

## Informal Economy

### The Challenge

Today a significant percentage of the global workforce – women and men – earn their livelihood in the “informal economy”. In developing countries particularly, the informal economy accounts for between 35 and 90 per cent of total employment, and is not confined to traditional rural and urban informal sectors. Various types of informal contracts, precarious employment and undeclared work have been gaining ground in formal establishments as well. Informal work therefore reflects very diverse realities of wage and self-employment worldwide.

For workers, informal employment often means low pay and limited access to legal and social protection and resources. It results in limited bargaining power and representation, as well as the inability to project future development. And the most vulnerable in labour markets – the low-skilled, youth, the elderly, women and migrants – are most likely to be working in the informal economy. For individual businesses and/or micro and small enterprises, informality is a drag hindering growth, productivity and access to mainstream resources.

Informality poses serious policy challenges and promotes unfair competition in the labour market. It remains high worldwide; it may even have been increasing in some countries and regions over the last decade, including in countries that have had high economic growth. This is due to a wide range of factors, including a deficit in the creation of a sufficient number of quality jobs, the declining role of the manufacturing sector, the rise of new work arrangements and the processes of economic restructuring.

Informality is an integral part of the decent work deficits worldwide; a result of the non-inclusive growth patterns and hence policy responses need to promote inclusive job rich growth path and broad access to social protection.

### The ILO Response

Since 2002 an overarching framework for the ILO’s work on the informal economy has been set in place through a number of Resolutions, notably the Resolution on Decent Work and the Informal Economy adopted in that year by the International Labour Conference (ILC).

More recent ILC Resolutions have made specific recommendations with respect to the informal economy, such as the promotion of sustainable enterprises (2007), rural employment for poverty reduction (2008), skills development (2008), gender equality (2009) and the conclusions concerning the recurrent discussion on employment (2010).

The 2002 Resolution proposed a comprehensive tripartite platform for action composed of representatives of governments, employers’ and workers’ organizations of all ILO member States. Acknowledging the diversity of informal work, it called for all action addressing decent work deficits in the informal economy to take this diversity into account.

In subsequent policy discussions, the ILO constituents reconfirmed the objective of “moving out of informality” as the ultimate goal. They recognized that there are many ways of making the transition to formalization easier, and that formalization is a gradual process cutting across several policy areas.



The global financial and economic crisis has highlighted the importance of formal employment, as the crisis has hit both informal economy workers and entrepreneurs without access to social protection. The Global Jobs Pact adopted by the ILC in 2009 recognizes informal economy workers amongst those particularly vulnerable to the crisis and proposes policy measures to mitigate its impact and speed up recovery. These include the implementation of employment guarantee schemes, targeted employment programmes, public works, support to micro and small enterprises and the promotion of a social protection floor.

The ILO's approach to the informal economy is thus an integrated one. Its programme is organized around three principles:

- a more systematic approach by all ILO programmes to deepen their understanding and work with respect to the challenges of informal economy;
- an integrated and coherent perspective to analyze and support the transition to formality across the four decent work objectives;
- responsiveness to the diversity of local demands.

These principles are being put into practice according to the following priorities:

- **promoting an integrated and coherent perspective on transition to formality:** informality by its very nature calls for interdisciplinary analysis, including:
  - evidence-based country reviews, using the integrated diagnostic framework set out in the diagram below;
  - capacity-building of constituents on policy development and organization;
- **conducting research and technical cooperation on the dynamics of informality in key areas** such as growth strategy and quality employment generation, the regulatory environment, equality, social dialogue, entrepreneurship development, social security, local development, response to the crisis and follow-up to the Global Jobs Pact;
- **facilitating dialogue and exchange of good practices** across regions through a web-based resource platform;
- **improving data** collection and measurement at the global level;
- **developing partnerships** with regional and international institutions such as the European Union, African Union, Asian Development Bank, other UN agencies and OECD.

## Key Tools and Resources

In addition to the above-mentioned ILC Resolutions:

International Labour Office (ILO). 1964. *Employment Policy Convention, 1964 (No. 122) and Recommendation, 1964 (No. 122)* (Geneva).

—. 2007. *Decent work and the transition to formalization: Recent trends, policy debates and good practices*. Report of the Tripartite Inter-regional Symposium on the Informal Economy: Enabling Transition to Formalization (Geneva).

—. 2009. *The informal economy in Africa: Promoting transition to formality: Challenges and strategies*. Regional workshop in partnership with the African Union (Geneva).

—. 2010. *Report of the Committee for the Recurrent Discussion on Employment*, International Labour Conference, 99th Session, Geneva, 2010.

—. 2011. *ILO resource guide on the informal economy – An Overview*.

<http://www.ilo.org/public/english/support/lib/resource/subject/informal.htm>

—. 2012a. *The informal economy and decent work: A policy resource guide – Supporting the transition to formality* (Geneva). Forthcoming.

—. 2012b. Forthcoming. *Women and men in the informal economy – A statistical update* (Geneva).

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