



Issue paper for Session 2

Upgrading work and enterprises in the informal economy

Organizing for voice and participation

Slow growth in formal employment leaves billions of workers in informal economies

Worldwide about 3 billion women and men are employed or actively seeking employment. This constitutes some two-thirds of the global working-age population (15–64). Of these, 84 per cent live in the developing countries where the bulk of working women and men find work in the informal economy. While the scale of informality has diminished in a few fast-growing emerging economies in Asia, in most of the rest of the world it continues to grow or remain static. Relatively fast growth in recent years has not diminished rates of open unemployment, which remain at over 6 per cent globally. Furthermore income inequality within countries has widened over the last 20 years of globalization in many countries. In addition, the wage share of national income is falling relative to that of profits in several industrial countries.

Viewed in a global perspective we see half of the world's working women and men unable to earn enough to lift themselves and their families above the US\$2 a day poverty line. Most of them work in the rural and urban informal economies of developing countries. The incidence of working poverty is declining as a share of the global labour force but has not fallen in absolute numbers.

According to the latest estimates, informal employment comprises about 65 per cent of non-agricultural employment in developing Asia, 51 per cent in Latin America, 48 per cent in North Africa, and 72 per cent in sub-Saharan Africa.¹ This share would be significantly larger in some countries if informal employment in agriculture were included. There are no comprehensive estimates on recent trends, but many observers agree that in many parts of the world the bulk of new jobs is informal, both self-employment and wage work. Informality does not necessarily recede as countries grow; several countries are experiencing growing informalization in spite of good economic performance.

The informal economy is much less prominent in industrialized countries but there are concerns about its re-emergence where previously secure wage employment is falling.

¹ See *Rolling Back Informality*, paper for the ILO's Asia Forum on Growth, Employment and Decent Work, Beijing, 13-15 August 2007.

It is also fuelled by new forms of irregular and unprotected work as a result of mounting migratory pressures, especially clandestine migration.

The informal economy and the development process

The term *informal economy* captures all economic activities that are in law or practice not covered or insufficiently covered by formal arrangements.² It is mainly used to describe developing economies but sometimes substantial elements of informality continue to exist and perhaps expand in industrialized economies. Informal activities include work done by micro and small economic units, wage workers and own-account workers, including contributing family members. Informal work often takes place within a household unit. Indeed one way of understanding informality is as a transition from small-scale subsistence agriculture by families in rural areas towards production for monetary exchange often in an urban setting but where the household remains important in the organization of work. Many informal producers engage in simple, traditional activities catering to local and nearby markets, e.g. small-scale manufacturing, services or vending in urban areas, domestic work or agricultural work on small plots of land. Depending on the opportunities workers can and frequently do move from one category to another. As globalization unfolds, informal economies are developing links with production chains connected to global markets. There is also concern that in an increasingly intense competitive environment some formal businesses may be seeking to lower costs by resorting to subcontracting to suppliers that are trying to avoid taxes and regulations.³

Typically workers and economic units in the informal economy are vulnerable and insecure, experience severe decent work deficits and often remain trapped in poverty and low productivity. They are overwhelmingly unorganized and lack mechanisms and channels for representation and participation. They are “the largest concentration of needs without voice”. Women, youth, and older people are disproportionately represented. There is also some evidence of a gender-based hierarchy, where informal industrial workers in developing countries can be predominantly women and their employers mostly males.

There are multiple factors underlying informality.⁴ First and foremost is the problem of poverty and the informal economy as the principal provider of livelihoods and jobs for the working poor. Though not everyone in the informal economy is poor, there is a frequent overlap between informality and poverty. In the absence of jobs, people create their own activities to generate sources of livelihood and augment household incomes. There is much agreement that informality is primarily a reflection of limited opportunities

² Resolution and conclusions concerning decent work and the informal economy, adopted on 19 June 2002, International Labour Conference, 90th Session, Geneva, 2002, available at <http://www.ilo.org/public/english/standards/relm/ilc/ilc90/pdf/pr-25.pdf> (pp. 52-53).

³ In practice the boundaries between formality and informality are not clear-cut. Formal and informal enterprises and workers coexist along a continuum, with decent work deficits most serious at the bottom end unprotected, unregulated and survivalist, but also existing in some formal jobs with increasingly decent conditions moving up towards the formal protected top.

⁴ Some of these factors and trends are included in *Changing patterns in the world of work*, Report of the Director-General to the International Labour Conference, 95th Session, 2006. Geneva, International Labour Office.

rather than choice, and is a sub-optimal solution, on all counts, economic performance, enterprise and human development alike.

Second, the size of the informal economy can be traced to a slow pace of state development leaving a weak institutional framework of governance and a resultant legal and institutional environment that is not conducive to investment and employment. A further symptom of governance weaknesses is the underdeveloped role of representational associations such as employers' organizations and trade unions. Successful labour market governance in particular owes much to the development of constructive tripartite social dialogue between governments and the social partners.

A third factor in some countries is related to the flexibilization of work in the formal segments of the economy through subcontracting, part-time employment, temporary or casual work. As companies strive to cut costs in a competitive market, some may cut back on established employment relationships and resort to work arrangements that are more informal, unprotected and insecure. Although flexibility within regulated systems may in the longer term yield the productivity improvements essential to sustained competitiveness, in the short run operating informally may appear to be a viable option. Globalization, by making it easier for businesses to break up production processes and subcontract them to other countries where labour costs are lower, adds an international dimension to such tendencies. Micro-enterprises or women home-based producers in the informal economy are found at the lowest end of these global production systems.

While informality remains a major development challenge there is, on the other hand, an increased policy momentum in many countries. The search for innovative solutions and practical responses that can promote upgrading of informal enterprises and decent work for a significant proportion of the workforce is connected to both the goal of poverty reduction and also the importance of competing in a global economy.

Breaking out of informality: A policy framework

A broad framework for action was provided by the general discussion of the informal economy by the ILO tripartite constituents that took place at the 2002 International Labour Conference. The operationalization of that framework, reviewed by the ILO Governing Body in March 2007, acknowledged that enabling the transition to formality requires a comprehensive and integrated strategy that cuts across a wide range of policy areas and aims at: (a) eliminating the negative aspects of informality, while preserving the significant job-creation and income-generation potential of the informal economy; and (b) promoting the protection and incorporation of workers and economic units in the informal economy into the mainstream economy.

Organization, representation and social dialogue are important in all aspects of economic and political life. However, informal economy operators and workers are often constrained from organizing and participating in these processes. Their workplaces are often mobile and scattered. Their jobs may be seasonal and temporary. They are preoccupied with survival leaving them little time or energy for organizing. They fear putting their jobs at risk when they begin organizing and lobbying for better terms. Where they are organized, their organizations may not be recognized. Policy-making bodies often do not make room for representation among the weak and poor.

This "representation gap" is an important reason for inadequate legal and social protection and the lack of access to productive assets, capital and product markets, training systems, public services and amenities. It also makes it difficult to properly design and fine-tune policies and regulations addressing informality, since the recipients can hardly

participate in the crafting of those policies nor can they provide adequate feedback to adjust incentives and sanctions.

Unlocking the employment generation potential of the informal economy

Mitigating the spread of informality first requires making employment a central concern of economic and social policies. This would involve promoting a coherent employment-friendly macroeconomic framework that fosters inclusion of the working poor in economic processes. Those macroeconomic strategies – which are reviewed in the issues paper for panel discussion 5 on policy coherence – should couple with measures to improve the access of informal enterprises to markets and services, so that their potential for entrepreneurship, innovation and employment generation is realized.

That means improving the business environment, increasing assets and productivity, appropriate regulatory frameworks, credit facilities above microfinance, the raising of skills and the removal of bureaucratic biases and red tape. One main issue is to design and implement interventions that fully cater to the needs and expectations of informal economic units and actually have an effect on the constraints and incentives affecting their behaviour. To do that without listening to the voice of the recipients is ineffective.

The reviewing and streamlining of regulatory frameworks is an approach advocated by many. This requires mechanisms in place to ensure the involvement and participation of the recipients to elicit their feedback as to whether the regulatory adjustments are effective and appropriate. It may also demand intermediary associations that can denounce bureaucratic abuse and corruption and exert peer pressure among their members. In a similar vein, training and business development services targeting informal enterprises can help them improve their capabilities to expand business and generate better jobs.

Policies and programmes must take into account the specific circumstances and constraints that informal entrepreneurs face: inadequate schooling and language constraints, lack of confidence to apply new methods, even lack of interest in carrying out anything more than production work. In short, reaching out to a mobile, scattered and voiceless target group is a main challenge to policy design, one that requires innovative approaches and investment in appropriate strategies of outreach and delivery.

Investing in integrated (urban and rural) local development

Municipal and village-level governance units comprise the first level of engagement for informal economy workers and entrepreneurs in many aspects of their lives. The choice of local industries to prioritize for promotion, the choice of infrastructure development, the delivery of medical care for workers who fall ill or encounter accidents, the issuance of licences to operate, the decisions on investments in education, vocational training, health, socialized housing – all these are done at the local level, especially in countries where governance is decentralized and powers are devolved.

Thus, the most immediate locus of intervention in the informal economy and where impact can best be realized is on the local level. Local governments are also the place where participation in policy-making is more direct, and where informal sector entrepreneurs and workers – if allowed representation in local planning bodies – can concretely express their voice in concerns that affect them. But while local governance

units represent a strategic level of intervention, this is where large capacity gaps are found and where development assistance has only recently started to address its attention.

Organization, representation and social dialogue

In recent years, efforts have been stepped up in enhancing the organization and representation of informal economy workers and units through various strategies. The 2002 International Labour Conference conclusions stressed the key role of “democratic, independent, membership-based organizations of wage workers, own-account workers, self-employed persons [and] employers in the informal economy”.

Trade unions are placing increasing emphasis on organizing in the informal economy, as they recognize that their ability to bargain for the traditionally organized segments of the workforce depends upon their capacity to organize those who are working in small firms, in the service sectors and in the new sectors of the economy. Experiences are varied, ranging from organizing workers in the service sector of advanced economies to organizing farm workers in Fiji, domestic workers and fisherfolk in Sri Lanka, ship breakers in India, garment and transport operators in Cambodia, homeworkers in Thailand, to cite but a few. Success seems to hinge on identifying entry points (e.g. safety and health, skills training, assistance in getting social security system benefits, livelihood and educational programmes) and building coalitions with other social organizations and movements involved in the protection of workers in the informal economy.

Local business associations also increasingly play an important role in the informal economy. Associations of small suppliers in global manufacturing and services can help their members upgrade their production techniques and move up the value chain. Cooperatives provide useful lessons in relation to organization building. Workers' cooperatives are in fact being organized as collective enterprises of retrenched workers in some Asian countries where they receive contracts from their former employers to deliver transportation and trucking services. Community-based organizations, where informal operators and workers are found, play an important role in securing land tenure, improving infrastructure, mobilizing financial services, all of which impact on the security of the economic activities and livelihoods found in low-income neighbourhoods.

Issues for discussion

The root causes of informality are manifold and interlinked. While the upgrading of informal economies is an intrinsic element of the development process of the last 200 years there is some evidence that in an ever more integrated global economy progress is stalling in some countries perhaps as a consequence of the polarizing tendencies of increased competition.

If informality is a last resort both for individuals, families and countries, how can improved policies create more and better decent work opportunities in an environment of intensified competition?

To fully address these challenges requires comprehensive policies and programmes aimed at both expanding and improving the employment generation potential of the informal economy while extending social protection. But the reality of the countries where informality looms large is that resources are scarce and the mechanisms to implement policies are weak. Stronger institutional mechanisms and channels for voice and participation are not just a fundamental tenet of good democratic governance, they can also

contribute significantly to innovative and more effective design of policies and delivery of programmes.

What role can the social partners play? What lessons are emerging from ongoing efforts at organizing the unorganized? And how can good practice be strengthened and disseminated?

We need more knowledge about the most effective mechanisms and channels for voice and participation of informal workers and employers. What kind of field work and research is needed? How can initiatives that work be stepped up and mainstreamed into broader policy frameworks and strategies to counter informality?

How can local governments and local stakeholders be best equipped to deal with the challenges of informality? Is there a role for international assistance? How can the ILO constituents support participatory governance, social dialogue and partnerships to carry out decent work interventions at the local level?