

Challenges of the informal economy and experiences in facilitating formalization

ILO Regional Seminar on the Role of Trade Unions in Facilitating the Transition from the Informal to Formal Economy

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What is informal employment?

- ▶ **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. (90th ILC 2002)
- ▶ **Informal employment** – statistical definitions
 - ❖ Employment in the informal sector – All jobs in informal sector enterprises
 - “Enterprise-based definition”– 15th ICLS 1993
 - (a) small size of the enterprise in terms of employment;
 - (b) non-registration of the enterprise;
 - (c) non-registration of its employees.
 - ❖ Informal employment – “All informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households - “Job-based definition”– 17th ICLS 2003

CONCEPTUAL FRAMEWORK FOR INFORMAL EMPLOYMENT

Productive job creation in the
formal economy

Production units by type	Job status in employment								
	Own-account workers		Employers		Contributing family workers	Employees		Members of producers' cooperatives	
	Informal	Formal	Informal	Formal	Informal	Informal	Formal	Informal	Formal
Formal sector enterprise					1	2			
Informal sector (b)	3		4		5	6	7	8	
Households (c)	9					10			

Formalization of jobs
Formalization of economic units
Formalization of jobs

Notes:

- (a) Dark grey cells refer to jobs which, by definition, do not exist in the type of production unit in question. Light grey refers to formal jobs. Unshaded cells represent the various forms of informal jobs.
- (b) Excludes household employing paid domestic workers (as per 15th ICLS).
- (c) Households producing goods exclusively for own final use and those employing paid domestic workers.

Source: 17th ICLS resolution, 2003.

Informal employment: Cells 1-6 and 8-10

Employment in informal sector: Cells 3-8;

Informal employment in formal sector: Cells 1, 2, 9, 10

What is formalization

- ▶ Formalization of economic units
 - ❖ Registration of economic units
 - ❖ Increased compliance
 - ❖ Extension in application of labour and social security regulation
- ▶ Formalization of jobs
 - ❖ Extension of application of labour regulation
 - ❖ Extension of coverage of social security
 - ❖ Registration of employment relationship
 - ❖ Registration of own-account endeavours
- ▶ Productive job creation in the formal economy
 - ❖ Most new entrants have access to employment in the formal economy
 - ❖ Increased formal employment intensity of growth.
 - ❖ Prevent informalization of formal jobs

Understanding different barriers to formalization of jobs

- ▶ **Legal exclusion of specific sectors**
E.g. Work in agriculture, homes, firms with fewer than 5 or 10 workers
- ▶ **Work in unregistered firms**
- ▶ **Unregistered work in registered firms**
- ▶ **Irregular or short duration of work**
E.g. Seasonal work, short jobs
- ▶ **Non-visible location of work**
Domestic work, home-based work, rural areas with no labour inspectorate
- ▶ **Unclear employment relationship**
Decentralized employment relationship (outsourced work)
Triangular relationship

Sample measures to facilitate transition

Legal exclusion

► Simplification of procedures

Unregistered firms

Reducing paperwork, premises; Electronic system;

Unregistered work

Pre-filled forms

Seasonal work

► Transparency in basis for taxation

Small Jobs

E.g. Size of shop, utility bills

Outsourcing

Home-based work

► Unified taxation system or single tax

Rural areas

Combining e.g. business taxation, social security,

Agency hired

► Reduced taxes for microenterprises

► Streamlining multiple inspection

► Attention to renewal procedures

Sample measures (continued)

Legal exclusion

► Incentives to formalization

Unregistered firms

Unregistered work

Seasonal work

Small Jobs

Outsourcing

Home-based work

Rural areas

Agency hired

- STREET (UK) offers loans, advice and business support to micro enterprises that wish to formalize business. 3 criteria of 12 must be met in 12 months (e.g. switch from part time to full time workers, becoming VAT registered, keeping basic records, moving from home to business premises, moving from cash to invoiced revenues; obtaining required licenses)
- Dominican Republic – 20% mandatory government procurement from small enterprises; Brazil's experience in public procurement in handout.
- Portland has issued a Portland Plan which allocated sidewalk space for registered food carts; Singapore started from a policy that required gradual formalization in hawkers zone.

Sample measures (continued)

Legal exclusion

► Training in lieu of sanctions

Unregistered firms

- Chile offers training to firms for first offenders (with up to 9 employees) instead of fines; training on managerial skills and how to avoid law law infractions in the future

Unregistered work

Seasonal work

Small Jobs

► Public listing of erring firms

Outsourcing

- Argentina's new law lists violating companies and disqualifies them from bank loans and public procurement

Home-based work

Rural areas

- Europe's experience shows that 'name and shame' approach is effective tool only if accompanied by forgiveness and reintegration

Agency hired

► Unified registry (Firm, taxation, social security, workers registry)

- E.g. Brazil, Argentina, Peru, Mexico. Peru's e-payroll system links labour and tax & led to increase in formalization; Belgium combines 9 registries and produces 'alarm' reports'

Legal exclusion

Unregistered firms

Unregistered work

Seasonal work

Small Jobs

Outsourcing

Home-based work

Rural areas

Agency hired

► **Income during low season for seasonal work**

- In Romania, workers and employers organizations established a welfare fund to encourage construction workers to stay declared; can apply to other sectors
- In India, a cess or tax is levied on construction work above a certain cost threshold and on sales of construction materials, to resource a welfare fund; trade unions have a role in registering workers

► **Mini-jobs as a new category of work**

- In Hungary, employers contracting home-based work, such as plumbing, can send SMS to register the contract, replacing 18 forms
- Discounted vouchers sold to employers to hire declared short-term domestic work or personal services; workers collect full value

► **Social security coverage for one day (or short duration) work**

- Colombia has reduced minimum work duration to one day for SS coverage
- Bulgaria regulates even one-day agricultural contracts

Sample measures (continued)

► Markers to determine employment relationship

- Philippines' four-way test: Direct control & supervision; Power to hire and select; Obligation to pay wages and benefits; Power of dismissal
- Ireland, 13 criteria: E.g. Direct control over how, where, when work is done; Receives fixed hourly/monthly wage; Supplies labour only
- South Africa, any 1 of 7 criteria: E.g. Control and direction over the manner of work, including work hours; Economic dependence; Person works only for one person; Person is provided with tools and equipment; Person worked at least 40 hours/month over last 3 mos
- Spain, at least 70% of revenues goes only to one buyer

► Joint responsibility for contractors in supply chains

- 17% of European countries place responsibility on main contractor of subcontractors and work agencies (e.g. accident insurance, pension payments, collective bargaining agreements)

Legal exclusion

Unregistered firms

Unregistered work

Seasonal work

Small Jobs

Outsourcing

Home-based work

Rural areas

Agency hired

Sample measures (continued)

► Working conditions in home-based & 'invisible' work places

Legal exclusion

Unregistered firms

Unregistered work

Seasonal work

Small Jobs

Outsourcing

Home-based work

Rural areas

Agency hired

- Thailand's Law on Protection of Homeworkers; Philippines laws on homeworkers and construction workers
- Community-based child labour monitoring committees consisting of community leaders, teachers, health promoters supplement labour inspectorate system
- Trade unions in the Philippines have worked through local justice system in dispute mediation between contractors
- Trade unions and local cooperatives administer SS contributions
- OSH as entry point for tripartite committees visiting construction workers in the Philippines, HMS expanding membership to shipbreakers in India
- Thailand public health system trains on OSH and collects OSH info

► Extending labour inspectorate system to home-based work

- Labor inspectorate not present in rural areas
- Lack of knowledge on what to inspect in agriculture setting
- Logistical issues cited by Thai inspectors: Need to inspect two locations; who is the employer? Right to enter? (note Uruguay); flexible hours; non-cooperation

Sample measures (continued)

Legal exclusion

► Laws covering triangular relationships contain provisions on

Unregistered firms

- Identity of employers; Liabilities and responsibilities

Unregistered work

- Rights of workers

Seasonal work

► Identity of employers

Small Jobs

- Lodged with with agencies; ‘user’ company or joint liability

Home-based work

- Mauritius: Clear provisions prohibiting discrimination against contract workers

Rural areas

- Niger: Wages must not fall below than if workers were hired directly

Outsourcing

► Rights of workers

Agency hired

- Employers Contracts Act of Argentina: workers hired through work agency is covered by collective agreement
- Finnish Employment Contract Act: Collective agreement applicable to agency
- US National Labour Relations Board (NLRB): worker hired through agency should be in the “user’s” collective bargaining unit

► Sharing good practices in facilitating formalization

- ASEAN Declaration in 2016 on formalization of employment
- 10 Latin American countries are now harmonizing statistical definitions to align with the latest international statistical guidelines (17th ICLS)

► Cooperation in sharing database and information

- ❖ Trade unions in Latin America has a database which maps 80 unions in 17 countries that have organized informal workers; includes sample by-laws, manuals, case studies
<http://white.lim.ilo.org/spanish/260ameri/oitreg/activid/proyectos/actrav/forlac/index.php>
- ❖ In Latin America, Africa and Asia, a database is being maintained among employers' organizations of key indicators of business environment which affect formalization
<http://metaleph.com/eese-data/>
- ❖ Governments sharing of innovative registry systems (e.g. Brazil's SIMPLES)

Trabajo en la Economía Informal y Trabajo Precario

Banco Sindical Regional
de datos sobre

Banco de datos

INTRODUCCIÓN ▸

BÚSQUEDAS ▸

Perfil y experiencias de la Organización

Referencias legislativas sobre derechos
sindicales y estatutos de las centrales

Trabajo autónomo y economía solidaria

Referencias legislativas sobre
tercerización

Estudio de casos

Estadística

VIDEOS ▸

CONTACTO ▸



Educación
Obrera



Estudios e
informes



Normas Internacionales
de Trabajo (NIT)
Resoluciones y documentos
de la OIT



Resoluciones,
estudios y documentos
de la CSI - CSA



Enlaces
Importantes



The procurement of goods, works, and services is an integral support function of public service. The main principles for a successful procurement process require transparency, accountability, and competition to ensure that public expenditure is spent on the most efficient and effective items. Public procurement is also an instrument to create jobs and stimulate local micro-enterprise development. The case below demonstrates local initiatives of employment-creating and growth-inducing public procurement.

Ceará, Brazil

The local government of the state of Ceará, located in Northeast Brazil, tapped into the potential of procurement-linked assistance. In 1987 a devastating drought left 600,000 rural workers unemployed for nearly a year, the federal government emergency relief package was not sufficient to create employment, thus state authorities innovated a cost efficient public works construction program. In order to minimize costs, the state purchased the tools and materials for building i.e. bricks, tiles, gravel, hoes and backhoes, buckets, shovels, and wheelbarrows- from small producers within the drought affected area. This increased the presence or expansion of small brick-making firms, wood workshops, stone quarries, and lime-burners. Furthermore the state directed its routine purchases (school furniture, repair and reconstruction services for public buildings, small metal grain silos) away from large firms located outside the state to small and informal firms in the drought-stricken interior. This move amounted to 30% of the states procurement budget, spent over a three-year period (1989-1991).

The procurement program was a joint effort led by the state Department of Industry and Commerce (SIC) and the Brazilian Small Enterprise Assistance Service (SEBRAE), a semi-public development agency. Though complex, the contractual system and procedures between SEBRAE, SIC, small firms, and buyers were integral to the success of the procurement program:

First a buyer contracted SIC to purchase goods or services. Next, SIC engaged in a second contract with SEBRAE to provide advice and technical assistance to small firms, SEBRAE would receive a commission of 5 percent on the value of the contract. After, SEBRAE would draft a contract with a locally based association of small firms, artisans, or building tradesmen to purchase goods or services. Furthermore SEBRAE devised product warranties with suppliers, for example, one year for school desks and three years for electricity poles.

SEBRAE almost exclusively worked with existing associations of small firms or supported co-located small firms to organize as a group. This is significant because the success and quality of the program hinged upon this system of intra-firm discipline. When a product was not delivered on time or was defective, responsibility lay not with the individual firm but with the association of firms. Producers had to cover the shortfall of the noncompliant firm before receiving payment for their own deliveries. Therefore the better-performing firms were incentivized to support and assist the laggard firms to maintain the reputation of the association. This disciplining mechanism led to increases in the quality and productivity of the procurement program, it also led to a decline in transaction costs to government of buying from small firms. In addition, the burden of monitoring shifts from the purchasing agency and the government to the firms themselves.

The small commission earned by SEBRAE also plays an important role: in order to maintain their income SEBRAE must be preoccupied with the effectiveness of service and the quality of the product. The sum of all these sticks and carrots creates a dynamic of joint responsibility and ensures a low cost strategy to create employment.

The procurement program reinvigorated the previously sleepy district of São João do Aruaru (SJA). The unlikely hero of the program featured natural endowments of hardwoods, 9,000 inhabitants, and four sawmills with a total of 12 employees. Through this, technicians of SIC and SEBRAE became aware of the district's carpentry skills. Subsequently an order of 300 wooden wheelbarrows was placed. SEBRAE assisted the four sawmills in their first order. The final product was appreciated for its durability and cost efficiency; the previously purchased iron wheelbarrows cost 30 percent more.

Within two years SJA produced 2,000 wheelbarrows and was also commissioned to supply handles for hoes and backhoes. Further, the district received a contract from the state Department of Education for 3,000 school desks and 100 tables. In the past, two large furniture manufacturers in Southern Brazil provided 80 percent of the school desks purchased by the state government, SJA ended this 10-year arrangement. Similar to the wheelbarrows, school furniture from SJA cost 30 percent less than the previous supplier, this was in part due to the reduction in transport costs on items procured from within the state.

By 1992 SJA was producing 90,000 pieces of school furniture annually. The procurement program had a significant impact on the district, 5 years after the humble order of 300 wheelbarrows 38 sawmills were erected. In total the mills employed 1000 people directly or indirectly, which amounts to more the 10 percent of the total population of the district. The district used their public contract as a stepping-stone to acquire new skills and contacts, and as a result gained access into new private markets (furniture for summer homes and hotels), where they remain competitive. Furthermore, other state governments contracted the district to supply school furniture.

The state of Ceará demonstrates the credence of procurement-induced development. Additionally, the story shows that preferential procurement policies for small firms is not an additional strain on the public purse, it may even reduce government's operational costs. The state was able to generate employment and stimulate growth through purchases that it would have made irrespective of the public procurement program.



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Thank you

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