

# The Regulatory Framework and the Informal Economy

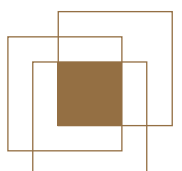


*Fruit and vegetable merchant in the street. Bangkok, Thailand.*

## Labour Administration

### 4.c1 LABOUR ADMINISTRATION: OVERCOMING CHALLENGES IN REACHING THE INFORMAL ECONOMY

■ Since the topic of labour administration is very broad and covers all aspects of national public administration of the labour environment, this brief acts as a chapeau to several other briefs. It provides a discussion of the challenges facing labour administration in reaching the multitude of workers and entrepreneurs in the informal economy. Good practices and emerging approaches are discussed in specific areas of labour administration throughout the Policy Resource Guide.



## KEY CHALLENGES

- **New pressures on labour markets**
- **Orientation towards the formal economy**

■ **New pressures on labour markets.** Despite its mandate of serving all working people in a given territory, in many countries labour administration is struggling to reach the large numbers of worker and entrepreneurs in the informal economy. It faces the important challenge of managing the current labour landscape which is characterised by rising global production systems, expanding cross-border trade, intensified competition, the rapid integration of markets and a rising informal workforce. While some labour administrations have risen to this challenge, others have lost some of their influence and are unable to respond and react adequately to changing labour markets.

● In many countries labour administration is struggling to reach the large numbers of worker and entrepreneurs in the informal economy

### What is labour administration and what does it do?

Labour administration is the public administration of all aspects of national labour policy formulation, implementation, control and evaluation. It aims to ensure that the benefits of growth are evenly distributed, and as such, aims to meet the needs of the largest possible number of workers and employers, including informal ones, and to provide a stable business climate. Among its many responsibilities are:

- improving labour conditions,
- preparing laws and regulations,
- ensuring compliance with labour legislation,
- providing for efficient labour inspection,
- preventing and settling labour disputes,
- promoting tripartism,
- developing vocational training,
- providing for employment services,
- collecting data and conducting research
- administering passive and active labour market policies.

The activities of labour administration are carried out by a system that according to the *Labour Administration Convention, 1978, (No. 150)*, includes all public administration bodies responsible for and/or engaged in the regulation of labour. These may be ministerial departments or public agencies, including parastatal and regional or local agencies, or any other form of decentralised state administration. It also covers any institutional framework agreements co-ordinating the activities of these bodies, or for consultation with and participation by employers and workers and their organisations. The labour administration system usually has at its centre a ministry of labour with several divisions or units that manage different programmes entrusted to it by national legislation.

Several international labour standards (ILS) deal with labour administration. The main instruments are the *Labour Administration Convention, 1978 (No. 150)*, and the accompanying *Recommendation No. 158*. Several other ILS also deal with the topic: ILS concerning labour inspection, employment services, employment policy, human resources development, labour statistics, freedom of association and the protection of the right to organise and collective bargaining, tripartite consultation and minimum wage fixing.

■ **Orientation towards the formal economy.** Implementation of national labour laws is regulated through the procedures of the bodies of public administration.<sup>1</sup> In many countries, however, labour administration's activities are confined to formal workers, while informal workers remain outside the reach and the protection of most Labour Ministries.<sup>2</sup> To this extent, it is clear that Labour ministries are facing important challenges and that there is a need for them to transform in order to react and respond to the problems faced by many informal workers.

### Article 7, Labour Administration Convention, 1978 (No. 150)

The role of the system of labour administration in taking into account the informal economy and categories of workers who are not, in law, employed persons, is made clear in Convention No. 150 which states that labour administration should aim to progressively cover them.

Article 7: When national conditions so require, with a view to meeting the needs of the largest possible number of workers, and in so far as such activities are not already covered, each Member which ratifies this Convention shall promote the extension, by gradual stages if necessary, of the functions of the system of labour administration to include activities, to be carried out in co-operation with other competent bodies, relating to the conditions of work and working life of appropriate categories of workers who are not, in law, employed persons, such as:

- (a) tenants who do not engage outside help, sharecroppers and similar categories of agricultural workers;
- (b) self-employed workers who do not engage outside help, occupied in the informal sector as understood in national practice;
- (c) members of co-operatives and worker-managed undertakings;
- (d) persons working under systems established by communal customs or traditions

For full text of the Convention see <http://www.ilo.org/ilolex/cgi-lex/convde.pl?C150>

● There is a need to rethink the traditional functions and methods of work of labour administration. Multi-pronged approaches combining information and awareness raising campaigns, empowerment strategies and new culture and modalities of outreach and tripartite partnerships are needed.

Labour administration is not only a complex activity but a very demanding one. It needs to be flexible and requires well trained individuals, significant financing and political will to be effective. Most importantly of all, labour administration systems should reach every worker. There is no “one size fits all” solution to the question of how the labour administration system can effectively reach the informal economy, however, as it covers so many different types of employment and core rights and as it manifests itself differently within a country, or a region. It involves a broad range of interconnected concerns ranging from issues on the user's end - willingness and capacity to comply - to those on the providers' end - functions and mechanisms provided by the state and private sector. Discussions within the ILO Governing body and the International Labour Conferences have all pointed to the need to rethink the traditional functions and methods of work of labour administration. Multi-pronged approaches combining information and awareness raising campaigns, empowerment strategies and new culture and modalities of outreach and tripartite partnerships are needed.<sup>3</sup>

1 Daza, 2005, p.34.

2 Casale, et. al, 2006, Preface, and p.2.

3 For more details see Resources section to Access The informal economy: enabling transition to formalization, ILO, 2007,

- **Modification of the structure of ministries of labour**
- **Understanding the informal economy in a country context**
- **Encouraging tripartism and social dialogue**

The general objectives of labour administration with regards to the informal economy are described in the box below

### What can the Labour Administration do to support the transition to formality?

- Prevent informality by decreasing the cost of formality and increasing the cost of informality;
- Formalise informal activities and relationships by raising awareness of current labour laws, or preparing laws to cover workers in the informal economy;
- Reduce the social protection gap by increasing social security coverage, implementing labour inspection, and supporting the rights of association.
- Labour administration agents can work directly with sections of the informal economy, building and supporting networks of people already implicated on the ground (non-governmental or charity organisations, school teachers, faith-based group leaders, etc.);
- Labour administration can aid in the training and support of extension workers;
- Labour administration can actively support the development of and participation with social dialogue institutions.

Source: Casale, G.; A. Sivananthiran; J.L. Daza; C. Mar (eds). 2006. Showcasing tools and experiences in labour administration and the informal economy (New Delhi, ILO). p.4.and 25

Some specific strategies to enable labour administration to respond better to the informal economy include:

■ **Modification of the structure of ministries of labour.** In order to better respond to the challenge posed by the informal economy, some Governments have created informal economy divisions or units. Others have extended the mandate of existing structures.

■ **Understanding the informal economy in a country context.** In order to better tackle the informal economy, it is important to develop tools in view of better understanding it, identifying needs and formulating employment policy. National law varies greatly as to the definition of the informal economy – the size of the establishment, registration with the social security system or non-registration are amongst the criteria used to designate an informal situation. Mapping out the informal economy is an essential step in this regard. It involves gathering labour statistics and establishing registrars of enterprises and workplaces which will facilitate labour inspection, adaptation of the law, and the application of social protection to all workers.

■ **Encouraging tripartism and social dialogue.** Tripartism is a key element of successful labour administration. The 2008 ILO Declaration states that the Organisation and its Member States should promote social dialogue and tripartism as the most appropriate methods for “making labour law and

● Data and knowledge of how informality manifests itself in specific country contexts is essential for policy development

institutions effective, including in respect of the recognition of the employment relationship, the promotion of good industrial relations and the building of effective labour inspection systems”.

### Census of the informal economy: an example from Sri Lanka

When the Sri Lankan Ministry of Labour was asked by the Government in 2005 to survey the damage and displacement caused by the 2004 Tsunami, it took the opportunity to register businesses operating in the informal economy. Through the use of an innovative “combining census” strategy, the Ministry added some 35,000 new businesses to its Master Register, taking the first step towards their formalisation.

In cooperation with the ILO, the Ministry of Labour first divided the area into zones which could be covered by Labour officers working in pairs. These officers identified informants (local authorities, registrars of companies and associations) and established a baseline survey of existing records and establishments. The Ministry of Labour publicised the census in the media to enable workers not previously covered to provide information of new businesses. Labour Officers then went door-to-door taking details of all establishments in their zones.

Through this initiative, the Ministry of Labour managed to thoroughly update its Master Register, to compile a list of workers who had previously not benefited from labour law protection and to increase the visibility of labour protection nationwide.

Source: Casale, G.; A. Sivananthiran; J.L. Daza; C. Mar (eds). 2006. Showcasing tools and experiences in labour administration and the informal economy (New Delhi, ILO) p.5

### Public Employment Services: an untapped potential to support transition to formality

Public Employment Services (PES) play a central role in balancing supply and demand in the labour market. They function to link employers with workers seeking viable employment opportunities, and also offer special assistance those who are disadvantaged in the labour market including youth, women and the disabled. PES are an important channel of labour market information and help ensure transparency and access in the labour market. Among its traditional roles PES has been responsible for:

- Job broking
- Providing labour market information
- Administering labour market adjustment programmes
- Administering unemployment benefits

PES can be an important instrument in supporting government policy and therefore have great potential to support outreach to the informal economy and policies for formalization. PES can offer services and supply significant information to informal workers and employers, particularly on their basic legal and human rights. Strategically positioned offices in vulnerable communities can offer considerable support and information on shifting demand and supply in labour market conditions, as well open up opportunities for entry into formal jobs. They can potentially tailor their services to specific vulnerable groups many of whom predominate in the informal economy. Job-seeking assistance is particularly helpful to the large numbers of youth and new labour market entrants in many developing countries, a large proportion of whom end up in the informal economy. PES's role in supporting life-long learning, vocational training and skills access is another area where the PES could contribute to enhancing the employability of many in the informal economy.

To be able to better serve the needs of the informal economy, PES will need to improve their visibility and outreach services, as well as their internal capacity through training. Their activities will require considerable reorientation since they are generally targeted to the formal economy. In many cases a broad analysis of labour market requirements will be needed in order to develop the appropriate services including job search assistance and skills access.

## RESOURCES

This section provides a list of resources which can enable the reader to delve deeper into the issue. Details of the good practices cited above can be accessed here. 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

Labour Inspection Convention, 1947 (No. 81)

Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87)

Right to Organise and Collective Bargaining Convention, 1949 (No. 98)

Employment Policy Convention, 1964 (No. 122)

Labour Inspection (Agriculture) Convention, 1969 (No. 129),

Human Resources Development Convention, 1975 (No. 142)

Labour Administration Convention, 1978 (No. 150)

Labour Administration Recommendation, 1978 (No. 158)

Labour Statistics Convention, 1985 (No. 169)

Declaration on Social Justice for a Fair Globalization, 2008

[http://www.ilo.org/wcmsp5/groups/public/---dgreports/---cabinet/documents/publication/wcms\\_099766.pdf](http://www.ilo.org/wcmsp5/groups/public/---dgreports/---cabinet/documents/publication/wcms_099766.pdf)

### Relevant Publications

Casale, G.; A. Sivananthiran; J.L. Daza; C. Mar (eds). 2006. Showcasing tools and experiences in labour administration and the informal economy (New Delhi, ILO).

Casale, G.; A. Sivananthiram. 2010. Fundamentals of labour administration (Geneva, ILO).

Daza, J.L. 2005. Informal economy, undeclared work and labour administration (Geneva, ILO).  
[http://www.ilo.org/wcmsp5/groups/public/---ed\\_dialogue/---lab\\_admin/documents/publication/wcms\\_113918.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---lab_admin/documents/publication/wcms_113918.pdf)

International Labour Office (ILO). 2007. The informal economy: enabling transition to formalization, Tripartite interregional symposium on the informal economy: Enabling transition to formalization, 27-29 November (Geneva).  
[http://www.ilo.org/emppolicy/events/WCMS\\_125488/lang--en/index.htm](http://www.ilo.org/emppolicy/events/WCMS_125488/lang--en/index.htm)

Sivananthiran, A., C.S. Venkata Ratnam (eds). 2005. Informal economy: The growing challenge for labour administration (New Delhi, ILO).  
[http://www.ilo.org/wcmsp5/groups/public/---ed\\_dialogue/---lab\\_admin/documents/publication/wcms\\_113917.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---lab_admin/documents/publication/wcms_113917.pdf)

**For further information see the ILO's Labour Administration Department website**  
<http://www.ilo.org/labadmin/lang--en/index.htm>

## References

Casale, G.; A. Sivananthiran; J.L. Daza; C. Mar (eds). 2006. Showcasing tools and experiences in labour administration and the informal economy (New Delhi, ILO).

Daza, J.L. 2005. Informal economy, undeclared work and labour administration (Geneva, ILO). <http://www.ilo.org/public/english/dialogue/ifpdial/downloads/informal.pdf>

International Labour Office (ILO). 2007. The informal economy: enabling transition to formalization, Tripartite interregional symposium on the informal economy: Enabling transition to formalization, 27-29 November (Geneva). <http://www.ilo.org/public/english/employment/policy/events/informal/download/back-en.pdf>



*Traveling salesman of medicines in the streets of Niamey, Niger.*

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