intensive technologies imported from the industrialised countries.

Those excluded from employment in the modern sector constitute a large labour surplus. Since the workers concerned cannot afford to be unemployed for any length of time, they have to create for themselves activities which can provide them with an income, however meagre, in order to survive. The informal sector has been described as a huge "labour sponge", with an almost infinite capacity to absorb those who are at any time excluded from modern sector activities. Thus, ease of entry is often said to be a main feature of the informal sector, in sharp contrast to the modern sector where entry barriers are higher. But not all informal sector activities are so easy to enter; some require a certain amount of capital (e.g. in order to start up a small workshop), and those entrants with little or no capital or skills concentrate in the least remunerative activities and seek casual work where they can. The more their numbers swell, the more their average income contracts.

Viewed in a historical context, there is nothing new about this phenomenon. Since the very beginnings of urban civilisation, towns and cities in different parts of the world have attracted people from rural areas who have attempted, with more or less success, and often in a hostile environment, to carve out a niche for themselves in urban societies as craftsmen, tradesmen, hired labour or providers of petty services. What is new and different about the informal sector in developing countries today is, firstly, the scale of the phenomenon due to the unprecedented growth of the urban labour force; and secondly the fact that it is taking place in a cultural context which values sophisticated products and technologies.

For some time, it was generally assumed that this informal sector was a transient phenomenon, a vestige of the past, which would gradually disappear as the modern sector grew and absorbed more labour. For that reason little attention was paid by policy-makers to the large and increasing numbers of people engaged in the informal sector. But the assumption that sooner or later informal sector workers would
find jobs in modern enterprises has not been borne out by the facts. Thus, even during the 1970s, which was a period of rapid growth in the relatively industrialised Latin American region, the share of informal sector employment in the total labour force is estimated to have increased from some 17 to over 19 per cent, and the numbers of people employed in that sector increased by 3.7 per cent per annum in the region as a whole.\textsuperscript{6} There are indications of similar trends in other developing regions.

Other more recent developments have resulted in the further growth of the sector. The recession of the 1980s, and the adjustment policies followed in many developing countries, have resulted in its further expansion, as modern sector enterprises, and especially the public sector which is a large employer of labour in most developing countries, were obliged to shed labour or reduce wages drastically. The workers affected, having no unemployment insurance or other forms of income maintenance, have had no alternative but to resort to the informal sector. To take again the example of Latin America, between 1980 and 1987 informal sector employment is estimated to have risen by 56 per cent, while total non-agricultural employment rose by 30 per cent. At the same time, average informal sector incomes in that region are estimated to have declined during this period by some 8 per cent.\textsuperscript{7} In sub-Saharan Africa between 1980 and 1985 employment in the informal sector is estimated to have increased at an annual rate of 6.7 per cent. During this period the modern sector absorbed only 6 per cent of the new entrants to the labour force, as compared with some 75 per cent by the informal sector.\textsuperscript{8} The absorptive capacity of the “labour sponge” is being put to a severe test.

Moreover, the process of industrial restructuring in the formal sector has resulted in a greater decentralisation of production through subcontracting. The pressure to reduce costs and to find more “flexible” production methods implies that fewer new jobs are being created in large-scale modern enterprises, and that an increasing number of operations are carried out by subcontractors — many of
them in the informal sector. A positive way of looking at this trend is that it gives greater opportunities for employment, and for higher incomes, in the small enterprises of the informal sector. It can also be looked upon as a means by which technological improvements can be transmitted from the formal to the informal sector. But it also results in greater deregulation and casualisation of work that was formerly performed by the "core" workers of formal sector enterprises.

For all these reasons, there is no longer any cause to believe that the informal sector is a transient phenomenon that will spontaneously fade away in the foreseeable future as jobs are created in the modern, regulated, formal sector. On the contrary, there is every reason to believe that a large and probably increasing segment of the labour force in most developing countries will be engaged in the informal sector for very many years to come.

Today, it is a source of employment (however unstable and precarious) and of incomes (however meagre) for very large numbers of people. In Latin America some 30 million people are working in the informal sector. In sub-Saharan Africa the informal sector accounted in 1985 for about 60 per cent of the urban labour force. In Asia that proportion varied during the 1980s between 40 and 66 per cent according to the country. At a very rough guess, it may be estimated that total informal sector employment in the developing world could be of the order of 300 million.9

Moreover, the informal sector contributes significantly to total output. Data available from several countries show that its contribution to GDP varies from 5 to 35 per cent.

IS THE INFORMAL SECTOR A UNIVERSAL PHENOMENON?

The characteristics of the informal sector outlined above refer primarily to the developing countries. Even among developing countries, there are quite substantial differences between, for instance, the
relatively urbanised and industrialised countries of Latin America and the predominantly rural societies of Africa where urbanisation is a much more recent phenomenon and where industrialisation is still at a very early stage. But to what extent can the informal sector, as outlined above, be said to exist in developed countries?

At first sight there seem to be a number of similarities. Developed countries also have pockets of urban poverty, with often fairly large numbers of people engaged in poorly remunerated marginal activities. Many developed countries have a large “underground economy”, and various forms of unregistered (or “black”) labour. And the trend towards deregulation, and a greater decentralisation of production, made possible by technological changes and induced by the efforts of enterprises to cut costs in the face of increased competition, has resulted, in developed as in developing countries, in greater recourse to subcontracting, in greater casualisation of labour and, to some extent at least, in lower levels of social protection for the workers concerned.

In the countries of Eastern Europe which are engaged in the difficult process of transition from a planned to a market economy, similar phenomena could arise in the future, and may indeed already exist, given their difficult economic circumstances.

Nevertheless, in spite of certain similarities, there are also quite evident differences in the structural, technological and institutional context in which these problems occur in developed and developing countries. In the former, there can hardly be said to exist the huge labour surplus which characterises the labour markets of nearly all developing countries. The flight from agriculture is nearly over in most industrialised countries. A labour surplus may exist in certain depressed regions, or among certain underprivileged groups in industrialised countries such as some categories of migrant workers and their families, and racial minorities; and some of the population concerned may be forced into marginal forms of employment similar to those that characterise the informal sector of developing countries. But the scale of the problem is quite different; and the goods and
services provided by the informal sector in developing countries either no longer exist or are provided “formally” in developed countries. With few exceptions, the otherwise marginal groups in developed countries have much greater access to such public services as education, health, transport and other amenities. However much emphasis may be given in some developed countries to “rolling back the State”, the principle of universal access to these basic services and amenities is not called into question. Moreover, most developed countries provide a social “safety net” to protect the most vulnerable groups from destitution. Such a safety net is beyond the capacity of most developing countries.

It is also misleading to equate the underground economy of certain developed countries with the informal sector. Where an underground economy exists, it is generally in order to evade taxes, control and regulation – sometimes perhaps because control and regulation is too bureaucratic and inefficient; but rarely is it a phenomenon associated with survival strategies of the poor as in developing countries.

Finally, while the trend towards deregulation, decentralisation of production and greater recourse to subcontracting may result in less job security and less labour protection for some workers in developed countries, the incomes earned by workers in subcontracting firms or units are generally comparable to those in “regular” employment. Nor is there the large technological gap between subcontractors and large firms that characterises the difference between the formal and informal sectors of developing countries.

There may be problems in developed countries that are in some respects similar to the problems of the informal sector in developing countries. But they arise in a totally different context; and the policy implications of such problems are quite different. For all these reasons, while some of the points made in this Report will be of universal relevance, the emphasis of the analysis that follows will be on the immense and complex challenge of the informal sector in developing countries.
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Notes


2 Many, if not all, of the characteristics of the informal sector mentioned here are also to be found in rural areas – i.e. in traditional agriculture and small rural workshops. However, the context in which these activities occur in rural areas is somewhat different from that of urban areas, and the focus of the present Report will therefore be on the urban informal sector. The Conference had in 1988 an opportunity to discuss the problem as it arises in rural areas. See ILO: Rural employment promotion, Report VII, International Labour Conference, 75th Session, Geneva, 1988.

3 The relevance of the notion of the informal sector to developed countries is discussed further on in this Report.

4 The informal sector is therefore not entirely synonymous with urban poverty. Some formal sector wage earners are in greater poverty than some of the self-employed in the informal sector.


9 All figures in this chapter must be treated with a good deal of caution. Since data between countries and regions are not comparable, they are only illustrative and subject to unknown margins of error.
OBJECTIVES AND POLICY APPROACHES

THE POLICY DILEMMA

Although the informal sector has long been known to exist, and has been the subject of quite intensive investigation and analysis, the attitude of policy-makers to it, as noted in the previous chapter, has been ambivalent, to say the least. They have tended to ignore it, in the hope or the belief that it would go away. Alternatively, they have attempted to suppress it because they could not tolerate the existence of a large section of the urban population working and living on the fringes of legality and of organised society. Or they have subjected it to various forms of harassment — for instance by attempting to clear the streets of unlicensed vendors, by using bulldozers to clear away shanty-towns, or by forcibly moving the people concerned to areas far removed from city centres — because it was inaesthetic, insanitary, a potential breeding ground for crime or social or political unrest, or simply an uncomfortable reminder that something was wrong with their strategies for “development”.

However, the informal sector has not gone away; it has continued to grow in most parts of the developing world. The widespread belief in the “trickle-down” effect of modernisation — i.e. the belief that it would relatively soon result in the absorption into the modern sector of labour engaged in the low-productivity and low-income activities of the informal sector — has proved to be erroneous, for reasons that were touched upon in the previous chapter. Nor has it proved possible to make it disappear by force, for the simple reason that most of the people involved have nowhere else to go. To return to the rural areas from which they came is not an option for the vast majority of those in
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the informal sector – either because their ties with their rural communities of origin have been broken, or because their prospects of finding stable and adequately remunerated employment in the countryside are even more remote than they are in the cities.¹ To suppress a shanty-town in one area is to invite its reappearance elsewhere – at great human cost to those involved.

There are various reasons why attitudes towards the informal sector have to change, and indeed are beginning to change. One is that it is now more widely realised that the informal sector will continue to exist – at least in the foreseeable future – and that it cannot be made to disappear by coercive measures.

There is also growing national and international concern at the persistence of widespread poverty in developing countries, and a greater understanding of the links between poverty and informal sector employment. The uncertain prospects for economic growth, and the ineluctable certainty of demographic growth, make the search for innovative and more durable solutions to the problem of poverty alleviation more urgent than ever before.

Furthermore, the continued growth of a semi-legal informal sector has demonstrated the limited effectiveness of the legal and regulatory systems. This should sharpen the will of policy-makers to overhaul their regulatory mechanisms – less with a view to enforcing unenforceable laws and regulations, but rather to reviewing the appropriateness of certain laws and regulations themselves. There is, indeed, a growing move towards greater flexibility in regulation. How far this should go is a matter of some debate, to which I shall return below, but there is a growing school of thought which believes that some informal sector workers are the true indigenous entrepreneurs in developing countries and that their productive growth is stunted by excessive and inappropriate intervention on the part of public authorities through redundant regulation and red tape.

Finally, informal sector activities are much less capital-intensive than modern sector enterprises; the creation of a “job” in the informal sector requires only a small fraction of the investment required in the
modern sector. There is also a growing recognition of the role that is played by the informal sector in national economies; it provides needed, low-cost goods and services to urban dwellers and mobilises its own resources to do so. There is therefore an increasingly widespread belief that well-targeted programmes of support to the informal sector can be far more cost-effective in terms of employment promotion, poverty alleviation and output than certain large-scale programmes of investment in and support to the modern sector.

For all these reasons, and perhaps others too, the hitherto neglected informal sector is becoming the object of attention of governments, trade unions, employers' organisations, private foundations and international institutions. A number of governments now include some reference to the informal sector in their development plans and other policy statements, and some have adopted specific measures designed to give it more active support.

However, if these signs of a change of attitude are to result in more than statements of good intention, one needs to consider what objectives to pursue regarding the informal sector. And here we are confronted with a dilemma.

This dilemma is well illustrated by the somewhat contradictory language on the subject contained in Paragraph 29 of the Employment Policy (Supplementary Provisions) Recommendation, 1984 (No. 169), which is the only explicit reference to the informal sector contained in any of the ILO's existing instruments:

29. (1) While taking measures to increase employment opportunities and improve conditions of work in the informal sector, Members should seek to facilitate its progressive integration in the national economy.

(2) Members should take into account that integration of the informal sector into the formal sector may reduce its ability to absorb labour and generate income. Nevertheless, they should seek progressively to extend measures of regulation to the informal sector.

Is it possible to reconcile the two objectives of, on the one hand, facilitating the integration of the informal sector into the national economy and progressively extending measures of regulation to it,
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while, on the other hand, enhancing its capacity to absorb labour and generate incomes?

The central message of this Report is that it is possible to pursue these two objectives simultaneously. The challenge to policy-makers is to attempt to maximise both the employment-creating potential of the informal sector and the degree of social protection and regulation extended to it. The pursuit of these two objectives will involve coming to grips with some difficult policy issues, and will require a broad, comprehensive and innovative approach.

GENERAL APPROACH

There cannot, of course, be a single blueprint for action in favour of a more dynamic informal sector capable of generating more jobs, higher incomes, better conditions and more widespread protection for those attempting to earn a livelihood in it. Not only are there wide differences among countries, and within countries, in the characteristics of the informal sector and in the environment within which it operates, but there are also, as noted in Chapter 1, very substantial differences within the informal sector itself. It goes without saying, therefore, that policies and programmes in support of the informal sector have to take account of the very considerable diversity in the complex reality of that sector. This Report can therefore do no more than suggest some promising approaches to the problem.

In seeking ways of improving the condition of the informal sector and the urban poor in general, the tendency is for governments, as well as public and private agencies, to the extent that they do anything at all, to launch specially targeted programmes to alleviate the worst aspects of poverty, to provide improved basic welfare services or to improve the access of informal sector producers to land, skills, credit, technology and other assets. In this way, it is argued, the productive potential of the informal sector and its capacity to provide more employment and better incomes and living conditions will be increased.
These are certainly important, indeed essential, ingredients of a strategy for the informal sector. But it is unlikely that a targeted approach focusing exclusively on the informal sector itself without doing anything to remove the constraints which hamper its development, or to change the policy environment in which it exists, will succeed. There is a danger that the newly found enthusiasm for the informal sector as a source of employment for surplus labour in urban areas will result only in measures designed to treat the symptoms rather than the real causes of the problem. In other words, if the informal sector is to be integrated into the national economy, it is the whole of the economy, as well as the institutional, policy and regulatory framework within which it operates, and not only the informal sector itself, that needs to be the object of attention. It is the whole strategy of development which may need to be reconsidered and reoriented, since it has resulted in a number of biases which favour urban development and large capital-intensive enterprises. There is clearly a role for large enterprises and modern technology in development. But they can only play this role if there is an institutional environment which permits a dynamic interaction between the “modern” and a revitalised “traditional” economy. Looked at in this light, it is perhaps not only the informal sector, but also the modern sector, that need to be integrated into the rest of the economy.

Similar considerations apply to the issue of regulation. It is clearly out of the question to attempt to apply immediately to the informal sector the full range of existing laws, regulations and standards, including labour legislation, that in principle govern and uphold the activities of the more modern sector. Even if there were a will to do so, and even if the governments of developing countries had the capacity to apply them, informal sector producers are, for reasons given in the preceding chapter, not in a position to comply with the full range of legal requirements. The effect of a purely legalistic approach, an attempt to formalise the informal sector by a stroke of the pen would be simply to marginalise the informal sector still further, to drive it still further underground, and to diminish its
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capacity to provide jobs and incomes to the large and steadily growing numbers of people without modern sector employment.

Part of the problem may therefore lie in the so-called “modern” sector itself, and in the laws, regulations and institutions that were designed primarily for its benefit, but which could in some cases be inaccessible, or even harmful, to the informal sector. Should the aim be to deregulate or to apply certain regulations more flexibly – i.e. to “informalise” the modern sector so as to reduce the gap between it and the informal sector?

There is certainly considerable scope in many countries for amending, simplifying and streamlining regulations and administrative practices which present obstacles to growth and employment in the informal sector. But some regulation is clearly essential for the functioning of society. This is the case for labour standards intended to protect workers. Even if some labour legislation cannot be applied with immediate effect in the informal sector, this is no reason for reducing standards of protection of workers in the modern sector. It would in no way contribute to improving the conditions of those at present engaged in the informal sector.

A strategy which seeks to attain the two objectives of an increased integration of the informal sector into a regulated economy and an enhanced capacity of the sector to generate incomes and employment for larger numbers of people, needs therefore to consist of broad policy and institutional reforms in addition to programmes of direct assistance to the informal sector.

Such a strategy also needs to be based on an improved knowledge and understanding of what the sector consists of, and how it operates. This may seem to be a truism, but it could be one of the most difficult obstacles to be overcome. Having for years been neglected by policymakers, and by many social scientists, and in spite of the recent growth of literature on the subject, not enough is known about the size and characteristics of the informal sector in the towns and cities where it exists. The absence or inadequacy of such an information base are, of course, largely due to the nature of the informal sector itself: to the
extent that informal sector activities are concealed, or at least largely unregistered and unrecorded in official statistics, it is difficult to obtain reliable information on, for instance, what these activities are; how many people are engaged in them; how many of them are women; how many are self-employed, wage earners, apprentices or family workers; the profitability of such activities and the incomes earned from them, etc. Yet without such information, policies or interventions could be ineffective or inappropriate. An important task is therefore to devise simple and inexpensive means of gathering data on the informal sector.

Of quite as much importance as quantitative data on informal sector activities, employment and incomes is the need for a deeper understanding of the needs and problems of those engaged in different parts of the informal sector. There are many preconceived notions about what the informal sector is, and what its needs are, some of which may not correspond at all to the realities of the situation of the sector. And there is therefore a real risk that the current wave of enthusiasm for the informal sector could lead to the launching of well-intentioned programmes which do more harm than good, which are not sustainable, or which at least do not tackle the most pressing problems or constraints facing informal sector operators. For instance, the notion that the sector is a breeding ground of potential entrepreneurs who lack basic management skills could well lead governments or donor agencies to provide large-scale training programmes; whereas the beneficiaries of such programmes may not perceive themselves to be so much in need of training as of better access to credit or raw materials, of greater security of ownership or tenure of the property in which they carry out their activities, or of an improved infrastructure in areas such as housing, water, electricity and transport.

A constantly recurring theme in this Report will therefore be the need for the intended beneficiaries to be associated as closely as possible, through their own groupings or organisations, in the design and implementation of programmes and policies for the informal sector. Indeed, the absence of effective spokesmen for informal sector
producers and workers is one of the main reasons for the persistence of their marginalised, and often exploited, position in society, and for the failure or ineffectiveness of measures intended to improve their conditions. The encouragement of the growth of genuine organisations capable of mobilising solidarity among those who live and work in the informal sector, and of voicing their needs and aspirations, must surely be at the centre of efforts to improve the economic and social conditions of the informal sector. National organisations of employers and workers could have a major role to play in this respect.

It is also necessary to understand the constraints within which the informal sector operates. It has limited access to modern structures and institutions, but has structures and institutions of its own, often based on traditional forms of organisation which have their roots in the past. It has, for instance, its own forms of group solidarity, its own sources of credit, its own means of training and of developing and adapting technology. These structures and institutions work well in the environment for which they were created, and are often more flexible and adaptable to change than those of the modern sector. But they have their limitations. In particular, they have an existence of their own, with few, if any, links to the technologies and institutions of the modern sector, and cannot therefore be relied upon to upgrade informal sector activities. The aim of policy should surely be to base interventions for the informal sector on a recognition of what exists, and to break down, wherever possible, the barriers that separate the structures and institutions of the informal sector from those of the formal sector. Unless a more positive complementary relationship is established between the two sectors there is little scope for evolutionary growth in the informal sector.

But this also implies progressively removing some of the biases in public policy which operate to the disadvantage of the informal sector. Such biases may take several forms and operate against small labour-intensive enterprises. They can take the form of tax exemption, tariff protection and other forms of direct or indirect subsidies to large, and sometimes unprofitable, public sector enterprises, whereas
potentially viable, but much smaller-scale, informal sector enterprises are deprived of any such support. They can take the form of preferential access which large firms may enjoy to capital, foreign exchange and imported inputs, or of pricing policies which favour production technologies and capital goods used by large enterprises. Or they can take the form of unnecessary, and excessively lengthy and costly legal, bureaucratic and administrative obstacles to starting up or operating a business which it is impossible for informal sector operators, with few resources and limited education, to overcome. All these, and many other, biases in public policy and institutions combine to ensure the perpetuation of the poverty, low productivity and marginalisation of a large section of the urban population.

But it is also clear that the disadvantaged position of the informal sector cannot be remedied only by creating a less discriminatory policy environment or by throwing public money at it. It will also require a wide range of special measures to overcome certain inherent weaknesses of the informal sector itself, and to strengthen the productive capacity of informal sector units. Without such measures, it is difficult to see how the informal sector can compete, or establish mutually beneficial complementary relationships, with the modern sector, and thus become more fully integrated into the mainstream of the economy.

However, in designing such special measures, account must be taken of the heterogeneity of the informal sector, which was emphasised in Chapter 1. In particular, for the purposes of designing policies and interventions, it is important to distinguish between, on the one hand, the relatively viable small enterprises in the informal sector which appear to have a potential for growth and employment creation; and, on the other hand, those units – which are usually no more than precarious jobs performed on an individual basis, such as many street-vending activities – which clearly have no such potential. In the former case, promotional measures to assist their growth and development, to develop their access to markets and to improve their productivity, could prove to be a sound investment in economic and social
terms. In the latter case, such promotional measures would be inappropriate; the aim of policy support should be to improve the welfare of the individuals involved, and their access to other, more productive employment, rather than to develop the activities they perform.

With these general considerations in mind, the next chapter will suggest some elements of a comprehensive strategy for the informal sector.

Note

1 A return to rural areas may be much more of an option for recent migrants, and may take place on a larger scale in countries, such as certain African countries, where urbanisation is a more recent phenomenon. It should also be noted that some migrants move between rural and urban areas to ensure a livelihood – the so-called “labour circulants”. See ILO: World Labour Report, Vol. 3 (Geneva, 1987), p. 125.
TOWARDS A STRATEGY

In the light of the general approach outlined in the previous chapter, we shall now examine briefly certain specific areas where interventions could help to create the conditions for the development of a more dynamic and better protected informal sector, and for its progressive integration into society. They are examined under four broad objectives:

- improvement of the productive potential, and therefore of the employment- and income-generating capacity, of the informal sector;
- improvement of the welfare of the poorest groups;
- establishment of an appropriate regulatory framework, including appropriate forms of social protection and regulation; and
- organisation of informal sector producers and workers.

These objectives are not mutually exclusive, and will need to be pursued simultaneously. For instance, measures to improve the productive potential of the informal sector are unlikely to succeed, or to result in improved incomes and social protection, unless there is an appropriate regulatory framework. Measures to improve the conditions of the poorest groups are unlikely to result in lasting benefits unless they are part and parcel of a more general effort to raise the productivity, and the employment-generating capacity, of the informal sector. And none of the other objectives is likely to be achieved unless those engaged in informal sector activities are sufficiently well organised to protect their own interests, to promote their own welfare and to make their needs and aspirations known to the public authorities and to other public or private bodies.
IMPROVEMENT OF THE PRODUCTIVE POTENTIAL OF THE INFORMAL SECTOR

It was suggested in the previous chapter that measures to raise productivity and employment should place greater emphasis on those activities which have a potential for growth. Though these activities may be relatively few in number at present, with improvements in the policy, regulatory and institutional framework, their numbers could grow. It is probably difficult, if not impossible, to identify a priori which of the informal sector enterprises are viable. What is feasible is to identify the specific branches of economic activity which have a promising demand potential and in which informal producers can compete successfully with the modern sector,1 or which have a complementary relationship with the modern sector. The growth and development of enterprises in such branches of activity could generate more employment, and thus – in the longer-term at least – create improved conditions in the informal sector as a whole.

The types of promotional measures to be undertaken to assist such enterprises were examined in some depth by the Conference last year when it considered the question of promotion of self-employment.2 It will suffice here to recall some key aspects.

Markets

It is necessary, first, to enhance the demand for informal sector products. To a certain extent, such demand comes from within the informal sector itself, and indeed the informal sector plays an important role in satisfying the basic needs of the urban poor. But in view of the extremely low incomes and purchasing power of those who live and work in the sector, this is an inadequate base for growth. A large proportion of informal sector output is consumed by individuals and households who derive their income from the modern and the public sectors. But if demand for its output is to grow significantly, it is necessary to strengthen market linkages with the rest of the economy.
Towards a strategy

An important role can be played in this respect by the government as a major purchaser of goods, services and buildings. Rarely, however, are informal sector enterprises in a position to participate in the bidding process for government procurement, or to be given contracts for road maintenance or school buildings. This may be due to the inability of these enterprises to meet the quality standards required by governments or to their lack of information about the existence of such possibilities; but it could also be due to the nature of procurement procedures or other stipulations. The latter can, for instance, discriminate against the informal sector because the bids are in such large batches that small informal sector producers are unable to supply the quantity required within the deadline. Either restrictions such as these could be eliminated without unduly complicating the bidding and procurement process, or producers could be encouraged to group together in bidding. A further problem is that, in the civil engineering field, specifications often discriminate unnecessarily against the use of labour-intensive processes.

There is also considerable scope for strengthening the access of informal sector enterprises to the markets of the modern sector through the development of subcontracting. As was noted in Chapter 1, such subcontracting already exists, and could well grow in the future; but the huge differences in economic power between large modern enterprises and the small operators of the informal sector tend to place the latter at a great disadvantage. Subcontracting under these potentially exploitative conditions is hardly conducive to the growth of informal sector enterprises, or even in the longer-term interests of modern enterprises which need to encourage reliable suppliers.

However, a more general issue is that informal sector enterprises will reach wider markets and be able to charge higher prices only if their goods and services are seen to be reliable and safe. Food sold needs to be clean and well presented, furniture to be well finished, etc. All this requires improved skills, awareness and technology.
Finance and credit

The difficulties that informal sector producers face in obtaining credit on the same terms as modern enterprises constitute one of the main obstacles to their growth. Few informal enterprises are able to obtain credit from the banks. They have no collateral to offer as a guarantee when asking for loans since they operate on land or property which is seldom registered or owned by them. As a result, they are obliged to resort to borrowing from money-lenders on highly unfavourable terms, or to informal sources of finance.

Indeed, one of the most striking features of the informal sector throughout the world is the fact that it has been able to mobilise quite significant savings from within the sector through various types of self-help savings and credit schemes. The existence of such schemes, some of which have their roots in age-old cultural traditions, while others are of more recent origin, has been one of the main factors ensuring the survival and the relative dynamism of the informal sector. Moreover, they have been a powerful force for stimulating collective action in other fields besides credit. The values of group solidarity that they represent ensure that non-repayment of loans is a fairly rare occurrence.

Such informal schemes normally operate on a very small basis, and are only able to make available small loans at infrequent intervals to any individual. They cannot therefore, by themselves, provide credit on a scale that would be required to improve significantly the productivity and the capacity of informal sector enterprises. But they do provide a basis on which larger and more "modern" credit programmes can be built.

There are numerous examples of improved credit systems, including revolving funds and other arrangements created by NGOs or by governments; while such schemes have proved to be useful in tapping and channelling resources from outside the informal sector, they also run the risk of becoming too dependent on external financing and assistance.
Towards a strategy

The problem of inadequate credit will not be fully overcome unless the informal sector enterprises have access to modern financial institutions. But clearly the banks cannot be expected to lend money without some form of guarantee and the cost of processing small loans is high. Attempts to get around this problem by, for instance, subsidised interest rates for micro-enterprises have not proved successful in the longer run, since they have only discouraged banks from lending to micro-enterprises. Some other agency is needed to give a guarantee to the banks and to assist in drawing up requests for loans. And expertise is required to sort out the good risks from the bad.

Cooperative-type banks and savings schemes or similar arrangements clearly have a role to play in this respect, since they can act as an intermediary between informal sector producers and the formal banking system. While these group credit schemes may require some outside help — either from governments or from NGOs — it is important that whatever assistance is provided does not result either in undue reliance on the outsiders, including particularly the government, or in undue outside interference in the operation of such schemes. It is not unknown, for instance, for governments to siphon off the savings of poor people through schemes of this nature to finance housing programmes or other facilities for the relatively well-off.

Training and technology

Any effort to improve the skills of informal producers has to begin with a realisation of how skills are acquired in the informal sector. Few informal sector workers have access to formal training institutions, yet in many countries, traditional apprenticeship systems have proved to be extraordinarily effective in the transmission of skills — in some cases fairly sophisticated skills. Such training is flexible and adaptable to the employment opportunities available in the informal sector, and it takes into account the insufficient educational back-
ground of individuals in the sector. Formal training in schools, on the other hand, is far more costly and inflexible, and all too often trains people for jobs that do not exist. All this has been well documented in recent ILO publications.3

One has to be careful, however, not to over-romanticise the value of training provided in the informal sector. The quality of the training provided depends largely on the skills of the master, and his or her ability to communicate them to apprentices. Moreover, there is always a potential element of exploitation in informal apprenticeship systems – the tendency for apprentices, who normally receive little, if any, remuneration, to be regarded as a source of cheap labour. But most important of all is the fact that such training serves only to provide skills that are appropriate for work in the low productivity, low technology enterprises of the informal sector. If the general policy aim is to bring about a progressive integration of the informal sector into the formal sector by improving its levels of productivity and technology, there needs to be a greater interaction between formal training and that provided in the informal sector.

In order for this to be achieved, it may be necessary to adapt the formal training systems. For example, in order to permit informal sector workers, or potential workers, to benefit from the training offered by formal establishments, it may be possible to lower entry requirements by placing less emphasis on diplomas or other educational attainments, which few informal sector workers will have achieved, and more on practical aptitudes and experience. Moreover, formal training establishments could learn some lessons from the flexible training methods used by the informal sector, by bringing the training that they provide into closer contact with the realities of the workplace; a judicious combination of apprenticeship and classroom learning can, as the experience of some European countries has shown, be a most effective way of providing training while at the same time integrating it into a working environment. In linking training to productive activities, emphasis could then be placed on using adapted traditional technologies and local materials.
Towards a strategy

An improvement or upgrading of the technologies used in the informal sector must clearly be an important objective of any new approach to training, since this is a key requirement if the sector is to break out of its disadvantaged position in society. But, here too, it is important to be aware of the often quite remarkable ingenuity and capacity to innovate and improvise that exists in the informal sector. Indeed, such ingenuity is the result of years of learning how to survive in a hostile environment. It is important that whatever approach is followed to training for the informal sector should build on, and not smother, these qualities of the informal sector. In fact, the learning process could also be reversed: the formal sector which has shown far less aptitude to improvise could well benefit from the talents and experiences of informal sector workers.

It may be asking too much of formal training institutions to review their courses and their training methods so radically. However, they could be encouraged to introduce additional courses focused specially on workers and entrepreneurs in the informal sector. In addition, innovative types of training, such as mobile training units or evening courses provided by voluntary and local agencies, need to be devised, and are indeed being devised in some countries to permit informal sector workers to upgrade their skills.

A particularly critical need is to provide training for the micro-entrepreneurs in the informal sector in basic techniques of bookkeeping, marketing, production organisation, costing, pricing, etc. Without such knowledge, they are and will remain at a great disadvantage in relation to modern sector enterprises. The problem is how to reach the very large numbers of self-employed producers in the informal sector, most of whom have received very little, if any, formal education, and who have no time (and probably little inclination) to attend formal classes. Here, too, some innovative approaches to training are necessary. For example, a grass-roots management training method, which conveys simple management messages to micro-entrepreneurs in the informal sector through role playing and drawings has been developed and tested by the ILO with promising
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results. The provision of advisory services through business advisers who are prepared to work with informal sector producers — either individually or in groups — can also be most effective. And here too, NGOs, including employers’ organisations, rather than public institutions, could have an important role to play in providing such training.

In view of the large numbers of women in the informal sector, it is important that whatever training is provided should be accessible to them. Women in the informal sector tend to be more disadvantaged than men in educational attainment and skills, because of the well-known and universal stereotypes of appropriate roles for women. Measures to give informal sector women access to productive and management skills, as well as more diversified technical skills, could be of quite decisive importance in measures to give greater dynamism to the informal sector.

Infrastructure

A major handicap suffered by the informal sector is that it generally lacks basic facilities and amenities. Informal sector enterprises often operate in makeshift premises, from which they may be obliged to move at any time, in insanitary conditions, without access to electricity, clean water or sanitation facilities, all of which discourage investment. This is, of course, the result of years of neglect by state and municipal authorities, or their inability to cope with the pace of urbanisation. But it is difficult to see how the informal sector can be “integrated” into the rest of the economy unless there is a radical shift in priorities for public spending, and in the approach to urban planning. Resources that had been earmarked for relatively unproductive prestige investments could surely be more usefully and productively invested in an improved physical environment for informal sector activities. Moreover, planning for urban development could make greater provision for the allocation of land and premises for informal sector activities, as well as the provision of simple work sheds, market shelters, sanitary facilities and safe drinking water. Such measures
would give them greater stability and access to markets and credit, since with legally approved sites and improved infrastructure informal producers would be better able to satisfy the requirements for obtaining loans, and to sell their goods and services. Harassment by the local authorities would be eliminated and the investment risk for informal entrepreneurs thereby reduced, which in turn would encourage them to acquire improved equipment and technologies.

WELFARE IMPROVEMENTS

The types of measures suggested in the previous section aimed at improving the productive potential of informal sector enterprises can be expected to benefit mainly the more viable enterprises in the informal sector. To the extent that they are well designed and successful, such measures should in the longer term help to bring about a transformation of the entire informal sector and its integration into the mainstream of society. As more and more productive enterprises are created or developed, using steadily improved technologies and with mutually beneficial linkages to the modern sector, more employment will be created and the incomes of those employed in them will rise, generating a demand for new products and services.

Even under the most optimistic assumptions, however, it will take a long time for this virtuous circle to come into existence and to have any effect on the incomes and living conditions of the majority of the people attempting to earn a living in the informal sector. Income disparities within the informal sector are, in fact, likely to widen. For this reason, it is essential that the productive assistance measures mentioned above should be accompanied by measures aimed not so much at improving the performance of marginal activities that have no future as at improving the welfare of the poorest sections of the population.

Such measures should aim to ensure that the basic nutrition, education, health and housing needs of the poorest groups are met.
Since measures such as these lie largely beyond the competence of the ILO, they are only mentioned in passing in this Report. However, three points deserve particular emphasis.

Firstly, particular importance attaches to the provision of such support to children. One of the reasons for the prevalence of child labour in all its forms in the informal sector (and in urban areas generally) is the fact that schools may be distant, overcrowded and sometimes costly. For impoverished parents, the benefits of school attendance seem not to correspond to the costs. This not only forces children into work, sometimes in deplorable conditions on the streets, but also removes virtually any chance that they can subsequently find productive jobs. The provision of adequate facilities for providing children in slum areas with education, nutritional supplements and health care must certainly be among the highest priorities of social policy, since it is the surest means of breaking the vicious circle of poverty.

A second point is that, while governments must take the lead in providing the welfare support facilities mentioned here, the immensity of the task (particularly of meeting health, housing and nutrition needs) is probably beyond the capacity of most governments. Even if it is possible for them to redirect a certain amount of public expenditure from lower priority programmes, the severe fiscal constraints within which most governments operate reduce considerably the scope for the large outlays of expenditure required to improve significantly the welfare of the urban poor. NGOs, voluntary agencies, including international relief and humanitarian agencies, as well as churches and religious groups, have long experience of the problems involved, work in much closer contact with the people concerned, and can be very effective “deliverers” of welfare assistance. Governments cannot, of course, wash their hands of the problem; but they can stimulate, encourage and support the efforts of non-official bodies, and attempt to ensure that the work of public and private agencies complement each other.
The third point to be made is that the aim of such welfare assistance is to develop the capacities of presently disadvantaged groups to improve their own conditions and ultimately to compete in the labour market for stable and well-remunerated jobs. The active involvement of the target groups in such efforts is an important condition for their success. And the aim should be to develop and build on the well-established and vibrant traditions of group solidarity that exist in the informal sector of many cities in the developing world and encourage the development of self-help schemes that can rapidly become independent of outside aid. The voluntary mobilisation of labour to construct low-cost but viable housing and improve the infrastructure of shanty-towns is an example. But the general point to be made is that a welfare “package” should be viewed as complementary to, and not a substitute for, the type of “productive assistance package” mentioned in the preceding section.

THE REGULATORY FRAMEWORK AND SOCIAL PROTECTION

Recent studies have shown that, contrary to earlier beliefs, by no means all informal sector enterprises operate totally outside the framework of the law. In some countries, at least, a sizeable proportion of such enterprises are registered and/or pay taxes, even though they are not in a position to comply with the full range of legal requirements. This finding suggests that among informal entrepreneurs there is a desire to legalise their operations whenever possible, since this enables them to have access to some institutional support, such as credit, or to the protection of the law in such matters as enforcement of contracts. The progressive “legalisation” of the informal sector is clearly an essential requirement for its integration into society. But it is more likely to take place in a positive environment where the obstacles to entering legality are reduced to a minimum, where the costs of being legal are not prohibitive, and
where there are clear benefits to becoming legal – i.e. where the public authorities are known to be (and seen to be) supporting rather than harassing the informal sector.

Barriers to entering legality can take many forms. They can take the form of excessive bureaucratic requirements for registration. The classic case recorded by Hernando de Soto where the time required to complete all the formalities required to start up an enterprise in Lima was 289 days is by no means an isolated example.

The costs of registration can also be an insuperable obstacle to informal sector operators with few resources and very low profits. Registration fees of US$1,000 or more to start up a small car repair shop (and which can be much higher if bribes have to be paid to accelerate the process) are clearly beyond the means of most informal sector entrepreneurs.

Problems such as these should be relatively simple to overcome, provided governments are prepared to streamline the bureaucracy, and to reduce registration fees to a nominal amount (or even abolish them altogether) for informal sector enterprises.

Far more complex problems are, however, presented by government regulations designed to protect the general interests of the community. Here it would seem important to distinguish between regulations that are essential for public health and safety, for instance, and those that are less essential and place unnecessary obstacles to the operations of informal sector units. It would, for instance, be difficult to justify relaxing or failing to enforce regulations governing the safety and maintenance of vehicles used for public transport in order that informal sector operators may more easily obtain licences to provide such services. On the other hand, regulations which give a monopoly to public companies, or which fix the tariffs to be charged on public transport, may well prevent informal sector operators from competing to provide a much needed public service.

At the same time, certain regulations or procedures which are justified could be applied with some flexibility. In the case of housing, for instance, the rigorous enforcement of zoning regulations
and building standards results in enormous hardship for those unable to comply with them and obliges the informal sector to operate at great distances from its potential markets. The problem of unsightly and insalubrious shanty-towns cannot be resolved by the use of force, but by enabling those who live and work in them to improve their incomes.

Another aspect of legality is the payment of taxes. Direct taxes are in most countries unlikely to be a major problem for informal sector entrepreneurs and workers in view of their generally low levels of incomes and profits. However, in some countries the way in which taxes are levied on enterprises discourages employment creation, since the hiring of additional workers can result in a large increase in the tax to be paid by the employer. Systems of indirect taxation may be excessively complex and beyond the comprehension of most small entrepreneurs. The establishment of a tax system which is progressive, simple to administer and to understand, and beyond corruption would be an important step towards removing the stigma of "illegality" that surrounds the informal sector.

The general point to be made here is that some laws, regulations and administrative procedures are essential to the functioning of society while others are not, or could be applied with some flexibility to the informal sector without harming the public interest. A greater sensitivity to the situation and the needs of the informal sector is essential if the sector is to be brought progressively into the regulatory framework of society.

Of particular concern to the ILO is, of course, the non-compliance of the informal sector with labour legislation and basic labour standards. To a large extent, such non-compliance is due to the fact that a majority of informal sector workers are self-employed or unpaid family workers who are not subject to many legal obligations of this nature. In the case of informal sector enterprises which do hire labour, compliance with the full range of labour regulations, including those governing hours of work, weekly rest, holidays with pay, minimum wages and social security contributions would more than fully absorb
the very low profits made by such enterprises, and wipe them out of business altogether.

The first, and most obvious, explanation for the lack of observance of labour legislation in informal sector enterprises is therefore their inability to absorb the increased costs involved. But another reason is to be found in the manner in which such enterprises operate. Labour relations are not subject to explicit and enforceable contracts, no job security is enjoyed or expected by informal sector workers, working hours are flexible (and often very long indeed) and wages are paid irregularly. In the absence of trade unions in micro-enterprises or generally in the informal sector at all, labour relations tend to be paternalistic, with the owner of the enterprise working alongside his employees and apprentices. Moreover, the incorporation of such units into contributory social security systems scarcely seems feasible in view of the instability of the employment relationship.

The non-observance of labour legislation is therefore linked with the precarious existence of most informal sector enterprises, and the problem will not be entirely overcome until such enterprises are able to operate profitably in a more stable environment. Moreover, it has been observed that in Latin America, and the same may be true in other regions, the growth of the more successful informal sector firms has resulted in improved standards for their employees, including paid vacations and the payment of bonuses. The progressive extension of labour legislation and social protection to informal sector workers is therefore a feasible, if in most cases a very long-term, goal.

To move in the other direction — i.e. to reduce the standards of protection offered by legislation to workers in the modern sector in order to make them more easily attainable in the informal sector — would not only be socially unacceptable, but also of no help to the informal sector. There may well be some aspects of labour legislation in force which present unnecessary obstacles to the hiring and firing of workers. But, as a general rule, the inability of the informal sector to comply with certain aspects of labour legislation is not necessarily an indication that something is wrong with the legislation itself; it
should rather be taken as a reflection of the quite unsatisfactory condi­
tions in which the informal sector has to operate. Deregulation of the
labour market would do little, if anything, to improve those condi­
tions. The general approach should therefore be to regard the basic
standards and provisions of labour legislation as goals to be attained
progressively in the informal sector - beginning with the more viable
enterprises in this sector - and to establish the institutions to promote
their attainment, rather than to regard the precarious and unregulated
nature of work in the informal sector as the norm for the rest of
society.

The progressive application of labour standards does not, in all
cases, have to wait until the informal sector starts to "catch up" with
the modern sector. There are certain core standards that are so funda­
mental that their non-observance should not be tolerated.

Three types of such standards would appear to deserve priority
attention.

This is the case, first and foremost, of such basic human rights as
freedom of association, freedom from forced labour and freedom
from discrimination. These rights are not luxuries reserved for one
sector of society; they are fundamental to human dignity and indeed
to the success of efforts to integrate the informal sector into the rest of
society. Freedom of association is particularly important in this
respect, because it is only through forming and joining organisations
of their own choosing that those employed in the informal sector will
be able to generate sufficient pressure to bring about the necess­
ary changes in policies, attitudes and procedures that hamper the develop­
ment of the sector and the improvement of working conditions
in it.

Secondly, measures can be taken to reduce, and eventually elimi­
nate altogether, the most abusive forms of exploitation in the informal
sector. High priority needs to be given in this connection to child
labour. It may not be possible within a few years to eliminate child
labour altogether given that children work because they have to,
because of poverty, inadequacy of schools or social and cultural atti-
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tudes. And many children work in family enterprises, where it is particularly difficult to detect and eradicate it. But a start can be made by focusing action on the most exploitative types of employment relationships in which many children find themselves trapped – often at a very early age – such as bonded labour; on the employment of children in particularly hazardous occupations or industries; and on the employment of very young children. Another particularly dramatic aspect of the problem which has captured the attention of public opinion is the plight of children who live and work on the streets. While most countries have legislation prohibiting these forms of child labour, they cannot be combated by law enforcement alone (or, in the case of street children, by clearing them off the streets); law enforcement measures need to be accompanied by measures to extend and improve facilities for education – formal and non-formal – and by various welfare measures that can be provided through community action. They also need to be accompanied by measures that tackle the root of the problem – namely, the poverty of parents of working children. For instance, income-generating projects could be targeted at the parents, perhaps on the basis of an agreement to keep their children in school.

A third area which deserves priority attention is occupational safety and health. While it may not be possible for informal sector enterprises to comply with the full range of government safety and health regulations, attention can be focused on the particularly serious risks to which informal sector workers can be exposed – including, for instance, the risks associated with the use of machinery (often antiquated and unreliable machinery without safety guards) with which informal sector workers may not be familiar; with the use of hazardous substances; with air or water pollution; or simply with inadequate lighting and ventilation. Here, too, the problem is not so much one of attempting to enforce compliance with regulations as of providing informal sector enterprises with information and guidance on the often simple and inexpensive measures that can be taken to reduce such risks. Experience has shown that concrete improvements
can be achieved in small enterprises by applying realistic measures and using locally available material and skills.

In most countries it would not be possible for labour inspection services or occupational health services — which are generally understaffed and ill-equipped — to promote or enforce improved standards in these areas in the informal sector. But is it totally unrealistic to expect that more informal types of labour inspection and occupational health and safety counselling could be provided through community-based action, aided and stimulated by NGOs, voluntary agencies or by the government itself? Or, to go a step further, is it not possible to envisage a system of labour inspection auxiliaries (recruited, for instance, from retired craftsmen), who are familiar with the realities of life and work in the informal sector, and who would receive some rudimentary training by the official labour inspectorate or by trade unions? Their role would not be so much to enforce regulations (although they could expose some particularly abusive forms of exploitation in the sector) as to provide training, advice and information to the owners and workers in informal sector enterprises or indeed to the entire local community. Unless and until some innovative arrangements such as this are made, and the workers and the self-employed are motivated to improve the conditions in which they work, it is difficult to see how substantial progress can be made.

The same factors which inhibit the application of labour standards in the informal sector also prevent the development of social security schemes which might provide protection against loss of income or which would meet the costs of health care services. In part, of course, the low incomes of the sector make such provision difficult: it is difficult for the poor to save in order to meet unforeseen contingencies, provide for their old age, or to meet health care expenses, regardless of whether or not they belong to the formal or informal sector. And low incomes also largely prevent any redistribution of income, from the better-off to the poor, from the active to the inactive, or from the young to the old: nobody has much to spare, even if it assumed such transfers could be arranged. But the difficulties are compounded by
the absence of any framework within which participation can be organised, contingencies and entitlements defined, benefits established and contributions levied. In addition, the instability of many informal sector enterprises mitigates against long-term commitments, such as those underlying old-age or invalidity pensions. And although at least a moderate degree of social protection might be feasible if a means could be found of spreading the burden equitably across all active members of the sector, some degree of compulsion would be an essential ingredient: no single entrepreneur (or employee) can afford to absorb the additional costs of social security if his competitor can obtain a commercial advantage by opting out of the scheme.

At the same time, the budgetary constraints faced by many developing countries, the limited basis for public revenues, and the restricted taxable capacity, especially of the informal sector itself, all prevent the public authorities from providing more than a very limited degree of social protection on a universal basis. This is particularly the case in health care services, but applies also to maternity and family benefits and to general, minimum income provisions. Beyond this level, individuals are required to look after themselves, to provide for their own old age and to carry their own risks against loss of income or illness.

Some sort of safety net is of course provided by the family. To the extent that families are large and incorporate several generations, they are capable of providing a degree of mutual protection: very largely in kind, in the form of food and shelter; sometimes in the form of employment in the family enterprise; with more difficulty in the form of assistance with medical expenses; and very much less frequently in the form of cash. The framework is a natural one, comprising its own bonds, discipline and inter-generational commitments. But as a mechanism of social protection it is also limited. Adversity may affect all family members at the same time. Family reserves are likely to be limited. The different fortunes of different family members may place tensions on the degree of intra-family solidarity. And geographical dispersion, urbanisation or migration
as well as cultural or social changes may also weaken family structures.

It seems likely that any general strategy towards the development of social protection in the informal sector will need to make maximum use of all three elements mentioned above: direct provision by the State; the formation of collective social mechanisms within the informal sector itself; and reliance on and enhancement of the mutual support of the family structures. But in strengthening these mechanisms, considerably more flexibility and innovation will be required.

In the first place, it seems clear that some degree of state involvement in the direct provision of benefits is essential, particularly in the area of health care services. The main task on the delivery side is that of ensuring universal access to services, of ensuring that the services themselves meet primary health care needs at a level of technology and unit cost appropriate to the general income of the community and, on the revenue side, of identifying suitable and effective sources of general revenue. This last may be largely a question of tax policy as much as social security policy: but it seems likely that greater reliance will need to be placed on indirect taxes on commodities easily monitored (for example, petrol, alcohol, tobacco or certain manufactured goods) than on direct taxes on the incomes of enterprises. General and universal state support will also be needed in the provision of anti-poverty, minimum income measures. But their scale is limited without a clear mandate and means of contribution from the informal sector itself.

An alternative approach is to work from the top down, from the point where the developed social security schemes of the formal sector form an interface with the needs of the informal sector. The aim would be to extend the coverage of schemes developed within the formal sector to the informal sector, wherever a suitable framework of adhesion can be found. As an obvious step social security schemes can be adapted for extension to co-operatives, or can be developed through local authorities or non-government organisations, or can be introduced through trade union activity as it develops within the
informal sector. But any framework which offers a contribution basis, a defined population of contributors and potential beneficiaries, and the scope for verification of compliance with the scheme, might be used. Particularly important would be any tightly knit occupational groups which could provide a basis for mutual social protection. But, for example, a car licencing system may be used as a framework for providing accident compensation, and other sorts of commercial associations may also provide a basis for the extension of social security coverage.

A third approach may be to try to foster and strengthen the role of the family, rather than to replace it with an approach based entirely upon individual rights. In this case, the approach might become more pragmatic and take the form of direct assistance in kind (in the form of subsidies for shelter or food) to families with dependants of one kind or another, and might take the form of encouraging mutual assistance between families as well as within them. The main advantage of such an approach would be that it could build on a system of mutual support which already existed, that responsibility would still lie within the family, and that the nature and extent of public support could remain flexible and limited to the means available.

ORGANISATION OF INFORMAL SECTOR PRODUCERS AND WORKERS

In the final analysis, as has already been stressed throughout this Report, it is only through their own organised efforts and through group solidarity, rather than through actions undertaken on their behalf by more or less well-intentioned outsiders, that informal sector producers and workers will achieve lasting improvements in their situation. It is very largely because of the absence of pressure from within the informal sector that the various discriminatory policies and practices against the sector mentioned earlier in this Report have been allowed to persist, that the informal sector has been exploited and
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harassed and that those who work in it enjoy little or no protection of any kind, including social protection.

To some extent this is due to the very heterogeneity of the informal sector. The artisans, street-vendors, transport operators, small shop-owners and wage earners of the informal sector, all have very diverse interests and priorities. Moreover, competition within these groups for very small markets may often be an obstacle to group solidarity. Nevertheless, every culture has its traditional forms of social organisation, and there are numerous examples of small local organisations that have been created within the informal sector, either spontaneously or with the assistance of NGOs and donor agencies – for instance, the various forms of joint credit and savings schemes mentioned earlier, or informal associations of artisans which enable them to share premises and equipment or to arrange jointly the marketing of their products. The ILO has itself been involved in working closely with groups of urban artisans in projects through which the artisans define their priorities, their own strategies, and the most suitable forms of organisation. The results of such projects have been highly positive since they have resulted in improved access to finance, raw materials, technology and markets, and in improved productivity and quality of output.

Such forms of organisation do indeed play a critically important role, since they have made it possible for the producers concerned to survive, if not to prosper, in a difficult environment. They also provide a means by which governments, NGOs and aid donors can set realistic priorities for assistance based on real needs, and a channel through which assistance can be directed.

Generally, however, and with few exceptions, such organisations have been too limited in scope or too localised and operating with inadequate resources to achieve any major change in the environment in which the informal sector operates or in its relationships with the institutions and enterprises of the modern sector or with the public authorities. Like everything else in the informal sector, they are informal in nature; they are rarely officially registered or recognised...
and therefore lack legal protection and access to formal institutions such as banks or public services. Only in very few cases have they led to affiliation with formally structured national organisations such as co-operatives, chambers of commerce, employers’ organisations or trade unions. The attitude of these organisations to the informal sector has been just as ambivalent as has been that of governments.

Co-operatives potentially have a highly significant role to play in this respect, since the small informal organisations within the informal sector are essentially “pre-cooperative” in nature and based on the very principles and traditions that characterise a genuine co-operative movement — the active participation of their members, democratic management and control of their activities, and an equitable distribution of benefits among their members. It may therefore seem surprising that the formal co-operative movement has been unable to play a more dynamic role in the development of the informal sector.

The reasons may be found in the general weakness of the co-operative movement in many of the cities of the developing world; or in the fact that, where it exists, it has been for the benefit of wage earners in the formal sector. The failure of the co-operative movement to make the contribution that it could make to the alleviation of urban poverty and to a revitalisation of the informal sector is also due to the fact that they have tended to be perceived by governments as instruments for the implementation of their policies, rather than as genuine autonomous organisations as defined in the ILO’s Co-operatives (Developing Countries) Recommendation, 1966 (No. 127); co-operatives are sometimes created by the governments themselves, which finance them and appoint their office-holders. The principles of voluntarism, participation, democracy and equity which should characterise a genuine co-operative are forgotten or ignored, and the dependence of such organisations on governments has resulted in the bureaucratisation and inefficiency of, and general disillusionment with, the co-operative movement in general.10
The contrast between the large, over-assisted formal co-operatives and the small, but more authentic, pre-cooperative types of organisations that exist in the informal sector is striking. Moreover, the existence of the latter belies the widespread belief that co-operative principles are not understood or practised by the "unorganised" poor of developing countries.

Nevertheless, the potential benefits that could be obtained by associating the informal organisations that already exist, or that could be encouraged to exist, with a genuine, officially recognised, co-operative movement are obvious. It would enable such organisations and their members to have better access to the credit, markets, technology, legal and other institutions of the modern sector, and thus become a powerful force for breaking down the barriers that separate the two sectors. For this to happen, however, governments need to create a favourable, but non-interventionist, climate for the growth of a genuine co-operative movement based on, and rooted in, local cultural traditions. What can be achieved in this way is demonstrated by the two remarkably successful and very well-known women's movements in India – the Working Women's Forum (WWF) and the Self-Employed Women's Association (SEWA) – which started out as cooperative-type movements, which succeeded in developing numerous services for an ever-growing number of members, and which are now registered as trade unions.11

For the trade union movement itself, the informal sector presents both a dilemma and a challenge. The existence of the informal sector is the very antithesis of everything that the trade union movement stands for – huge masses of people living and working in substandard conditions without the protection of the law or of organised labour. Trade unions in the past, like governments and employers, generally ignored the problem, in the commonly held belief that, as a vestige of the past and a manifestation of underdevelopment, it would eventually be absorbed by the modern sector, and that those who worked in it could therefore eventually be covered by the trade union movement.
In fact, the reverse is happening. As emphasised elsewhere in this Report, the informal sector is growing and the modern sector is contracting due to economic pressures and is, in any case, decentralising many of its operations to it through subcontracting arrangements. Thus, more workers than ever before in the developing world are deprived of the protection of the law and of trade union action.

The importance of this phenomenon, and the challenge it presents to the trade union movement, is now becoming increasingly recognised. The challenge is not only due to the limited resources available to trade unions in the developing world, and which even prevent them from organising effectively workers in the modern sector, but also to the very nature of work in the informal sector. Most informal sector workers are self-employed, who are not traditionally the main sources of trade union recruitment; and those who are not self-employed work in very small units, often family units, where labour relations are conducted on a very different basis from modern sector enterprises, and to which trade unions rarely have access.

Nevertheless, a theme running throughout this Report is that there is an urgent need to generate pressure for change, for the elimination of exploitation, and for improved working conditions in the informal sector. Such pressure can only be built up by trade union-type organisations. Can the trade union movement extend its action, and if necessary modify its approach, to deal with these problems?

The answer to this question can only be found by the trade union movement itself. One possible answer may lie in the development of closer links between trade unions and the co-operative movement. While the two movements have traditionally had very different purposes, they share a common concern with the elimination of poverty and exploitation, and common values of solidarity, independence and democracy. Moreover, the example quoted earlier of the two Indian women's associations show what can be achieved by organisations that combine the features of trade unions and co-operatives.
A comparable challenge is faced by employers' organisations whose members have until now largely been the owners of modern enterprises, and whose activities have therefore quite naturally been to promote and protect the interests of the modern sector. The extent to which they can be expected to enlarge the scope of this action to cover informal sector entrepreneurs will naturally depend very much on whether their members perceive it to be in their interest to do so. Until recently, there has been little evidence of such a perception on their part. Like everyone else, employers have assumed that the informal sector would sooner or later be absorbed into the modern sector, and that there was therefore no reason to offer support and assistance to that sector. But, in employers' circles, too, such attitudes may be beginning to change. The micro-enterprises of the informal sector should be viewed by employers not so much as "unfair competitors" to the formal sector, or as the providers of inputs produced in highly exploitative conditions, but rather as potential partners whose growth could result in more dynamic interchanges between the formal and the informal sector from which all could benefit. The informal sector, if it had the opportunity to develop, could become a far more important market for the goods produced by the modern sector and at the same time a more efficient source of a broader range of high-quality inputs required by the modern sector.

In order to bring this virtuous circle into existence, employers' organisations have a critical role to play in assisting the informal sector to emerge from its marginalised and segmented place in society and the economy. They could act as a pressure group for the removal of many of the constraints which at present impede the growth of the informal sector. They could also, probably more effectively than most other institutions, provide the informal sector with access to improved technology and with the improved skills necessary to operate that technology, as well as improved management skills. And they could provide informal sector enterprises with access to some of the facilities and services offered by modern sector enterprises, such as occupational health services and various welfare facilities.
The dilemma of the informal sector

Whether employers’ organisations, like trade unions and co-operatives, will in fact be able to bring about this somewhat radical-shift in the scope and range of their activities remains to be seen. Unless they do, and unless they cease to be seen to be engaged primarily in the protection of the interests of a highly privileged few, the prospects of integrating the informal sector into the mainstream of economic life are decidedly dim.

Notes

1 There are relatively few informal sector enterprises which have shown such a capacity. But some have. For instance, as even a casual visitor to many large cities in the developing world can observe, informal transport operators are frequently able to provide more effective services than inefficient public transport systems.


7 V. E. Tokman: *Informal sector in Latin America: From underground to legality*, op. cit.

8 It has been estimated that in African cities between 85 and 95 per cent of the population belong to mutual self-help associations of one form or another. See C. Jacquier: *Les coopératives et l’auto-assistance mutuelle face à la pauvreté urbaine dans les pays en développement* (Geneva, ILO, 1990; doc. SAP 5.4/WP.25), p. 32.


12 See, for instance, Dr. S. Mitter: *On organising workers in the informal sector* (Brussels, ICFTU, 1989).

THE ROLE OF THE ILO

THE NEED FOR TRIPARTITE COMMITMENT

I began this Report by recalling the ILO’s pioneering work concerning the informal sector. It has continued this pioneering work during the past 20 years in a number of different ways. It has undertaken a considerable amount of data-gathering and research work which, although far from complete, has contributed to a greatly improved understanding of the nature, characteristics and magnitude of the informal sector. It has disseminated the results of this work through publications as well as seminars and workshops at the international, regional and national levels. It has carried out advisory missions and technical co-operation projects to assist certain member States in formulating and implementing policies and programmes for the informal sector, and to assist informal sector workers in the creation of their organisations.

But these activities have been limited in scope. In general, the work of the Organisation has proceeded as if the informal sector did not exist. The ILO’s technical co-operation, advisory services, meetings, research and promotional activities have for the most part been concerned only with the formal sector. And the only explicit reference to the informal sector in any of the ILO’s standards is the passage in Recommendation No. 169 quoted in Chapter 2 above. In other words, the ILO’s attitude to the informal sector has been just as ambivalent as that of the governments and employers’ and workers’ organisations of its member States.

We cannot be satisfied with this state of affairs.
The dilemma of the informal sector

The existence of a very large proportion of the world's labour force living and working in great poverty, subject to some of the most degrading forms of exploitation and virtually deprived of any form of social protection calls for action on our part, since it constitutes a major challenge to the credibility of the ILO's action.

What can we do about it?

Having pioneered the concept of the informal sector, and having pioneered efforts to understand the realities underlying the concept, should we not now attempt to pioneer a new approach to the serious challenge that it presents to social policy?

Such a new approach can only be envisaged if it is based on a full and total commitment of the ILO's tripartite membership – a commitment reflected not only in resolutions and decisions adopted by the Conference and the Governing Body, but also in concrete policies and programmes at the national level.

Previous chapters of this Report have indicated the nature of the challenge presented by the growth of the informal sector for governments and employers' and workers' organisations.

For governments, the challenge is to devise and apply a comprehensive strategy consisting of policy reforms, promotional measures, welfare schemes, the introduction of an appropriate regulatory framework and appropriate forms of social protection, and encouragement of the organisation of informal sector producers. While the approach to be followed must of course vary according to the very different characteristics of the informal sector and of the environment in which it exists in different countries, it is essential to raise the productivity, incomes and welfare of workers in the sector and thereby render it capable of progressively applying the standards in force. Attempts to enforce standards in the informal sector without such an enabling strategy would not bring about any real change; it would only perpetuate the present situation and encourage clandestine operation. Nevertheless, a start can be made now in attempting to bring about improvements in certain key areas of social protection and in guaranteeing certain fundamental rights to informal sector workers and producers.
These different elements of a comprehensive strategy need to be undertaken as a package, rather than in isolation from each other.

For employers’ organisations the challenge is to consider whether the scope of their action should continue to be limited to promoting and protecting the interests of enterprises in the modern sector, or whether it is possible – and indeed in the interests of the modern sector itself – to enlarge the scope of their action to informal sector entrepreneurs. Employers’ organisations have a key role to play in removing many of the constraints which impede the growth of microenterprises in the informal sector, and in assisting them in improving their technology, their management, their skills and the conditions in which they operate. They also have a key role to play in building up more complementary and mutually beneficial relationships between the modern and the informal sectors.

For trade unions the challenge of the informal sector is quite fundamental, but also immensely difficult. The very existence and growth of the informal sector represent a total negation of the basic aims and purposes of the trade union movement. The difficulties of organising informal sector workers and bringing them into the mainstream of trade union action appear to be almost insuperable. Yet unless this is done, unless pressure is generated through trade union action for the elimination of exploitation, for the guarantee of basic rights and social protection and for the improvement of the deplorable conditions in which most informal sector workers live and work, there is little hope for positive change. The trade union movement is well aware of the challenge, and it needs to face up to it by innovative means. In order to become an effective spokesman for the poor and oppressed in the informal sector, it needs to develop links with organisations that already exist, or which could be created in the informal sector, and particularly with the co-operative and pre-cooperative types of organisations which have already proved to be potentially important forces for change.

The challenges for all three parties of the ILO’s tripartite constituency are indeed enormous, and it is clear that positive results
The dilemma of the informal sector can only be achieved through persistent efforts by all three parties over many years. A long-term commitment by the ILO's entire membership to the objectives of improved productivity, employment, incomes, welfare, protection and enjoyment of human rights in the informal sector is an essential prerequisite for effective ILO action.

TOWARDS AN ILO STRATEGY

If such a long-term commitment exists, how should our Organisation approach this complex and difficult task?

For the ILO, the existence of a large and growing informal sector presents as much of a dilemma as it does for its member States. We need to look to the informal sector as the only possible source of employment for increasing numbers of the developing world's rapidly growing labour force, and to help our member States to increase its dynamism and its capacity to absorb more and more labour. At the same time, we cannot turn a blind eye to the fact that the standards and principles which constitute the very reason for the ILO's existence are not being applied in that sector. We must therefore also find practical means of progressively extending them to the informal sector without impairing its capacity to generate employment.

In attempting to find a way out of this dilemma, we should begin by recognising the limitations of our work until now. Our action in regard to the informal sector has so far been exploratory and hence tended to be fragmented and less than comprehensive. It has focused on some subsectors more than others. It has tended to emphasise the employment objective, and policies and programmes enhancing the employment potential, while too little attention has been given to the extension of human rights, welfare and protective measures. A more comprehensive, multidisciplinary approach, involving several Departments of the Office, and several other agencies of the United Nations system may be difficult to mobilise. But unless placed in a more coherent and comprehensive framework, projects and programmes
focusing only on one aspect of the strategy are likely to have only a limited impact.

With this important point in mind, how should the ILO approach the challenge of the informal sector in the years to come?

A first and basic requirement, it seems to me, is to pursue our efforts to measure and to understand better the phenomenon of the informal sector. At the request of the Fourteenth International Conference of Labour Statisticians (1987), the Office is currently developing a simple and low-cost system of collecting statistics on employment in the informal sector based on a common framework for international statistical standards on this topic to be adopted by the Fifteenth International Conference of Labour Statisticians, planned to be held in 1993. It is important that these efforts should be pursued, since an adequate data base which enables policy-makers to measure the informal sector (and subsectors within the informal sector) and its evolution over time is an essential prerequisite for action, and for evaluating the impact of policies and programmes on the informal sector.

Data-gathering should no doubt also be accompanied by further research and analytical work. As will have been clear from this Report, too little is still known about the informal sector, its internal dynamics, its links with the rest of the economy or its responsiveness to policy changes. The ILO will need to continue its pioneering work in this respect in collaboration with governments, research institutes and other organisations, including NGOs.

But the fact that our knowledge is less than perfect should not be an excuse for inaction. On the contrary, it is only by gaining experience through other means of action, and through a mutual feed-back between research and practical action, that the knowledge base can be improved, and our activities made more relevant and effective.

It is in the field of international labour standards that the challenge to the ILO is greatest. The fact that informal sector workers are often beyond the protection offered by ILO standards, even those
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standards that have been ratified by the governments concerned, should make us pause for reflection.

It has, of course, to be admitted that, since the vast majority of workers in the informal sector are self-employed or family workers, they are beyond the scope of some, but by no means all, international labour standards. It also has to be admitted that, even when ILO standards are applicable to informal sector workers and producers, there are numerous obstacles to their full application: the extremely low levels of productivity and the precarious existence of most informal sector enterprises which place them beyond the reach of such standards; the instability of employment in the informal sector, and the absence of any contractual relationships between employers and workers; and the fact that poorly endowed and understaffed labour administrations in most developing countries have no means of promoting or enforcing labour standards in the sector.

Does the fault then lie in the ILO's standards themselves? Have we been too ambitious and unrealistic in our standard-setting activities, and thus contributed to widening the gap between the protected workers of the modern sector and the large numbers of people in the informal sector deprived of any form of social protection? There may well be differing opinions on this point, but for my part I do not feel that the ILO should be apologetic about its standards. They set universally recognised goals of social policy, which is precisely what the ILO was set up to promote. Moreover, it has long been recognised that these goals may not be immediately attainable, and various flexibility provisions have been embodied in ILO standards in order to permit their progressive implementation. If large numbers of workers remain outside the scope of such standards, it is not the standards themselves that are responsible, but rather the patterns of development which have resulted in the marginalisation of a whole sector of society.

Is there a case for the adoption by the Conference of standards specifically addressed to the informal sector? The answer to that question will almost certainly be no, if it means setting standards at a
lower level for the informal sector than for the rest of the economy. It would imply legitimising and perpetuating the substandard conditions in which the informal sector operates. Even if it is not at present realistic to promote the full range of ILO standards, they should remain as objectives to be progressively attained.

Rather than resigning ourselves to the non-observance of ILO standards in the informal sector, we should look for practical and realistic ways of progressively improving the standards of protection of informal sector workers.

It was suggested in the previous chapter that such an approach should concentrate in the first instance on the promotion of certain fundamental core standards that are essential for a decent human existence and that it should be possible to apply in the informal sector without imposing an impossible burden on informal sector enterprises. These would include first and foremost the basic human rights standards of the ILO – freedom of association, freedom from forced labour and equality of opportunity and treatment. They would also include standards that aim to eliminate the most extreme forms of exploitation, including particularly child labour. Finally, they could also include the promotion of standards relating to occupational safety and health in informal sector enterprises.

Promotion of core standards such as these would in no way imply that other ILO standards are unimportant or irrelevant. It would merely be a question of doing first things first.

It is in this spirit, moreover, that the ILO should approach its technical co-operation activities for the informal sector. As the Conference emphasised in its conclusions concerning the role of the ILO in technical co-operation adopted in 1987, greater efforts need to be made to strengthen the complementarity between ILO standard-setting and technical co-operation. While some progress has been made in this respect, the need for such complementarity is particularly evident in regard to the informal sector.

An indispensable condition for effective ILO technical co-operation is a clear and unequivocal commitment by the governments of the
countries concerned not only to the objectives of a specific project or programme, but also and more fundamentally to the basic objectives and principles of the Organisation. Such a commitment is best expressed through the ratification by the government of certain key ILO standards – particularly the basic human rights standards concerning freedom of association, forced labour and equality of opportunity and treatment, as well as standards aimed at the elimination of child labour. The aim of this policy is not to establish some new form of “conditionality” for international assistance. The aim is to make the ILO’s action in and for any particular country more coherent and effective. The ILO cannot meaningfully help a country if its authorities have not demonstrated their determination to work towards the goals that are contained in our standards.

There can be no question of the ILO helping to “promote” or “develop” an informal sector as a convenient, low-cost way of creating employment unless there is at the same time an equal determination to eliminate progressively the worst aspects of exploitation and inhuman working conditions in the sector.

With this important condition, our aim should, I suggest, be to launch comprehensive, multifaceted programmes in which the ILO could work with the governments, employers and workers of member States in all or most of the following areas:

- designing overall policies to be followed, particularly with a view to removing such constraints as may exist to the expansion of informal sector employment, and to promoting closer and more mutually beneficial linkages between it and the modern sector;
- the progressive application of core standards (such as those indicated above) to the informal sector;
- the design and development of promotional programmes and projects to develop the productive potential, the employment-generating capacity, the technology and the skills of the informal sector;
The role of the ILO

- the development of welfare schemes for the most vulnerable groups in the informal sector, particularly for women and children;
- designing and implementing simple, low-cost methods of improving safety and health in informal sector enterprises;
- the creation and development of grass-roots, self-help organisations capable of determining and articulating their priority needs and of gaining greater access for their members to the institutions and amenities of the formal sector;
- assisting the formal co-operative movement, trade unions and employers’ organisations in extending their action to the informal sector;
- the development of a regulatory framework to respond to the needs of the informal sector;
- strengthening the capability of government institutions and NGOs to provide inspection and advisory services to monitor and improve the standards of welfare and protection in the informal sector; and
- the design and implementation of surveys and studies to strengthen the information base on the informal sector.

Such an ambitious agenda would no doubt call for some innovative approaches to technical co-operation. It could, for instance, involve selecting a few urban areas in developing countries, with the agreement and at the request of the governments concerned, in which a comprehensive programme of this nature could be designed and implemented. It would require a multidisciplinary approach involving economists, engineers, lawyers, as well as specialists in social security, vocational and management training, occupational safety and health, labour standards, labour inspection and labour statistics. It would require the co-operation of a number of other international organisations since comprehensive programmes of this nature would have to include assistance in areas that lie beyond the ILO’s competence, such as health, housing, education and nutrition. It would involve working not only at the national level with central govern-
ment departments, but also at the local level with municipal authorities, trade unions, co-operatives, employers’ organisations and voluntary agencies — and above all with organised groups in the informal sector itself who would need to be fully involved in the design and implementation of the programmes. It would require a long-term commitment on the part of all concerned, including the donor community, to the objectives of such programmes.

Programmes of support to the informal sector would also seem to lend themselves well to technical co-operation among developing countries (TCDC). There is likely to be relatively little need of expensive expatriate long-term resident experts, but a much greater reliance on those who are familiar with, and understand, the problems faced within the informal sector, including informal sector workers themselves. Exchanges of experience among such people could be far more valuable than the imposition by well-intentioned outsiders (including ILO officials) of ready-made solutions to the problems of the informal sector. It should be possible, for example, to arrange for the participation in such projects of workers in voluntary agencies, of craftsmen, of animators of self-help groups, or of trade unionists or co-operative officers from other countries facing similar problems.

While comprehensive programmes of this nature could only be launched very selectively in a few cities of the developing world, they could have a powerful demonstration effect. The design and implementation of such programmes would be difficult to organise and to co-ordinate — both within the Office and within the country concerned. But the start of the UNDP’s Fifth Programme Cycle, 1992-97, and the launching of a new International Development Strategy for the Fourth United Nations Development Decade which places great emphasis on employment promotion, poverty alleviation and human rights would seem to make this a propitious moment to launch such programmes. It seems to me that the ILO can only start to have any major impact if it is prepared to attempt to make a more concerted and coherent effort in this difficult area.
It will be important to monitor carefully these programmes, to analyse the reasons for successes and failures and to disseminate widely the lessons learned. We should, moreover, give consideration to the most appropriate forms of machinery to guide and monitor the ILO’s action. The Governing Body (perhaps through its Committee on Employment or its Committee on Operational Programmes) should be regularly informed of progress made and lessons learned; and it might be possible and appropriate for the Committee of Experts on the Application of Conventions and Recommendations to devote some attention to progress in the application of ILO standards (particularly the key standards mentioned earlier) in the informal sector.

In short, the informal sector presents as much of a challenge to the ILO as it does to its member States. While remaining firm on the principles that should continue to guide the ILO’s activities, we must be imaginative and innovative in devising new methods of action and new approaches to the problems that it presents. Only if we can rise to this challenge can we reinforce the effectiveness and credibility of the ILO’s action.

Notes


2 It has been shown that developing countries in particular do not make adequate use of these flexibility devices. If they did, they would have fewer problems of formal compliance with standards.

CONCLUSIONS

The main message of this Report can be summarised in a few sentences.

Contrary to earlier beliefs, the informal sector is not going to disappear spontaneously with economic growth. It is, on the contrary, likely to grow in the years to come, and with it the problems of urban poverty and congestion will also grow.

This stark fact presents a dilemma to policy-makers, to organised employers and workers and to the ILO itself: should the informal sector be allowed to continue to expand outside the framework of laws and institutions governing social and economic life, and thus provide a convenient low-cost way of absorbing labour that cannot be employed elsewhere; or should attempts be made to bring it into the legal and institutional framework of the rest of society, with the risk of impairing its capacity to absorb labour? Is it possible to reconcile the two objectives of labour absorption and regulation?

Attitudes to the informal sector have begun to change in a more positive sense. This is to be welcomed. But the danger is that this change of attitude will result in the adoption of simple, not to say simplistic, solutions to a problem that is in fact very complex.

The dilemma of the informal sector can only be effectively tackled if there is a political will to revise many aspects of the patterns of development pursued so far and of the institutional framework created to promote that development; and if it is possible to undertake a wide range of measures to support, and improve the protection of, producers and workers in the informal sector and to guarantee them certain basic rights.
The dilemma of the informal sector

The momentum for a change of attitudes and policies can only be brought about by pressure from within the informal sector and from organised groups in society — particularly employers' and workers' organisations. And no measures, however well-intentioned, are likely to succeed unless they are built on an awareness of how the informal sector operates, and unless the intended beneficiaries of such measures are associated in their design and implementation.

In the light of these considerations, the Report suggests some elements of a comprehensive strategy: policy reforms, promotional measures and welfare programmes, as well as measures to extend appropriate forms of social protection, to bring about a more rigorous application of human rights and labour standards and to encourage the organisation of informal sector producers and workers. While the approach to be followed must vary according to the situation in different countries, these different elements of a strategy will need to be undertaken as a package, in order to pursue simultaneously the objectives of higher levels of employment, incomes and welfare within the informal sector, and the progressive integration of the informal sector into an institutional and regulatory framework for the whole of society.

The challenge of such a strategy for the ILO is no less great than it is for its member States. It calls for the full commitment of its tripartite membership to a comprehensive programme of action to reduce poverty and exploitation in the informal sector, greater complementarity among the ILO's standard-setting, operational and research activities, and some innovative approaches in its methods of work.

The questions that I would put to the Conference are:
- Does it agree with the diagnosis of the problem set out in this Report?
- Does it agree with the objectives and approach suggested in Chapter 2?
- Does it agree that, given the right mix of policies and programmes, it should be possible to work simultaneously towards the twin
Conclusions

objectives of higher levels of employment, incomes and welfare within the informal sector on the one hand; and the extension of appropriate forms of regulation and protection on the other?

- Does it agree with the policy approach and the elements of a strategy suggested in Chapter 3?
- What should be the role of the ILO? In particular, how should the ILO attempt to bring about greater complementarity between its standard-setting and operational activities based on full respect for its basic principles and objectives? What innovations are required in the ILO’s methods of work?

There are no simple answers to these questions, and this Report in no way claims to provide all the answers. My only ambition is that this Report should stimulate a wide-ranging debate among the ILO’s entire membership on what must surely be among the most difficult policy questions currently facing the world of labour.

28 January 1991       Michel HANSENNE