

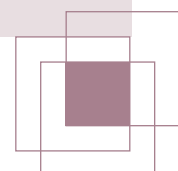
Entrepreneurship, Skills Development, Finance



Pancake stall in a Bangkok street. Thailand.

7.1 INFORMAL ENTERPRISES: POLICY SUPPORTS FOR ENCOURAGING FORMALIZATION AND UPGRADING

■ Enabling the transition to formality of informal enterprises requires an understanding of the multiple causes and dimensions of informality in the private sector. Integrated approaches are essential – ranging from a conducive business environment, the adaptation of outreach mechanisms to reach diverse segments of the informal economy and providing incentives to move out of informality including market and financial access, improving working conditions and streamlining costs and procedures of registration. Policy formulation also requires regular, structured dialogue with representatives of informal enterprises in order to be effective, understand the diverse constraints facing informal entrepreneurs and gain the trust of marginalized businesswomen and men. This brief should be read in conjunction with the briefs on Micro and Small Enterprises and Labour Law and on Local Development Strategies.



KEY CHALLENGES

- Enterprise development and informality
- The nuances of informality in enterprises
- Factors leading to informality
- Moving out of informality
- Gender issues
- The diversity of informal enterprises
- Entrepreneurs out of necessity rather than choice
- Problems faced by informal enterprises and workers

■ **Enterprise development and informality.** One of the largest sources of employment for men and women in developing countries is in informal enterprises. Indeed one of the measures of the size of the informal economy is the numbers of unregistered enterprises. (See also brief Statistical Measurement) Their lack of compliance with legal and regulatory frameworks means they are often unable to access the support and services they require. This affects their profitability and sustainability, as well as the quality of employment provided to their workers. This lack of compliance may be because their activities are not included in the law which means they are operating outside the formal reach of the law; or they are not covered in practice, which means that even where laws exist they are not applied or enforced, or the compliance is discouraged by inappropriate, burdensome procedures and excessive costs.¹

■ **The nuances of informality in enterprises.** Informal enterprises can operate in both the formal and informal economies, although their non-compliance with legal frameworks tends to limit their participation in formal markets. They include micro and small enterprises, own account workers, as well as medium and large enterprises. While informal enterprises are sometimes seen as synonymous with micro enterprises this is not the case. Not all micro enterprises are informal and indeed many larger enterprises can act in an informal manner, such as when it employs casual and seasonal workers informally or distributes its products through informal enterprise outlets. There is rarely a clear cut dichotomy between informal and formal enterprises.² Enterprises may be formal according to some regulatory criteria and informal according to others. Thus, while the term informal enterprise 'informal enterprise' may seem obvious, it is in fact difficult to specify. For some, informality equates with lack of registration. Yet studies have shown that an enterprise may be registered with some agencies but not with all.³ Understanding such nuances is essential to developing effective policy solutions to supporting the move out of informality.

What does upgrading and moving out of informality mean for enterprises?

The concept of "formalization" refers to the process of encouraging an enterprise to move from being informal to being fully compliant with the legal and institutional frameworks governing business and employment.

The term "upgrading" is used to describe an improvement in the enterprise, as measured by its ability to become more profitable and sustainable, as well as to improve the working conditions of people employed in the enterprise and the quality of employment offered.

The challenges of moving towards formality and upgrading informal enterprises are separate, but related issues. While formalization refers to the extent to which an enterprise complies with the legal and regulatory framework, upgrading refers to the access informal enterprises have to the services and markets they require to become more profitable and

¹ For more details see Resources section to access: ILO 2002 Conclusions concerning decent work and the informal economy.

² Reinecke, G. White, S. (2004) Policies for small enterprises: Creating the right environment for good jobs, Geneva, ILO

³ ibid

■ **Factors leading to informality.** Informality in the enterprise sector is not an isolated event. It is driven by a wide range of economic, social and cultural contexts, which effect the size and nature of the informal economy in different countries and regions.⁴ Policy responses to the challenges faced by informal enterprises should be based on a careful analysis of the systems that create and maintain the informal economy and the presence of informal enterprises in each country.

The presence of a substantial number of informal enterprises is symptomatic of a range of issues affecting the behaviour of poor businesswomen and men, their lack of political and economic power, and the nature of the prevailing social and economic institutions. It is likely that the emergence of informal enterprises reflects a combination of all these factors, albeit in different proportions across countries and regions. Informal enterprises are run by rational actors who are often marginalised, disadvantaged, unorganized, vulnerable and information poor.

The High Level Commission on Legal Empowerment of the Poor suggests that a variety of factors contribute to the existence and growth of informality, including rural migration to urban areas, a culture of political elitism and corruption, historical customs and practices, weak judicial systems and inadequate depth in the financial sector. The Commission highlights the rational choices poor enterprise owners make in their attempts to better their position.

“Informality may be a rational choice, given the available options”, says the Commission, “but it is often a costly (both in terms of actual costs and opportunities foregone) and negatively defined response. It is the job of reformers to turn formality itself into a viable and attractive option for the poor”.⁵

■ **Moving out of informality.** Moving out of informality is an important step toward enterprise upgrading. Research shows that formal enterprises are more likely to create more employment than their informal counterparts. There is something in being formal, in being recognised by government and other market actors, which helps these enterprises gather the resources required to create more employment than their informal peers. There are two main reasons for this. Firstly, formalization is an indication of commitment – those enterprise owners-managers who make the effort to comply to the requirements of the State and are successful in doing so are more committed to growing their business over the long-term. Secondly, compliance with the State provides recognition to small enterprises. Formal enterprises are more able to access the business and financial services they require to grow.⁶

■ **The diversity of informal enterprises.** One of the greatest challenges when dealing with informal enterprises is that they are not all the same. There are many degrees of informality and many types of informal enterprises⁷. For example, informal enterprises and own-account workers may be hawkers and vendors, home-based producers, manual labourers and service

sustainable. Non-compliance often leads to enterprise owners and workers being harassed by officials and to a desire to keep out of sight. Thus, non-compliance contributes to a process of marginalisation in which informal enterprises are not officially recognised by the state and often overlooked or disregarded by public and private service providers.

Moving enterprises towards formality and upgrading are key processes required in the promotion of sustainable enterprises that provide decent and productive employment for women and men. The 2007 International Labour Conference’s (ILC’s) *Conclusions concerning the promotion of sustainable enterprises* recognises that the creation and growth or transformation of enterprises on a sustainable basis combine the legitimate quest for profit – one of the key drivers of economic growth – with the need for development that respects human dignity, environmental sustainability and decent work.

4 For more details see Resources section to access: ILO 2007 The informal economy: enabling transition to formalization, Background Document

5 The High Level Commission on Legal Empowerment of the Poor (2006) highlights the role of regulation and burdensome legal codes in promoting informality. Informal enterprises thrive “when entry to, and participation in, the formal sector is complex and expensive”. See Resources section to access the report

6 Reinecke, G. White, S. (2004) Policies for small enterprises: Creating the right environment for good jobs, Geneva, ILO

7 Peattie, L. (1987) An idea in good currency and how it grew: the informal sector. World Development, 15, 851-860.

providers, and small producers; they can be found in agriculture and non-agriculture sectors.

Despite the diversity of enterprises found among the informal, there are a number of generalisations that have been made about these enterprises. Like other generalisations, these may have been drawn from fact, but rarely apply to all informal enterprises. Therefore, the policy makers need to examine each of these carefully and to consider the specific relevance to the kinds of informal enterprises of concern.

■ **Gender issues.** Women are more likely than men to be working in the informal economy. This is for a number of reasons: women often assume a balancing act of income earners, performing domestic chores, and having prime responsibility for taking care of elderly and children. Women also face discrimination and have less access to education, training and other social and economic resources ⁸ (see also brief on Gender Equality).

■ **Entrepreneurs out of necessity rather than choice.** An important feature of many informal enterprise owners and own-account workers in developing countries is that they are often forced to participate in the informal economy due to a lack of other options. A lack of success in obtaining formal employment has pushed many poor women and men into the informal economy.

The 2001 Global Entrepreneurship Monitor (GEM) identified two major reasons why people initiate business activities: they perceive a business opportunity (i.e., they elect to start a business as one of several possible career options), or they see starting their own business as their last resort (i.e., they feel compelled to start their own business because all other options for work are either absent or unsatisfactory). Using this categorization, the GEM labelled these entrepreneurs as either “opportunity” or “necessity” entrepreneurs.⁹ “Opportunity motivation”, says the GEM in 2008, “is assumed to be a sign of better planning, sophisticated strategy, and higher-growth expectations as compared to necessity motivation¹⁰”.

Many informal enterprise owners are in business because it is a last resort; should formal employment become available they would likely leave their business. This has significant implications for the transition to formality and the upgrading of informal enterprises. Many informal enterprise owners see their enterprise activities as a stopgap—a survival strategy and not a long-term prospect. Hence, investing in enterprise growth, either by complying with onerous laws and regulations, learning business management skills, investing in equipment and technology, or training workers is not considered appropriate in a short-term, transition enterprise. However, the enterprise owner who sees herself/himself in business for the long-term is more likely to invest time and other resources in the growth and development of the enterprise. This is the enterprise owner who is most likely to benefit from policy responses designed to encourage the move out of informality and the upgrading of informal enterprises.

● The diversity of informal enterprises means uniform policy responses are not appropriate

● In many cases entrepreneurs are in the informal economy through lack of other options and choices

● Policy responses need to take into account the distinctions between entrepreneurs who are in the informal economy as a last resort, and those who establish enterprises for the longer term

⁸ For more details see Resources section to access: UNIFEM, 2005 Progress of the world's women; women, work and poverty; and ILO 2002 Decent work and the informal economy, Geneva.

⁹ In 2002, 61 percent of those involved in entrepreneurial endeavours across the world indicated that they are attempting to take advantage of a business opportunity, while 37 percent stated that they are doing so because they have no other viable option. These proportions varied significantly between developed and developing economies, with the latter have a much higher proportion of “necessity entrepreneurs” (Reynolds et al., 2002).

¹⁰ Bosma et al., 2009, p. 38

■ **Problems faced by informal enterprises and workers.** High levels of informality are a cause for concern for many developing economies. Informality can take different forms. It is possible to find informal enterprises that are unregistered, unlicensed, unprotected (for example, uninsured), uncollateralised, unorganised and unrepresented. These are specific experiences of an informal enterprise, which create opportunities for policy reform and programmes that contribute to the process of formalising and upgrading the enterprise.

Overall, there are a number of common problems experienced by informal enterprises and their workers:

Lack of official recognition: Non-compliance with the legal and regulatory framework leads to a lack of formal recognition by the state, as well as by many key private providers of finance and business services. When enterprises are not recognised, they are not officially counted and their contribution to employment and economic growth is often overlooked--national statistical agencies rarely monitor informal enterprises. As a result, informal enterprises are “invisible” to official development plans and programmes and excluded from social dialogue.

Low revenues and marginal profits: Informal enterprises typically receive less revenue and create less profit than formal enterprises--many operate in crowded markets where the barriers to entry are low. Levels of investment, for example in plant and equipment, including new technologies, are low.

Poor job quality: Informal enterprise workers are typically poorly paid, without written employment contracts and with little job security. They often work in unsafe and unhealthy conditions and are not provided with leave entitlements or skill development opportunities.

Vulnerability: Analysts of have noted that “enterprises in the informal economy are facing obstacles that are sometimes similar to those experienced by formal enterprises. However, informal enterprises are much more vulnerable in relation to these problems”. Many informal enterprise owners and workers are unable to participate in formal social protection and health schemes. Thus, they are vulnerable to crises that threaten to push them further into poverty.

Poorly organised and unrepresented: informal enterprises and workers do not generally participate in formal employers’ or workers’ organizations. As a result, they are unable to participate in dialogue with government and other social partners.

Marginalised: Often as a result of all or some of the above, informal enterprises are marginalised from participation in the mainstream or formal economy. They are powerless against officials who may harass and threaten them.

For many informal enterprises, exposure to the State occurs at the local level. It is usually local police and other officials who attempt to enforce compliance, at times also harassing and seeking bribes. A study of street vendors in six countries in Africa found that local government authorities in Africa are a major obstacle to the development of informal sector activities. Many use out-dated restrictive policies, by-laws and regulations originally intended to control and regulate the growth of indigenous enterprises¹².

¹¹ Becker (2004) p46

¹² Mitullah (2003)



Market stall holder, Peru.



Home-made bakery in the souk of Saida.

- The role of Governments
- The roles of employers' and workers' organizations
- Developing tripartite policies on informality
 - Supporting upgrading and enabling the transition to formality
- Encouraging the transition to formality for informal enterprises
 - Business registration and licensing
 - Taxation policy and administration
 - Land ownership and titling
 - Labour and labour related issues
 - Judicial reform
 - Financial services
 - Creating a business-friendly environment
 - Creating incentives for reform and communicating these to informal enterprises
- Upgrading informal enterprises
 - Reducing vulnerability
 - Improving job quality
 - Improving access to markets
 - Improving access to services
 - Improving peer support and organisation
- Integrating enterprise development into local development strategies

■ **The role of Governments.** From a policy perspective, the ILO places government in a primary position in facilitating the transition of enterprises from informality to formality.¹³ To this end, government should:

- Provide conducive macroeconomic, social, legal and political frameworks for the large-scale creation of sustainable, decent jobs and business opportunities;
- Design and implement specific laws, policies and programmes to deal with the factors responsible for informality;
- Extend protection and social security to all workers;
- Remove the barriers to entry in the mainstream economy;
- Ensure that the formulation and implementation involve the social partners and the intended beneficiaries in the informal economy;
- Provide and enabling framework at national and local levels to support representational rights.

■ **The roles of Employers' and Workers' organizations.** Complementing the role of government, Employers' and Workers' Organizations should draw attention to the underlying causes of informality, galvanize action on the part of all tripartite partners to address them, and publicize and share the innovative and effective strategies and good practices that Employers'

¹³ For more details see Resources section to access: ILO 2007b "The informal economy: enabling transition to formalisation, Background Document"

and Workers' Organizations in different parts of the world have used to reach out to informal enterprises. In addition, Employers' Organizations can help informal enterprises access information, finance, insurance, technology and business development services and formulate an advocacy agenda. Employers' Organizations can also act as a conduit for the establishment of links between informal and formal enterprises. (see brief on Employers' organizations). Workers' Organizations can sensitise workers in informal enterprises to the importance of collective representation and can include them in collective agreements and provide special services, including legal advice and information. (see brief on Trade Unions).

Tripartite national policies on the informal economy have been developed in some countries, such as Mongolia

■ **Developing tripartite policies on informality.** A number of countries have taken the step of formulating national informal economy policies. A policy framework can bring all key actors together and present coherent response. If based on a realistic assessment and understanding of the problems faced by informal enterprises and workers, as well as on dialogue with informal actors, such a policy framework can offer substantial benefits and present a strategic approach to enabling the transition to formality and upgrading of informal enterprises.

In Mongolia, for example, the government introduced national and sector programmes to reinforce and implement their national development frameworks, with recognition given to the informal economy. The Government Programme of Action, approved by the parliament in 2004, which specifically states that the goal of reducing poverty and unemployment will be achieved through increasing types and choices of social insurance, improving access to social assistance and services, ensuring a qualitative delivery of assistance and services to the vulnerable groups and increasing employment. The National Plan of Action for Decent Work covering 2005-2008 was adopted in 2005 with ILO technical support. The purpose of this National Plan sets out, among other initiatives, to increase the number of workplaces and income in all economic sectors, while the Programme for Support of Small and Medium Sized Enterprises aims to develop and increase the competitiveness of small and medium sized enterprises, improve conditions for the formalisation of informal businesses, and create new workplaces. Finally, a government policy on informal employment was approved by the Parliament in January 2006 to gradually formalize the informal economy by providing government services to people engaged in informal employment, creation of legal, economic, labour and social protection guarantees and by ensuring economic growth.¹⁴

- **Supporting upgrading and enabling the transition to formality.** When developing policy responses to the problems of informal enterprises and their workers it is important to:
 - Understand the needs, constraints and opportunities of informal enterprises--careful diagnosis of the issues faced by informal enterprises is essential. This is likely to involve consultations with informal enterprises, their representative organisations, government officials and other business and worker representatives¹⁵.

¹⁴ ILO Informal Economy Poverty and Employment Project 2006 See Resources section to access Final Report, 2006

¹⁵ An important tool to support this process is the Assessing the influence of the business environment on small enterprise employment – An assessment guide. To access this guide see Resources section: White, S. 2005

- Prioritise reform and programme requirements based on the most feasible and strategic options. The assessment mentioned above can provide a starting point for reform and to sequence reforms. Analysts have noted that identifying the right package and sequence of reforms can be a daunting task. The challenge is to identify the key reforms that will stimulate a quick, strong supply response while laying the groundwork for the next round of essential reforms¹⁶.
- Create a platform for dialogue between informal enterprises, government and other representative organisations, such as Employers' and Workers' Organizations¹⁷. This is of paramount importance to improve the business environment through social dialogue and proper consultation with informal economy associations. The High Level Commission on Legal Empowerment of the Poor (2006) encourages reformers to build consensus: "reformers must establish a broad-based consensus for initiatives that address the informal sector, built on empirical evidence, a common understanding of real impacts and risks, a deep knowledge of local contexts and environments, consultations with key stakeholders, and a shared platform among the key institutions promoting migration to the formal sector".
- Policy responses need to be designed based on the points above and ensuring ownership over the processes by all the key stakeholders. Potential outcomes of policies, whether desired or not – need to be analysed, including social outcomes as they affect female-owned enterprises and workers, as well as environmental outcomes as they affect the use of natural resources¹⁸. The High Level Commission on Legal Empowerment of the Poor (2006) advises policymakers to see the big picture and not to become bogged down in the discussion of individual rights at the expense of macro-effects.
- Create a high-level social dialogue mechanism for managing policy reforms and programme responses. This requires a consortium of representatives from the government, the private sector, workers organisations and representatives of informal enterprises, to meet regularly and oversee progress.
- Ensure progress and impact is regularly monitored and discussed¹⁹. In general, many reform programmes have failed to adequately monitor progress and measure the impact of their reforms²⁰. However, this is an essential element in the process of policy development.

■ **Encouraging the transition to formality of informal enterprises.** The relationship between law, regulations and their impact on informality is a key policy issue. Priority should be placed on 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 units²¹. (see also brief on MSEs and labour law).

16 Kikeri, S., Kenyon, T. & Palmade, V. (2006) Managing investment climate reforms: what are we learning?, Washington DC, Private Sector Development Vice-Presidency, World Bank/IFC.

17 For more details see Resources section to access See ILO 2007a The Informal Economy

18 Donor Committee for Enterprise Development, 2008 <http://www.enterprise-development.org/page/measuring-and-reporting-results>

19 Various tools are available to supporting monitoring and evaluation, including for example the GTZ-IFC 2008 Monitoring and evaluation for business environment reform: a handbook for practitioners <http://www.ifc.org/ifcext/sme.nsf/Content/BEE+Toolkits>

20 Kikeri et al 2006

21 For more details see Resources section to access : ILO 2007 paragraph 22

While there are many variations based on country and region, there are a number of common policy domains where policy, legal and regulatory reform are found to impact on the move out of informality for informal firms. These are briefly described below.

- **Business registration and licensing.** Rationalising and streamlining business registration and licensing regimes in order to make registration a simple administrative process that is separate from licensing is an important aspect of supporting formalisation. Licensing should be limited to those activities where it is justified on health, safety, environmental or other grounds. Multiple licences should be avoided to make it easier to submit applications²².

While improving registration and licensing procedures is critical in order to encourage informal firms to register, it is clear that this is not always enough. A study in Lima, Peru, for example found that business informality is linked with other types of informality. Simplifying procedures and reducing costs is not enough²³.

- **Taxation policy and administration.** Inappropriate taxation systems can be an important aspect of encouraging informality. Simplifying tax administration is often required and countries have been experimenting with single taxes for micro, small and medium-sized enterprises as a way of reducing the number of payments, and offer different payment options, one-off or by instalment. Furthermore, it is important to share information on what taxes are used for, and how businesses will benefit from enhanced services. Evidence suggests that compliance rates go up when businesses know what they are getting in return for their payments.
- **Land ownership and titling.** Land ownership and the capacity to raise capital through land-based collateral is a key concern for many informal enterprises. Many reforms in this domain focus on redressing incomplete cadastres, onerous or costly land registration systems, and enabling female ownership of land and assets. The impact of these reforms has been to increase the value of entering the official statistical count, a first step in becoming formal. It can also change the characteristics of informality, since these reforms have a greater impact on informal firms in sectors or business lines that are relatively land intensive²⁴.
- **Labour and labour related issues.** Appropriate and effective regulation is necessary for reducing the burden and cost for enterprises in complying with the regulatory requirements while maintaining workers' protection. The challenge of balancing the needs for enterprise growth while maintaining workers' protection requires an active role of the State, particularly in providing and effectively implementing a legal framework for the labour market²⁵. International Labour Standards are an important benchmark of labour and labour-related reforms. Governments have a direct and important role to play in promoting social protection and ensuring labour markets operate effectively. (See brief on MSEs and labour law).

22 The IFC has a number of tools related to this : IFC (2006) Business licensing reform: a toolkit for development practitioners and IFC (2006) Simplification of business regulations at the sub-national level: a reform implementation toolkit for project teams <http://rru.worldbank.org/Toolkits/BusinessLicenses/>

23 Jaramillo (2009)

24 Zinnnes (2009)

25 For more details see Resources section to access: Fenwick.C., et.al. 2007 Labour and Labour-Related Laws in Micro and Small Enterprises: Innovative regulatory approaches.

- **Judicial reform.** This often involves four areas of reform: (1) reducing the transaction costs and improving access to formal dispute resolution channels; (2) strengthening and improving the quality of customary and traditional governance methods; (3) improving linkages between and greater awareness of formal and informal systems of justice; and (4) improving access to justice in bureaucratic administration, such as improving public participation in administrative decision-making, introducing freedom of information procedures and appeal mechanisms²⁶.
- **Financial services.** While informal finance mechanisms and microfinance institutions have been supported to help informal enterprises gain access to finance, the process of encouraging the transition to formality involves reforms that increase the access of poor women and men to the full range of financial services.²⁷ (see brief on Microfinance).
- **Creating a business-friendly environment.** Part of this process involves improving service provision. This may include the establishment of one-stop shops in accessible locations to help firms understand and comply with their obligations and play an intermediary role between enterprises and government services, pressing the latter to improve service delivery when necessary.
- **Creating incentives for reform and communicating these to informal enterprises.** Despite their many disadvantages, there are obvious benefits for informal enterprises in avoiding costly and burdensome government regulations as well as high and complex taxes. As one analyst has noted however, if there are any advantages of being informal, then these are only a function of the seriousness of the problems of the surrounding environment.²⁸

When improving the business environment in which informal enterprises operate, care must be taken to ensure reform does not create conditions that encourage informal enterprises to remain informal. The move towards formality should introduce benefits that stem from compliance with the legal and regulatory framework. MSEs should see the move out of informality as opportunity for greater access to markets and growth. In some cases governments have worked with commercial banks to persuade them to lower their cost of lending to enterprises that had committed to formalization, and where a revenue authority allowed newly registered firms to charge higher VAT rates on their products than those they paid to their suppliers – effectively giving them a tax break²⁹.

A key element of this process is ensuring that governments communicate their programmes to the intended beneficiaries³⁰. Indeed it is essential to ensure that the benefits of reform and the incentives that stem from formality are communicated to informal enterprises.³¹ In Uganda, the ILO's support for media-based strategies to improve the legal and regulatory framework of MSEs highlighted that changes in the business environment led to a tripling of the income of 25,000 rural farmers³².

● The move towards formality should introduce benefits that stem from compliance with the legal and regulatory framework. MSEs should see formality as an opportunity for greater access to markets and growth

26 Zinnes (2009)

27 The ILO's support of Social Finance uses financial instruments to promote Decent Work. It is about credit, savings and other products that help the poor to cope better with risk, take advantage of income-generating opportunities, organize and have a voice. Social Finance is also about promoting and encouraging those institutions that cater to the financial needs of the working poor, including women groups and small and medium enterprises that create jobs.

28 Becker (2004, p. 46)

29 Kenyon (2007)

30 Zinnes (2009)

31 Also see McKenzie and Sakho (2007)

32 Anderson and Eliot (2007)

Ghana has introduced mechanisms to ensure social security coverage for the informal economy

Thailand has progressively increased coverage of social insurance to different sized enterprises

In Cambodia practical, low cost measures are being introduced to improve safety and health in informal enterprises

■ **Upgrading informal enterprises**³³. Improving the productivity, competitiveness and sustainability of informal enterprises requires programmes that deal with the following major challenges.

- **Reducing vulnerability.** Vulnerability to social, economic and political shocks undermine the ability of many informal enterprises to grow and become sustainable. Thus, efforts to ensure greater levels of social protection are required. In Ghana, for example, the Social Security and National Insurance Trust has established an Informal Sector Scheme, which has been expanded to cover an estimated 85 percent of the economically active population that are not being served under the national pension scheme³⁴ (see brief on social security).

In Thailand, the national social insurance scheme was initially limited to workers in enterprises with twenty or more workers. This was incrementally extended to workers in enterprises employing between ten to twenty workers, with the final step including all workers. Both the contributions required by employers, employees and the government and benefits provided (i.e., unemployment benefits, healthcare, invalidity, sickness, maternity protection and workers' compensation) were progressively extended³⁵ (see brief on social security).

- **Improving job quality.** Creating safer and healthier workplaces is critical to maintaining the working capacities of informal workers and to improve productivity of small enterprises³⁶. Greater compliance is often perceived as increasing burdens by enterprises without visible business advantage. Making the business case for workers' protection is difficult because many business owners believe the costs of improving working conditions and social protection will drive them out of business.

ILO has been working with I-WEB (Improve Your Work Environment and Business) and WISE (Work Improvement in Small Enterprises) in making incremental improvements in working conditions linked to productivity enhancements. For example, in Cambodia, practical, low-cost and participatory strategies were introduced to help home-workers and small enterprises improve safety and health through the Work Improvement for Safe Home (WISH) training programme. See box below.

Upgrading working conditions in enterprises: practical tools

The following tools have been used extensively supporting informal enterprises in cost-effective methodologies for improving working conditions.

Work Improvement for Safe Home (WISH) Action Manual

The ILO Work Improvement for Safe Home (WISH) Action Manual promotes improvements to the safety, health and working conditions of home workers by providing practical, easy-to-implement ideas. These improvements also contribute to higher productivity and efficiency of their work and promote active participation and cooperation of home workers in the same workplace or in the same community. The manual reflects the practical experiences in the home worker training in Cambodia, Mongolia, and Thailand carried out within the framework of the ILO's Informal Economy, Poverty and Employment Project with the financial support from the Government of the United Kingdom. http://www.ilo.org/asia/whatwedo/publications/lang-en/docName-WCMS_099070/index.htm

33 See G.Joshi Policy Brief: Resource Guide on Upgrading Informal Enterprises (ILO, Geneva 2008)

34 Ghana Broadcasting Corporation 2009

35 ILO 2004 pp39-42

36 See ILO 2007

Work Improvement in Small Enterprises (WISE)

The ILO's Work Improvement in Small Enterprises (WISE) programme is designed to promote practical, voluntary action to improve working conditions by owners and managers of SMEs. The programme is based on six basic training principles: (1) Build on local practice; (2) Focus on achievements; (3) Link working conditions with other management goals; (4) Use learning-by-doing; (5) Encourage exchange of experience; and (6) Promote workers' involvement. It makes use of action-oriented checklists that small business owners and managers can use themselves to identify opportunities for cost-effective improvements and to plan their implementation. A companion book is available on Work Organization and Ergonomics, providing action-oriented ideas for more advanced enterprises.

<http://www.ilo.org/public/english/protection/condtrav/workcond/wise/wise.htm>

Improve Your Work Environment and Business (I-WEB)

The Improve Your Work Environment and Business (I-WEB) is a training programme that integrates the ILO's approaches to improving working conditions (WISE) and business development (SIYB) in MSEs. It is a practical tool for business-owners to use in implementing low-cost improvements in their businesses, especially those that are linked to another aspect of business improvement. IWEB applies an adult learning process through which participants draw lessons from their businesses and their in-class experiences as they learn new ways of doing business and organizing work. It combines self-diagnosis, structured learning exercises, and back-home application, enabling participants to reflect on their businesses, learn from other participants, provide their own solutions, and test out these solutions. The action manual was designed for use in a learning process, which combines training, self-assessment, and counselling, while the trainer's guide provides guidelines and session plans, which make use of different learning methodologies.

<http://www.ilo.org/public/english/protection/condtrav/workcond/ie/i-web.htm>

- **Improving access to markets.** Expanding market access is of prime importance to supporting informal entrepreneurs³⁷. More specifically this entails analysing the supply and demand side and expanding access to local and global markets and linkages with formal businesses. Integrated approaches to entrepreneurship development programmes have also been emphasised in ILO work including the need for public-private partnerships and value chain linkages. The ILO supports the adoption of strategies that focus on certain subsectors and clusters benefiting the most marginalized and socially excluded groups, including youth and women.

The role played by the lead firms in national and global value chains is critical in helping enterprises access new market opportunities. If lead firms see the value of sourcing or franchising through small firms and the importance of improving productivity across the entire value chain, practical improvements in business practices and working conditions will occur quickly. Understanding linkages between informal enterprises and formal firms requires consideration of the nature of the production system through which they are linked. Sourcing and supplying of goods or services can take place through individual transactions or a sub-sector network of commercial relationships or a value chain of sub-contracted relationships³⁸. Allocation of authority and risk between the informal and formal firm may vary though according to the nature of the production system.

The Small Business Project in South Africa established six business linkage centres during 1998-2003 providing links between small enterprises with over 80 large enterprises. This initiative resulted in the creation of 3,000 additional jobs and one billion South African Rands of additional

Some countries such as South Africa have established business linkages between large and small firms to facilitate upgrading along the supply chain

37 ILO (2007a) para 22

38 Chen, M. (2004) "Rethinking the informal economy: linkages with the formal economy and the formal regulatory environment", paper presented at Unleashing Human Potential: Linking the Informal and Formal Sectors, Helsinki, 17-18 September, EGD-WIDER

investment³⁹. A similar initiative, known as the Private Sector Initiative, was begun by DFID in Tanzania in 2001 with creation of “Buyers’ Forum” of eight large enterprises, which works with venter small enterprises along the supply chain⁴⁰. In the brassware sector in Moradabad, India, such improvements have been possible due to enthusiasm of the ‘lead firms’ in improving productivity along the value chain. While SMEs in many African countries remain largely underdeveloped and isolated, SMEs in Mauritius illustrate various forms of linkages that can be forged specially clustering in the Export Processing Zone. Vertical integration in the textile industry in Mauritius also stands out as an interesting and successful example⁴¹.

- **Improving access to services.** Enterprises require access to financial and business development services if they are to grow and become more sustainable. The ILO’s work in this field adopts a systemic view of markets and institutions (i.e., government, business and workers, as well as business membership organisations and cooperatives) that shape the opportunities for enterprise upgrading. This involves analysing value chains and developing business service markets in order to enhance the access businesswomen and men have to business growth opportunities along these chains and to developing the capabilities of taking advantage of these opportunities⁴².

● The organization of enterprises and their workers is an essential aspect of upgrading and their move out of informality

- **Improving peer support and organisation.** The marginalization of many informal enterprises isolates many enterprise owners, managers and workers. Thus, there is a need to help informal enterprises and their workers to develop peer support mechanisms through the development of business membership organisations and informal worker organisations. The ILO has carried out a number of projects the support the organisation of informal enterprises and workers in associations under broader the small business associations, trade unions or workers’ associations, community or sector-based self-help groups. For example, in Tanzania, the VIBINDO Society operates as an umbrella organization of small businesses and producers in Dar-Es-Salaam and the surrounding region.⁴³ The SYNDICOOP project in Rwanda, Tanzania, Uganda and Kenya organises informal workers under a trade union co-operative giving them a voice, while also providing them the opportunity of scaling up and accessing credit and other productive resources.⁴⁴ In four SYDICOOP countries MSEs, many of which are owned by women, were supported in acquiring better access to credit. In Tanzania, the trade union enrolled MSEs as members and the ILO supported women’s groups to apply for membership in the Savings and Credit Associations. (See also brief on Cooperatives).

In Madhya Pradesh and Tamil Nadu, India, 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

39 SBP (2003) Business growing business: SBP’s business linkages programme 1998-2003, Johannesburg, SBP. <http://www.sbp.org.za/index.php?id=23>

40 Bekefi (2006)

41 Hussain (2000)

42 The ILO’s Start and Improve your Business (SIYB) training packages integrate decent work dimensions and highlight the productivity gains made by improving worker protection, occupational health and safety, improving working conditions and ensuring social dialogue. SIYB has proved to be an entry point for policy formulation, for example in Vietnam.

43 VIBINDO is an umbrella, membership-based organisation for the informal sector operators in Dar Es Salaam Region, engaged in small-scale business and production. In June 2003 it had 295 groups consisting of 39,955 individual members, among these 65% are youth in both sexes aged from 15 year 35 years.

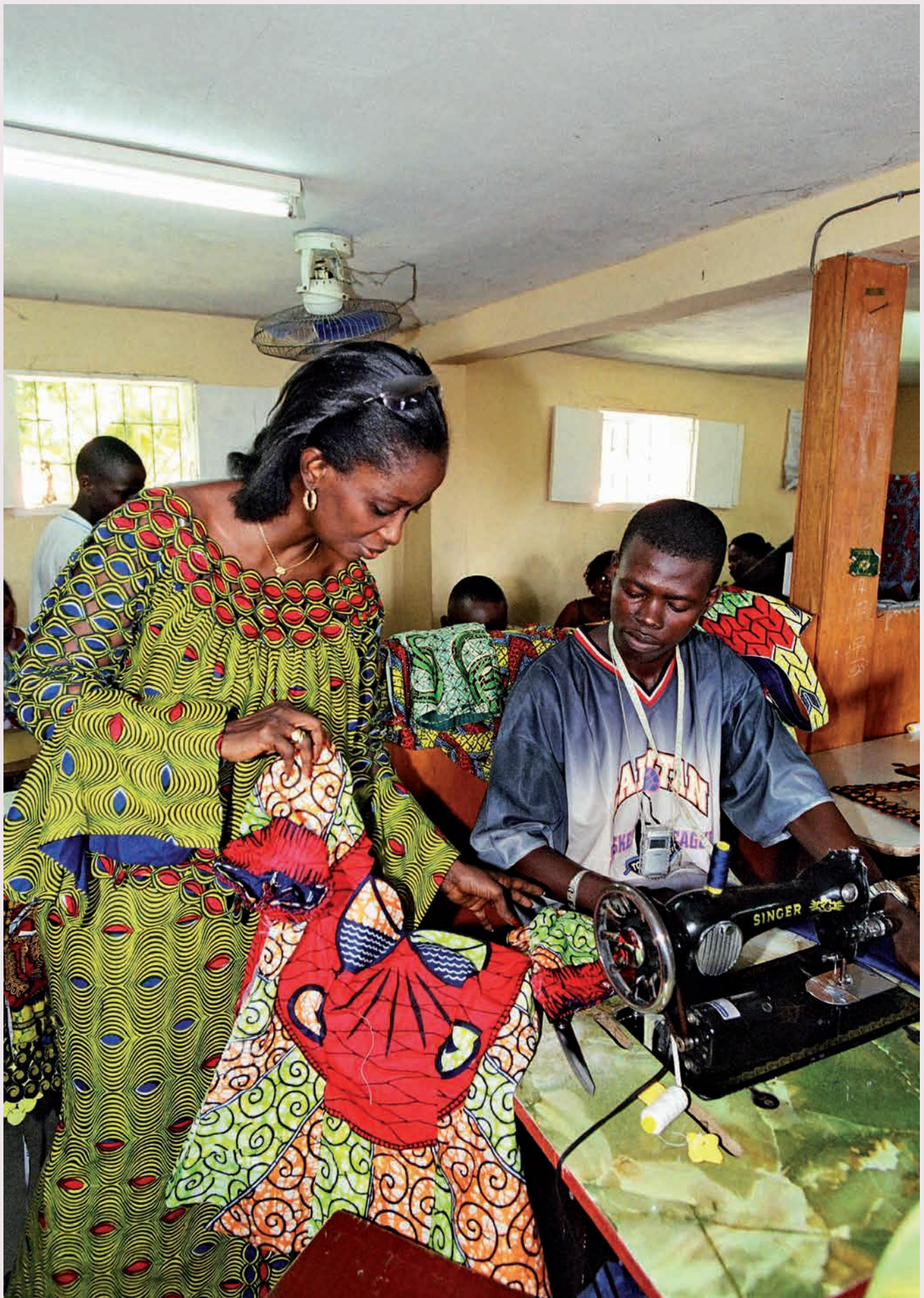
44 SYNDICOOP was developed by the ILO’s Bureau for Workers’ Activities (ACTRAV) and its Cooperative Branch in Geneva as a joint effort of the International Cooperative Alliance (ICA), the International Confederation of Free Trade Unions (ICFTU) and the ILO. Begun in 2002, the effort focused first on workers in the informal economy in Rwanda, Tanzania and Uganda, with Kenya joining more recently. See brief on Cooperatives.

range of income-generating self-help initiatives and secure greater welfare support and assistance. Also in India, the Self-Employed Women's Association (SEWA) has been organizing low-income workingwomen in the informal economy since 1972. As a member-based organization, SEWA identifies the needs of its members. Its programmes and services are demand-driven and need-based. Often, they are designed and implemented by the members themselves, and often, they are designed to extend, improve, or supplement existing government programmes and schemes⁴⁵. (See also brief on trade unions).

■ **Integrating enterprise development into local development strategies.** Upgrading enterprises is particularly effective within the framework of local development strategies. In Ghana, for example, support has been given to upgrading informal enterprises by integrating all partners in the implementation of a strategy that supported the creation of associations and cooperatives. Part of its strategy was based on public and private partnerships for local economic development in facilitating access to social security schemes, skills training and better business opportunities⁴⁶. (See brief on local development)

⁴⁵ For more details on how SEWA works with informal enterprises see Chen, et al. (2003).

⁴⁶ ILO (2007c)



Businesswoman in her enterprise, Cote D'Ivoire.



Workers in a small shoe factory. Jordan.

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 instruments and ILC Conference Conclusions

ILO 2007 Conclusions concerning the promotion of sustainable enterprises, International Labour Conference 96th session 2007
http://www.ilo.org/global/What_we_do/Officialmeetings/ilc/ILCSessions/96thSession/lang--en/docName--WCMS_093970/index.htm

ILO 2008 Conclusions concerning Promotion of Rural Employment for Poverty Reduction, International Labour Conference 97th session 2008
http://www.ilo.org/wcmsp5/groups/public/@ed_norm/@relconf/documents/meetingdocument/wcms_098017.pdf

ILO 2009 Recovering from the Crisis: A Global Jobs Pact International Labour Conference 98th session, Geneva 2009
http://www.ilo.org/public/libdoc/ilo/2009/109B09_101_engl.pdf

Relevant Publications

Chacaltana, J. 2009. Economic Implications of labour and labour related law on MSEs: A Quick Review of the Latin American Experience, Employment Sector Working Paper 31, ILO, Geneva
http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/publication/wcms_115966.pdf

Fenwick, C. Howe, J.; Marshall, S.; Landau, I. 2007. Labour and Labour-Related Laws in Micro and Small Enterprises: Innovative Regulatory Approaches. SEED Working Paper 81, ILO Geneva
http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/publication/wcms_093618.pdf

Lucas de Rezende, T. Christenson, JD 2009. Supporting Entrepreneurship Education: A Report on the Global Outreach of the ILO's Know About Business Programme, ILO Geneva
http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---ifp_seed/documents/publication/wcms_117393.pdf

High Level Commission on the Legal Empowerment of the Poor, 2006. Overview paper, UNDP
http://www.undp.org/legalempowerment/pdf/HLCLEP_Overview.pdf

ILO 2006. Informal Economy Poverty and Employment Project Final Report
http://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/documents/publication/wcms_bk_pb_124_en.pdf

-- 2007a The informal economy, Committee on Employment and Social Policy, Governing Body, GB.298/ESP/4 March 2007 Geneva
http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_gb_298_esp_4_en.pdf

-- 2007b. The informal economy: enabling transition to formalisation, Background Document, paper presented at Tripartite Interregional Symposium on the Informal Economy: Enabling Transition to Formalization, Geneva, 27-29 November
http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---safework/documents/publication/wcms_110324.pdf

-- 2009, Micro, Small and Medium-Sized Enterprises and the Global Economic Crisis: Impacts and Policy Responses, ILO Geneva
http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/publication/wcms_108413.pdf

UNIFEM, 2005 Progress of the world's women; women, work and poverty, New York, UNIFEM
<http://www.un-ngls.org/orf/women-2005.pdf>

Tools

Donor Committee for Enterprise Development 2008. Supporting Business Environment Reforms: Practical Guidance for Development Agencies,
<http://www.enterprise-development.org/home>

ILO HelpDesk, Helping companies put Decent Work principles into practice
http://www.ilo.org/empent/Whatwedo/Publications/lang--en/docName--WCMS_106376/index.htm

ILO Start and Improve Your Business (SIYB) Programme
<http://www.siyb.org.pg/>

ILO 2008 The Labour Principles of the United Nations Global Compact- A Guide for Business, ILO Geneva
http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---multi/documents/instructionalmaterial/wcms_101246.pdf

ILO 2009. ILO Tools for Women's Entrepreneurship Development

Assessment Framework for GOWEs (Growth Oriented Women Entrepreneurs)
http://www.ilo.org/empent/Whatwedo/Publications/lang--en/docName--WCMS_111370/index.htm

FAMOS Check (Service Quality Check for Supporting Female and Male Operated Small Enterprises)
http://www.ilo.org/empent/Whatwedo/Publications/lang--en/docName--WCMS_111369/index.htm

GET Ahead (Gender and Entrepreneurship Together)
http://www.ilo.org/empent/Whatwedo/Publications/lang--en/docName--WCMS_111368/index.htm

A Guide to Gender-Sensitive Value Chain Analysis
http://www.ilo.org/empent/Whatwedo/Publications/lang--en/docName--WCMS_111373/index.htm

Guide to planning the Month of the Women Entrepreneur
http://www.ilo.org/empent/Whatwedo/Publications/lang--en/docName--WCMS_111374/index.htm

WED Capacity Building Guide (Women's Entrepreneurship Development Capacity Building Guide)
http://www.ilo.org/empent/Whatwedo/Publications/lang--en/docName--WCMS_111367/index.htm

Guide to Women Entrepreneurs' Association Capacity Building
http://www.ilo.org/empent/Whatwedo/Publications/lang--en/docName--WCMS_111372/index.htm

ILO 2009. Value Chain Development for Decent Work: A Guide for Development Practitioners, Government and Private Sector Initiatives, ILO. Geneva
http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---ifp_seed/documents/publication/wcms_182600.pdf

Mayoux, L. Mackie, G. 2009. Making the strongest links: A practical guide to mainstreaming gender analysis in value chain development, ILO
http://www.ilo.org/empent/Publications/WCMS_106538/lang--en/index.htm

White, S. 2005 Assessing the influence of the business environment on small enterprise employment – An assessment guide, ILO, Geneva
http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/instructional-material/wcms_093631.pdf

For further information see the ILO's Job Creation and Enterprise department website <http://www.ilo.org/empent/lang--en/index.htm>
 And the Small Enterprise Programme <http://www.ilo.org/empent/units/boosting-employment-through-small-enterprise-development/lang--en/index.htm>

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Workshop manufacturing moldings frame. Tbilisi.

Contents:

Acknowledgments / Foreword / Preface / How to use the Guide / Acronyms

PART I: Key concepts

1. Decent Work and the Informal Economy

1.1 Key conceptual issues

2. Measurement of the Informal Economy

2.1 Addressing statistical challenges

PART II: Policies to support transitions to formality

3. Growth Strategies and Quality Employment Generation

3.1 Patterns of economic growth and the informal economy

4. The Regulatory Framework and the Informal Economy

(A) International Labour Standards

4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work

4.a2 International Labour Standards (ILS): bringing the unprotected under the law

4.a3 Understanding the employment relationship and its impact on informality

(B) Specific Groups

4.b1 Domestic Workers: strategies for overcoming poor regulation

4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law

4.b3 Street vendors: innovations in regulatory support

4.b4 Micro and Small Enterprises (MSEs), informality and labour law: reducing gaps in protection

4.b5 Strategies for transforming undeclared work into regulated work

(C) Labour Administration

4.c1 Labour administration: overcoming challenges in reaching the informal economy

4.c2 Labour inspection and the informal economy: innovations in outreach

5. Organization, Representation and Dialogue

5.1 Social dialogue: promoting good governance in policy making on the informal economy

5.2 The role of Employers' organizations and small business associations

5.3 Trade unions: reaching the marginalized and excluded

5.4 Cooperatives: a stepping stone out of informality

6. Promoting Equality and Addressing Discrimination

6.1 Promoting women's empowerment: a gendered pathway out of informality

6.2 Migrant workers: policy frameworks for regulated and formal migration

6.3 Disability: inclusive approaches for productive work

7. Entrepreneurship, Skills Development, Finance

7.1 Informal enterprises: policy supports for encouraging formalization and upgrading

7.2 Enhancing skills and employability: facilitating access to the formal economy

7.3 Microfinance: targeted strategies to move out of informality

8. Extension of Social Protection

8.1 Extending social security coverage to the informal economy

8.2 HIV/AIDs: overcoming discrimination and economic exclusion

8.3 Extending maternity protection to the informal economy

8.4 Childcare: an essential support for better incomes

9. Local Development Strategies

9.1 Local development: opportunities for integrated strategies for moving out of informality