

Informal Economy

Informal economy refers to all economic activities by workers and economic units that are in law or in practice not covered or insufficiently covered by formal arrangements. In general they take place beyond the legal purview of the state.

A distinguishing characteristic of labour markets of developing countries is the predominance of informal activities, which have been described as the informal sector or the informal economy. Workers in the informal economy face serious deficits in decent work: They are engaged in poor quality jobs, with low productivity and incomes, poor working conditions and occupational health and safety standards, and limited access to knowledge, technology, finance, and markets. Since they are normally outside the legislative regulatory framework and are not covered in official statistical enumeration, they are unrecognized, unregistered, unprotected, and socially excluded. Their problems are compounded by their lack of organization and lack of voice at work.

In response to requests by the social partners to carry out a comprehensive study of the informal economy, the International Labour Organization (ILO) Colombo office commissioned a study (***Informal employment in Sri Lanka: Nature, Probability of employment and determinants of wages***). The study identified the critical issues that need to be addressed in order to provide decent working conditions for those employed in the informal economy. The study found 66 per cent of all employed people working in informal work arrangements.

The fact that almost two-thirds of total employment in Sri Lanka is informal is cause for serious concern. While informal employment may be something that Sri Lanka may have to learn to live with, systems need be put in place ensuring decent work standards in informal jobs. At the same time, regulations and procedures relating to enterprises may need to be simplified and incentives such as credit offered. This would encourage informal enterprises to seek legal recognition. The recommendations of the study emphasizes the importance and the necessity to undertake more comprehensive research on the informal economy to strengthen the existing knowledge base.

ILO Colombo office will continue to work with its constituents in strengthening this knowledge-base in order to adapt an integrated and comprehensive strategy. This will address both the underlying causes and the symptoms of informality and informalization and thereby to promote decent work along the entire continuum from the formal to the informal end of the economy.

This activity is linked to the CPO Outcome ***LKA 101, The Government and its social partners develop and implement employment policies in line with ILO principles***.