Title of the Policy Brief: Resource Guide for Upgrading Informal Enterprises*

Executive summary: Informal enterprises (mostly, MSEs for micro and small enterprises) operate under precarious economic and working conditions with almost no workers' protection. Decent Work deficits are the highest in the economic units in the informal economy. Poverty reduction and MDG goals can be achieved only through growth in productivity and incomes and workers' protection. While legal empowerment of the informal enterprises is essential for them to benefit from linkages to mainstream economy, it is also essential to build economic incentives for such linkages. Local community and officials can play an important role raising awareness for upgrading the value chain and creating such incentives.

1. Nature, context and importance of the problem. Since the discussions on informal economy during the International Labour Conference (ILC) in 2002 in Geneva, numerous initiatives and publications have appeared within and outside the ILO in tackling the gap existing among the MSEs along the continuum of informality and formality. A challenge has been however posed by the enormity of the views and experiences in formulating the strategy appropriate to the national and local context. Discussions during the implementation of the ILO’s InFocus Initiative on informal economy have concluded with a need for upgrading economic units within the informal economy. International Labour Conference (ILC) discussion on sustainable enterprise in 2007 also concluded the need for the transition of MSEs into formal, productive sustainable enterprises is essential for making progress towards the ILO’s Decent Work (DW) Agenda.

The four equally important strategic objectives of the ILO, through which the Decent Work Agenda is expressed, are: (1) rights at work; (2) employment promotion; (3) social protection; and (4) social dialogue. As the ILO’s 2008 Declaration on Social Justice for a Fair Globalization states those four strategic objectives are “inseparable, interrelated and mutually supportive.” These objectives hold for all workers, women and men, in both formal and informal economies and in wage employment or working on their own account.

An UNCTAD Report concluded that the rapid economic growth in the developing countries has not necessarily accelerated the rate of poverty reduction. It is a fact that the larger part of the world’s working population earns its livelihoods under the vulnerable and insecure conditions of the informal economy.

It is estimated that 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. GDP contribution of the informal enterprises however remains disproportionally dismal. It is only 42 percent in Africa; 26 percent in Asia; and 41 percent in Latin America.

Upgrading MSEs means therefore enhancing productivity and incomes of the workers and entrepreneurs while also improving the workers’ protection and rights thus giving an

*Based on the Enterprise Global Product on Resource Guide for Upgrading Informal Enterprises (MSEs)
3 Ibid.
impetus to advancing decent work agenda among the informal enterprises. Identifying and implementing an appropriate mix of policy options with sustainable strategy interventions and support is a challenge in stimulating enterprising activities in the informal economy.

ILO’s World Employment Report (2004-05) titled, Employment, Productivity and Poverty Reduction, stated that productivity is a relationship between output and inputs. Much of the research on productivity is based on the indicator of labour productivity. This measure is relatively easy to calculate and is practical in the sense that it allows for comparison of trends between countries.

2. **Policy options and recommendations.** In formulating a strategy for upgrading the informal enterprises, a mix of following policy options may need to be considered:
   
a. Creating an environment for legal recognition and empowerment through compliance;

b. Promoting increasing business linkages between formal and informal enterprises through targeted initiatives and a system of incentives;

c. Scaling up the operations through membership-based organizations, i.e., cooperatives; and

d. Involving the local community and administration on the importance of upgrading the MSEs.

2.1 Legal recognition and empowerment. Legal recognition of the informal enterprises must be the first priority in closing the gap between formal and informal economies. With legal recognition comes the empowerment of the owners to formally bid for government contracts and supplies, seek credit from financial institutions, enter into and enforce the business contracts, etc. that enhance business opportunities and prospect for expansion and growth with job opportunities.

Most countries surveyed by the ILO, except Chile and Viet Nam, have large percentages of MSEs not complying with any registration requirements and are operating in an informal environment.⁴ Even the industrialized OECD countries have disproportionate burden of administrative costs to the small enterprises.⁵

Priority needs to be given to simplification of and raising awareness about the rules. The registration and compliance to the regulatory requirements may be complex and time consuming, which need to be streamlined to reduce cost and burden, particularly for the MSEs with inability to cope and afford.

2.2 Building incentives for formalization. Incentives need to be built for stronger linkages of the informal enterprises to formal, larger enterprises. Larger enterprises, specially ‘lead firms,’ ought to be able to clearly see the advantage of working with smaller enterprises through tax breaks, special incentives and low costs.

Actually, lead role played by the ‘lead/sourcing/franchising firms’ can be critical in upgrading the MSEs. If the ‘lead firms’ see the value of sourcing or franchising through small firms (most do anyhow) and if the former realize the importance of improving

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productivity of their entire value chain, practical improvements in business practices as well as working conditions can take place rather quickly.

Six business linkage centres were started during 1998-2003 by the SBP (Small Business Project) in South Africa providing links of small enterprises with over 80 large enterprises. Similar initiative (PSI - Private Sector Initiative) has been started by DFID in Tanzania since 2001 with creation of ‘Buyers’ Forum’ of eight large enterprises, which works with vendor small enterprises along the supply chain.

2.3 Scaling up marginal operations. Marginal, subsistence-oriented economic activities tend to remain too small and remain confined to the limited market unless steps are taken to gain a scale of economy as well as diversification. Cooperatives, and sometimes self-help organizations, are best placed in achieving the goals of upscaling and diversification. There are several ILO tools available (i.e., MATCOM, Shared Services Cooperatives, etc.) in supporting the work in building capacity of cooperatives.

Several Member States of the ILO have utilized the assistance of the ILO. Ghana has sought to upgrade the informal enterprises by integrating all partners in the implementation of a strategy that supported the creation of associations and cooperatives. Part of its strategy was based on public and private partnerships for local economic development in facilitating access to social security schemes, skills training and better business opportunities.

The ILO has carried out a number of projects in organizing the informal workers and in association building under the small business associations (SBAs), trade unions or workers’ associations, community- or sector-based self-help groups.

In Tanzania, the VIBINDO Society has been operating as an umbrella organization of small businesses and producers in Dar-Es-Salaam and the surrounding region. The SYNDICOOP project implemented in Rwanda, Tanzania, Uganda and Kenya made a serious effort to organizing the informal workers under a trade union co-operative joint action in giving them a voice and representation besides providing them the opportunity of scaling up and accessing credit and other productive resources.

2.4 Involving community and local administration. Community and local administration along with social partners and NGOs can play an important role in creating an environment for the growth of local enterprises and protection of operators and workers from exploitative practices. ILO is implementing several LED (local economic development) projects energizing the local actors including the private sector to provide an impetus for job creation at the local level.

Regarding initiatives to create institutions/organizations to start up MSEs, an interesting example is found in Chile, where a programme working on poverty eradication, initiated the creation of a new organization/institution in an innovative way, focusing on the

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7 T. Bekefi: Tanzania: Lessons in building linkages for competitive and responsible entrepreneurship.
8 UNIDO and Kennedy School of Government, Harvard University.
9 VIBINDO is an umbrella, membership-based organisation for the informal sector operators in Dar Es Salaam Region, engaged in small-scale business and production. In June 2003 it had 295 groups consisting of 39,955 individual members, among these 65% are youth in both sex aged from 15 year 35 years.
10 SYNDICOOP was developed by the ILO’s Bureau for Workers’ Activities (ACTRAV) and its Cooperative Branch in Geneva as a joint effort of the International Cooperative Alliance (ICA), the International Confederation of Free Trade Unions (ICFTU) and the ILO. Begun in 2002, the effort focused first on workers in the informal economy in Rwanda, Tanzania and Uganda, with Kenya joining more recently.
indigenous population, named the Solidarity and Social Investment Fund (FOSIS). It has been successful in reaching the communities “targeted,” however the population involved was small. It started with an experimental program allowing community-based organizations to apply for public funds to develop projects to improve neighbourhood infrastructure or start micro-enterprises\textsuperscript{11}.

**Bibliography**


