

**FOR DEBATE AND GUIDANCE**

## FOURTH ITEM ON THE AGENDA

**The informal economy**

1. The last general discussion of the informal economy by the ILO tripartite constituents took place at the 2002 International Labour Conference. The resolution and conclusions<sup>1</sup> concerning decent work and the informal economy adopted then provided a new framework for action. Highlights of this framework are recalled hereunder:
  - the term “informal economy” was proposed in lieu of the “informal sector” to accommodate “all economic activities that are – in law or practice – not covered or insufficiently covered by formal arrangements”. The broadened term takes account of the considerable diversity of workers and economic units, in different sectors of the economy and across rural and urban contexts that are particularly vulnerable and insecure; that experience severe decent work deficits and often remain trapped in poverty and low productivity;
  - the informal economy includes wage workers and own-account workers, contributing family members and those moving from one situation to another;
  - it includes some of those who are engaged in new flexible work arrangements and who find themselves at the periphery of the core enterprise or at the lowest end of the production chain;
  - to promote decent work, there needs to be a comprehensive and integrated strategy cutting across a range of policy areas that eliminates the negative aspects of informality, while preserving the significant job creation and income-generation potential of the informal economy, and that promotes the protection and incorporation of workers and economic units in the informal economy into the mainstream economy;
  - the resolution called on governments to develop and implement a range of policies and programmes, on social partners to advocate for and extend representation, and on the Office to undertake a series of actions to better address the needs of workers and economic units in the informal economy throughout the Organization.

<sup>1</sup> Resolution and conclusions concerning decent work and the informal economy, adopted on 19 June 2002, ILC, 90th Session, Geneva, 2002, available at <http://www.ilo.org/public/english/standards/relm/ilc/ilc90/pdf/pr-25.pdf> (pp. 52–53).

2. This paper reviews, in a succinct and selective manner, progress made in the operationalization of this framework since 2002. Some examples of innovative initiatives taken by governments and social partners to promote decent work in the informal economy in different regions and contexts are provided. Key policy issues, emerging practical approaches and good practices that address decent work deficits in the informal economy and/or facilitate transition to formality are highlighted. Follow-up action by the Office across the strategic objectives of the Decent Work Agenda, including work in progress under the InFocus Initiative on the informal economy in the current 2006–07 biennium is reviewed. The paper concludes with an assessment of work carried out to date and proposes next steps for the promotion of an integrated approach to support the informal economy priorities in the context of Decent Work Country Programmes (DWCPs).

## **The informal economy debate gaining new momentum**

3. Concerns with the global job crisis, with the decline in the employment content of growth and the low quality of jobs created, on the one hand, and with changing patterns of work under the new production strategies<sup>2</sup> in the global economy, on the other, are giving new momentum to the informal economy debate in policy discussions, in developing and industrialized countries. While there remain fundamental conceptual differences in the diagnosis of the problem, and therefore in the search for possible solutions and effective policy approaches, there is a broad consensus that informality of a large part of the workforce and of economic units takes a heavy toll on societies and on economies. Efforts need to focus on addressing glaring decent work deficits for workers and entrepreneurs in the informal economy and to bringing them into the mainstream economy. The issue is central to achieving the Millennium Development Goals (MDGs) and to promoting a fair globalization. At the global level, the 2006 United Nations Economic and Social Council (ECOSOC) Ministerial Declaration on decent work placed a central emphasis on policies that promote the integration of the informal economic activity into the mainstream economy and that address interlinkages between rural and urban poverty reduction.<sup>3</sup> Similar concerns and commitments are echoed at the regional and national levels and throughout international institutions.
4. In sub-Saharan Africa where, typically, the formal segment of the economy does not employ more than 10 per cent of the labour force, and has not been expanding in the recent past, and where extreme poverty has increased in contrast to other regions,<sup>4</sup> addressing the challenge of the informal economy and poverty reduction are intertwined. The Ouagadougou Summit's 11-point Action Plan provides the comprehensive range of action for employment and poverty reduction. In a few countries, such as Ghana, Kenya and South Africa, specific policy initiatives have been taken with reference to informal activities.

<sup>2</sup> ILO: *Changing patterns in the world of work*, Report of the Director-General, ILC, 95th Session, 2006, Report I(C), Geneva, 2006.

<sup>3</sup> ECOSOC: Ministerial Declaration of the High-Level Segment on "Creating an environment at the national and international levels conducive to generating full and productive employment and decent work for all, and its impact on sustainable development", July 2006.

<sup>4</sup> *Meeting the challenge of employment in Africa: An issues paper*, prepared by the United Nations Economic Commission for Africa for the 35th meeting of the Committee of Experts of the Conference of African Ministers of Finance, Planning and Economic Development, Ouagadougou, May 2006.

#### Addressing the informal economy: Policy initiatives from Ghana

- Ghana's revised Poverty Reduction Strategy Paper (PRSP) – the GPRS II 2006–07 – stresses the importance of employment creation for poverty reduction and specifically addresses the informal economy. This reflects the growing recognition that private sector development needs to encompass the micro- and small enterprises (MSEs) in the informal economy which represent some 95 per cent of private enterprises in Ghana. The President's first sessional address in his second term in January 2005 emphasized the need to "turn around the informal sector in order to turn around the economy". The active engagement of ILO constituents and social dialogue has played a major part in bringing about these policy initiatives.
- Measures include the promotion of entrepreneurship and of good business practices like bookkeeping and banking, strengthening technological proficiency and improved access to credit.
- A policy instrument for pro-poor growth focusing on upgrading the informal economy through the concept of decent work has already been designed and tested in two pilot districts in Ghana. Both districts have established local institutions for social dialogue bringing together local government, elected assembly officials and representatives of small enterprises and civil society. Statutory subcommittees of the District Assembly for Productive and Gainful Employment have drawn up and are implementing local economic development plans that are helping hundreds of small enterprises to upgrade and extend their businesses. Women account for over two-thirds of the beneficiaries and persons with disabilities are well represented. The exercise of rights enables development. The partnership between the private and the public sector enables them to remove binding constraints to growth and improvement that neither local government, nor the enterprises alone, could have overcome.
- The subcommittees have created full inventories of all small and medium-sized enterprises (SMEs) and encouraged those not yet affiliated to associations to organize. They are also instrumental in extending social protection to the informal economy by linking SMEs to the new national health insurance scheme and/or the pension fund. Both subcommittees have initiated "decent work savings and credit unions" that count some 3,000 members bolstering economic stability as well as mobilizing capital for investment.
- Voice, organization and local social dialogue have also generated improvements in governance, conflict resolution and local government budgets. Local government funds are increasingly allocated under plans agreed by subcommittees. Local taxes for SMEs are set and collected in cooperation with small business associations, significantly increasing revenue without threatening the enterprises.
- The initiative was first introduced by the ILO through the Decent Work Pilot Programme. It is currently supported by the United Kingdom Department for International Development (DFID) and in cooperation with Germany's *Deutsche Gesellschaft für Technische Zusammenarbeit* (GTZ). Discussions are under way to upscale the pilot scheme to a much larger number of districts. The formulation and effective implementation of a coherent strategy for the informal economy requires dialogue and coordination among government agencies, with the private sector and with the development partners.

5. In Asia, in spite of considerable achievement in poverty reduction, the problem of the working poor remains significant within a range of 47 and 84 per cent of workers in East and South Asia respectively (US\$2 per day or less).<sup>5</sup> Furthermore, the restructuring of Asian economies as they adapt to global competition; changing technology; and new production strategies by expanding global production chains have led to increases in subcontracting and the outsourcing of production. Many of those at the lower end of global supply chains are micro-enterprises or homeworkers, who are unrecognized, unprotected and lack access to basic services and rights. Several countries in the Asian region are adopting measures promoting recognition, protection and support to informal economy workers and economic units including support to micro and small businesses, extension of health and social protection schemes, and changes in the labour law. Two very different country experiences illustrate the scope of these initiatives: Mongolia, where a comprehensive national policy for the informal economy was first adopted in 2006; and India, where there has been long-standing commitment and multifaceted experience in dealing with the informal economy.

<sup>5</sup> ILO: *Realizing decent work in Asia*, Report of the Director-General, 14th Asian Regional Meeting, Busan, Republic of Korea, 29 August–1 September 2006, Geneva, 2006.

### Mongolia: National policy on the informal economy

One recent example of a policy formulation initiative on the informal economy is Mongolia, where a national policy was adopted by Parliament in January 2006 and an accompanying action plan in July 2006.

A large part of employment in Mongolia is in the informal economy. As Mongolia moves towards a market economy, it is attempting to implement the necessary policies which will ensure sustainable growth, poverty reduction and limit adverse effects on vulnerable workers. As such the national policy on informal employment is a key component of the national development framework. Its aim is to upgrade the informal economy and bring marginalized workers and economic units into the economic and social mainstream. Using the decent work framework, the policy is based on several integrated objectives. These are: improving the legal environment; extending social protection; extending services such as skills training, microfinance, enterprise development and public employment services; linking with macroeconomic and employment policies; improving data collection and registration; and encouraging social dialogue.

The action plan involves all agencies that are charged with the above mandates. In 2007, about US\$170,000 will be allocated from the Employment Promotion Fund for the implementation of this policy's action plan.

Initiatives in Mongolia were supported by the ILO through the ILO/DFID project on the informal economy, completed in March 2006.

### India: Multiple strategies for addressing the informal economy

#### National commissions and laws

Over the years there have been a number of national commissions and legislative initiatives aimed at addressing the informal economy in India. Examples are the National Commissions on Rural Labour (1987) on the Interstate Migrant (Workers); the Regulation of Employment Conditions of Services Act (1979) and the National Rural Employment Guarantee Act (2005). In 2004, the National Commission for Enterprises in the Unorganized Sector was set up as an advisory body and a watchdog which aims to promote comprehensive measures to upgrade informal sector enterprises to enable them to generate large-scale employment opportunities on a sustainable basis. The approach is to take measures to improve productivity and competitiveness with a focus on skills training and integrated support services, on the one hand, and expanding social security coverage and improving working conditions, on the other. The National Commission has achieved the following:

- The Unorganized Sector Workers Social Security draft Bill, 2005: the objective of this Bill is to achieve national social security coverage for informal economy workers in all states and to all groups of workers. Although a number of schemes and mechanisms exist, these fall short of being inclusive of all workers. The proposed scheme provides old-age pension, personal accident insurance and medical insurance. As such, if approved by Parliament, this will be the first Bill to go beyond social assistance or limited forms of protection. The financing and management of this scheme is the major challenge.
- The Unorganized Sector Workers (Conditions of Work and Livelihood Promotion) Bill, 2005: the objective of this Bill is to improve the working conditions of informal economy workers by providing basic minimum standards on working hours, minimum wages and adherence to the prohibition of child labour and bonded labour. The Bill recognizes a minimum for workers' entitlements, such as the right to organize, non-discrimination in payment and conditions of work, safety at work and absence of sexual harassment. The draft Bill also proposes setting up dispute resolution councils at district level to provide an institutional mechanism to settle disputes between wage workers and employers in the informal economy. The implementation of this Bill will be through the establishment of a state advisory committee consisting of representatives of organizations of informal economy workers and concerned ministries among others. This Bill complements the one on social security.
- The National Policy for Urban Street Vendors, 2004: this policy aims to provide and promote a supportive environment to urban street vendors while ensuring basic safety, sanitary and health standards are maintained in public spaces. This has been a major contribution towards shifting the paradigm of "regulating" and prohibiting street vending towards developing an enabling regulatory process together with support services. In order to develop the policy and ensure its success, the Commission discussed several drafts with different stakeholders such as the National Association of Street Vendors of India (NASVI) and the Self-Employed Women's Association (SEWA).

#### Welfare funds for groups of workers

Over the years, separate legislation has been enacted by Parliament to set up five welfare funds to be administered by the Ministry of Labour to provide housing, medical care, social security, education and recreational facilities to workers in specific sectors such as: mining, bidi workers, production of films, dockworkers and construction workers, among others. These are partly or fully contributory, based on tripartite arrangements and under the supervision of the State. Despite the long existence of these welfare funds, and coverage of millions of workers (4 million in the case of bidi workers), it has been suggested that these still fall short in coverage to both regions and groups of workers within the regions.

### Organizing informal economy workers

#### Organization of rural workers

Under an initiative funded by the Bureau for Workers' Activities (ACTRAV) and Norway, more than 80,000 rural workers have been organized into democratic and representative trade unions. In Madhya Pradesh and Tamil Nadu, rural women workers have been trained as extension workers and have successfully worked with several trade union organizations to organize rural workers into trade unions, establish a range of income-generating self-help initiatives and secure greater welfare support and assistance. Women, who have not had the possibility to enter into social dialogue, have been empowered to successfully negotiate with a range of counterparts including local authorities and private landowners. The rural workers concerned have secured much greater income security and fixed a higher minimum wage from the landowners, whilst market traders have secured better working and living conditions.

#### The Self-Employed Women's Association (SEWA)

The informal workers' organization, the SEWA, was established in 1972. It acted as a labour, cooperative and women's movement. In July 2006, the SEWA was admitted as an affiliate of the International Confederation of Free Trade Unions (ICFTU) and now of the International Trade Union Confederation (ITUC). Today, the SEWA has over 700,000 self-employed women members.<sup>1</sup> The SEWA model has inspired other schemes such as the Self-Employed Women's Union in Durban (SEWU), SEWA Yemen and SEWA Turkey.

Within India, the SEWA is part of a larger national network of unorganized sector organizations such as the National Centre for Labour (NCL). The NCL was established to obtain visibility and recognition for unorganized sector workers and to organize for their rights. It includes construction workers' unions, contract workers' and domestic workers' unions, agricultural labourers' and forest workers' unions.

With support from the SEWA, the NASVI was created in 1998 to obtain greater recognition of their contribution to the urban economy and to bring about changes in the regulatory environment in order to improve their livelihoods and work security. In 2003, 276 organizations representing 168,000 street vendors from 20 states of India had taken formal membership.<sup>1</sup>

<sup>1</sup> <http://www.sewa.org/globalisation/index.asp>.

6. In Latin America, where the conceptualization of the informal economy and the policy debate around it are most vivid, it is essentially perceived as an urban phenomenon, resulting from high rates of rural–urban migration, structural adjustment programmes of the 1980s and 1990s<sup>6</sup> and/or for some from burdensome regulations and lack of recognition of the property rights and capital of informal operators.<sup>7</sup> It is estimated that the informal economy concerns some 75 per cent of workers in Latin America, contributes to some 40 per cent of the region's gross domestic product (GDP) and that, over the last 15 years, accounted for 70 per cent of the total number of jobs created.<sup>8</sup> The last Summit of the Organization of American States at Mar de Plata in 2005 raised concerns for rising poverty and informality and underscored the importance of promoting targets for the formalization of the informal economy units and workers.<sup>9</sup> Similarly, decent work in the informal economy was a central focus of the ILO's 16th American Regional Meeting in Brasilia in 2006. Progressive formalization of the informal economy through elimination of the main legal and administrative factors, within the next ten years, was adopted as a key policy target by the tripartite constituents in the ILO's 2006–15 hemispheric agenda for the Americas.<sup>10</sup>

<sup>6</sup> V. Tokman: *Una voz en el camino. Empleo y equidad en America Latina: 40 años de búsqueda*, Fondo de Cultura Económica, Santiago de Chile, 2004.

<sup>7</sup> H. De Soto: *Other path: The invisible revolution in the third world*, Harper and Row, New York, 1989.

<sup>8</sup> ILO: *Decent work in the Americas: An agenda for the Hemisphere, 2006–15*, Report of the Director-General, 16th American Regional Meeting, Brasilia, May 2006, Geneva, 2006.

<sup>9</sup> *Creating jobs to fight poverty and strengthen democratic governance*, Plan of Action, Fourth Summit of the Americas, Mar del Plata, Argentina, 5 November 2005.

<sup>10</sup> ILO: *Decent work in the Americas: An agenda for the Hemisphere, 2006–15*, op. cit.

**Peru: Policies for the social and economic integration  
of informal operators and workers**

Since the 1980s, the Peruvian authorities have developed specific policies targeting different aspects of informal employment and different groups of informal operators, both to encourage formalization and to extend protection to vulnerable workers. Some of the recent policies and programmes are highlighted. It should be underscored that Peru is one of the few countries in the region that has recorded a steady increase in formal job creation over the last three to four years.

**Legislation to facilitate registration, labour inspection and formalization of micro- and small enterprises**

The 2003 Small and Micro Enterprise (Promotion and Formalization) Act, promotes, among other things, the formalization of micro- and small enterprises. It simplifies procedures for the formation of companies and for obtaining municipal licences, and establishes a tax regime for micro and small businesses. The General Labour Inspection and Worker Protection Act, amended in 2004, encourages preventive measures including provision of technical information and advice to both workers and employers, guarantees confidentiality of complaints, strengthens labour inspectors' powers and allows them to inspect worker cooperatives and home work employment agencies. In addition, the 2003 Micro and Small Enterprise (Promotion and Formalization) Act sets a target of 20 per cent of registered micro-enterprises to be inspected each year.

**Local economic development and city government initiatives in Lima: PROPOLI**

Launched in 2003, the EU-supported Programme to Fight Poverty in Metropolitan Lima (PROPOLI Programme) is a comprehensive urban development programme which promotes local economic development through local government structures. The project has developed a range of tools and activities relating to investment, employment creation and business promotion to be used and implemented in ten districts of Lima. Some of the activities aim to facilitate formalization. Significant results were reported in 2006 in a number of areas.<sup>1</sup>

- simplification of procedures to obtain municipal operating licences, where the time required to obtain a licence decreased from more than two months to two days. As a result, more than 5,000 informal operators had received advice and 2,129 had obtained their municipal operating licence by 2005;
- access to a Fund for Local Initiatives (FIL) which co-finances the implementation of projects outlined in the joint development plans, in the areas of local economic development, services for the vulnerable population and for improving sanitation conditions. The FIL supported 45 projects for a total amount of US\$1,612,933 including 24 in the area of local economic development;
- 126 community and savings banks have been created and a total of 1,935 members have received loans for an amount of US\$223,603.

**Organization and representation**

A 1992 decree introduced the possibility for independent workers to form organizations. The Latin American Central of Workers (CLAT) announced the creation of a new federation of informal workers in Peru in September 2006. This new organization, the Federación Nacional de Trabajadores de la Economía Informal, Autónomos y Ambulantes del Perú (FENTRIAAP), groups eight national unions of informal workers and represents independent informal street workers.

**Formal recognition and protection of specific groups: Street vendors and domestic workers**

Peru has a long history of regulations for street vendors. Since the 1980s, several initiatives have aimed at granting street vendors legal recognition, enhancing their representation with municipal authorities and access to the Vendors' Assistance Fund, a social insurance fund for licensed street vendors. In 2003, a new law regulating working conditions for domestic workers, including social security and working hours, was adopted.

<sup>1</sup>"Social protection and inclusion: Convening efforts from a global perspective", summary of the PROPOLI Programme on the promotion of local development, presented to the International Conference on Social Protection, Lisbon, 2006.

7. In the industrialized countries' context, informality affects a smaller proportion of the workforce although it is still a significant policy concern. In some transition countries, its contribution to the gross national product (GNP) is estimated to vary from 6 to 30 per

cent.<sup>11</sup> In this latter group of countries, avoidance of high taxation and social security contributions, and distrust in governance of public institutions are considered major drivers of the spread of informality. There is overlapping discussion between notions of informality and flexibility, although flexible labour arrangements are not necessarily outside formal arrangements. In member countries, where the incidence of informal employment remains high, the 2006 Organisation for Economic Co-operation and Development (OECD) jobs strategy underlines the paramount importance of measures promoting transitions to formal employment.<sup>12</sup>

8. The ILO has followed up on the 2002 resolution and supported its operationalization at the country level across the strategic objectives of the Decent Work Agenda. Technical and field units, within available resources, have undertaken special reviews, developed and adapted their tools and programmes, supported capacity-building activities with the tripartite partners and initiated country programmes and projects, some of which are referred to in the following paragraphs.
9. In addition, during the period 2002–05, a knowledge-sharing project supported by DFID funding and coordinated by the Policy Integration Department facilitated interchange of experience between field and headquarters units, created a web site and a comprehensive database on decent work and the informal economy.<sup>13</sup> A Knowledge Fair on Decent Work and the Informal Economy was organized at the 2005 International Labour Conference and four regional subprojects (in East Africa; East Asia; Central Asia and Caucasus; Brazil and Ecuador) were implemented. The projects, which were completed in early 2006, generated replicable experiences in a range of areas at macro-, meso-, and micro-policy levels. Lessons are currently being documented for wider dissemination.
10. ILO follow-up is continued in the 2006–07 biennium, through an InFocus Initiative on the informal economy, co-managed by the Employment and Social Protection Sectors with contributions from numerous headquarters and field units. The InFocus Initiative on the informal economy's objective is to encourage and to bring into focus the results of the work carried out by different units relating to the promotion of decent work in the informal economy. Following internal consultations, priorities of work and a workplan have been established, highlights of which are reproduced in the appendix. The main elements of the InFocus Initiative on the informal economy include: collection and analysis of good practices; research on the dynamics of formality and informality in different regions; inventory and assessment of relevant ILO tools and development of an integrated policy package; support to field offices for promoting a comprehensive and gender-sensitive approach to decent work in the informal economy in the framework of DWCPs, and the organization of the Inter-Regional Symposium on the Informal Economy: Enabling Transition to Formalization.<sup>14</sup> In order to ensure the continuity of these efforts beyond the present biennium, a “joint outcome” on the informal economy has been included in the Programme and Budget proposals for 2008–09 and is under review by the Governing Body.

<sup>11</sup> F. Schneider: *The size and development of the shadow economies of 22 transition and 21 OECD countries*, Discussion Paper No. 514, Institute of the Study of Labour (IZA), Bonn, 2002.

<sup>12</sup> OECD: *Boosting jobs and incomes: Policy lessons from reassessing the OECD jobs strategy*, Paris, 2006.

<sup>13</sup> Informal Economy Resource Database, at <http://www.ilo.org/dyn/dwresources/dwbrowse.home>.

<sup>14</sup> Technical meeting approved by the Governing Body (GB.295/PFA/3), to be held in November 2007.

## **Decent work in the informal economy: Policy issues, approaches and lessons**

11. The resolution noted that inappropriate, ineffective and poorly implemented macroeconomic and social policies, adopted without tripartite consultation were central to lack of good governance in the informal economy. Recent articulation of key policy issues<sup>15</sup> and practical approaches that are being developed to promote decent work in the informal economy are briefly reviewed in this section. Some examples refer to initiatives taken by governments and/or social partners and others are programmes and projects piloted or supported by the ILO. An in-depth assessment of these approaches as replicable good practices and their translation into guides for action requires a much more extensive effort of documentation and evaluation.

### **Growth, employment generation and the informal economy**

12. At the root of the problem of the informal economy is the inability of economies to create sufficient numbers of quality jobs to absorb the labour force. In recent years, the pattern of development and growth in developing countries, but not only in those, has not met with the global demand for jobs. Research and analysis of data undertaken for the forthcoming *World Employment Report* show that employment growth in the formal segment of the economy in most countries has lagged behind the growth of the labour force and these trends are likely to continue in the future. Even in countries such as China, where the rates of economic growth and poverty reduction have been remarkable, there is an emerging problem of the informal economy. Retrenched workers from restructured industries and migrants from rural areas find themselves in situations of underemployment and casual labour.
13. Widespread underemployment and informality have therefore become structural characteristics of the developing countries' economies and not a peripheral problem that can be addressed in isolation from the mainstream development strategies. Curbing the spread of informality means first and foremost making employment a central concern of economic and social policies, promoting employment-friendly macroeconomic frameworks and making the productive sectors of the economy a priority target of poverty reduction strategies (PRSs), including PRSPs. Channelling appropriate levels of investments, domestic and foreign, into those sectors of the economy that increase the labour absorption and improve productivity in the rural and urban informal economy is a significant part of the response to reducing the growth of informality.<sup>16</sup>

### **The regulatory environment and informality**

14. The relationship between law, regulations and their impact on informality is a key policy issue. The very characterization of the informal economy in the 2002 International Labour Conference discussion is cast in terms of the relationship to law, i.e. "all activities falling de facto or de jure out of the reach of law". At the risk of oversimplification, three broad relationships can be distinguished calling for different policy responses.

<sup>15</sup> Including across the policy areas referred to in the checklists of the Employment and Social Protection Sectors and presented by the Committee (GB.295/ESP/1/3 and GB.297/ESP/7).

<sup>16</sup> As articulated by research and policy advisory services undertaken under the Global Employment Agenda (GEA).



15. The first situation is when law is silent, i.e. with respect to activities or groups falling outside the national regulatory framework, such as the self-employed, domestic workers or new forms of employment like subcontracting. In recent years, several countries in different regions (such as Chile, Costa Rica, Ghana, Malawi, Morocco, Peru, South Africa, Thailand and the United Kingdom) have adopted new laws or modified existing ones to extend outreach to specific groups of homeworkers, subcontractees, domestic workers and/or to address ambiguities in employment relationships.<sup>17</sup> ILO Recommendation No. 198 concerning the employment relationship,<sup>18</sup> provides further guidance on this latter point.
16. Where laws exist, lack of compliance and enforcement in the informal economy is the problem. The weak capacity of labour administration and labour inspection compounded with governance issues were discussed by the Committee at its November 2006 session.<sup>19</sup> Similarly, the recent Committee discussion on labour law and SMEs, which is of particular relevance to the formalization of informal economy units, underscored the multiplicity and diversity of reasons underlying non-compliance.<sup>20</sup> The discussion called, inter alia, for the development of a multi-pronged approach that includes information, awareness-raising campaigns and empowerment strategies when addressing informal economy units and workers.
17. A third relationship between regulations and informality and one which has generated more controversy is where the regulatory framework is not seen as provider of basic protection and an instrument for creating a level playing field but as an impediment to employment creation and a factor contributing to the spread of informality.<sup>21</sup> Concerns with methodological limitations of these surveys and opposing views as to their policy implications have been voiced in many forums. For the discussion on decent work in the informal economy, however, the adequacy, affordability and efficacy of the regulatory framework should be assessed from the integrated objective of the resolution, i.e. preserving and developing the job-creation potential and protecting workers and units. Moreover, regulatory frameworks include several different components that need to be assessed separately as to their impact on informality in specific country contexts.

### International labour standards and the informal economy

18. There is broad consensus that the rights covered by the ILO Declaration on Fundamental Principles and Rights at Work represent the minimum social floor that should apply to all workers regardless of their working status in the formal and/or informal economy. While there is general acceptance of the priority to be given to the promotion of the groups of rights included under the ILO Declaration, there is also recognition that their effective implementation is most challenging in the informal economy context.

<sup>17</sup> J.L. Daza: *Informal economy, Undeclared work and labour administration*, Social Dialogue, Labour Law and Labour Administration Department, Working Paper No. 9, ILO, Geneva, 2005, and other sources.

<sup>18</sup> ILO: Recommendation No. 198 concerning the employment relationship, ILC, 95th Session, Geneva, June 2006 .

<sup>19</sup> GB.297/ESP/3.

<sup>20</sup> GB.297/ESP/1.

<sup>21</sup> See, for example. N.V. Loayza, A.M. Oviedo and L. Servén: *The impact of regulation on growth and the informal sector: Cross country evidence*, World Bank, Working Paper, Apr. 2005.

19. The informal economy is the main and often only source of livelihood for many groups of workers who accumulate multiple layers of disadvantages based on gender, ethnic origin, migrant status and other factors. These disadvantaged groups, in turn, represent the majority of informal workers and entrepreneurs. It is well established that gender inequality is more prevalent in the informal economy, where women are concentrated in the lower end and earn significantly less than men.<sup>22</sup> It is also in the informal economy that child labour and bonded labour are most prevalent and most difficult to address. Pilot projects integrating a rights-based approach into a comprehensive and multi-component programme of action have shown, however, that a difference can be made.

#### Addressing bonded labour through a multifaceted approach

The ILO Declaration programme has adopted an integrated approach to address the many factors that perpetuate bonded labour systems in the informal economy. One example is the PEBLISA pilot project in Nepal, India and Pakistan. This project included multiple targets and interventions. Marginalized groups of women and men were provided with a range of complementary interventions including microfinance, skill training, and rights awareness raising among others. Employers, through dialogue, were persuaded to improve contractual arrangements and working conditions. Trade unions' capacity for advocacy on bonded labour was improved. Capacities of enforcement agencies, labour departments and local committees were developed. The programme showed that a difference can be made when the underlying factors which perpetuate bonded labour, starting from poverty and gender inequality to poor governance were simultaneously addressed.

20. The key issue of freedom of association and collective bargaining in the informal economy has been analysed in the 2004 Global Report.<sup>23</sup> Recent strategies to enhance organization and representation are discussed hereunder (in paragraphs 36–42).
21. In addition to the four categories of international labour standards included in the Declaration, there is also high demand for the application of occupational safety and health (OSH) measures as priority concerns for informal economy workers, particularly those exposed to accidents and injuries at work. Developing preventive OSH policies and measures adapted to the informal economy is a key requirement for addressing decent work deficits with direct impact on productivity and poverty reduction. The Promotional Framework for Occupational Safety and Health Convention, No. 187 (2006), provides basic principles for national OSH strategies and programmes to be developed with a view to creating safer working conditions in the formal as well as in the informal economy.

### Entrepreneurship development and business services

22. Many countries in all regions have found innovative ways to support SMEs through various entrepreneurship development packages, often with the support of ILO tools (i.e. Start and Improve Your Business (SIYB), Improve your Working Environment and Business (I-WEB) and Know About Business (KAB) and Women's Entrepreneurship Development and Gender Equality (WEDGE) programmes.<sup>24</sup> These aim at upgrading the MSEs operating in the informal economy through policy, institutional and enterprise-level interventions. Many such programmes have focused on the needs of specific groups in society (i.e. youth, women entrepreneurs and socially excluded groups) and/or addressed

<sup>22</sup> For a comprehensive discussion of women in the informal economy, see UNIFEM: *Progress of the world's women. Women, work and poverty* (New York, 2005).

<sup>23</sup> *Organizing for social justice*, Global Report under the follow-up to the ILO Declaration on Fundamental Principles and Rights at Work, ILC, 92nd Session, Geneva, 2004.

<sup>24</sup> See GB.298/TC/1 – Women's entrepreneurship and the promotion of decent work: A thematic evaluation.

decent work deficits in certain subsectors or clusters. From ILO experience in working with its member States, certain policy lessons can be drawn for wider applicability:

- the paramount importance of improving the business environment for upgrading SMEs – through social dialogue and proper consultation with informal economy associations;
- the increasingly multifaceted and integrated nature of entrepreneurship development programmes with strong roles for public–private partnerships and value chain linkages;
- the need to adopt a strategy of focusing on certain subsectors/clusters benefiting the most marginalized and socially excluded groups, including youth and women;
- the need to adapt tools and outreach mechanisms to the broad diversity of the informal economy units and entrepreneurs, through attention to issues such as family businesses, less visible outlets, lower educational attainments, gender, ethnicity and other related constraints. The eligibility criteria and appropriate information campaigns are crucial as often the poorer and more disadvantaged groups are overlooked by the general policies and measures to support MSEs;
- the importance of analysing the supply and demand side and expanding access to local and global markets and linkages with formal businesses;
- the importance of creating safer and healthier workplaces in order to maintain the working capacities of informal workers and to improve productivity of small enterprises;
- the priority of simplifying, harmonizing and reducing the cost and procedures for business registration and promoting “one-stop” business registration mechanisms for increased recognition and integration of informal economy units.

## Skills and employability

- 23.** Improving the skills of informal economy workers is key to their ability to access gainful jobs, improve productivity and income. Yet, formal training systems have proven inadequate to reach out to and to meet the needs of informal economy workers. Community-based programmes and projects are partially filling this gap. The ILO has developed a specific methodology – Training for Local Economic Empowerment (TREE) – that is applied in several countries. The methodology emphasizes the identification of potential wage and self-employment opportunities and their training and non-training requirements before organizing and providing training and post-training support services to poor and/or disadvantaged individuals in communities. Such opportunities are assessed in the context of communal development plans and make use of both formal and non-formal training offerings that are available in the localities.
- 24.** Some conclusions can be drawn from these experiences. Training programmes need to be flexible, targeted, practical and adapted to the diverse characteristics and educational levels of trainees which are usually a heterogeneous group with accumulated layers of disadvantage. Yet, many non-formal training services are weak and not recognized by the formal systems. The non-recognition and non-certification of on-the-job skills acquisition by informal economy workers including through traditional apprenticeship systems are major obstacles for marketing these skills in the formal economy, an issue which has not yet been given sufficient attention by policy-makers.

25. Field experience also shows that informal economy workers can ill afford time to invest in training, and what training may be accessible may be supply oriented rather than responsive to actual livelihood opportunities. More successful experiences combine skills acquisition and upgrading with practising production and income-generation activities within broader and multi-component training for entrepreneurship development, such as through establishing and managing cooperatives and producers' associations and access to finance, technology and markets.

### **Improved access to social security and better conditions of work**

26. A growing number of countries are adopting policies and initiatives to extend social security coverage to those who are not covered by existing schemes, in particular to groups in the informal economy. These include measures such as the gradual extension of social insurance schemes, the introduction of special arrangements for informal economy workers, the provision of non-contributory social pensions, the development of programmes combining cash transfer and access to education and health, and employment guarantee schemes. In general, social security provision in the informal economy can start by addressing priority elements, such as access to basic health care, family benefits that permit children to attend school, targeted cash transfer programmes and basic universal pension for old age, invalidity and survivorship. Based on its research and evidence from countries in Africa, Latin America and Asia, the ILO is currently promoting basic universal social security benefits as one of the central themes of its global campaign for the extension of social security coverage to all. The Office is currently developing an analytical tool for governments and social partners that allows them to explore the financial and fiscal feasibility of a range of basic benefits.
27. With respect to access to health care, the ILO has been supporting different mechanisms including the extension of coverage of social insurance to certain categories of workers and/or enterprises, the development of tax-financed systems and exploring the potential of microinsurance. Microinsurance schemes, piloted with the support of the ILO, have shown good potential to reach groups excluded from statutory social insurance, to mobilize supplementary resources which benefit the social protection sector as a whole, and to empower disadvantaged socio-occupational groups. However experience has also shown the limitations of stand-alone and self-financed microinsurance schemes in graduating to sustainable, equitable and efficient mechanisms capable of reaching large segments of excluded populations. Their impact should be increased notably by developing functional linkages with extended and expanded national social insurance systems and other national health-financing systems.

#### **Extension of social protection to transport workers in Senegal**

For the Government and social partners in Senegal, the extension of social protection to uncovered populations in the informal economy is a high priority. The National Commission on Social Dialogue (CNDS), set up in 2003, has actively engaged in developing a strategy to specifically address the extension of social security and social protection. As a result of intensive tripartite dialogue, in 2005, Senegal revised its social protection strategy and policy including with respect to extension. Furthermore, the new National Social Protection Strategy (SNPS/GR) is now integrated as a third pillar of the PRSP, adopted at the end of 2006.

The extension of social security has been of particular concern to the transport workers' trade unions (CNTS and CNTS FC) since 2004. Today, the unions are actively involved in the design and implementation of a social health insurance scheme that aims to cover all transport workers and their families (some 400,000 people).

Extending social protection through social dialogue is a priority area for action in the DWCP in Senegal. The ILO Subregional Office and the Strategies and Tools against Social Exclusion and Poverty (STEP) Programme provide the political and technical support for the design and implementation of this social health insurance scheme which will include a centralized structure at the national level and operate through occupation-based sections at the local level.

- 28.** In addition to financial barriers to access health-care services, informal economy workers, as mentioned earlier, have often the most hazardous jobs and the worst working conditions. A work accident affecting a family member can easily drive the entire family into destitution. Recurrent occupational and safety hazards contribute to low productivity of economic units. Notwithstanding the risks and costs associated, preventive OSH measures are rarely implemented in the informal economy. Priority attention should be given to strengthening national OSH systems with due attention to the informal economy and to launching national OSH awareness programmes on a wide scale using different types of channels and media at national and local levels.
- 29.** In the informal economy, working and living conditions are often intertwined. Improving working conditions means improving the physical, psycho-social and income security of workers and the interface between their work and their personal, family and community lives. Adopting this broad vision of working conditions, the ILO's Work Improvement in Small Enterprises (WISE) methodology has been adapted to the specific needs of different groups of workers in the informal economy. These include the Work Improvement in Neighbourhood Development (WIND) programmes aimed at small farmers and agricultural workers, the Work Improvement for Safe Home (WISH) programmes for homeworkers and the Work Improvement for Small-Scale Construction (WISCON) programmes. Each of these builds local capacity of the workers themselves to improve their conditions and their productivity, and supports the development of a network that is capable of sustaining self-improvement efforts by building partnerships with locally available sources of expertise.

#### Improving working and living conditions in rural Viet Nam

In Viet Nam, a WIND network comprising a large number of farmer "WIND volunteers" (1,545 in Can Tho Province alone, of whom over 1,000 are women) promote improvement action within their villages supported technically where necessary by a network of local health workers, which in turn can rely on a network of safety and health professionals in universities, government ministries and elsewhere. Most actions can be taken directly by farming families with encouragement from WIND volunteers, without dependence on high-level technical support which is all too rarely available, especially in rural areas. Through this approach, 289,604 improvements in living, health and working conditions were recorded under the WIND programme in Viet Nam from 2001 to 2006. The WIND programme in Viet Nam is now integrated in the DWCP and in the National Programme on Labour Protection, Occupational Safety and Health up to 2010, which was developed through extensive tripartite consultations and has been approved by the Prime Minister.

- 30.** Since 2000, ILO/AIDS has focused on the informal economy, in view of the disproportionately severe impact of the epidemic on informal operators and workers, as well as the interrelations between HIV/AIDS and poverty. The high numbers of women in the informal economy is also an issue as new infections are growing more rapidly among women than men. Action has included collaborative work on decentralization of social protection and microfinance; technical cooperation for prevention in informal economy settings undertaken in 30 countries worldwide (including successful implementation of projects in Barbados, Ghana, India, Indonesia, Jamaica, South Africa, Uganda and Zambia); and the development of numerous tools, such as training materials, to guide implementation of the ILO code of practice on HIV/AIDS and the world of work in the informal economy and guidelines for SMEs.
- 31.** ILO/AIDS works in particular through outreach strategies with employers' and workers' organizations, supply chains and service providers such as microfinance institutions, cooperatives and business development services. Peer education has been another successful strategy, and the ILO has trained and supported hairdressers in Jamaica, garage mechanics in Ghana, taxi drivers in South Africa, among others, as peer educators. The informal economy remains a major challenge for comprehensive HIV/AIDS programmes in the world of work.

## Microfinance

32. Microfinance – or more broadly, access to finance by informal economy units – is another policy area where pilot schemes have been fast developing in the last few years. Positioned somewhere between formal financial institutions (banks, insurance companies, equity funds, etc.) and the informal moneylender, they can potentially play a key role in facilitating access to financial services and to the mainstream resources and services. Microfinance institutions (MFIs) usually adopt the flexibility of the latter, by using less written documentation than banks, relying on interpersonal information to get a sense of the risk in lending to clients and not generally insisting on formal property rights to be pledged as collateral to secure loans. However, microfinance is a particularly dynamic and evolving sector. Depending on the average size of transactions in microfinance and their portfolio growth, some MFIs become over time more like banks. For example, instead of giving out loans secured by joint liability, they increasingly go for individual loans which need to be secured more formally. Most MFIs are largely outside any regulatory framework (if they just lend), or under a light and voluntary regulatory regime (if they take member deposits as in the case of savings and credit cooperatives). Only if they decide to take deposits from the general public do they need to register, obtain a licence, submit periodic reports and disclose their finances.

### Egypt/India: MFIs actively helping clients to formalize

MFIs are the gatekeeper for many informal operators to access other markets and income-generating opportunities. Funding from an MFI sometimes allows subcontracts with formal enterprises. Shaktri, a MFI in India, for example, finances and mentors more or less informal subcontractors of a UI subsidiary (HLL).

The Alexandria Business Association (ABA) is affiliated to the Egyptian Employer Organization. Its microfinance department initiated a progressive scheme where the size of the loans offered can increase on the condition that the client produces at each level different and additional documents attesting his or her identity, ownership of assets, fiscal and social security status.

The scheme has reached several hundred clients after four years. Currently a survey by the University of Geneva and the ILO is being carried out to establish the profile of clients and the various implications of this incentive scheme for formalization. It is assumed that units running high-growth potential lines of activities see a net advantage to exposing themselves to tax and municipal authorities, whilst other operators see their advantage in remaining below the visibility threshold of public authorities.

At present, the scheme is still cross subsidized and externally supported by USAID.

## Fair/ethical trade initiatives and increasing market access by informal producers

33. Among recent developments are numerous fair and/or ethical trade initiatives that seek through networking and alliances between companies and/or NGOs in the industrial countries and local producers in developing countries, to increase the access of informal and small producers to international markets, promote better trading conditions, better remuneration and raise consumer awareness. There are good practices emerging that seem to show the positive impact in stabilizing incomes of small producers especially women or indigenous and tribal peoples, formalizing cooperatives and extracting investment funds for infrastructure and social spending.<sup>25</sup> These initiatives often use licensing and certification assistance, contacts, training, IT and market information in improving local producers' access to global markets and increasing their bargaining and organizational

<sup>25</sup> M. Carr: *Chains of fortune: Linking women producers and workers with global market*, Commonwealth Secretariat, London, 2004; and A. Redfern and P. Snedker: *Creating market opportunities for small enterprises: Experiences of the fair trade movement*, SEED Working Paper No. 30, ILO, Geneva, 2002.

capabilities. The initiatives however have had a very limited outreach so far, remain scattered in spite of recent trends in networking and heavily dependent on the intermediary and sponsoring entities.

## Area-based local development and the informal economy

34. One of the potentially most promising strategies for a comprehensive and multifaceted approach for upgrading informal economy workers and economic units and improving their access to mainstream services, social protection and markets is the area-based local development schemes. The decentralized local government structures in rural and urban areas provide a favourable ground for bringing together the spatial, social and economic dimensions of the informal economy, linking the macroeconomic dimensions with micro-level interventions, the supply with demand and access to land with access to services and to markets. Many informal sector units are in fact based in informal settlements. Programmes to upgrade informal settlements, including slum upgrading schemes in growing urban centres and basic infrastructure provision for rural areas, are often seen to simultaneously upgrade living and working conditions for informal economy workers. Municipalities have also the possibility of raising taxes and using the proceeds at the local level, promoting a more coherent regulatory environment including on zoning regulations, the establishment of SMEs, public contracts and tendering procedures and fostering public/private partnerships. Such local initiatives can facilitate local employment creation especially for disadvantaged youth and women and encourage labour-intensive methods to deliver goods and services.
35. This potential however is not always fully exploited due to weak governance and capacity of local institutions and unsatisfactory devolution of authority and resources. A more in-depth evaluation of good practices is necessary to draw lessons for successful strategies that help transition to formality through area-based action.

### City government policies and the informal economy in Durban, South Africa

The Durban Metropolitan Council in South Africa has established a range of policies to support informal economy workers and operators. Initiatives include: capacity building of informal economy organizations; regular dialogue with their representatives on policy; legalized vending zones; a licensing system with incentives such as training; support to homeworkers through differential rates and water tariffs for the poor, infrastructural development, market access and business support.

The Council has also been providing significant support to particular sectors of the informal economy. One striking example is the traditional medicines sector. To support this potentially lucrative informal industry, Durban has provided market buildings with infrastructure, a processing plan, training in sustainable harvesting techniques and several plant nurseries. The Council has also invested in research and development as well as marketing support to attract national and global buyers.

## Organization, representation and social dialogue

36. In recent years efforts have stepped up in enhancing the organization and representation of informal economy workers and units through various strategies.
37. In Latin America, unions have developed their campaigns for the representation and protection of informal workers both in terms of geographical coverage as well as enlarging the range of project activities carried out. Both the CLAT and the Inter-American Regional Organization of Workers of the ICFTU (ORIT) have issued guidelines and manuals to

enhance organization and representation of workers in the informal economy. The Congress of Argentine Workers (CTA) in Argentina, now allows the affiliation of individual workers thus opening space for those without a local or sectoral trade union. In Asia, new strategies include awareness-raising campaigns to promote new government regulations and ensure proper implementation; helping workers access welfare funds; and building strategic alliances with other unions/informal workers' organizations.

- 38.** In Africa, ACTRAV has been supporting African trade unions to organize informal workers into their own unions. In Burkina Faso, the creation of the National Council for the Informal Economy (Conseil National de l'Economie Informelle, CNEI) has provided informal economy workers with a joint platform to dialogue with other relevant partners. In Central and Eastern Europe, strategic alliances have been formed between the social partners, informal economy workers and interested NGOs to campaign for social protection for those in the informal economy and for legislative change and improved regulation to reduce decent work deficits.
- 39.** A SYNDICOOP project covering Kenya, Rwanda, United Republic of Tanzania and Uganda strengthened the capacity of trade unions and cooperatives to work together to organize workers out of the informal economy and to improve their working conditions.<sup>26</sup> Experience is proving the complementarities between trade unions and cooperatives to provide the services and support needed by workers in informal and unprotected situations. The project was able to upscale and link with the PRSP process.
- 40.** The Alliance for Zambia Informal Economy Associations was launched in 2002 in partnership with the Zambia Congress of Trade Unions. Since its establishment, the alliance has been increasingly recognized by both local and central Government and has been engaged in dialogue on policy issues concerning market vendors and other informal economy operators. The organization is actively lobbying for the establishment of a collective bargaining forum to ensure the Government is consulting informal economy workers on the issues affecting them. Similar efforts are being made by trade unions in other countries including Ghana, Malawi and Mozambique.
- 41.** To give effect to the conclusions of the 2002 International Labour Conference, a Bureau for Employers' Activities (ACT/EMP) programme on the informal economy was launched in several countries in the Caribbean and Latin America, as well as in Bulgaria, Kenya, Mongolia and Turkey, focusing on the development of a conducive policy and legal environment, extending the representation of the employers' organizations and functioning as advocate for the small enterprises and operators in the informal economy. This programme has shown that there are several effective forms of intervention by employers' organizations in relation to the informal economy. Lobbying and advocacy by employers' organizations in Bulgaria, Mongolia, Kenya and St. Kitts and Nevis have often successfully induced change, in specific policies and legislative provisions. In Kenya, Mongolia and Peru, the emphasis was laid on strengthening the linkages between informal operators and formal businesses. In several countries, employers' organizations have extended business services to informal and small units. Lessons learned have been reproduced on a CD-ROM to guide future action by employers' organizations.<sup>27</sup>
- 42.** Strengthening the organization and representation of informal economy workers and units is the prerequisite for dialogue. A further step is to promote tripartite action for decent

<sup>26</sup> SYNDICOOP is a joint project between the International Cooperative Alliance, the ITUC and the ILO to foster common organizing strategies among poor informal economy workers.

<sup>27</sup> ILO: *Employers' organizations and enterprise development in the informal economy: Moving from informality to formality*, ACT/EMP, Geneva, 2006.



work in the informal economy. The following experience from Turkey is a good example of such partnership.

#### Turkey: Social dialogue to address the informal economy

While improved social dialogue between the social partners has a key role in upgrading the informal economy, the necessary institutional frameworks often tend to be weak. The ILO/EU-funded project on social dialogue as a tool to address the informal economy in Turkey provides good practice for strengthening tripartism with a focus on reducing unregistered employment, which is estimated to affect some 30–50 per cent of Turkish workers.

The project implemented over the period 2004–07, aims to improve social dialogue to enable the development of tripartite strategies for reducing informality. The main target groups for this project are local and national government officials, including municipal workers. In addition, workers' and employers' organization skills and capacity for expanding services to unregistered enterprises are improved.

One of the key project outputs so far is the National Tripartite Declaration asserting the social partners' joint commitment towards reducing informality. Simultaneous efforts focus on the identification of the specific measures that need to be taken by either the national or provincial authorities and which have resulted in action plans and their implementation in the three Turkish provinces of Bursa, Corum and Gaziantep. The focus of the action plans is: awareness raising on the risks of informal employment through the media; the development of incentives for registration and registration guides; and linkages with municipal regulations for enterprise registration, among others. One of the major outputs of this project is the revitalization of tripartite-plus advisory bodies of provincial employment public services, which play a pivotal role in implementing the action plans and which are supported and nurtured by the national level tripartite consensus on improving services for the informal economy.

## Assessment and the way forward

- 43.** Since the ILC discussion in 2002, there is clearly renewed interest by policy-makers, development practitioners, academics and researchers, in industrialized and developing countries alike, for policy development to improve the content of growth and the quality of employment generated and for identifying effective approaches that can curb the spread of informality. This is visible in the new initiatives that are being taken by international organizations<sup>28</sup> and emerging global partnerships.<sup>29</sup>
- 44.** The broadened characterization of the informal economy as proposed by the International Labour Conference resolution covering self-employment, wage employment and economic units and the notion of a continuum between the formal and informal segments of the economy, have proven their relevance for capturing the realities on the ground and for reflecting the diversity and evolving patterns of work in the globalization context. Good practices and practical approaches are emerging in various fields. However, a more systematic effort is needed to identify, document and evaluate these practices from the dual objectives of the resolution, i.e. preserving the employment and income-generation potential and extending protection. Few country initiatives embrace the broad range of policy measures in a coherent and simultaneous manner. Moreover, “success stories” are still being developed through pilot project frameworks with short-term funding. Scaling up into mainstream policies and programmes remains a challenge. The experience clearly shows that reaching out to the informal economy and ensuring durability of results requires

<sup>28</sup> Examples are recent programmes of research launched by the World Bank on “Good jobs, bad jobs”.

<sup>29</sup> A prominent example is the High-Level Commission on Legal Empowerment of the Poor, established in 2006, chaired by Madeleine Albright and Hernan de Soto. The ILO Director-General is a member of the Advisory Board and the ILO is invited to provide technical advice to two of its working groups.

multi-component and sustained support over an extended period of time that often exceeds the usual programme and project cycle.

45. Formalization and transition to the mainstream economy are desired goals; however different views exist as to what is meant by formalization and how to achieve it. Generally, these perceptions have not been sufficiently articulated. The policy debate is focusing – perhaps with undue emphasis – on the issue of the regulatory framework and its impact on informality, in a rather narrow definition of both. Empirical evidence to underpin the policy prescriptions is limited. It would seem that the developmental goal should be cast instead on how to make labour markets work better – more efficiently and more equitably – for both workers and small businesses. The main benefit of formalization should be considered in terms of increased economic and social security that builds a platform for investment and enables informal operators to take a longer perspective on their future than day-to-day survival allows.
46. The wealth of knowledge, experience, tools and strategies available in the ILO shows that there is great scope for implementing the Decent Work Agenda in the informal economy. The ILO has mainstreamed work on the informal economy into its global programmes across the Decent Work Agenda. The scope and pace of these activities however have been conditioned by the availability of resources, both from regular budget and extra-budgetary resources. The current challenge is to coordinate such expertise and to develop effective integrated approaches that combine employment creation and social protection with rights at work and representation.
47. With a move towards broader based country support through DWCPs, it may be easier to find the means to offer integrated and mutually supportive policy packages that have a better chance of helping countries to make a breakthrough in formalizing the informal economy. The InFocus Initiative on the informal economy is currently bringing together these synergies and developing integrated policy packages. Tripartite commitment is vital for realizing such a strategy. These packages can be unpacked and customized to meet country specificities and priorities. Their application on a significant scale however and through an integrated action would require mobilization of extra-budgetary resources.<sup>30</sup>
48. The Committee on Employment and Social Policy may wish to comment on this review and provide guidance for further ILO follow-up action to promote decent work in the informal economy.

Geneva, 8 February 2007.

*Submitted for debate and guidance.*

<sup>30</sup> With the completion of the DFID project on knowledge sharing in early 2006, there is no other dedicated technical cooperation funding to promote decent work in the informal economy in a comprehensive and integrated manner.

## Appendix

### The In-Focus Initiative on the informal economy \*

Priority Focus	Output	Description
1. <b>Knowledge development and knowledge sharing</b>	Research outputs and publications	<ul style="list-style-type: none"> <li>■ Research and analysis of the dynamics of formality and informality in different regions, monitoring changing patterns and trends in the context of global competition and production</li> </ul>
1.1. <b>Analysing and monitoring</b> Changing patterns and trends in the informalization of labour and labour markets		<ul style="list-style-type: none"> <li>■ Compilation of good practices across the four decent work strategic objectives</li> </ul>
1.2. <b>Good practice reviews</b> <ul style="list-style-type: none"> <li>■ Country experiences</li> <li>■ Sectoral/occupational focus</li> </ul>	An integrated approach by sector/occupation	<ul style="list-style-type: none"> <li>■ Networking with other organizations and research groups</li> <li>■ Policy debate and exchange</li> </ul>
2. <b>Assessment and integration of ILO tools</b> to support informal economy objectives in the DWCPs	A consolidated and integrated reader of policy briefs and package of tools	<ul style="list-style-type: none"> <li>■ Inventory of all ILO tools relevant to the informal economy</li> <li>■ Assessment of existing tools and their integration into a comprehensive package</li> <li>■ Development/adaptation of new tools when required</li> <li>■ Dissemination of the integrated package</li> </ul>
3. <b>Support to DWCPs</b>	<ul style="list-style-type: none"> <li>■ Policy briefs</li> <li>■ Application of tools</li> <li>■ Technical cooperation activities</li> </ul>	<ul style="list-style-type: none"> <li>■ Support to informal economy policy priorities in DWCPs</li> <li>■ Promoting integrated approaches for upgrading and formalization</li> <li>■ Scaling up and mainstreaming existing initiatives</li> <li>■ Country programmes (subject to availability of technical cooperation funding)</li> </ul>
4. <b>Policy dialogue</b>	<i>Inter-regional Symposium on the Informal Economy: Enabling Transition to Formalization</i> (tentative date November 2007)	<ul style="list-style-type: none"> <li>■ Tripartite discussion on policies and innovative practices that facilitate transition to formality. The outcomes of the InFocus Initiative on the informal economy will provide background material for the symposium</li> </ul>
5. <b>Organization and tripartism</b>	Good practice reviews	<ul style="list-style-type: none"> <li>■ Documentation and dissemination of good practices by employers' and workers' organizations, including work on cooperatives</li> <li>■ Analysis of the role and extent of tripartite dialogue and tripartism in the informal economy</li> </ul>
6. <b>Measurement and data collection</b>	Updated statistical picture	<ul style="list-style-type: none"> <li>■ Updating the 2002 ILO publication, <i>Women and men in the informal economy: A statistical picture</i> with the new country data available</li> <li>■ Brief on various methodologies for the estimate of the extent of the informal economy</li> <li>■ Survey questionnaire to assess decent work deficits</li> </ul>

\* The InFocus Initiative on the informal economy is implemented in the 2006–07 biennium, through ILO regular budget. It is co-managed by the Employment and Social Protection Sectors with the participation and contributions of Sectors I and IV and field units. This table highlights main work items initiated by the InFocus Initiative on the informal economy. A more detailed workplan is established.