Addressing Informality for Rural Development

Most informal economy workers and entrepreneurs live in rural areas, often in extreme poverty and insecurity. A comprehensive and integrated approach to moving out of informality is essential to address the multiple dimensions of social and economic exclusion that stifle the potential of rural inhabitants and their communities.

Why action is needed

- Informality and poverty overlap significantly, particularly in rural settings.
- Over 70 percent of the world’s very poor are rural, and most of the poor and hungry are children and young people.
- The last 60 years of development strategies have shown that growth does not reduce poverty unless associated with improved employment opportunities and conditions of employment, and the elimination of informality, especially in rural areas.
- The problems of informality are exacerbated in rural areas due to weak socio-economic infrastructure, remoteness from national institutions and basic services, limited income opportunities and poor legal protection, all of which make rural economies more vulnerable to shocks and risks.
- Since 2005, “Reaching full and productive employment and decent work for all, including women and young people” has been a target under the first Millennium Development Goal on the eradication of poverty and hunger; a broad recognition of the crucial need to set employment and decent work at the centre of economic and social policies. Similarly, in 2009 the UN system endorsed the Social Protection Floor (SPF) Initiative, to ensure populations can at least access basic transfers and services that reduce labour market risks and provide affordable health care and income security, thereby limiting pushes towards informality.
- Gender dimensions in rural informality are strong and linked to persistent socio-cultural constraints that limit girls’ access to education and training compared to boys, resulting in fewer economic opportunities in adulthood, and creating multiple obstacles to the economic and social participation of women, to their becoming organized and acquiring bargaining power. All this makes it difficult for women to access the formal economy, and perpetuates inter-generational poverty.
Diversifying and supporting rural enterprises

Promoting profitable agriculture

- Support agriculture, with special emphasis on small-holder farmers, to increase productivity and profitability.
- Promote non-traditional and high value-added agricultural production and exports.
- Improve the bargaining power of smallholders, so they can better manage the growing opportunities and risks in international agricultural markets.
- Improve access to land, as this will largely determine the benefits to individual households from policies and programmes supporting agriculture.

Diversifying and supporting rural enterprises

- Combine agriculture support with support to non-farm rural entrepreneurship, which needs to assume an ever larger role as a source of growth and productive employment.
- Support non-farm activities upstream and downstream of agriculture, as they simultaneously strengthen agriculture, increase local income and the demand for farm and non-farm products, and create attractive exit opportunities for agriculture workers, leading to higher incomes for those remaining on farms.
- Engage in broad-based industrialisation, in terms of sectors as well as geographically, to create a strong and competitive manufacturing base.
- Expand formal entrepreneurship and access to markets by:
  - Streamlining registration and other bureaucratic procedures, reducing transaction costs, and providing tax incentives to facilitate Micro-, Small and Medium enterprise (MSME) startups
  - Improving access to training and business services
  - Facilitating access to credit, infrastructure (power supplies, transportation, etc.), appropriate technologies and markets
  - Promoting value chains and linkages with formal business
  - Developing incentive structures for informal enterprises that move to formality, in terms of access to markets, public procurement, credit, training, Business Development Services (BDS), technology, infrastructure, and taxation

Informal employment comprises of: i) own-account workers and employers employed in their own informal enterprises, ii) contributing family workers, in both formal or informal enterprises, and iii) employees holding informal jobs, in formal enterprises, informal enterprises, or as paid domestic workers.¹⁰

Decent work deficits are glaring in informal activities, where workers typically:
- Have ambiguous or disguised employment status
- Have high illiteracy levels, low skill levels and inadequate training opportunities
- Have more uncertain, less regular and lower incomes
- Are exposed to inadequate and unsafe working conditions, including longer working hours
- Are often excluded from or not reachable by social security schemes or safety and health, maternity and other labour protection legislation
- Lack collective bargaining and representation rights

What is the informal economy and informal employment?

The “informal economy” refers to all economic activities that are – in law or in practice – not covered or insufficiently covered by formal arrangements. These activities are not included in the law; or are not covered in practice, as the law is not applied or not enforced; or the law discourages compliance because it is inappropriate, burdensome, or imposes excessive costs.¹⁰

The term “informal economy” is preferred to that of “informal sector”, as it captures the diversity of workers and economic units, in different sectors of the economy and across rural and urban contexts.

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Policy options

Facilitating transition to formality in rural areas rests on a set of multidimensional policies adapted to each country, to be combined in an integrated framework. Policies should simultaneously promote decent and formal employment, and reduce informal employment.

Promoting profitable agriculture

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Diversifying and supporting rural enterprises

Box 1

Box 2

Training for Rural Economic Empowerment (TREE)

The ILO’s TREE is a community-based training programme implemented in some 11 countries to promote income generation and employment creation, particularly among disadvantaged groups such as women, the unemployed, underemployed, the poor and informal workers. Its methodology, always adapted to the local socio-cultural characteristics and conditions, identifies local economic opportunities, designs and delivers skills training, and provides follow-up services after training.

Independent evaluations have documented considerable success. In the Philippines, 94 percent of those interviewed attributed their present economic activities to training received through the programme. In Pakistan, literacy courses that were included in the programme greatly improved participants’ ability to benefit from vocational training, and some 56 percent of participants in skills development or literacy courses were women. In both countries, authorities mainstreamed the approach into national policies.

Enhance investment in rural economic and social infrastructure (e.g. electrification, roads, water, health and education centres, and market spaces) that can raise productivity and quality, improve access to markets, reduce barriers to mobility and operating costs, thereby giving enterprises the means to formalize.

Ensure use of appropriate employment-intensive technologies that generate formal employment, income, skills and entrepreneurship, while creating or preserving infrastructure and other assets, including natural resources.

Developing skills relevant to rural transformation

Provide quality education and training, adapted to local economic opportunities, needs and specificities, especially in remote and underserved rural areas, and make them broadly accessible, including to disadvantaged groups, such as women, indigenous populations and disabled persons.

Provide education and training that allows recipients to move on to higher value-added activities.

Actively involve private enterprises and trainers, such as in Brazil’s National System for Rural Apprenticeship (SENAR).

Enhancing rural social coverage

Introduce non-contributory social security programmes in the national social protection strategy. These include universal programmes, such as social pension programmes, child allowances or national health services; and others targeting specific categories like the poor and other vulnerable groups, such as social assistance programmes, conditional cash transfer programmes, and employment guarantee schemes.

Devise several, coordinated social coverage instruments that are adapted to the specific characteristics and coverage needs of the different groups in the informal economy, in terms of income (level, regularity, seasonality, etc.), status in employment (employees, employers, own-account workers, casual workers, etc.), sector of activity (trade, agriculture, industry, etc.), as well as to the contingencies to be covered, and the national context.

Strengthening legal frameworks and workers’ protection

Guarantee the respect of fundamental principles and rights at work for rural informal workers and entrepreneurs, such as freedom of association, elimination of child labour, forced labour and all forms of discrimination.

Set strategies to overcome poor regulations and improve labour legislation and codes of practice.

Simplify the law and improve enforcement mechanisms to help rural MSMEs comply with legislation and enhance their efficiency and competitiveness.

Organizing informal workers

The ILO Syndicoop programme, jointly designed and implemented with the International Trade Unions Confederation (ITUC) and the International Cooperative Alliance (ICA), aims to strengthen trade union and cooperative capacity to organize unprotected informal economy workers and improve their working conditions. Launched in 2002 in Rwanda, Tanzania and Uganda, Syndicoop subsequently reached Kenya in 2004 and South Africa in 2008. The programme has shown significant potential for informal economy workers to organize and pursue their interests through cooperatives and trade unions, strengthening existing structures and enhancing services for members. Among others, it helped build capacity to design and implement local job creation schemes, and to foster gender participation and representation.


The ILO-Norway Workers Education Project (2004-2006), implemented in 646 villages of 12 districts of Tamil Nadu and Madhya Pradesh in India, fostered integration of informal workers in rural workers’ organizations, improving their bargaining power and skills. Through promoting vocational training and capacity building, establishing self-help groups (SHGs) and income generation programmes, as well as helping enforcement of fundamental principles and rights at work, the project reached a significant number of beneficiaries, namely women workers in agriculture and other rural sectors, fishing communities, trade union leaders and members, tsunami-affected communities and rural workers’ organizations.

Source: ILO: The Path of Deliverance: Organizing and Empowering Rural Informal Economy Workers (New Delhi, 2007).

Promote a multi-pronged approach based on awareness-raising campaigns, training, and tripartite partnerships to enhance the legal literacy of informal workers and entrepreneurs as well as to strengthen the role of rural labour administration and inspection.

Encouraging rural actors’ organization and social dialogue

Support organization, representation and dialogue with authorities for rural informal economy actors.

Foster recognition of rural workers’ and employers’ organizations by authorities, to guarantee rural voices and representation in public policy debates and their participation in designing and implementing rural development and poverty alleviation programmes, so as to ensure their needs, interests and priorities are addressed.

Support rural cooperatives, to improve the efficiency, competitiveness and capitalization of rural producers, while ensuring legal empowerment and participation.

Promoting local rural development strategies

Envisage Local Economic Development (LED) approaches, based on broad direct involvement of local stakeholders, including informal economy actors, at all stages of decision-making and interventions.
ILO’s Role

- The ILO has been working on informality since the early 1990s.
- The discussion on “Promotion of rural employment for poverty reduction” at the June 2008 International Labour Conference and its ensuing resolution, calls for making formalization a major goal and using an integrated decent work perspective, with employment, social protection, social dialogue and labour standards components, to achieve it. This was reiterated at the March 2011 ILO Governing Body discussion on “Unleashing rural development through productive employment and decent work”.
- Over 30 ILO legal instruments target rural areas and agriculture in particular. Among these, the Conventions on Labour Inspection (Agriculture), 1969 (No. 129); on Minimum Wage, 1970 (No. 131); Rural Workers’ Organizations, 1975 (No. 141) and Recommendation (No. 149); Migrant Workers (Supplementary Provisions), 1975 (No. 143); Indigenous and Tribal Peoples, 1989 (No. 169); Home Work, 1996 (No. 177) and Recommendation (No. 184).
- The ILO works with constituents on the comprehensive platform of action to transition to formality, established by the 2002 International Labour Conference Resolution on Decent Work and the Informal Economy.
- The ILO provides support at policy level and in operational work, as well as support to ratify and implement relevant international labour standards, enrich the knowledge and tools base, for example through the preparation of a tool to promote freedom of association in rural areas.
- The ILO extensively utilizes partnerships, including with the Food and Agricultural Organization (FAO), International Fund for Agricultural Development (IFAD), and International Food, Farm and Hotel Workers (IUF). For instance, the ILO has co-chaired since 2009 the UN Social Protection Floor (SPF) Initiative.

7 Overseas Development Institute: Rural employment and migration: In search of decent work New thinking on rural employment is needed to create more and better rural jobs, Briefing Paper 27 (London: 2007), Available at: http://www.odi.org.uk/resources/docs/6.pdf

Links


Tools


Other Materials


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