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Office
Geneva

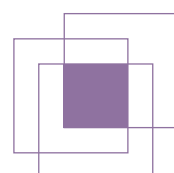
Decent Work and the Informal Economy



Grace cleans windows of buildings under construction in Dar Es Salaam. She is paid by the day. Tanzania.

1.1 THE INFORMAL ECONOMY AND DECENT WORK: KEY CONCEPTUAL ISSUES

■ This brief sets out key issues, debates and concepts behind analytical discussions on the informal economy. It outlines the ILO's integrated and comprehensive approach to both understanding informality and to develop strategies to move out of informality. It ends with a description of the diagnostic and analytic framework that the ILO is using to analyse the specificities of informality in different country contexts and support the development of effective policy responses.



KEY CHALLENGES

- The 2002 International Labour Conference (ILC) consensus on informality
- What is the informal economy?
- Who is in the informal economy?
 - Categories of work
 - Specific groups
- What drives informality?
 - Poverty
 - Poor absorption capacity of the industrial sector
 - The drive for flexibility
 - Changing production structures
 - Economic restructuring
 - The labour regulation debate
 - Economic crises
- Decent Work and the informal economy
- The move out of informality
- Refining the integrated approach

■ **The 2002 International Labour Conference (ILC) consensus on informality.** The ILO has been one of the leaders in the analysis of informality ever since it's conceptual 'discovery' in the 1970s¹, (see box below). Over the past three decades the informal economy has been subject to much research and policy debate, and the understanding of its dimensions has evolved considerably from the earlier narrow terminology of 'informal sector'. Theories which had envisaged it as a temporary phenomenon which would dissipate with economic development have given way to more modulated views in light of its growth and persistence in developing – and even developed countries. The 2002 International Labour Conference (ILC) *Resolution on Decent Work and the Informal Economy* marked a breakthrough in analysis - providing a framework which recognised the diversity and heterogeneity of actors and activities in the informal economy and broadening the understanding of its parameters. It established that informality exists across a wide range of sectors and, importantly, also includes casualized and precarious work within the formal economy.

While recognising the resilience and dynamism of workers and entrepreneurs in the informal economy, ILO tripartite constituents (Workers' organizations, Employers' organizations and Governments) at the 2002 ILC developed a broad consensus on the need to address their vulnerabilities. Actors in the informal economy are often not recognised, registered or counted in national statistics. And even where they are registered, they may be outside the reach of social protection, labour legislation and protective measures at the workplace. Their employment status may be ambiguous - further reinforcing their limited protection under the law. They are often unorganized, and for this and other reasons they are often unable to articulate their rights. Workplaces

● The tripartite consensus developed out of the 2002 International Labour Conference discussion broadened the parameters of understanding informality, recognised its scale and diversity and importantly, established the objective of moving out of informality

● Informality encompasses a range of vulnerabilities and deficits in decent work

¹ In 1972 an ILO Employment Mission to Kenya first analyzed economic activities outside the formal economy using the term 'informal sector' which had been coined by economist Keith Hart's previous study of economic activities in Ghana.

- The transition to formality requires an integrated strategy which can bring informal workers and entrepreneurs into formal channels of protection and support while preserving existing dynamic potentials

may be unsafe and unhealthy with serious and sometimes life-threatening hazards. Despite long working hours, productivity and incomes are usually low. Moreover, limited access to productive resources such as finance, land, property, technology and markets may be compounded by low levels of skills, information and literacy, confining many in the informal economy to marginalized and survivalist activities.

In view of this, ILO constituents at the 2002 ILC proposed a comprehensive response grounded in the four pillars of Decent Work: Employment, Rights, Social Dialogue and Social Protection. The ultimate objective is to support transition to formality by bringing the informal economy progressively into formal channels of protection and support, while seeking to preserve existing dynamic potentials. Analysis of the root causes of informality (see further below on drivers of informality) and its specificities in particular country reveals that piece-meal approaches are unlikely to have a sustained impact. What is required is an integrated approach across a range of policy areas. This call for policy coherence and a comprehensive approach at the 2002 ILC has been further reinforced by the *2008 ILO Declaration on Social Justice for a Fair Globalisation*², which establishes that the four pillars of Decent Work are ‘inseparable, interrelated and mutually supportive’. Meeting the objective of moving out of informality is a clear example of this need for policy coherence.

Before looking at this integrated strategy to support the move out of informality in detail, it is worth examining differing understandings of informality since this can lead to very different policy responses (see box below), and also visiting some key conceptual issues that emanated from the 2002 ILC Resolution concerning Decent Work and the Informal Economy.

Differing interpretations of informality

The ‘traditional sector’

Discussions of informality can be traced back to economic theories, prominent in the 1950s, of the ‘traditional sector’. Many economists such as Arthur Lewis and others believed that this sector – comprised of the vast pool of surplus labour in developing countries, and including petty traders, small holders and casual wage workers - would gradually become absorbed into the modern industrial sector as these economies grew. It was also believed that this sector was marginal and not linked to the formal economy or to modern capitalist development.

The term ‘informal sector’

In the early 1970s, economic anthropologist Keith Hart observed from his research on Ghana, that the ‘informal sector’ had not just persisted but expanded. The terminology of ‘informal sector’ gained widespread acceptance after the ILO used it to analyse economic activities in Kenya for an ILO Employment mission in 1972 conducted by a number of specialists. The ILO team systematically analysed these activities, noting that they were unrecognized, unrecorded, unprotected and unregulated. They observed that the informal sector included a range of activities from marginal survivalist work to profitable enterprises.

2 See Resources section to access ILO 2008 Declaration on Social Justice for a Fair Globalization

In the following decades there was on-going debate about the nature and causes of the informal sector. Two schools of thought saw it as a feature of pre-capitalist economies. The *Dualist school* (including some in the ILO during the 1970s) believed that the informal sector comprised peripheral activities not linked to the formal sector. The persistence of peasant forms of production was seen to be caused by imbalances where labour supply outstrips economic development and when traditional skills do not match new economic opportunities.

The *Legalists school* of thought (popularized by Hernando de Soto and others) believed that the informal sector was comprised of micro entrepreneurs who try to avoid the costs and responsibilities of formal registration. Onerous and complicated regulations and costs stifle private enterprise and drive them underground. De Soto and others have championed property rights as a means of converting informally held capital into real capital.

The *Structuralist school* (including proponents such as Alejandro Portes) argued, in contrast to the other schools of thought, that the informal sector was a feature of capitalist development. In this view the informal sector is seen as being subordinated to, even exploited by, the formal sector, in order to lower costs and increase the competitiveness of large firms.

The *Il-legalist school* of thought, is closely linked to neoliberalism and neo-classical economics. In this view informality is seen as a way for entrepreneurs to avoid taxes and labour market regulation. Informality is thus viewed as a choice.

From informal sector to informal economy

During the 1990s, a renewed interest in the informal sector and analysis of the patterns of informality in both developed countries and developing countries showed that informality was persisting and growing. This led to a fundamental rethinking of the informal sector and deepened understanding of its dimensions and dynamics. In 2002, the International Labour conference broke new ground in the debates surrounding informality, broadening its conceptual from a 'sector' to an economy wide phenomenon, and from an enterprise based concept to one that included not just the production unit but also the characteristics of the job or worker.

This broadened understanding of informality opened opportunities for a more nuanced and country specific perspective on the causes and consequences of informality, the characteristics of informality, and the linkages with the informal economy and formal regulatory environment.

Source: Adapted from Martha Chen 'Rethinking the Informal Economy, from enterprise characteristics to employment relations', in *Rethinking Informalization, Poverty, Precarious Jobs and Social Protection*, Edited by Neema Kudva and Lourdes Beneria, Cornell University Open Access Repository.

■ **What is the informal economy?** The 2002 ILC Resolution proposed the term 'informal economy' rather than the previous term 'informal sector' to better describe the sheer scope and diversity of the phenomenon around the world. Rather than a specific definition, the framework provided parameters for understanding the informal economy as 'all activities that are, in law or practice, not covered or insufficiently covered by formal arrangements'. The notion of exclusion lies at the heart of these parameters – that it refers to working people who are largely excluded from the exchanges that take place in the recognised system. They are often not captured by national accounts and official statistics and as a consequence invisible in policy formulation.

From this point of view, several aspects of informality are revealed: actors can be informal in that they lack social protection, do not exercise rights at work and lack representation and voice in the workplace. They are therefore excluded from the benefits that are provided by the state, private markets and political processes, and because of this, the informal economy is largely unprotected, insecure and vulnerable³.

Exclusion from the mainstream economy may come about for various reasons including:

- On the labour supply side: internal constraints brought about by poverty, inadequate human capital accumulation, such as low education, training and ability to manage risks and income. These prevent workers from taking more productive employment or from accessing financial and other services;
- On the labour demand side: a policy incentive regime that encourages labour saving technologies and capital intensive growth which orients public and private support institutions away from small enterprises and private sector growth; and
- On the external environment: globalization and greater competitiveness that force companies to rely on atypical, non-standard work arrangements that are less costly to employers but result in greater precariousness for workers.

The literature distinguishes between voluntary and involuntary exclusion, the former being wilful evasion from taxes and regulatory controls. The complex debates surrounding issues of de-regulation (and what should be de-regulated) will be touched on later in this brief (see also briefs on International Labour standards, the regulatory environment and on informal enterprises). Nonetheless the phenomenon of exclusion highlights the weakness of governance: of institutions that are unable to meet the needs and capacities of the populations they are mandated to serve.

● Poor governance is a key issue underlying informality

Indeed the 2002 ILC Resolution emphasised poor governance as a key issues underlying informality. The growth of informality can be traced to:

‘inappropriate, ineffective, misguided or badly implemented macroeconomic and social policies, often developed without tripartite consultations; the lack of conducive legal and institutional frameworks; and the lack of good governance for proper and effective implementation of policies and laws’⁴.

Inadequacy in governance results in populations of workers and entrepreneurs who are not recognised or protected by law. The legal and institutional frameworks whose design and enforcement are essential to combating informality are those that govern labour, social protection, business regulation and securing property rights, including access to financial capital⁵. (see briefs on Regulatory Frameworks).

■ **Who is in the informal economy?** The informal economy has continued to grow throughout the world. In 2002 ILO estimates placed the informal economy at around 72 percent of non-agricultural employment in sub-Saharan Africa, 71 percent in Asia, 51 percent in Latin America and 47 percent in the Middle East and North Africa. When agricultural employment is included

3 For more details see Resources section to access ILO 2002: Resolution and Conclusions concerning Decent Work and the Informal Economy

4 Ibid

5 Ibid

in these estimates the results are even more striking. (See brief on Measurement of the Informal Economy).

The informal economy has traditionally been viewed as a catchbasin for women and men who cannot find jobs in the formal economy and who are therefore pushed to take any work or create their own employment through small, even marginal, economic activities. Not everyone in the informal economy however, is poor. There are those who have started out operating on the margins, but through their dynamism, have grown their enterprises and broken out of poverty. And there may be firms which are formal but choose to remain informal in some aspects such as their failure to declare income to tax authorities or have not registered their owners and workers with the labour ministry or social security system. Still, it remains that most of those found in the informal economy are poor and earn low incomes, and there is very little element of 'choice' in their position in the informal economy. Even where informal economy actors are able to earn more than their formal counterparts, they still remain, in several aspects, out of the main circuits of market exchange and state protective systems.

- **Categories of work.** The broader categorisation of 'informal economy' proposed in 2002, better captures the phenomenon of not only unregistered and unrecognised enterprises, but also workers who are in precarious circumstances, whether in the formal or informal economy. The new term better illustrates informality in terms of both the production unit and the characteristics of the job or worker. (See brief on Measurement of the Informal Economy).

Consequently in 2003 the 17th International Conference of Labour Statisticians (ICLS) spelled out these categories based on the expanded concept. It includes the following categories of work:

- i. Own-account workers (self-employed with no employees) in their own informal sector enterprises;
- ii. Employers (self-employed with employees) in their own informal sector enterprises;
- iii. Contributing family workers, irrespective of type of enterprise;
- iv. Members of informal producers' cooperatives (not established as legal entities);
- v. Employees holding informal jobs as defined according to the employment relationship (in law or in practice, jobs not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (paid annual or sick leave, etc.);
- vi. Own-account workers engaged in production of goods exclusively for own final use by their household.

This has been a major innovation by the international statistical community in capturing informality in terms of data which is dealt with in more detail in the brief on Measurement.

- **Specific groups.** The informal economy has become the last resort for many indigenous and tribal peoples, workers with disabilities, and those affected by HIV/AIDs. They often remain trapped in the informal economy in conditions of vulnerability and insecurity, as a result of discrimination in access to formal labour markets.

Women and youth are also disproportionately represented in the informal economy and often at the most marginalised end of it. Strong gender segmentation is evident, with employers being predominately male and

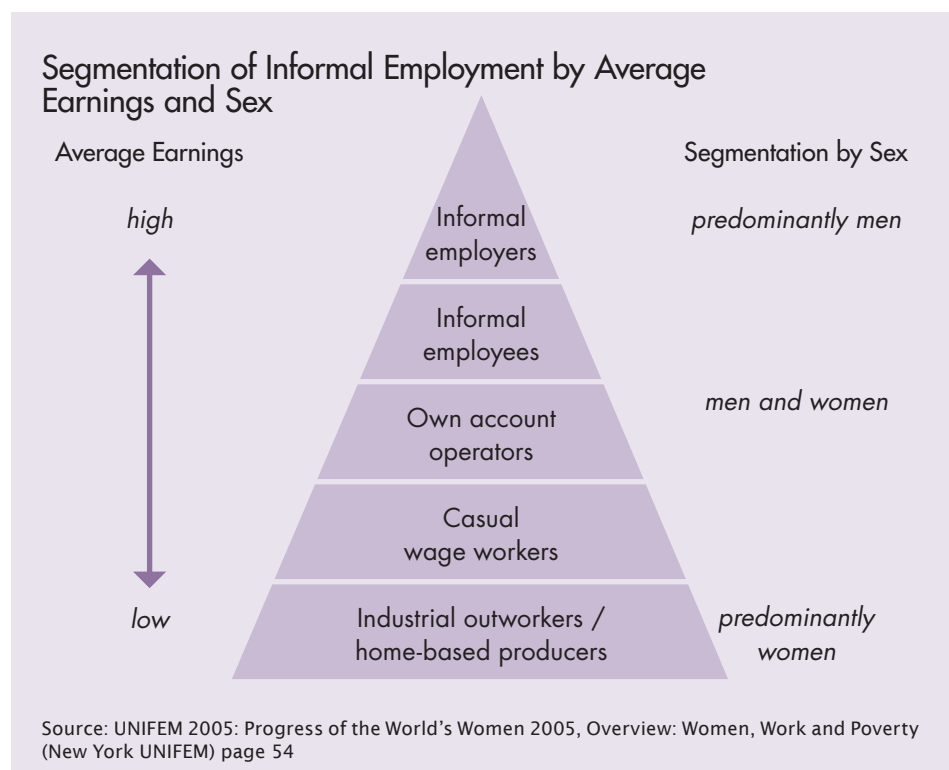
● The 2002 categorisation of the informal economy better captures the phenomenon of not only unregistered and unrecognised enterprises but also workers who are in precarious circumstances whether in the formal or informal economy

● Gender segmentation is embedded within the informal economy

contributing family workers predominately female. Additionally within any given employment status category, women's earnings are less than men's. Moreover women spend fewer hours in remunerative work than men, in part due to the hours they spend in unpaid care work. Responsibilities for unpaid care work also reinforce labour market segmentation – women may be restricted to own-account or homebased employment, even if total hours worked are longer and incomes lower.⁶ Women also tend to be clustered in 'traditional female' oriented economic activities such as tailoring and cooking which are often more poorly remunerated and suffer greater market saturation than other types of economic activities.

All these factors influence women's risk of poverty and marginalisation within the informal economy. (See also brief on Gender Equality).

The box below illustrates the gender segmentation apparent in the informal economy. It should be noted however, that the exact composition of the segmentation varies in different country contexts.



● A multiplicity of factors drive informality, and their precise combination in different country contexts varies

■ **What drives informality?** Contrary to common expectations that the informal economy acts as a transit hub for the unemployed which dissipates once economies grow and absorb the surplus labour found in it, evidence across countries shows that informality persists in countries which have experienced robust and sustained economic growth. In many developing countries, a more complex relationship emerges – one where economic downturns throw people into the informal employment (as a survival option) and economic upturns fail to bring them back into the formal system. A discussion of the phenomenon of job-less growth and the critical importance of

6 For more details see Resources section to access UNIFEM: Progress of the World's Women 2005, Overview – Women, Work and Poverty Pg 50

employment policies as the key nexus between growth and poverty reduction, is detailed in the brief on *Patterns of economic growth and the informal economy*.

- **Poverty.** There are multiple factors underlying informality⁷. First and foremost is the problem of poverty and the limited livelihood opportunities and jobs for the working poor. Though not everyone in the informal economy is poor, as noted in the ILO report *Working Out of Poverty*⁸, there is a frequent overlap between informality and poverty. This link is elaborated in the foregoing sections and again elaborated in the brief on *Patterns of economic growth and the informal economy*. Low incomes and limited access to public institutions prevent the poor from investing in skills that could boost their employability, productivity and ensure their protection from income shocks and risks. Lack of education and limited recognition of skills garnered in the informal economy also prevent poor people from entering the formal economy, while the scarcity of livelihood opportunities in rural areas often drives migrants into informal work in urban areas and in developed countries. Labour market discrimination of vulnerable groups such as poor women, disabled, ethnic groups, persons with HIV/AIDs often pushes these families and communities into poverty and survival through informal work⁹.
- **Poor absorption capacity of the industrial sector.** Another factor driving informality is the inability of the industrial sector to absorb labour in more productive jobs. This often results in the preponderance of low quality employment in the service sector. As developing countries industrialize, the associated decline in rural-urban migration and industrial expansion are often not accompanied by a proportionate increase in industrial jobs. Rather, most of the jobs end up being created in the service sector. While service sector employment spans the entire spectrum of working conditions and wages, and includes petty trading as it does sophisticated financial services, there is evidence of the sector's overall low value-added contribution in many regions. This suggests that a substantial amount of jobs created in these sectors could include the poor quality, and low productivity types associated with the informal economy¹⁰.
- **The drive for flexibility.** Flexibilization of work in the formal economy as a result of globalization pressures is another factor contributing to the growth of informality. Previously, formal or regular employment contracts would offer workers security of job tenure as well as some income stability and social security. It also allowed workers to avoid risks associated with investment in tools, materials and premises, as these were borne by the employer. As companies keep up with a more competitive market, they resort to flexible work arrangements such as subcontracting, temporary or casual work.
- **Changing production structures.** Similarly, the easing of trade and financial barriers, coupled with the fall in the cost of transportation and communication, has made it easier for businesses to break up production processes and subcontract them in countries where labour costs are lower.

● Globalization and changing production structures place enormous competitive pressures on enterprises

7 Some of these factors and trends are reviewed in the Director-General's Report to the 95th Session of the ILC in 2006. ILO: *Changing Patterns in the World of Work*, Report of the Director-General, International Labour Conference, 95th Session, Geneva, 2006.

8 For more details see Resources section to access: ILO: *Working Out of Poverty*, Report of the Director General, International Labour Conference, 91st Session, Geneva, 2003.

9 ILO: *Resolution and Conclusions concerning Decent Work and the Informal Economy*. op.cit

10 For more details see Resources section to access ILO 2008, *Decent Work and the Transition to formalization: Recent Trends, policy debates and good practices*, Report of the Tripartite Interregional Symposium on the Informal Economy: Enabling Transition to Formalization

This is seen in the fact that, while the share of industrial employment to total employment worldwide has remained steady at around 21 per cent in 1995 and 2005, the share in industrialized countries has declined while the same has increased in several developing countries, including Brazil, China, Indonesia, Mexico, Pakistan, Russian Federation, South Africa, Thailand, Turkey and Viet Nam¹¹.

- **Economic restructuring.** Economic restructuring processes, including privatization of state enterprises and public service, have in some countries contributed to the growth of the informal economy. For instance, in the region of Central and South-Eastern Europe (non-EU) and the Central Independent States, the breakdown of the Soviet system was followed by high unemployment rates and rapid rural-urban migration without corresponding increases in the share of workers in industry. This has resulted in high shares of employment in the service sector, almost stagnant vulnerable employment and unemployment rates, as well as discouragement among the youth.

● Evidence does not support the arguments that regulatory frameworks drive informality

- **The labour regulation debate** A more controversial debate on the drivers of informality concerns the regulatory environment. Proponents of deregulation, argue that the high cost of compliance to regulation results in ‘rigidity of the labour market’ and the ‘voluntary choice of informality’. In this view regulation negatively affects formal employment creation and drives it underground. However a review of the literature does not provide evidence for arguments put forward by supporters of ‘systematic deregulation’. The Commission on the Legal Empowerment of the Poor and more particularly its working group of independent experts (including ILO and the World Bank) examined the studies and empirical evidence that established the linkage between rigid labour market regulatory frameworks and rise in informality over a selected period and concluded that the evidence was not conclusive¹². The Commission recommended instead examining the adequacy of the regulatory framework in local contexts with a view to strengthen its empowering role for those working in the informal economy. It also recommended the development and effective enforcement of a minimum package of rights that embraces and goes beyond the ILO 1998 Declaration on Fundamental Principles and Rights at Work¹³.

● Country research on Brazil and Argentina has shown how integrated regulatory policy packages can curb informality and result in the growth of formal jobs

Several country surveys and studies that have come out since do not sustain either the inferred causality between the rise in informality and “rigidity” in labour markets. A recent example is the Report by the India’s National Commission on the Unorganized Sector released in June 2009¹⁴. The report analyzed growth and employment data of the last decade in India and concludes that the pace of job creation has been greater in low quality/informal employment as compared to job creation in formal employment during a period when the country experienced strong growth and no “tightening” of labour market regulations. In other words, rise in informality, including for both groups of self-employed and in particular for wage employees in the formal sector cannot be imputed to stricter regulations¹⁵. In Brazil, recent ILO studies, show on the other hand, increase and acceleration in formal employment generation at a time when minimum wages had been elevated

11 ILO: Changing Patterns in the World of Work, Report of the Director-General, International Labour Conference, 95th Session, Geneva, 2006.

12 The Commission on Legal Empowerment of the Poor (CLEP) was established in 2006 and concluded its work in 2008. See Making the Law Work for Everyone, Volume 1, Report of the Commission on Legal Empowerment of the Poor and Volume 2, Working Group Reports (New York, CLEP-UNDP, 2008).

13 ibid

14 NCEUS: The Challenge of Employment in India: An Informal Economy Perspective, Volume 1 Main Report (New Delhi, National Commission for Enterprises in the Unorganised Sector, 2009).

15 The Informal Economy- Think Piece. ILO 2009 internal note.

and labour inspection strengthened¹⁶. In Argentina, a recent World Bank survey did not sustain the thesis of “voluntary informal employment” and demonstrated how a multi-dimensional policy package could curb the dramatic increase which occurred in informality after the financial crisis¹⁷. (The regulatory debate is also discussed in the brief on the Regulatory environment, and see also brief on Patterns of Economic growth for more discussion on Brazil and Argentina).

While systematic deregulation has not proven to be an appropriate policy response, there are aspects regulations which clearly need to be streamlined, simplified and made cost-effective. High transaction costs, overly burdensome regulations, complicated, costly and inappropriate processes for registration as well as dealing with corrupt or inefficient bureaucracies for example can be serious barriers to entry into the mainstream economy¹⁸.

- **Economic crises.** Economic crisis create new pressures on formal employment and often result in the expansion of the informal economy. Job losses in the formal economy exert double pressure on the already vulnerable situations in the informal economy. The informal economy is often considered as a natural and flexible “shock absorber”, that can provide unlimited self employment and livelihood opportunities for those who lose their formal jobs. However contraction of aggregate demand globally and in key sectors such as construction, textiles or toy industry is affecting informal job and business opportunities in the current global financial crisis. Both trends increase competitive pressures in the informal economy and further deteriorate earning opportunities and income levels. Measures for recovery need to focus beyond the formal economy to avoid setbacks in the goal of transition to formality. They must integrate and support the livelihoods, coping strategies and safety nets of informal workers if these long term effects are to be mitigated¹⁹.

● Some regulations that govern business registration and licensing need to be streamlined, simplified and made cost effective to encourage formalization

● Economic crises often not only expand the informal economy but put further downward pressures on those already in the informal economy

■ **Decent Work and the Informal Economy.** The ILO’s goal of promoting opportunities for women and men to obtain decent and productive work applies not just to the formal labour market but to all types of workers and employers. In his Report to the 89th Session of the International Labour Conference, the ILO Director-General emphasized that:

“it is in the informal economy and among the poor that the needs are greatest. If we claim universality, (that) ‘all those who work have rights at work’ – then we are obliged to tackle these issues.”²⁰

In 2002, the ILC re-emphasized this same challenge, when it pointed out the need to address deficits in decent work conditions in the informal economy, calling for a -

...broad strategy (of) realizing fundamental principles and rights at work; creating greater and better employment and income opportunities; extending social protection; and promoting social dialogue.²¹

16 See Resources section to access: Berg, J. Laws or Luck: Understanding rising formality in Brazil in the 2000’s

17 Taken from The informal economy – Think Piece’, ILO 2009 Internal note. World Bank and Ministerio de Trabajo, Empleo y Seguridad Social: Aportes a una nueva visión de la informalidad laboral en la Argentina (Buenos Aires, WB and Ministerio de Trabajo, Empleo y Seguridad Social, 2008).

18 ILO 2002 Resolution and Conclusions concerning Decent Work and the Informal Economy

19 See Resources section to access: ILO 2010: Employment policies for social justice and a fair globalization – Recurrent Item Report on Employment

20 See Resources section to access: ILO: Reducing the decent work deficit: A global challenge, Report of the Director-General, International Labour Conference, 89th Session, Geneva, 2001, p. 18.

21 See Resources section to access: ILO 2002: Resolution and Conclusions concerning Decent Work and the Informal Economy

Decent Work has become an internationally accepted reference point and is recognized not only as an end in itself but as a key means of achieving global development goals including poverty eradication.

Informality and the four Decent Work Pillars

(Employment, Social Protection, Social Dialogue and Rights)

Employment

The need to expand opportunities for people to find productive work and earn a decent livelihood.

Informality and exclusion as far as employment is concerned includes not only access to quality jobs which earn decent incomes but also access to inputs that improve informal economy actors' capacity to find productive opportunities (for example skills training, financial services, market information) and policies that open the space for the economic activities of the poor, utilize their assets and expand their markets (for example labour intensive production techniques, infrastructure facilities accessible to clusters and communities, trade policies that do not unduly discriminate against the products of the poor, financial services and market space accessible to the poor).

(Social) Protection against vulnerabilities

The need to address the contingencies that take people out of work, whether these arise from unemployment, loss of livelihood, maternity, sickness or old age. Informality as far as social protection is concerned occurs when social security systems are out of reach of certain types of workers and entrepreneurs leaving them vulnerable to risks of sudden impoverishment; and when occupational safety and health advisory services do not extend beyond formal enterprises.

Social dialogue

Organization, representation and dialogue are the essential processes to set in place the enjoyment of a range of rights at work. Freedom of association and social dialogue are the cornerstone of democratic good governance in the labour market.

Informality and exclusion from social dialogue processes occur when informal economy actors are unable to organize and articulate their needs and interests; where organizations formed among workers and own-account workers are not recognized, and worse, suppressed; when the avenues of participation are captured by dominant interests to the exclusion of workers and the poor; and when workers' and employers' organizations as well as tripartite formations are not inclusive of certain categories workers and entrepreneurs.

Rights

All those who work have rights at work, irrespective where they work. The ILO calls for improvement of the conditions in which work is carried out, wherever work might occur, whether in the formal or the informal economy, whether at home, in the community or in the voluntary sector, whether workers are organized or not.

Informality in terms of rights can be found among populations that are not protected by labour legislation and administration, have no access to dispute settlement mechanisms, cannot form legally-recognized associations, are beyond the reach of legal and rights education, and work under bonded or unfair conditions out of the purview of state scrutiny.

■ **Progressive steps in moving out of informality.** Decent Work provides a coherent framework for identifying which aspects of informality need to be looked at (i.e. the specific components of decent work) and also which types of policy and institutional instruments can foster or hinder greater inclusion with the mainstream economy. This process of moving out of informality is a comprehensive and progressive one rather than a simplistic one-off approach. The goal of decent work must be pursued progressively by:

- giving priority to reducing decent work deficits in the informal economy in the immediate term, by ensuring those found in it are recognised by law, have rights, legal and social protection and representation;
- ensuring, in the short and medium term, that job seekers and potential entrepreneurs are able to enter the formal, protected and mainstream economy, and
- in the longer term, creating enough employment opportunities that are formal, protected and decent for all workers and employers.

While the goal and the challenge remains to move out of informality, the path is depicted not in terms of a one-dimensional remedy but rather as a gradual approach that can catalyse transition through comprehensive and integrated strategies that addresses the multi-rooted problems of the informal economy.

■ **Refining the ILO's integrated approach.** Since the 2002 ILC Resolution the ILO has further fine-tuned this comprehensive framework in subsequent policy discussions, including at ILO Regional meetings, the 2007 Tripartite Interregional Symposium on the Informal Economy, and in the ILO Governing Body's Employment and Social Policy Committee. The framework recognises that:

...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, and that promotes the protection and incorporation of workers and economic units in the informal economy into the mainstream economy²².

Drawing on its research at country level and its operational work, the ILO has translated this comprehensive approach into a policy and diagnostic framework that includes seven key areas of policy action, as shown in the diagram below. This framework serves multiple functions. It is for use as a diagnostic tool to analyse and monitor processes and determinants of informalization / formalization in a given country context; encourage broad based tripartite dialogue for assessing the impact of policies; and engage in dialogue with other global actors and international institutions which are increasingly focused on the informal economy and promote their own perspectives. The framework points to the multiple avenues towards formality by deepening action in each of the policy areas (listed in the rows in the diagram). It also shows the total impact of these different policies that can create an enabling / disabling environment towards formality in a given country context (coherence among these policy areas). The totality of incentives and disincentives that motivate each of the players, governments, employers', and workers' organisations, as well as the workers and entrepreneurs in the informal economy, can be better evaluated as a result.

22 For more details see Resources section to access: ILO 2007 The Informal Economy, Governing Body, 298th Session, Geneva March 2007, GB.298/ESP/4

Decent Work Strategies for the Informal Economy



Source: ILO 2010: Report VI Employment Policies for social justice and a fair globalisation; Recurrent item report on Employment 2010. Report submitted to the International Labour Conference 99th session 2010

This policy and diagnostic tool provides the framework for the ILO's support to its constituents in developing strategies to transition to formality. The structure of this Policy Resource Guide is therefore based on this framework. The seven policy areas are further broken down within this Guide into specific technical briefs, but within an overall perspective of the need for a comprehensive, integrated and targeted approach to moving out of informality.



Stenographer in the streets of Lima, Peru.

RESOURCES

This section provides a list of resources which can enable the reader to delve deeper into the issue. The section comprises international instruments, International Labour Conference conclusions, relevant publications and training tools. A bibliography of references in the text is further below. There may be some overlap between the two.

ILO and UN Instruments and ILC Conference conclusions

ILO 1998 Declaration concerning fundamental principles and rights at work
[http://www.ilo.org/ilolex/cgi-lex/pdconv.pl?host=status01&textbase=iloeng&document=2&hapter=26&query=\(%23docno%3D261998\)+@ref&highlight=&querytype=bool&context=0](http://www.ilo.org/ilolex/cgi-lex/pdconv.pl?host=status01&textbase=iloeng&document=2&hapter=26&query=(%23docno%3D261998)+@ref&highlight=&querytype=bool&context=0)

ILO 2002 Resolution and conclusions concerning decent work and the informal economy
International Labour Conference, 90th session, 2002 Geneva
<http://www.ilo.org/public/english/standards/relm/ilc/ilc90/pdf/pr-25res.pdf>

ILO 2008 Declaration Concerning Social Justice for a Fair Globalisation
http://www.ilocarib.org.tt/projects/cariblex/conventions_24.shtml

ILO 2009 Recovering from the crisis: A Global Jobs Pact International Labour Conference 98th session, 2009, Geneva
http://www.ilo.org/global/What_we_do/Officialmeetings/ilc/ILCSessions/98thSession/texts/lang--en/docName--WCMS_115076/index.htm

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Shoe Repair shop, Syrian Arab Republic.

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