Unprotected labour: What role for unions in the informal economy?

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Correction

In a note addressed to *Labour Education*'s editor, Marc Bélanger ("Building an IT-richer Africa" – *Labour Education* 123) draws our attention to the fact that in the editing process a sentence in his article was changed to read "In addition, many technology projects, designed in industrialized countries, fail to take account of local needs and conditions in the developing world, while African-designed technologies do simply not exist". Mr. Bélanger did not write "African-designed technologies do simply not exist". His original text said that the lack of educational opportunities on the continent has many results, including that "new African-designed technologies are not created because they are simply not conceived". The Editor.

Editorial

An ILO study published 30 years ago noted the emergence of a group of workers and small enterprises operating outside the mainstream economy. The report referred to them as the "informal sector". At the time it was presumed that the informal sector was a transitory phenomenon associated with lower levels of economic development, something that would disappear as development occurred. This presumption has however been proven incorrect. A greater number of workers than ever before are now working outside the "formal" economy and they are engaged in an increasingly diverse range of activities and situations.

The vast majority of workers operating in the informal economy are at the bottom of the economic and social ladder. They endure precarious work, irregular and insecure income and little or no access to social security. Legal restrictions and changing work patterns often make it difficult and sometimes impossible to organize workers in the informal economy. Without the application and protection of law and collective representation these workers remain extremely vulnerable.

However, the ILO has over time addressed the so-called informal sector in different ways, the last shift taking place at the 2002 Session of the International Labour Conference. In 1991, the Conference was invited to consider "The Dilemma of the Informal Sector". The dilemma was "whether to promote the informal sector as a provider of employment and income; or to seek to extend regulation and social protection to it and thereby reduce its capacity to provide jobs and incomes for an ever expanding workforce". We know now that this was a false dilemma. The jobs being referred to were survivalist, subsistence activities and not decent employment. We also know that decent jobs produce increased economic activity that in turn creates more jobs. In the framework of decent work, quality is not divisible from quantity. It is perhaps not surprising that in 1991 the Conference did not reach any firm consensus on this issue. In the meantime, an international symposium organized in 1999 by the Bureau for Workers' Activities (ACTRAV) enabled trade union organizations to address the issue. They concluded that workers in the informal economy should be able collectively to make their voices heard, but also that action was needed to deal with the roots of the problems and prevent the development of informality.

In 2002, the 90th Session of the International Labour Conference has again debated the informal economy, this time in a General Discussion. In seeking to define the informal economy the background report for the discussion notes that "These different groups have been termed 'informal' because they share one important characteristic: they are not recognized or protected under the legal and regulatory frameworks. This is not, however, the only defining feature of informality. Informal workers and entrepreneurs are characterized by a high degree of vulnerability." The report examines how the absence of legal and regulatory frameworks results in vulnerability, and highlights a range of severe decent work deficits that exist in the informal economy. "Poor-quality, unproductive and unremunerative jobs that are not recognized or protected by law, the absence of rights at work, inadequate social protection, and lack of representation and voice are most pronounced in the informal economy, especially at the bottom end among women and young workers."

In seeking to find strategies and solutions to rectify the many decent work deficits that characterize the informal economy, the Conference Committee on the informal economy repeatedly discussed and stressed the role of governance. The absence of legal and regulatory frameworks reflects a lack of governance of the informal economy. This means that workers are either denied rights and protection at law, or are unable to enforce whatever rights they do have because of poor labour inspection and administration and lack of access to justice. Poor governance was also found to be causal in the growth of the informal economy. And good governance was identified to be necessary if the problems are to be resolved. Well-drafted and -applied laws and regulations are necessary to ensure rights and decent conditions of work for all workers; labour inspection and access to justice are also vital. The regulatory frameworks for business development must be reasonable and not hinder the development and growth of formal enterprises of any size. The importance of responsible macroeconomic planning and trade and investment at national and international levels should not be ignored.

Much of what is contained in the conclusions adopted by the Conference – which are appended to this issue of *Labour Education* – is not new to the ILO. The ILO has much to say about governance and has been doing so since its inception; it calls it "the application of standards". The conclusions note that "The ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up and the core labour standards are as applicable in the informal as in the formal economy."

The relationship between rights and governance may need greater understanding. Granting rights at law is not usually sufficient, that alone does not make them "real" for the worker concerned. Workers must be able to realize, exercise, defend or enjoy their rights, and to achieve this they require legal recognition or status. Legal status is not sufficient for work to be decent, but it is definitely a necessary condition. The role of government in providing good governance is crucial. Writing good laws requires a single act of government whilst applying and enforcing them through appropriate structures requires diligent governance. The rights to organize and to represent workers through collective action are also inherently important as fundamental rights. But beyond that fact, they also provide an enabling mechanism, through which other rights can be claimed, exercised and defended.

Hence, both for the ILO and its member States emphasis must be placed on removing legal and other real obstacles to the exercise of freedom of association and on expanding the opportunities for more workers and employers to participate in genuine social dialogue. The framework of rights to protect workers has already been established and elaborated in the international labour code of Conventions and Recommendations. Effective strategies and mechanisms are required to ensure that all workers are able to claim them; in some cases this may require a new approach, in many cases it will require improved governance of existing methods.

Good governance is not only important in the context of rights and law, it also has a role to play in economic development and employment creation. The Conference recognized that there is a global shortage of employment but stressed that this should be met with decent jobs and not with a job at any price. Informality, with all its decent work deficits, cannot provide the solution to global under- and unemployment. Instead the Conference conclusions call on governments to provide conducive macroeconomic, social, legal and political frameworks for the large-scale creation of sustainable, decent jobs as well as business opportunities.

The conclusions also recognize the need for all social partners to participate in reducing the decent work deficits that characterize the informal economy and in bringing work and workers back into the economic mainstream. The ILO is called upon to strengthen its tripartite approach with respect to the informal economy at all levels. That requires, according to the document, the active involvement of the Bureau for Workers' Activities (ACTRAV) and the Bureau for Employers' Activities (ACT/EMP).

While governance and tripartism are two strong messages contained in the Conference's conclusions, there are others. One of them is that the ILO does not exist in isolation – it is part of an international framework that is becoming increasingly important in a world of growing interdependence. Tackling the informal economy will also require the ILO actively to engage other organizations and institutions in ensuring that global governance has a social dimension.

There is much to be done, and there is a lot that trade unions can do: sensitize workers in the informal economy to the importance of having collective representation; make efforts to extend collective agreements to excluded workers; create or adapt internal structures to promote women's participation and representation and address their specific needs; provide special services; establish cooperatives and combat discrimination. None of this, however, should in any way absolve governments from their responsibilities. Trade unions must have the strength and capacity to press governments to do their job – to govern.

As Christine Nathan, the Workers' spokesperson on the informal economy at the Conference put it: "We need to be in a world where every government will be expected to explain to the ILO why labour performed in its country is performed by persons lacking legal status or recognition and outside the legal or institutional framework established to ensure social justice. We need to be in an ILO where governments understand that they are expected to address these conditions and to bring them to an end."

As far as ACTRAV is concerned, one of our key objectives will be to see to it that ILO efforts are geared towards integrating informal workers into the mainstream economy. To that end, we must help to ensure that the remarkable conclusions of the Conference are fully implemented by the ILO. Such an approach offers the best chance for decent work to become a reality rather than an unachievable dream for millions of people.

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Informal work: From concept to action

Christine Nathan (India) chaired the Workers' group on the informal economy at the 2002 International Labour Conference and served as its spokesperson in the Conference's tripartite committee and in the plenary. For her, and indeed for the Workers' group at the Conference, the ILO should abandon policies and activities based on an acceptance of "informality". The objective should be the transformation of "informal" activity into "formal" or mainstream activity.

Christine Nathan
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International Labour Conference 2002

Labour Education: What is the scope of the informal economy today?

Christine Nathan: In today's world the term "informal economy" is an extremely broad and diluted concept. At this Conference we have first tried to narrow down what "informal economy" means and understand what it embraces and who it embraces. What are generally referred to as "informal" workers, in particular in the developing world, are workers who are unrecognized, unprotected and unorganized. The real issue is that these workers need protection by trade unions but also protection under the labour law. We find this type of worker in practically all sectors of the economy, be it agriculture, construction, public services, textiles, etc. So the scope of what we now call the informal economy is so huge and so broad. According to the ILO background report prepared for the Conference, excluding agriculture, informal work is the lot of half to three-quarters of workers in developing countries: 72 per cent in sub-Saharan Africa, 65 per cent in Asia, 51 per cent in Latin America and 48 per cent in North Africa. The industrialized world is not immune either, the report says. In the 15 countries of the European Union, 30 per cent of workers work outside the standard framework. In the United States one out of four workers is in this situation, with less than 20 per cent of part-time workers covered by health insurance or an employer-financed pension plan.

One of the arguments used by governments is that the "informal economy" was a response to unemployment and it provided jobs that the formal economy could no longer provide. How do you react to that approach?

In fact, some governments continue to see the "informal economy" as an option. They consider natural that people join the informal economy in order to survive. But we feel that workers are not there just to survive, they need their basic rights, they need protection through legislation, and they need social security. A worker is not there just to live from day to day. So the issue is not that informal workers "at least have a job". The issue is that workers need jobs with all the dignity and rights that go with them.

You actually mean "decent work"…

Precisely. We have found that, in large part, the informal economy is characterized by decent work deficits. Policies based on charity or continued exclusion will never rectify this. Only by getting the legal and institutional frameworks right will the needs of the vulnerable and the marginalized be addressed on a scale sufficient to make a difference.

So this is also an issue of "governance"…

It is of course an issue of governance. That is the main finding of the discussions we had at the ILO. You will see that in the Conference's conclusions we noted that: "The growth of the informal economy can often be traced to inappropriate, ineffective, misguided or badly implemented macroeconomic and social policies, often developed without tripartite consultations." This is self-explanatory.

Are national governments the only institutions to be blamed?

Governments have a clear responsibility and have often confused the growth of the informal economy with the fight against unemployment, forgetting too often that only decent jobs would help produce more economic activity and more jobs. But at the international level, we also have to deplore the role played by international financial institutions which have actually promoted the "informal economy", through ill-devised programmes of liberalization and deregulation which did not take account of local conditions or capacities and were often based on ideological orthodoxy and the blind faith that the "markets" will fix it all. The dismantlement of public services has dropped millions of people in the informal economy. Most people have been left with no other choice than to try and survive informally because proper jobs have been destroyed.

What about the position of the employers?

For the employers it also took a while to understand what this group of workers was about. It took a while for them to understand the concept of the informal economy and the many aspects of it. The Conference, which is tripartite, has recognized that the social partners have a major role to play to address the issues of the informal economy. Actually the ILO has been called upon to strengthen its tripartite approach with respect to the informal economy. It is to be hoped that the employers will take their share of the responsibilities. The promotion of labour flexibility by employers has often been translated into low wages, a lack of job security and usually no social security. Employers have a role to play in the practical application of labour laws and collective agreements, the promotion of socially responsible business practices and the extension of labour standards to all workers. Respect by employers of key ILO standards, including freedom of association and the right to collective bargaining, would go a long way in tackling the informal economy.

A number of non-governmental organizations attended the Conference and participated in discussions in the Workers' group. There were also talks of forging alliances with the civil society…

In fact, the trade unions and the NGOs discussed this issue for the first time under the trade union umbrella. NGO representatives did appreciate that they had the opportunity to express themselves in a trade union meeting. We realize that we as trade unions and they as NGOs are working for the same people but from two ends of the road. The answer to this is to see how we can work together and assist each other. As far as trade unions are concerned, the goal is quite clear: ultimately we want informal jobs to become part of the formal economy.

Beyond the question of definitions, what have been the main results of the ILO Conference?

First we have opened up the concept of the informal economy. We have clearly looked at what it entails. We have also discussed and debated as to who we are talking about, how long should workers been allowed to stay in the informal economy and how long a period do we have as a time target to "formalize" these workers. We have examined the role of governments in this, the need to adapt labour legislation to ensure that all workers are protected and enable trade unions to organize workers in the informal economy.

For unions to organize those millions of workers must be a real challenge. Has there been any success in these efforts?

Unions are faced with a major challenge: how will trade unions make plans to organize workers in the informal economy, what strategies need to be adopted, how do unions approach their governments and the employers. Fortunately, trade unions did not wait for an ILO Conference to take action. Strategies have been developed. They include promoting the participation and representation of women in trade unions (women represent a majority of workers in the informal economy) through structures that accommodate their dual responsibilities of work and family. Unions are also running awareness campaigns targeted to informal workers with a view to promoting knowledge about their rights. They also develop services ranging from legal assistance to microcredit and health care.

There are many examples of unions making the difference. We had a case study from Benin, where taxi drivers were organized into trade unions and this drastically improved their conditions. In Bombay for instance, I can tell you that one of our strongest trade unions is now that of the taxi drivers who were once in the informal economy. While workers have obviously gained from collective action, these unions have actually added strength to the trade union movement's mobilizing capacity.

How is society concerned with the informal economy?

The appalling situation of the growing millions of vulnerable and marginalized workers in the informal economy constitutes a threat to peace. A growing informal economy is a problem that has to be urgently addressed. It would be wrong to pretend that there are two worlds – one formal and one informal – and that things can stay that way. Our world is one. And social injustice anywhere is a threat to peace everywhere.

Work, law and the “informality” concept

What is “informal” work? Is the concept either meaningful or useful? Perhaps we would do better to concentrate on identifying workers and work that are unprotected, excluded, unrecognized or unrepresented.

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Work is performed in an employment relationship. Work is also performed outside of an employment relationship. Sometimes there is no employment relationship because the person performing work is self-employed. In other cases, no employment relationship is recognized, at least in law.

Sometimes, employment relationships that could be recognized are not because:

- the actual situation is ambiguous with respect to the criteria for determining employee status;
- the actual situation is deliberately disguised – usually for the purpose of avoiding obligations that would be created if an employment relationship were recognized;
- the procedures available for workers to obtain recognition as employees are unrealistic and therefore unused; or
- the law establishing employment relationships is not applied or enforced by the responsible authorities.

The same person can move between employment and self-employment over time or be both employed and self-employed at the same time. The same person can have more than one employer over time or at the same time. Where the term “employment relationship” refers to a legal relationship, then the relationship must be recognized in law to be given effect. Too often, the question of whether a person should be considered an employee or self-employed is not clear or is never tested because the person – or the work being performed – is not recognized in law at all.

Because the employment relationship is the basis for one of the principal means by which workers are protected by law, the possibilities mentioned above raise many of the most important questions involving work and law. Unlike commercial law, labour law allows contracts among unequal parties. Labour law creates protection for the worker by imposing obligations on the employer in order to make up for the difference in power. For this reason, most labour law requires an employment relationship to exist before it can be applied.

Although the definition and criteria for recognizing an employment relationship vary in national law and practice, the principles involved are, for the most part, common. Definitions and criteria focus on whether work is being performed under conditions of subordination and dependency and on the extent to which the worker shares the risks and rewards of the activity. As a legal concept, the employment relationship was developed to protect society by assigning responsibility. The interest was social justice through protecting the weak from the powerful.

For most of its history, the employment relationship was considered to be a full-time and permanent relationship between a worker and a single employer who did not change. As "atypical" work such as part-time, irregular or temporary work became more widespread, it was sometimes considered to already fit into the established employment relationship and sometimes the law was modified to take these "new forms of work" into account. The reality is that law has only rarely kept up with changes in the organization of work. Much atypical work remains "precarious" in that it is less secure and not accompanied by the same protection as the law provides for more "regular" employees. This does not mean that atypical work is intrinsically wrong or undesirable. The issue is the adequacy and appropriateness of the protection for the atypical worker. Where work is neither recognized nor protected in law, it is certainly precarious.

Concern over the erosion of the regular employment relationship has produced various reactions. Among the more useful is the rediscovery of the reason to make legal provisions for unequal power in the first place. Another is the growing recognition that the scope of the employment relationship should be adjusted in order to take a wider range of dependent relationships into account.

There are other ways to protect workers in law that do not necessarily require determining dependence or independence. Health and safety regulations can apply to every workplace or person. Laws against discrimination can apply to both employment and commercial relationships. Social security, including provision for injury, disease and old age, need not be limited to employees. There is increasing acceptance of the need to expand the scope of this social protection to include all workers, regardless of their status. Inclusion and exclusion on account of legal status are useful ways to focus on situations other than social security. Access to training and education is one example.

Where labour law excludes self-employed workers, other laws become more important for their protection. The ability to enter into or enforce contracts as well as the acquisition of property rights are two important examples. The ability of self-employed workers to enjoy these and other rights is often dependent on obtaining recognition as legitimate enterprises. Inclusion and exclusion on account of legal status exists for workers in commercial relationships – as, for instance, in access to credit. Thus the role of legal recognition in protecting workers is not limited to establishing employee status. Removing obstacles to obtaining recognition for both employed and self-employed workers may be essential to their ability to exercise their rights.

Consider the relationship of freedom of association to legal recognition. The right to organize belongs to employees, employers and the self-employed. The expression of this right takes many forms, including trade unions, employer associations and self-help societies. As a fundamental human right, it is not dependent on legal recognition to be claimed. Historically, the trade union movement was built by unprotected workers whose organizations rarely had legal standing even after they obtained recognition from employers. The experience is that the beneficial effects of collective bargaining and stable industrial relations for society are greater and more sustainable where a legal framework is provided. The hard-learned experience is that, when organizing, workers need protection from both employer opposition and interference by authorities. Lack of legal recognition is one of the greatest obstacles to the meaningful exercise of freedom of association.

The link between non-recognition in law and marginalization in both economy and society should be obvious. Non-recognition can be a form of discrimination and obstacles to recognition part of the fabric of discrimination. It is no coincidence that women are disproportionately marginalized through the non-recognition of their work. Law can enforce discrimination. For instance, some societies legally restrict the ability of women to enter into contracts or own property.

It is difficult to imagine how the interests of society with respect to the vulnerability of workers could be addressed without reference to law. It is also difficult to imagine how problems could be identified or resolved without reference to any actual and various situations and without understanding their underlying causes. Of course, consideration of the legal dimension must include how and whether laws are applied and how the protection provided is accessed. It is not difficult, however, to appreciate how the ideas of protection, inclusion and exclusion, recognition and representation can be used to relate the actual situation of work and workers to law.

What workers do

When asked, workers will hardly ever describe the work they do in terms of legal status, whether or how it is protected, what social protection is included or whether they are collectively represented because of what they do. Work will most often be described in terms of an activity performed or occupation and sometimes by reference to an employer. Work can also be described in terms of a recognized area of economic activity or sector and, for some purposes, this is more useful. Sectors could be general such as agriculture, manufacturing or service or they could be more specific. Most people would not describe work as being "informal" or as containing elements of "informality" or as being in an "informal sector" or "informal economy". Yet by the end of the twentieth century, economists, labour ministers and development aid specialists joined others whose work involved the consideration of labour markets in using terms invoking a concept of "informality" to describe work and workers.

The concept of "informality" was introduced by the ILO in the early 1970s, when the term "informal sector" was used to describe specific activities taking place in the urban areas of developing countries. The focus was intended to be on the "working poor" who were "not recognized, registered or protected by public authorities". Over the years, the definition of the informal sector was refined to include activities in agricultural or rural areas and to exclude "illicit" activities that deliberately sought to avoid government attention.

The problem with the informality concept

The informality concept has informed, influenced and substituted for both development and employment policy. It is almost impossible to consider the situations of millions found in household, micro and small enterprises or the millions engaged in subsistence or survival activities without invoking the concept in one of its many variations. Yet the informality concept is used to support ways of thinking that are, in one way or another, detrimental to workers. Informality is a flawed concept. There is, in practice, no generally accepted understanding and it continues to group increasingly disparate situations. In doing so, it emphasizes relationships that may not be significant while downplaying relationships that are important. It is a proven handicap to understanding and a barrier to addressing real problems. It would, perhaps, be useful to assemble all of the contradictory definitions of "informal work", the "informal sector" or "informal economy", if for no other purpose than to discredit these terms.

The informality concept was intended to relate legal recognition and the application of law to the actual situations in many developing countries. The original term "informal sector" avoided any implicit criticism of developing country governments. An even more positive spin was given to the "informal sector" by work in the ILO over many years concerning the need for the "promotion" of such "employment". Indeed, informality became a substitute for employment policy. Because the term sounds benign, it can make work carried out under appalling conditions sound acceptable. This approach to the "informal sector" saw it as an opportunity, rather than a problem, including, in some cases, a law enforcement problem. This approach encouraged governments to abdicate their responsibilities. For many, this use of the informality concept seemed to accept exclusion – making it less important to combat it.

Shaped by these and other political considerations, legal recognition and the application of law became less important elements in the informality concept. For instance, the concept excluded corruption. Therefore the role of corruption in creating and sustaining "informal" activities was ignored, even though it was clearly playing a big role in the "informalization" of work in many countries, including the transition countries, and even though workers were victims. On the other hand, atypical work was increasingly being counted as "informal work" in order to show that the amount of "informal work" was increasing. Thus some extra-legal activities were being defined out of the concept while other activities were being included even though they were recognized in law. What was in and out was a matter of changing fashion.

Because the informality concept made it easier to overlook the failure of governments to perform some of their most proper and basic functions, it was convenient for those with reduced expectations about what many governments could actually do. Private philanthropy programmes became significant components of policy. The role of flawed development models, of misguided industrialization by governments and of flawed structural adjustment programmes imposed by international institutions was often overlooked. The importance of labour laws to economic development was just not taken into account by governments or international institutions or in the informality concept.

Trade unions, most often organized along industrial or sectoral lines, began to object to the term "informal sector", pointing out that "informal" work was not a sector in the sense of a kind of economic activity. For the trade unions, this was not a minor point. By robbing work of its sectoral context, the term "informal sector" was making it more difficult to address issues related to the transition of this work into the mainstream economy and making it easier for governments to avoid employment policy and governance. The fact that it was not a sector became suddenly obvious to many, even though few had drawn attention to the flaw before the trade unions did.

Defenders of the informality concept have retreated to the term "informal economy" although this term contains many of the same conceptual weaknesses as "informal sector". As with "sector", the word "economy" suggests a distinct and separate entity to be contrasted with another. The world of work is reduced to a dichotomous scheme. Everything is classified as either formal or informal depending on the fashion. Of course, many words and careers will be spent on the problem of "mapping" an informal economy – a daunting task owing to the "heterogeneity" and "diversity" of its composition. In this scheme, some relationships between the two worlds will be difficult to explain but terms such as "continuums" can be used to patch things up.

The single entity notion promotes other bad ideas. It becomes easier to look for, and hence discover, the same underlying causes for different phenomena even where none are shared. This makes it easier to overlook important distinctions. Some activities considered informal have been described as a revolt against inappropriate regulation. Other activities considered informal have never been regulated. The growth of activities that are considered informal has caused some to look at informality as a trend, an inevitable development or the wave of the future. This ignores the less progressive nature of failing to develop or apply law.

Old ideas and new ideas

It is now 30 years since the informality concept was introduced. It is time to reassess its utility. A genuine reassessment would likely conclude that the informality concept has not performed well as a tool for formulating policy. Serious questions concerning its value would be raised. Discarding the informality concept will not be easy – it has established a remarkable grip on our thinking. But we need to begin to let go. A good first step will be to always describe work and workers in ways that are easily understood. If new terms are needed, then we should choose ones that are descriptive and whose meanings are clear.

We can also begin by thinking about work and workers in terms of real economic activities and sectors. A more vertical way of thinking about work will have greater potential for positive change than the horizontal view promoted by the informality concept.

We need to focus on the relationship between law and marginalized workers. In the end, law and governance are the only tools capable of addressing the situations of the many millions of marginalized workers on a scale sufficient to make a difference. In doing so, we should recall that law can be made to take differences in power into account.

The contributions of the private sector to reducing marginalization must place increased emphasis on real representation of those concerned instead of on philanthropy and similar approaches. Removing legal obstacles to representation should be given greater priority. To the increased emphasis on the responsibilities of governments should be added a greater appreciation for the roles of employers' organizations and trade unions.

Where the problems and vulnerabilities of workers are considered, we should begin to use terms that get at the underlying problem and that suggest solutions. Instead of spending time identifying workers or work considered "informal", we should be considering workers and work that are "unprotected", "excluded", "unrecognized" or "unrepresented".

The old idea is a failed dichotomous concept. The new approach is a deeper appreciation of a multiplicity of situations and an awareness that they require a multiplicity of responses.

Union education for informal workers in Latin America

Over the past two decades, the International Confederation of Free Trade Unions (ICFTU) and its regional organization for the Americas (ICFTU-ORIT) have launched trade union education programmes aimed at informal workers, and have made considerable progress on defining this group. The ILO's focus on the informal economy has been of help in this.

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The decision of the Inter-American Regional Organization of Workers (ICFTU-ORIT) to involve itself in the education of informal labour is part of institutional developments concerning training that began in the early 1980s.

In 1980, ICFTU-ORIT's Continental Action Plan emphasized the need for trade union education to develop a "cultural policy" that would go beyond the traditional phase, which limited it to imparting technical and administrative knowledge – for instance, on collective bargaining, the interpretation of laws and regulations or the preparation of meetings – as opposed to teaching about economic and social issues. This and other policy aspects of trade unionism were approved at ICFTU-ORIT's 10th Congress in Toronto in 1981, and turned into concrete measures at its 11th Congress (Mexico City, 1985), upon the recommendation of a working group on trade union education. For the first time, this working group made the Education Department a statutory body and asked it to extend its coverage to "subjects that explain the ideological, political and institutional scope of trade union practices ranging from action in support of demands to politico-trade union action."

These themes were dubbed "trade union education", as opposed to the traditional subjects known as "worker education". Also emphasized was the importance of research, as an essential complementary phase of education programmes. The argument was that the historical context of trade unionism had changed, as had the objective role of trade union leaders. The content of trade union education must therefore aim to respond to this change of structure and of action. Union leaders, who had concentrated on tabling demands, while delegating the strategizing to others, now had to become specialists as well, through a working knowledge of political and economic theory. In Latin America and the Caribbean, there were virtually no precedents for this approach to the informal sector.[1]

In practice, ICFTU-ORIT's new focus originated within the Socio-Economic

Project Department (DPSE), which had been created in 1984 (with solidarity coordination by Histadrut) as a function of the so-called Social Sector of the Economy. It rapidly moved into the educational field, in association with the Trade Union Education Department (DES), which had also just been set up. The latter began to achieve a strong work dynamic on the basis of a project developed with the cooperation of the Italian union confederation CISL, the International Labour Office (ILO) and the ICFTU. This project began in 1987.

The DPSE launched its activities in this sphere in 1987, setting up a working group within the framework of a broader meeting on socio-economic projects in Guatemala. This resulted in the Antigua Declaration. Small-scale research was immediately carried out, including a survey among affiliates, resulting in the first institutional publications by ICFTU-ORIT and the ICFTU. The DES, meanwhile, started to include a module on the informal sector in a number of educational seminars within this project. At the same time, ICFTU-ORIT's 12th Congress (Caracas, 1989) approved a specific resolution on the informal sector.

Joint initiatives

From 1990 onwards, the two departments progressed towards the joint organization of thematic seminars, generally for a mixed group of leaders and officials of formal and informal organizations. The DPSE's contribution to this was to foster both the deepening and the improvement of informal workers' economic activity, as part of the department's efforts to promote the so-called Social Sector of the Economy. Thus, the fundamental linkage between the status of worker and that of producer was recognized. For its part, the DES injected ICFTU-ORIT's general socio-political principles into this drive, thus bringing informal sector work closer to trade unionism, both conceptually and in practice.

In 1991 and 1992, ICFTU-ORIT submitted to the international trade union structures two specific project proposals on the informal sector. The first, which concentrated on the production side, was called Trade Union Education for the Socio-Economic Development of the Latin American Countries: Informal Work and the Social Sector. The second, which was accepted by the Dutch trade union confederation FNV, placed the emphasis on organizing activities. It was entitled Education and Technical Assistance for Informal Sector Organizing.

Both projects also brought in other ICFTU-ORIT departments – particularly the Women Workers' Department, in order to emphasize the high rate of female participation in the informal labour force, but also the Human and Trade Union Rights Department. The rights department had a contact in El Salvador – an informal workers' leader who provided the first reports of violations of these workers' rights.[2]

In all, about 40 seminars were held in virtually all the countries of the region (except Haiti and the English-speaking Caribbean), with about 100 organizations and 700 trade union leaders and rank-and-filers taking part. Two of the seminars were subregional (one for Central America, held in El Salvador in 1991, the other for the Southern Cone, held in São Paulo in 1993) and one was regional (Caracas, 1994).

Among the results of these projects was the publication of educational textbooks, both on general topics and specifically on women workers.[3]

Some of the educational activities on the informal sector at this time were institutionally linked to the ILO. The first was in the context of its first activity on social security in the region (Mexico City, 1992), prior to the Regional Conference of Labour Ministers that same year. Subsequently, various trade union organizations from Argentina, Ecuador, El Salvador, Uruguay and Venezuela held a joint seminar in Buenos Aires in 1993, centring on five national cases.

Furthermore, the Youth Directorate made a link between the informal sector and child labour, as part of the ICFTU's Stop Child Labour campaign, which ICFTU-ORIT conducted in the region in

1995. Also, since 1997, the Thematic Methodological School Plan (PETM), built specific coverage of informal labour into its programmes. During this period, ICFTU-ORIT maintained the informal sector as one of the topics of its proposed continent-wide strategy (Congresses in Toronto, 1993, and Santo Domingo, 1997).

Last stage – new strategic focuses

The ICFTU-ORIT-FNV project, launched in 1992, concluded in 1994 with a regional seminar bringing together the main organizations that had participated in the previous years. As a result, new strategic focuses were set, which would then be taken over by ICFTU-ORIT in its future activities on this issue.

Subsequently, in 1996-1997, ICFTU-ORIT prepared a new project called Education and Organization for Action in the Informal Sector (EOASI). Again, this was supported by the FNV, for the period from 1998 to 2000, with the participation of organizations in three countries. This programme was extended into the following year in a project conducted with the ILO and the Bureau for Workers' Activities (ACTRAV). The project was entitled Studies on Social Security Coverage Alternatives for Workers in the Informal Sector of the Economy. In 2001, at the 15th ICFTU-ORIT Congress, organizing of the informal sector and of unorganized workers in general was maintained as one of the priorities for 2001-2005.

A final assessment of the ICFTU-ORIT / ICFTU programme, six years later, shows the following results: an almost complete continuity (and often an increase, through the creation of socio-economic or educational areas and projects) in the work carried out on the informal sector by trade union centres and confederations that had taken part in the previous educational cycle; the inclusion of new trade union organizations in Mexico and Panama; account taken of the informal sector in constitutional reforms (Venezuela) and new municipal standards (Panama); use of trade union coordinating bodies on this topic between ICFTU-ORIT affiliates and fraternal organizations and with other national organizations.

Conclusions and alternatives

Trade union education activities on informal labour have one clear characteristic that marks them off from the more usual ones designed for unionized formal sector workers.

There is a basic educational gap that poses an enormous challenge – how can the methods developed for traditional trade union education be applied to people who are illiterate or semi-literate? Not only is the dynamic of the courses influenced by the impossibility of using the written word as a teaching medium, but other new factors also crop up, such as the anarchic use of the physical common space when participants do not remain seated for all of the time that had been planned and some of them, among those who can write, come forward to the blackboard in order to express themselves.

For these reasons, the methodology blended theory and practice by means of classroom teaching allied to practical exercises in the field. Thus, the participants were invited to "introduce" the trainer to their own world of work, visiting the streets, squares and markets of the city, and to conduct a survey of their living conditions and their needs. ICFTU-ORIT was quite aware that informal workers' knowledge is chiefly governed by the fact that they are artisans, implying that they focalize mainly on small projects and small (family) groups in a way that matches the horizons of their capacities and interests. In this context, trade union training activities face a complex task: to familiarize workers with the collective factor within production, in order to project this on to the subject of organizing.

As regards female informal workers, ICFTU-ORIT explored two different avenues towards their involvement. Firstly, it took care to ensure female participation in “mixed” activities and organizations for the informal sector. Secondly, it interacted with exclusively female groups (defined by their tasks: seamstresses, washerwomen etc.)

Why use the expression “informal worker”?

From the start, ICFTU-ORIT chose to link its educational activities to the concept of informal labour, but at the same time it got the participants to debate the usefulness of this term. As a result, it was found that the expression caused confusion among some of the workers, who felt it to be “judgemental”, in the sense that a person so described is seen as “irresponsible and unreliable”. This led on to a discussion about the desirability of using other expressions, such as “independent work”, “private work”, “self-employed”, “autonomous”, “sub-employed” or even “micro-entrepreneurs”. As regards this last alternative, ICFTU-ORIT threw discretion to the winds and discouraged its use. The final outcome was that most of the participants chose to keep on using the term “informal”, mainly for practical reasons, as it had already become current.[4]

By choosing to speak of “labour in the informal economy”, ICFTU-ORIT also implicitly opted to make direct reference to the people with whom it is concerned, rather than just the production activity itself. Thus, it avoided using the traditional expression “sector”, which has always had the disadvantage of seeming to refer to components that tend towards homogeneity, whereas in practice the informal economy is an expression of “sectoral” heterogeneity.[5]

Education for wage-earning or for micro-enterprise?

In ICFTU-ORIT’s experience with informal workers, participants are equally divided between those who want to become wage-earners and those who aim to get on as micro-entrepreneurs. For some, it is preferable to be an employee, because this implies a steady wage, low though it may be, plus fringe benefits such as health cover and pension rights. However, this group also places value on not having a boss, seeing this as the basis for an independent style of working. Others think that the waged have similar working conditions to those of informal labour, and even assert that workers in precarious waged jobs actually have worse employment conditions, as they are “used by the companies” and “have no incentive”. Others still take a middle position, arguing that there are limits to the acceptability of waged work when it is carried out in precarious conditions. A switch to waged employment would thus be worthwhile only if the waged workers actually achieved the employment conditions that they demand.

In the first stage of the educational activities on informal labour, an important component was the promotion of better production techniques. This included presentations on how to manage an enterprise and how to present projects. This component of the courses always brought a positive response from the participants, obviously linked to the expectation that they would receive solidarity support.[6]

Associations or unions?

This organizational dimension, which is of direct relevance to trade union work, was also tackled with those taking part in the educational activities, given that many of those surveyed had indicated their willingness to turn their organizations into trade unions. They wanted to do so because “this is the most modern way to defend the interests of a group […]; this is the type of organization that carries most weight with the authorities […]; the association sometimes isn’t up to carrying out the tasks that are proposed […]; [unions] enable you to link up with the Ministry of Labour, instead of having to stay at the level of the Municipality.” But the majority would prefer to maintain their existing associations, because “there is a tradition that should not be broken […]; this type of organization is better suited to a situation where there are no bosses to be faced […]; it's easier to manage […]; it projects a non-conflictual image, which is useful."

Trade union concentration or deconcentration?

The educational activities made it possible to identify eight "models" for the organization of informal labour by the trade unions existing in the region:

- A "sectoral" union for workers in the same economic branch (for example, commerce).
- A union organized according to trades or jobs identified with the informal economy.
- A section within a sectoral union. Here, the union represents mainly formal workers, but includes a section that specializes in informal workers within that sector (for instance, commerce and transport).
- A mixed union of precariously employed and informal workers. This is an organization of workers in precarious waged employment (casuals, temps, etc.) into which the informal, non-waged workers are also integrated.
- An organization of unemployed workers. Its members perform occasional tasks, on a precarious and informal basis.
- A "miscellaneous" union for informal workers in different sectors within the same region. This union would be part of the appropriate regional federation of the national centre.
- A specific federation. Here, informal labour is seen as one big "sector", to which the concept of a national trade union federation is applied.

Notes

[1] There is at least one earlier example of international trade union cooperation on informal labour within the region – the seminar held by the FES in Quito, in 1982, with leaders of Autonomous Workers' Associations.

[2] The Press Department was also involved, not least because, for two years, the magazine *Nuevos Rumbos del Sindicalismo* (New Directions in Trade Unionism) ran a section devoted to educational and organizational news about informal labour, in the context of the ICFTU-ORIT-FNV project.

[3] ICFTU-ORIT had already built this topic into a more substantial textbook about women workers, and did so again, thus propagating the model of an integral centre for women's organizations.

[4] A Peruvian informal workers' leader attempted a synthesis of this discussion by arguing that the expression really means "pre-formal worker".

[5] The problems surrounding the time-honoured word "sector" have repeatedly been pointed out by the ICFTU. Be that as it may, in its most recent project, ICFTU-ORIT has continued to use the phrase "informal sector".

[6] For some activities, ICFTU-ORIT also drew on local cooperative structures and on United Nations Development Programme programmes (UNDP) concerning associative structures for small-scale enterprises.

The challenge of the informal economy

The exponential growth of the informal economy in sub-Saharan Africa is both a challenge to trade unions and an opportunity for their revival. A project backed by the International Labour Office (ILO) has shown that it is possible to organize workers in this sector.

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One direct consequence of globalization is the surprisingly extensive growth of the informal economy in Africa. The informal economy – an offshoot of this "parallel", multiform "economy" – has developed alongside conventional sectors of the economy as a kind of negative image of the modern sector. The informal sector has long been a tradition in African countries, especially in rural areas. One example would be seasonal workers. Following the implementation of structural adjustment programmes (SAPs) during the crises in the 1970s and 1980s, the phenomenon invaded the continent's towns and cities at an exponential rate. Since that time, globalization and capital development have been grounded in policies focusing on liberalization and deregulation. Such policies sought to dismantle mechanisms used by governments as a means of staving off crises (anti-cyclical policies) and to transfer the key components of economic, social, cultural and even political power to the market under the pretext of ensuring greater efficiency. As the market is not egalitarian, this policy mainly favoured the differences in terms of trade between the developed and developing countries.

Today, entire regions have been sidelined from the global economy (sub-Saharan Africa, southern Asia, the Middle East, North Africa, etc.). Flows of capital focus on the "triad", i.e. the United States, the European Union and Japan. In fact, globalization is having a catastrophic impact on the economy and especially on employment in the majority of countries in the South. The frantic quest for competitiveness is leading to ever-increasing redundancies and wage cuts, while the economic fabric of the formal sector of the economy – public and private – is deteriorating dangerously. Financial and economic crises have followed one after the other at an increasing pace since the 1970s, further aggravating the employment situation and pushing a large number of workers into the informal economy. The international crises experienced today are accentuating this trend, causing a slowdown in the global economy and forcing the major powers to withdraw into themselves.

Explosion of the informal sector in sub-Saharan Africa

The informal economy has spread considerably in sub-Saharan Africa, exploding over the last decade. The economic reforms pursued by governments in the region in a bid to cope with foreign debt and budget deficits have included measures designed to streamline public expenditure, cut government subsidies to public companies and privatize state-owned companies. This has prompted a dramatic cut in the number of wage-earning jobs in both the public and private sectors. In Burkina Faso, for instance, posts in civil service, which accounted for 54 per cent of jobs in the modern sector in 1975, plummeted to a level of 33 per cent in 1985 and then 24 per cent in 1993 – and the situation there is continuing to deteriorate.

Apart from these direct causes of the employment crisis in the formal sector, there are also more remote causes linked to stagnation in the private sector and the low level of entrepreneurship in these countries (faulty management of large production units, lack of support for small and medium-sized businesses, too much economic dependence on the developed countries, lagging technological development, low standards of living and consumption, small domestic markets, and so forth), not to mention inadequate technical and vocational qualifications among the workforce, which is in turn leading to a deterioration in the supply of education. All this has blocked the rapid development of a competitive private sector that is capable of standing in for the public sector in its role as a creator of modern jobs.

While the number of jobs in the private and public sectors was falling, growing numbers of young people were entering the labour market – especially in the towns and cities – due to the rural exodus and demographic growth. The emergence of an informal economy is also the result of structural causes, such as the failure of "official" commercial logistics, especially in distribution, and the low capacity for importing the latest products for which there is a high level of demand. To this should be added the corruption of and actions taken by certain "decision-makers", who have had no hesitation in sabotaging local industrial projects in order to give preference to much more lucrative informal imports – all within a context of persistent civil wars and unstable government.

Accordingly, the informal economy has flourished in most countries in sub-Saharan Africa. Today it accounts for nearly 80 per cent of urban assets in Burkina Faso. In Niger, it accounts for between 70 and 80 per cent of commercial gross domestic product (GDP) and in 1988 accounted for nearly 60 per cent of non-agricultural employment. In that country, the informal economy's contribution to GDP rose by a factor of three between 1960 and 1997, whereas the contribution made by the modern sector halved over the same period.

The predominance of the informal economy is a common feature of Burkina Faso, Mali, Niger and Senegal. There are, however, differences from one country to the other. In Mali, the majority of people working in the informal economy are women (59 per cent), while in Niger women make up just 27.6 per cent of the informal workforce. In 1991, in Senegal the informal economy accounted for 58.7 per cent of the active urban population, compared to 17.8 per cent for the modern sector. Three out of five businesses in the informal economy had just one employee.

Towards a social catastrophe?

Despite the shortage of reliable statistical data, it is estimated that the informal economy absorbs around 60 per cent of urban labour in sub-Saharan Africa. According to a study conducted by the International Labour Office (ILO), 93 per cent of the urban jobs created during the current decade will be in the informal economy. The process of globalization, in its current form, seems unlikely to provide opportunities for turning this trend around.

However, the much vaunted merits of the informal economy, specifically its supposedly "stabilizing" role, are increasingly being challenged. Some people are even questioning its long-term viability.

According to World Bank estimates, employment in micro-businesses in sub-Saharan Africa should rise by an average of 6 to 7.5 per cent annually over the next 20 years. During the same period, the informal economy's contribution to the gross national product (GNP) of the countries in question could reach 35 per cent, while the annual increase in labour productivity in this sector is set to stagnate at 1.5 per cent.

This kind of outlook raises a series of urgent economic, social and political problems, in that the foreseeable rise in unemployment and poverty pose a serious threat to democracy and the future economic stability of these countries. In fact, we are on a collision course for economic and social disaster. The deterioration of employment is likely to weaken productivity and tragically increase the wage gap between the formal and informal sectors. Moreover, precarious employment, unfavourable working conditions, the lack of and ignorance about social welfare and health-care measures, and the absence of any collective organization of labour are all factors that are blocking the growth and competitiveness of the informal economy and could encourage the continued survival of abuses and discriminatory policies targeting workers in this sector. Lastly, political, religious and ideological pressure on economically and socially fragile groups can lead to humanitarian crises and civil wars.

Since 1972, the ILO has had to intervene in countries in this part of the world in order to provide support and advice on policies and actions aimed at boosting the performance and organization of the informal economy. Several projects have been pursued, for example, to help craftsmen in a number of French- and English-speaking African countries.

However, in the absence of a favourable macroeconomic environment, all these actions will remain limited. Back at the 78th Session of the International Labour Conference in 1991, the ILO emphasized the need to integrate informal economies into national economies. Implementing this kind of strategy will, by definition, mean adopting or bolstering economic, fiscal and social policies that encourage changes in the informal sector. One of the best ways of achieving this objective is to give workers in the informal economy an organizational and institutional framework enabling them to become credible dialogue partners with decision-makers.

Due to their vocation, the trade unions would seem to be the ideal partners in helping to define and create just such a framework. This would judiciously increase the institutional, economic and social impact of trade union organizations and workers in the informal economy.

It is within this context, and with these key objectives in mind, that the "Trade unions and the informal sector" project was devised by the ILO's Bureau for Workers' Activities (ACTRAV) and the Danish International Development Agency (Danida). Implemented from June 1998 to August 2001, the project focused on four French-speaking countries in West Africa: Burkina Faso, Mali, Niger and Senegal.

To date, it is patently obvious that in these four countries trade union organizations do not yet have the institutional capacity to defend the interests of workers in the informal economy. On the one hand there are historical reasons for this, since unions in these countries have traditionally focused exclusively on workers and civil servants in the modern sector.

Nevertheless, some confederations had already been working with certain occupations in the informal economy for several years and could approach these workers. Yet they only rarely defended the specific interests of these workers but included them in the demands and general agreements covering the modern sector. These experiences, however, show that the unionization of workers in the informal economy is an achievable goal, and that it can have mutual benefits for workers and unions alike. It allows the former to improve their standard of living, working conditions and social protection, and the latter to bolster their negotiating power as a force that truly represents the interests of all workers nationally.

This kind of approach entails the organizational and structural transformation of trade unions and the political determination to include the various occupations found in the informal economy. In fact, the aim is to return to the very first forms of worker organization and to find a way of getting workers from the informal economy and workers from the modern sector to cohabit within the same organizations, leaving behind the corporatism and certain protectionist attitudes that otherwise threaten to paralyse trade union organizations up against the explosion in the informal economy. Opening up to include female trade unionists is also a precondition for the structural development of unions, since women form the majority of those working in the informal economy.

Given the diverse trade union landscape in these four countries, the "Trade unions and the informal sector" project aimed to support the efforts of 14 national union organizations, four in Burkina Faso, two in Mali, two in Niger and six in Senegal.

The project faced two challenges. The first challenge was to promote the solidarity and organization of workers in the informal economy so that they can establish effective institutions to defend their interests collectively and be recognized as valid dialogue partners by the decision-makers. The second challenge was to encourage the trade union organizations to bolster their operational resources and train their technical officers to diagnose the problems and needs of players in the informal economy. A participatory approach was selected with a view to achieving these two objectives.

To limit the scope of the project to its own human and financial resources, five professions or occupations in four regions were selected per country for the pilot project (there are some 250 different occupations in the informal economy in these countries). More than 2,000 facilitators, a majority of whom were women, were trained by trade unionists during the project.

These trade union facilitators were transformed into veritable on-site development officers. In this way, they helped with the creation of professional associations, the creation of mutual benefit societies and cooperatives, and the establishment of microcredit funds. All in all, some 43 new professional structures were created in Burkina Faso, 14 union federations and credit funds were set up in Mali, 18 union structures of federated occupations were established in Niger, and four cooperatives and four mutual societies were set up in Senegal.

The recruitment and unionization of workers in the informal economy was supported by a campaign to raise awareness about health protection and accident prevention at work. A parallel information campaign on sexually transmissible diseases and HIV/AIDS was also carried out. During the period in question, the majority of trade union organizations were restructuring in order to take in workers from the informal economy according to their profession and region. A special effort was made to give women a representative place in these new structures.

Conclusions

The pilot project initiated by ACTRAV and Danida could not encompass the entire reality of the informal economy in the four countries in question, but it did achieve some major progress, including:

- raising awareness of union organizations involved in the project countries to the need to organize and unionize workers in the informal economy;
- an undertaking by union organizations henceforth to take account of the concerns of such workers by setting up, within their own organizations, secretariats and/or departments responsible for issues concerning the informal economy;
- improving relations between trade union organizations in a given country;
- bolstering the capacities and skills of trade union organizations by training facilitators;
- arousing the awareness and enthusiasm of workers in the informal economy about their rights and freedoms,

and the ability to exploit their potential offered by the informal economy;

- creating unions and associations of workers in the informal economy and the establishment of mutual benefit societies in the health sector, social welfare institutions, savings and credit institutions, and various cooperatives managed and run by workers from the informal economy;
- the enlargement of structures in the trade union movement in the countries participating in the project and the entrance of women into the trade union structures of the informal economy; and
- the change of attitude and mentality on the part of the public authorities, which henceforth undertake in several countries to give favourable consideration to the concerns of workers in the informal economy, such concerns being brought to their attention by trade union organizations and by the new trade union structures in the informal economy.

These achievements during the pilot phase easily fall within the project objectives, i.e. helping workers in the informal economy to organize into representative structures capable of defending their material and moral interests, while ensuring a better standard of living and working conditions in their sector of activity.

However, there is no circumventing the fact that, for the time being, the trade unions and the newly created structures in the informal economy lack both the size and resources to defend consistently the material and moral interests of their members. Measures aimed at consolidation, extension and financing have to be taken to ensure the continued development of these still fragile organizations in the informal economy.

However, these few shortcomings should not make us lose sight of the very real existence of these trade unions and associations in the informal economy. After all, this is a key achievement and constitutes a framework for solidarity and mutual assistance serving workers in the informal economy, which itself entails the certainty of a revival of the labour movement in the four countries in question. The decline of trade union membership and the difficulties they face in representing all of a country's productive forces can be turned around thanks to the determined support of workers from the informal economy.

This will totally change the trade union landscape in these countries, breathe new life into democratic values and revive social consultation based on the renewed potential of unionism. Proof of this has already been seen in the internal changes within the respective union organizations, the transformation of professional associations in the informal economy into trade unions, and the renewed determination of governments to look into the reality of the informal economy.

Informal solidarity, yes! Informal exploitation, no!

Whereas some would maintain that the informal economy is an economy based on solidarity which is steeped in tradition and serves as a counterbalance to a formal sector moulded in the image of the Western industrial model, there is nonetheless no dodging the issue of working conditions in that economy, which are often unacceptable.

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The informal sector in a fair number of countries is fairly conspicuous. Who can have failed to notice the street vendors, the stalls at some markets, the women working at home and all the other professions that form an integral part of this sector or economy? Admittedly, there are as many definitions of the informal sector as there are professions belonging to it. And the same goes for the terminology used to describe it. Informal economy or informal sector? Some prefer "informal economy", arguing that the term "sector" implies the existence of a specific economic activity and that this would mean it was totally separate from the formal sector. Others maintain that the use of the term "sector" stems from a dualistic view of the economy and the labour market, whereby any activities not included in the formal sector belong to the informal sector. In conclusion, though "sector" may not be a perfect term, it is the one that has been most commonly used up to now.

The origin of the informal sector

Of course the activities practised in the informal sector seem to have always been with us. Take, for instance, the case of small-scale market trading. Nonetheless, the sector is enjoying a major boom nowadays. According to the International Labour Office (ILO), the informal sector is now a non-negligible source of jobs in our towns and cities.[1] "Throughout Africa, jobs in the informal sector account for more than 60 per cent of all urban employment. In those countries for which statistics have been compiled, the figure for Bolivia and Madagascar is 57, for The United Republic of Tanzania 56 per cent, for Colombia 53 per cent, for Thailand 48 per cent and for Venezuela 46 per cent, and this development is due, among other things, to creeping urbanisation and drought."[2] The phenomenon did not develop spontaneously. It was directly linked to growing poverty, mass dismissals and privatizations of public companies. As long ago as 1995 the ILO noted that: "Workers paid low wages in the formal sector drop below the poverty line, which forces them and their families to seek additional revenue in informal sectors. Workers lose their jobs in the modern sector owing to government cuts in public spending and stagnation in the private sector. The higher number of job-seekers and fiercer competition has forced workers employed in unstructured sectors out of a higher level above or on the poverty line to a lower level well below that threshold."[3]

According to the 1993 International Conference of Labour Statisticians, the informal sector covers a wide array of activities which have three characteristics in common: a lack of legislation (for instance labour laws); the employment of persons not active in the formal sector; and working conditions and salaries that are often precarious.

Furthermore, the fundamental element of the informal sector is supposedly its ethos of production, the main aim of which is to guarantee the survival of the family group, unlike the formal sector of the economy which has its sights set on accumulating wealth.

There is also a school of thought whose members, claiming to respect cultural values, believe that the informal economy is an economy based on solidarity which is steeped in tradition and serves as a counterbalance to a formal sector moulded in the image of the Western industrial model. Those who subscribe to this view maintain that the aim of the informal economy is to create jobs to enable the family group to lead a decent life. Consequently, they legitimize the informal sector and encourage its development.

Working conditions

Certainly there is no denying this sense of solidarity and hope that this source of employment can generate among those excluded from the formal, or traditional, sector. However, we must also not evade the issue of the working conditions often associated with activity in this sector.

In actual fact, the real situation in the informal sector often entails failure to respect or ignorance of social legislation and rules and serious shortcomings with respect to health and safety in the workplace. In Asia, for instance, working conditions in some workshops are quite simply unacceptable, the environment being noisy and hot and the work done there entailing the use of outmoded and often unsuitable machinery. Another serious problem is ignorance as to how equipment and machines work. Lack of training, information and resources all cause accidents at work in the informal economy. Individual negotiations or collective bargaining and better working conditions prove difficult owing to the precarious or temporary nature of contracts which are furthermore sometimes based on family links. The instability associated with the sector is an additional source of stress for the people who work in it, many of whom have no access to health care and minimal social protection.

Women in the informal sector

For a fair number of years, women's participation in the labour market, whether formal or informal, has increased considerably. This is generating "an innovative trend in how the labour market works and in the hopes and aspirations of workers and is changing the very basis of the social relations on which working life and society as a whole have been structured up to now".[4] Unfortunately, this has gone hand in hand with a clear deterioration in the quality of life and of women's employment as well as with a form of inequality between men and women. Therefore, while women are working more than before, they are suffering perverse effects of globalization in line with the neoliberal model.

Women make up the majority of the workforce in the informal economy. In Guatemala, for instance, women fill 55 per cent of jobs in this sector and 100 per cent of jobs in the home. Moreover, let us not forget that such domestic jobs are one of the most widespread aspects of the informal sector.

In fact, women are often relegated to the informal sector. Even today, some people have no hesitation in claiming women cannot perform certain tasks as well as men owing to their lack of training. Others maintain that potential motherhood lowers workers' productivity. Such prejudices – which are particularly persistent – exclude women from the formal sector.

The WCL and women workers

The World Confederation of Labour (WCL), which is aware of the difficulties facing women workers, whether active in the formal or informal sector, intends to pursue various strategies to improve their situation. In a resolution on the promotion of women workers adopted at its most recent Congress (held in Bucharest in October 2001), the WCL stated that it would make a priority of unionizing women working in agriculture, at home, as itinerant saleswomen, in the building trade and as domestic staff. According to the WCL, the unionization of these women workers "necessarily entails the prior identification of their needs and the provision of training as to their rights".

Notes

[1] ILO. 1998. *Report on employment in the world 1998-1999*. Geneva.

[2] ibid.

[3] ILO. 1995. *Work in the world*. Geneva.

[4] Ducci, Maria Angelica. 1993. "Women and trade unions: Prospects of reform", *Labour Education*. ILO, Geneva.

Organizing in the informal economy

Globalization has tended to informalize work everywhere. In response, unions must build broad coalitions with like-minded non-governmental organizations – especially women's organizations.

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Informal work has always been a feature of colonial or so-called developing economies, but it has increased massively in the last ten years. The debt crisis of the developing countries, the dismantling of the public sector, the deregulation of the labour market under the structural adjustment programmes of the International Monetary Fund (IMF) and the World Bank and the succession of economic and financial crises since 1997 have pushed millions of people out of formal employment and into the informal economy.

Meanwhile, the nature of the modern transnational corporation has been changing. From a producer, it is becoming the coordinator of production carried out by others on its behalf. By cutting down the jobs of permanent full-time workers, by decentralizing and subcontracting all but the indispensable core activities, and by relying wherever possible on unstable forms of labour (casual, part-time, temporary, seasonal, on call), management deregulates the labour market, not only to reduce labour costs but also to shift responsibility for income, benefits and conditions on to the individual worker.

The outer circle of this system is the submerged world of micro-enterprises and industrial outworkers, the home-based workers, with deteriorating conditions as one moves from the centre to the periphery of the production process. One of the consequences of globalization has thus been the deconstruction of the formal sector, even while the workers in the informal economy are being integrated into global production and marketing chains. What is particular to the informal economy is the absence of rights and social protection of the workers involved in it. In every other respect, the formal and informal economies form an integral whole.

The trend is not towards the formalization of the informal economy, as was widely expected and predicted in the past, but rather towards the informalization of the formal economy. The overriding issue is therefore workers' rights.

Unions and NGOs

Nowhere in the world, and not at any time in history, have workers been able to defend these rights successfully except through organization. Here, the issue is power: it is only by putting themselves in the position of exercising power through organization that workers can gain "voice". Without organization, "voice" becomes an ineffectual squawk.

For workers, the natural form of organization is trade unions. It is only in unions that workers can organize as workers, that is, on the basis of an overarching common interest that workers share everywhere, at the very least in defence of their rights.

But organization can also take other forms. Informal workers, like any workers, will organize whenever given a chance, but in their case, the starting point and the facilitators of such organization are not necessarily trade unions. It can be women's organizations, it can be solidarity movements, it can be local community associations, in other words, non-governmental organizations (NGOs), at least those that have an organizing and rights agenda. Organizing in the informal economy often takes place where unions and NGOs intersect, and is therefore an area where they interact. This interaction has been fruitful in some instances, and problematic in others.[1]

NGOs have developed in a social and political vacuum that the trade unions have allowed to grow since the end of the Second World War by withdrawing into their "core business" (wages and conditions of employment) – in contrast with the pre-war labour movement which had sought to bring about social change on a broad front and had created a variety of organizations, including its own NGOs, as the basis of a counterculture and of an alternative society building itself within the shell of the old.

Also in the context of the growth of the informal economy, the narrowing down of the trade union agenda has led to bad surprises. Massive membership losses, particularly in the leading industrialized countries, were not anticipated because of concentrating on servicing the core membership, which is now rapidly shrinking, rather than remaining sensitive to developments in society as a whole, including changes in the working class itself. Thus unions are now caught in a situation where even when they have finally become aware of the need to organize informal workers they lack in most cases the resources to mount a serious organizing effort. In many instances, NGOs have taken up the slack.

The gender issue

Women's movements have arisen and become influential in recent decades because the issue of equality has not been resolved anywhere: not at work, not in society, not in any country and not in the unions. When it comes to the informal economy, it is the crucial organizing issue.

For the most part, informal workers are women. A majority of workers expelled by the global economic crisis from regulated, steady work are women. As the (International Confederation of Free Trade Unions (ICFTU) has reported,[2] women are the principal victims of the casualization of labour and the pauperization created by the crisis, and have therefore massively entered the informal economy.

The organization of workers in the informal economy therefore depends on the ability of the trade union movement to organize women workers and to cooperate with women's movements that also seek to organize workers. This requires major changes in the prevailing culture of the trade union movement.

The relationship between trade unions and the women's movement has been complex and contradictory. Trade unions, since their inception, have championed women's rights and many women have been charismatic leaders throughout the history of the labour movement. At the same time, since its origins the trade union movement has been dominated by the culture of the industrial worker, where men generally predominated – with the exception of the textile and garment industry. This was not a culture friendly to women. It remains an obstacle to organization, and remains strong in many parts of the movement.

As long as this issue remains unresolved, unions will face the choice of either opening up to women at all levels or having to face the challenge of new organizations arising where women are the leaders and determine the agenda. This is particularly true when it comes to organizing the informal economy.

There has been some movement on this. Faced with increasing pressure from the women's movement both inside and outside their structures, and with the fact that women are representing a growing share of the labour force, a number of unions have undertaken serious efforts to open their organizations to women. This has meant introducing affirmative action programmes within the union structures, moving women's demands to the top of the bargaining agenda and changing the prevailing culture, customs and practices of the organization to make it friendlier to women.

In this context, unions have increasingly entered partnerships with women's NGOs in organizing drives and in alliances to represent informal workers' interests.

Two paths of organization

The obvious point of departure in seeking to organize informal workers is the existing successful examples of this kind of organization. Two general paths of organization have developed. The first occurs when an existing union or union federation extends its field of activity to include informal workers. The second case is that of self-organization: new unions created by informal workers.

One example of the first case is the Textile, Clothing and Footwear Union of Australia (TCFUA), which is organizing homeworkers in its sector. UNITE, the textile workers' union in Canada, also organizes homeworkers in the garment industry.

Other examples include the Timber and Woodworkers' Union and the General Agricultural Workers' Union, both in Ghana, which organize artisans and small-scale farmers. In most other African countries, there are also unions of street traders, in some cases also of homeworkers, which are part of the national trade union centres and have been created with the support of these centres or of existing unions. In Uganda, the public service workers' union, faced with the dismantling of the public services, started organizing street vendors and other informal workers who now represent most of its membership.

In Hong Kong, the HKCTU, in July 2001, assisted in the establishment of the HK Domestic Workers' Union. In the United Kingdom, migrant domestic workers have organized a union called Kalayaan, which works closely with the Transport and General Workers' Union.

In Europe, unions in Germany, Italy and the Netherlands also organize and / or bargain for homeworkers. In Switzerland, a new union for teleworkers, many of them freelance and self-employed, was set up in January this year with the support of the Construction and Industrial Workers' Union (GBI / SIB).

In the Republic of Moldova, a union of street and market vendors and homeworkers was set up three years ago and now has nearly 40,000 members. It is an affiliate of the national trade union confederation.

SIBTTA, a union on the Portuguese island of Madeira, which started out about 30 years ago with 700 workers in one textile plant, went on to organize home-based embroidery workers, all of them women. It currently has about 8,000 members and has begun to organize home-based wicker weaving workers, most of them men. It may be the union with the longest history of organizing homeworkers.

In Brazil, the Força Sindical confederation organizes homeworkers and in Mexico a very large union of street vendors and other informal workers (claiming 1 million members) is an affiliate of the confederation CROC. In Peru, most of the member unions of the existing confederations have actually become unions of informal workers, as most of the economy has become informal.

There are equally many cases of self-organization by informal workers. An early instance, and an example to many, is the Self Employed Women's Association (SEWA) in India, which started in 1972 with a few hundred members in Ahmedabad and now numbers over 400,000 members in five Indian federal states. SEWA organizes home-based workers, street vendors, paper pickers and refuse collectors, collectors of forest produce and salt producers. It is at the same time a union, a women's movement and a cooperative movement, and has created an infrastructure of flanking services: a cooperative bank providing microcredit, a vocational and trade union training programme at different levels, producers' cooperatives (artisans, agricultural producers), and service cooperatives (health, housing). SEWA is affiliated to three Global Union Federations.

In South Africa, the Self Employed Women's Union (SEWU) was founded in 1993 and has organized along the same lines, although street vendors make up most of its present membership. It is the lead union in StreetNet (see below) and has joined Union Network International (UNI).

Women workers' organizations, most of them with union characteristics, have also formed in Hong Kong (in addition to the domestic workers' union already mentioned), Indonesia, Korea, Nepal, Pakistan, the Philippines and Turkey. Most are on the way to becoming unions or engendering unions.

In predominantly agricultural countries, there are a number of informal rural workers' unions. SEWA organizes rural informal workers such as gum collectors. Another example in India is the HKMP.[3] One example in Latin America is the landless workers' movement of Brazil (Movimento Sim Terra–MST). Its struggles to occupy unused land belonging to large landowners have attracted international attention, but also repression by landowners' militias and police.

Workers' education organizations have also been instrumental in organizing informal workers. In Zambia, the Workers' Education Association of Zambia, supported by the national trade union centre, the ZCTU, helped organize the Lusaka Street Traders' Association, which in turn became the core of a national union of street vendors which affiliated to the ZCTU.

International networks

In addition to its international trade union affiliations, SEWA is active in two international networks of informal sector workers, which it helped create. One is the International Alliance of Street Vendors, or StreetNet, which includes organizations or support groups in 11 countries and is based in Durban, South Africa. It was founded in 1995 at a meeting which adopted the "Declaration of Bellagio" on the rights of street vendors. The second one is HomeNet, founded in 1994: a network of unions which represent homeworkers, as well as other associations of homeworkers, based in Leeds, United Kingdom.

In the United Kingdom, Kalayaan has become the base for a European network of organizations of migrant domestic workers, called RESPECT, which is also supported by SOLIDAR, the international organization of labour movement welfare and solidarity organizations.

WIEGO (Women in Informal Employment Globalizing and Organizing), established in early 1997, is an international network of individuals from unions, NGOs, academic institutions and international development agencies concerned with advancing the interests of women in the informal economy through research, action programmes and policies. It includes already existing women workers' organizations, some of which are themselves international networks, such as HomeNet and StreetNet, or national unions, such as SEWA and SEWU. Some of the unions participating in WIEGO are members of national trade union centres in their home countries, and some are affiliated to one or several international trade union federations. WIEGO organizations – particularly SEWA and HomeNet – have worked closely with the international trade union movement in securing the adoption of the ILO Home Work Convention, 1966 (No. 177). One of the WIEGO programmes supports organizing of women workers in informal employment, also at the international level.

The SEWA Academy (its educational institution) and StreetNet have become members of the International Federation of Workers' Education Associations (IFWEA), the umbrella organization of labour movement educational institutions, which, at its general conference in 2000, committed itself to assisting the organization of informal workers through education programmes. Other networks are regional, or based on a specific industrial sector.

In addition, the ICFTU last year established a Task Force on Informal and Unprotected Work, together with representatives of some of its national affiliates, its regional organizations and the sector-by-sector Global Union Federations. The Task Force will develop trade union strategies for organizing workers in the informal economy, with an emphasis on achieving a transition to "formal" employment wherever possible.

A plea in conclusion

What is the way forward to organizing workers in the informal economy? Inevitably, the conclusion has to be that successful organizing requires broad alliances and coalitions between all organizations subscribing to this agenda. Unions and NGOs need each other.

What unions have to offer is the strength of international organizations with proven resiliency under conditions of adversity. They constitute today the largest democratically organized social movement in the world, with a presence in almost every country. Unions live with conflict, and therefore understand power relationships and negotiation. They are not an "interest group" among others, but represent a universal and permanent interest, which coincides with the general interest of society. They therefore have staying power over the long term. For NGOs, they provide the social anchor and reality check that neither the NGOs' constituency nor their relationships with other social actors (such as business or government) can provide.

The NGOs we are thinking of here are primarily women's movements. What they have to offer is the depth of their experience, their expertise and their indomitable courage. They are, of course, already in the unions and will become stronger in the unions over time. Labour NGOs, in education and solidarity work, are the brackets that are needed to consolidate and fuse this coalition.

This is the labour movement in its new form: an essential element of the global justice movement that is gaining strength under our eyes.

Notes

[1] Gallin, Dan. 2000. *Trade unions and NGOs: A necessary partnership for social development*. United Nations Research Institute for Social Development (UNRISD), Geneva, June.

[2] International Confederation of Free Trade Unions (ICFTU). 1999. *From Asia to Russia to Brazil – The cost of the crisis*. Brussels, May.

[3] *Trade unions and the informal sector: Towards a comprehensive strategy*. ILO Bureau for Workers' Activities, p. 59, Box 16. 1999.

Cooperatives and unions – joint action for informal workers

Cooperatives and trade unions are developing joint strategies to protect workers in the informal sector. The ILO is helping them to do so.

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The need to reach out to unprotected workers in the informal economy has been accepted as a major priority area for the international trade union movement.

The International Confederation of Free Trade Unions (ICFTU) believes that informal work is growing because people have no choice, because of the informalization of the formal economy, the impact of the debt crisis, the inability of governments to tackle poverty, government corruption, continuing massive influxes of rural migrants to urban areas and global trends towards dispersed production.

The World Confederation of Labour (WCL) also makes the informal economy one of its action priorities. However, at the national level, trade union attitudes are more variable. In some cases, there is still a belief that informal work is a transitory phenomenon, and not an enduring, even growing element. In other cases, self-employed workers are seen as entrepreneurs, and not as potential trade union members. Trade unions often have difficulty in locating informal workers and invariably come up against barriers to organizing, so that they sometimes feel that it is not an efficient use of resources. One reason the informal economy is often neglected is because in some sub-sectors – notably homeworking, paid domestic work and market trading – women predominate. Trade unions are beginning to change a male-oriented culture and are changing their structures, their democratic procedures and their wider image to meet the criticisms. In this respect, their attitude to the informal economy is also changing.

Nevertheless, many very useful and successful initiatives have been documented. The ICFTU, through its regional organizations in Africa, Asia and Latin America, has concentrated mainly on informal worker organizing campaigns. In Africa, ICFTU-AFRO has, with support from the European Union, launched projects in Benin, Ghana, Madagascar and Zambia. In Asia, ICFTU-APRO affiliates in India have embarked on organizing campaigns using their own funds. They focus on organizing rural workers, rickshaw pullers, weavers, beedi workers, building and construction workers, hawkers and others. A dual strategy of encouraging workers to join existing unions or to form their own unions has been employed. In Latin America, national unions affiliated to the ICFTU have been assisted in their efforts to organize informal sector workers by ICFTU-ORIT and the Dutch ICFTU affiliate, the FNV.

* The author's contribution is based, among others, on *Organizing workers in the informal sector* by Dr. Johnston Birchall, COOP Working paper 01-1, ILO 2001.

A recent report by the ILO Bureau for Workers' Activities says that what is lacking is an interlinking strategy for joining forces on the local, national and international level.[1] Yet this can only come about if the movement has the organizational capacity for it, or can develop this capacity jointly with others. When we look closely at some of the success stories, we often find cooperative-type activities being promoted, because these meet the immediate needs of the trade union members.

In the Philippines, for instance, unions accept the idea that they have to go beyond collective bargaining, and that informal workers can best be organized in cooperatives. They could then be associated with the trade union movement through indirect linkages. An example is LEAD-CO (Labor Education for Assistance and Development), a cooperative initiated by the Trade Union Congress of the Philippines (TUCP) for families living in a depressed coastal community. It started as a loan assistance programme, and then converted into a multi-purpose cooperative providing savings deposit, loans, training, enrolment in the social security programme, a home financing agency, and a TUCP insurance programme, marketing of members' products and bulk buying of prime commodities for its mainly self-employed members.

The work of the Self Employed Women's Association (SEWA) of Ahmedabad, India, and other trade unions dedicated to organizing women is helping to show how to engage with the informal economy. SEWA shows that, at national level, trade union-type organizations which engage in both campaigning and income generation using cooperatives can make an impact on a particular sub-sector. SEWA has 400,000 women members who are small-scale vendors, home-based producers and labourers selling services in plantations, cleaning, catering and so on. Their strategy is to offer an integrated plan for development that includes childcare, leadership training and even their own banks. SEWA has combined union-type strategies of campaigning for government protection and negotiating with suppliers and customers, with cooperative-type strategies of making available small loans and increasing incomes through joint supply and marketing.

Despite these and many other successes, the challenge of organizing unprotected workers in the informal economy remains a difficult one for trade unions. Some of the problems are part of the general difficulties faced by trade unions wishing to organize new members. Maintaining a high level of member participation, building up organizational and managerial capacity and developing dedicated and committed leadership are not new challenges. The problems are intensified, though, by the particular problems of working in the informal economy – a membership that is difficult to identify, difficult to keep in touch with and difficult to bring together for joint action.

Cooperatives and the informal economy

In the international cooperative movement, the term "informal economy" is not commonly used. For cooperatives, the economy presents itself as a split between urban and rural, large and small enterprises, exporting and producing for local consumption, and so on. The informal sector is seen as part of this wider economy. There is, however, an equivalent duality between official, registered cooperatives that are mainly in the rural areas focusing on the needs of farmers, and a kind of informal cooperative sector that includes unregistered "pre-cooperatives", "informal cooperatives" or "self-help organizations". As with the concept of the informal economy, there is some recognition that it is in these "informal cooperatives" that the future dynamic will be found for the growth of genuine member-owned and -controlled cooperatives.[2]

At the national level, in developing countries, there is a preoccupation with the survival of the "formal" cooperative sector in the face of structural adjustment programmes, the gradual withdrawal of state involvement and the restructuring of cooperative federations to cope with the loss of government funding. The main priority is to ensure the commercial survival of large agricultural cooperatives in the global market. Like the trade unions, the cooperative federations are short of the skills and resources they need to work in the informal economy.

Which kinds of cooperatives might be appropriate for organizing workers in the informal economy?

Workers' cooperatives (where workers share the ownership and the work in a common production unit) might seem to have the best potential, yet their record is often quite mixed. Successful groups tend to be the ones that come together naturally around a particular activity that lends itself to joint action. Catering and restaurants, quarrying and stone cutting, candle making, garment manufacture are all examples of successful cooperative enterprise. A strong business plan and a clear separation of ownership from management in their day-to-day working are preconditions for successful workers' cooperatives. Often, groups of craft workers such as tailors, silversmiths, woodcarvers and furniture makers benefit from a looser form of cooperative in which they work as individuals and are credited with the value of the items they make, while the cooperative organizes raw materials, machinery, workshops and markets. In this respect, informal workers benefit from the development of an urban version of an agricultural supply and marketing cooperative.

Everywhere, savings and credit cooperatives are popular and relatively easy to organize and have an immediate impact on the livelihood of the people concerned. Consumer cooperatives have a more mixed record, often failing or continuing only with government support. They are a quite sophisticated form, relying on good management, an efficient distribution system and customer loyalty. They have succeeded when organized by trade unions, which provide a stable customer base, capital for expansion and a strong institutional base for their control and supervision.

A new Recommendation

The Promotion of Cooperatives Recommendation (No. 192) adopted by the 90th Session of the International Labour Conference (June 2002) recognizes that States should promote the important role of cooperatives in transforming informal economy work into legally protected work integrated into mainstream economic life. The full text of this Recommendation can be found as Annex II to this issue of *Labour Education.*

Social insurance is another very successful type of cooperative activity. In a report to the ILO, van Ginneken describes some informal sector self-help groups that provide their own insurance cover. In the United Republic of Tanzania, the Mwanayamala Cooperative in Dar es Salaam organizes around 1,000 market vendors who pay a small daily rate to rent stands. This also goes towards providing death and hospital benefits.[3] In San Salvador, 1,000 vendors of the Central Municipal Market have a credit scheme for a health fund. In India, though, a state-owned Life Insurance Company and a General Insurance Company administers health insurance for SEWA members. There seems to be strong potential for the extension of basic insurance cover, through women's trade unions and other informal sector associations, and cooperative insurers could adapt current products to meet their needs. In a study of Manila, it was found that informal workers often preferred cooperative schemes, because payments were lower and more flexible, the processing time was shorter, benefits were available immediately on enrolment, and they offered loans.[4] But they are also interested in more comprehensive benefits, and so cooperative programmes need to be linked to the larger governmental programmes to achieve greater scale.

Cooperatives are not just a movement, they are a method. The method can be used by anyone, and does not depend on the cooperative movement having a well worked out strategy for the informal economy. Trade unions, community associations and NGOs can and do use the cooperative methodology to improve the living and working conditions of unprotected workers in the informal economy.

Towards a joint trade union-cooperative strategy

Trade unions and cooperatives have common historical origins in the early period of industrialization in Europe when working people established associations in order to defend their rights at work and to supply themselves with basic consumer goods through mutual self-help and group action. The common values and principles shared by trade unions and cooperatives, such as self-help, democracy, mutual aid and solidarity, led to the creation of related organizational structures in many countries. These structures became twin pillars of the broader labour movement. Nevertheless, the strategies employed by trade unions and cooperatives to further their members' interests developed differently. Trade unions principally use negotiations, collective bargaining and grievance handling, while cooperatives provide economic and social services in the fields of production, consumption and welfare through business enterprises. Taken together, these strategies have enabled many trade unions to address their members' needs in a comprehensive and integrated manner.

The ILO report to the 89th Session of the International Labour Conference in June 2001, *Promotion of cooperatives*, lists a number of significant examples of trade union-cooperative action. These range from the Singapore National Trade Union Congress consumers' insurance, health care and childcare cooperatives to the savings and credit cooperatives of many trade unions in Kenya. In the Philippines, trade union cooperatives can be found in such diverse fields as community services, canteens and catering and agricultural workers' buy-outs, to name just a few. Trade unions in Denmark, Ghana and the United Kingdom participate actively in the financing of cooperative enterprises. Through the DANIDA-supported ILO / COOPNET Programme, rural workers' organizations in the United Republic of Tanzania and Uganda have achieved some degree of financial security for their members by initiating savings and credit cooperatives.

At the international level, the ICFTU and the International Cooperative Alliance (ICA) maintain regular informal discussions over a broad range of issues and common concerns. In 1997 the then Assistant General Secretary of the ICFTU, Mr. Eddy Laurijssen, addressed the World Assembly of the ICA and called for better coordination of strategies between the two movements. As a result, the ILO, through the Bureau for Workers' Activities (ACTRAV) and the Cooperative Branch (COOP), has facilitated a dialogue between the two organizations in order to promote cooperation.

Both organizations are particularly interested in working together to improve the conditions of workers in the informal economy. Such a strategy would depend on a detailed assessment of the willingness and capability of cooperative and trade union movements at national level to engage in work with the informal economy, but mechanisms for facilitating such a process are already in place for project work.

In 1999, the ILO held an international symposium on Trade Unions and the Informal Sector. This called on trade unions to "consider establishing or expanding the links with cooperative economic activities. This approach has proved successful in both empowering these workers, through the provision of support services, such as access to credit, technology and raising awareness among them about the benefits of unionization".

As a follow-up to this symposium the ILO's Cooperative Branch prepared a project proposal, in collaboration with ACTRAV, entitled *SYNDICOOP: Poverty Alleviation for Unprotected Informal Economy Workers through Trade Union-Cooperative Joint Action*. The aim of the project is to improve the working and living conditions of unprotected informal economy workers in selected African countries, through pilot projects aimed at creating decent employment and income. This will be achieved through strengthening the capacity of national and local-level trade union and cooperative organizations to work together constructively in the informal economy. Through the generosity of the Netherlands, SYNDICOOP has now been launched, initially in Rwanda, the United Republic of Tanzania and Uganda. The SYNDICOOP Programme hopes to learn from the previous experiences of trade union and cooperative organizations and, through its pilot projects, develop a joint trade union-cooperative approach which could be modified and applied in other parts of the world. In this way, a successful strategy for joint trade union-cooperative action for unprotected workers in the informal economy could be established.

Notes

[1] ILO. 1999. *Trade unions and the informal sector*. Background paper, Geneva.

[2] Birchall, J. 1997. *The international cooperative movement*. Manchester, Manchester University Press.

[3] Ginneken, W. van. 1996. *Social security for the informal sector: Issues, options and tasks ahead.* ILO, Geneva.

[4] Joshi, G. 1997. *Urban informal sector in Metro Manila: A problem or solution?* ILO South-East Asia and the Pacific Multidisciplinary Advisory Team.

Unions and the informal economy in Africa

There are real differences between workers in the formal and informal sectors, but African unions should be aiming at a symbiotic relationship between the two. What steps can they take to achieve this?

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The ILO discovered the importance and potential of the informal economy through the famous study of the informal sector in Kenya, published in 1972. It has carried out research and action programmes on the informal economy for the past three decades. Since then, the informal economy has also been investigated by many other organizations, institutions and individuals.

The debate on the role of the informal economy on Africa's economic development came even more to the fore in the 1980s and 1990s, when the stringent macroeconomic measures adopted by the international financial institutions led to retrenchment of public sector employees, economic liberalization and privatization of public enterprises. As a result, there was a drastic decline in employment in the formal sectors, leading to the informal economy's gaining prominence.

The expansion of employment in the informal economy has been, for the most part, linked to the slow, if not negative, growth of formal sector employment. The latter's lack of dynamism is believed to have been the result of a combination of essentially three factors:

- the rapid and significant growth in the urban labour force, determined by improved living conditions and rural-urban migration;
- economic stabilization and restructuring programmes, introduced in the early 1980s, which contributed to the decrease in both public sector employment, real wages and salaries;
- the quest for increased flexibility and deregulation demanded by the growing competitiveness in the global markets, which has resulted in enhanced capital intensity and reduced labour costs.

The controversy surrounding the contribution of the informal economy is well summarized by the ILO Director-General's Report to the International Labour Conference in 1991 *The dilemma of the informal sector*:

> It can be viewed in a positive way as a provider of employment and incomes to millions of people who would otherwise lack the means of survival. It can be viewed negatively as a whole segment of society that escapes regulation and protection. It can be romanticized as a breeding ground of entrepreneurship which could flourish if only it were not encumbered with a network of unnecessary regulation and bureaucracy. It can be condemned as a vast sea of backwardness, poverty, crime and insanitary conditions…

Meaning and characteristics of the informal economy

Despite the great deal of research conducted on the informal economy, its meaning and scope still remain a matter of controversy, as its magnitude, nature, and composition vary between regions and countries.

The workers in the informal economy are doing what they can to move themselves out of poverty. By their actions, which could actually be described as reactions, they have helped to create a sector that teems with an abundance of continuously expanding activities performed by illicit street vendors, shoeshiners, small commercial, production or service enterprises and a great many other economic agents.

The informal economy provides almost the only possibility of escape, and is frequently a source of hope, for those who work in it. It is characterized by resourcefulness and imagination. However, it also favours the development of trafficking on the fringes of "legality". As a result, it is often fiercely attacked and it has some negative associations.

Characteristics[1] of the informal economy include a range of economic activities in urban areas which are largely owned and operated by single individuals with little capital and labour; a range of economic units which produce and distribute goods and services with a view to generating income and employment; labour-intensive technologies; easy entry; high levels of competition; production of low-quality goods and services; limited capacity for accumulation and restricted access to assets, credit and other services; undeclared and unprotected labour; and unstable relationships of production.

According to the Report of the Director-General of the ILO in 1995, *Promoting Employment*, the informal economy employs over 60 per cent of the urban labour force. The *World Labour Report, 1997-98* estimated that, in Africa, some 61 per cent of the urban labour force is employed in the informal economy, and it is likely to generate some 93 per cent of all additional jobs in Africa in the 1990s. In sub-Saharan African countries, the annual rate of expansion of employment in the urban informal economy was reported to be 6.7 per cent between 1980 and 1985.

In Ghana, this sector grew at 5.6 per cent per annum compared to less than 1 per cent in the formal sector. When the informal sector first came under scrutiny following the ILO mission to Kenya in 1972, it accounted for only 10 per cent of total employment. By 1996, 63 per cent was in the informal sector. It is now estimated that the informal sector is absorbing about two-thirds of annual new employment opportunities in Kenya. Furthermore, the proportion of women engaged in the urban informal economy, based on studies in Ghana, Kenya and Zambia, ranges from 60 per cent to 72 per cent.

Trade union strategies

Trade unions in Africa are increasingly aware of the growing importance of the informal economy in the region's economy. Trade union membership has been declining rapidly as retrenchment exercises remove thousands of workers from public sector employment. Many, if not most, of these workers shift over to the informal economy, often expanding activities that may have previously been used to subsidize the inadequate and declining wages in the public sector. This is basically why trade unions are now eyeing the informal economy as a potential source of new membership to shore up their political clout and sagging numerical powers.

However, it is important to realize from the outset that the fundamental differences and constraints between informal and formal sector workers, as well as the organization and objectives of trade unions, do not permit a simple extension of their traditional activities to cover informal economy issues.

For instance, just imagine how many of the traditional workers' education topics would be of deep interest and relevance to workers who are mainly self-employed or employed in very unstable and precarious conditions. They could certainly not afford to take the time off from earning their livelihood, or afford to pay union dues on a regular basis.

Informal economy workers do face specific problems that are different from those in the formal sector. These include:

- ***Insecurity of land tenure.*** With the increase in the price of land in urban areas, this problem is not likely to improve. Efforts to resettle informal economy operators on cheaper land in the city's outskirts are common, but doomed to failure because, quite simply, clients are few and far between in such areas. So instead, they squat on public or private land in the areas where they have a market and can therefore make a living. This practice deprives them of access to services or infrastructure, undermines their productivity and exposes them to special risks such as police harassment, confiscation of their assets, fire and theft.
- ***Limited access to credit*** – compounded by the lack of addressing the vital links between micro and macro interventions.
- ***Lack of scope for self-organization.*** This needs to be combined with appropriate mechanisms for dialogue and negotiation at the policy level.
- ***Blurred distinction between employers' and workers' associations.*** It is a well-known fact that in various countries (for example in Kenya), both the employers' and workers' federations have found the informal economy an interesting area for new membership recruitment.

That said, there is nevertheless an important role that the trade unions can play, and which will work to the mutual benefit of the trade unions and workers in the informal economy.

For a number of reasons to do with structure and content, trade unions cannot expect to convince informal economy workers to become regular dues-paying members. Nonetheless, trade unions are in an ideal position to form strategic alliances with the informal sector economy by providing capacity-building and other types of support to informal economy organizations. This has been done in Ghana with groups of hairdressers, photographers and transporters. Trade unions are also well placed to dialogue with policy-makers, in particular to ensure that the needs of informal economy workers are clearly articulated, while at the same time they do not undermine the legitimately acquired rights of formal sector workers. This alliance also gives the trade unions a potentially greater voice in social and economic decision-making.

There are, however, some circumstances in which it may be possible to fully integrate informal economy workers into the mainstream trade union movement. One such case is when a special department or unit is created within the trade union to serve the family members of formal sector workers. Another would be to establish meaningful services, perhaps through a special unit again, to address the problems of retrenched workers, thus keeping them in the trade union fold rather than allowing them to drop out as members once they have lost their formal sector employment. However, these services must usually be highly subsidized, and depending on the political and legal environment, may also suffer from in-built constraints.

Trade unions can create strategic and supportive links with informal economy associations, so as to strengthen the capacity of the latter, providing them with guidance and capacity training services. Unions can do this through the industrial relations framework. Informal economy workers and their associations can be helped to develop organizational structures and management that ensure effective democratic institutions.

Along with the growth of the informal economy, trade union-type organizations and associations are being formed to address the special constraints of this sector. For example, in the United Republic of Tanzania, one study carried out under the ILO's inter-departmental project estimated the level of organization that has already taken place in the informal sector, spontaneous or otherwise, to be 20 per cent. This compares to 1 per cent in Colombia and less than 9 per cent in South Asia.

Another organizational support would be for trade unions to train the associations of informal workers on how to plan and organize peaceful demonstrations, pickets, lobbies and other trade union actions, which might be needed to persuade the authorities against policies and actions that are detrimental to informal economy employment. Other services that the unions might offer to informal economy workers include providing provisional institutional support, or serving as an intermediary with financial and donor agencies. The unions can also set up programmes and schemes useful to informal economy workers.

Such alliances already exist. For example, the formation of the Cissin-Natanga Women's Association of Burkina Faso is an illustrative example of the critical role that mainstream trade unions can play in the emancipation of informal economy associations. Originally organized as a group of women attending a literacy course, the group was formalized in 1985 under the inspiration of the country's trade union centre, the National Organization of Free Trade Unions (*Organisation Nationale des Syndicats Libres*, ONSL). The association has built craft and literacy centres for its members, where they are trained in various trades and thereby improve their economic well-being.

There has been fertile ground in Zambia for forming strategic alliances and arriving at common objectives and ways to address the problems and constraints of the informal economy. In so doing, the strength of the trade union movement in Zambia has become greater as its constituency and influence broaden and increase. Similar success stories abound in Benin, Ghana, Senegal, South Africa and Zimbabwe.

Employers' organizations can certainly play a pivotal role in promoting the modernization of the informal sector, thus reinforcing its interaction with formal sector enterprises. In fact, some employers' organizations have started to look at small and micro-entrepreneurs as potential sources of new members. In Kenya, Nigeria and Uganda, associations of employers are actively involved in providing useful institutional services to informal economy businesses. Given the existing mechanisms of cooperation between trade unions and the employers' federations, the informal sector could be yet another avenue for interaction, alongside the traditional approaches of dialogue and collective bargaining.

Examples from South India show that informal economy trade unions have found it necessary to have multiple forms of legal registration in order to address the needs of their informal economy members. The intention has also been to facilitate the flow of donor funds to subsidize their activities, since membership fees can hardly support the organizations' overheads and administrative costs, even though these are extremely low. In addition to registering as trade unions, these organizations also had legal status as societies, cooperative credit societies or welfare trusts. This enabled them, among other things, to start credit and savings societies and welfare services in the areas of maternity benefits, health schemes and improved working conditions. Emulation of these examples depends on the legal framework for registering and regulating non-governmental organizations.

There is no one universal form of informal worker organization that is effective. They may be formal or loose associations, cooperatives, associations run on trade union lines, or NGOs. They may or may not have a legal personality, depending on the legal and democratic environment. However, registration sometimes gives them access to certain services and facilities, but perhaps more importantly gives them acquired rights and social recognition.

The trade union movement in Africa must adopt long-term organizational strategies and recognize that organizing the informal economy workers is critical if the movement is to have a wide membership base and retain the capacity to protect workers. To do this effectively, the trade unions may need to change their rules and internal structures to accommodate the needs of informal sector workers. Such changes should allow greater participation by this sector's workers in the decision-making bodies of unions.

Trade unions should call for the support of the ILO, given its special place in the world of international agencies and organizations – its unique tripartite structure and its values. These values accord *all* workers certain fundamental human rights. It is only through the ILO's tripartite structure, and in particular through the workers' movement, that all workers may attain these rights, whether they are in the formal or the informal economy.

Note

[1] These characteristics are not universal as there exist many different "informal economies" with different productivity levels, labour use, and organization and incomes.

Unionizing informal workers in Ghana

If Ghana's unions are to be truly representative of working people, then they must organize the informal sector. How should they go about it?

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The significance of the informal sector to developing countries is no longer an issue for dispute. Its importance is seen in terms of the proportion of the national labour force operating within its confines. In Ghana, the contribution of the informal sector to gross domestic product (GDP) is estimated at about 60 per cent. Furthermore, the informal sector constitutes about 86 per cent of the labour force aged between 15 and 64. The remaining 14 per cent of the labour force are engaged in the formal sector (*Ghana Living Standard Survey* [GLSS 4]).

Meanwhile, Boateng (1999) estimated the unionization rate in the formal labour market to be 68 per cent, implying that about two out of every three formal sector jobs are subject to collective bargaining agreements.

These developments pose a challenge to the labour movement in Ghana to make conscious efforts to organize workers in the informal sector. Indeed, if unions wish to claim that they represent working people in Ghana, then unionization of the informal sector becomes crucial for their survival. Otherwise, the government and other policy-makers will not take unions seriously, since their membership base will be low.

This article will review the characteristics of the production and processing activities in the informal sector. The organizational profile of enterprises will also be examined. The nature of existing organizational structures and their functions will also be looked at. Efforts at unionization will be discussed and, finally, recommendations will be made.

Organizational structure of enterprises

Studies by the trade unions on the fisheries production sub-sector found that the main processing activities centred on drying, smoking and frying. The institutional base of production and processing was in small households within the fishing community. However, there are no clear-cut household production structures within most fishing communities. Usually, fishing boats and gear belong to one prominent fisherman who just assembles other family members or hired hands on to the boat as crew, with rights to clearly defined shares of the catch. Women normally act as shore collectors, processors and sellers of the fish catches. The most visible interplay of entrepreneurial and labour functions was the degree of control over manpower access to production factors, gear and infrastructure and relative share of fish catches.

In situations like this, one can hardly talk about viable organizational structures. However, various fishermen in the communities have come together to form associations and organizations such as:

- The National Fishermen's Council
- Senior Fishermen's Association
- Fish Traders' Association
- Kpando-Torkor Community-based Fisheries Management Committee
- Marine Canoe Fishermen's Association (Abandze & Biriwa)
- Inland Canoe Fishermen's Association at Yeji.

These associations are run in many cases by management committees. In the small fishing communities of Abandze and Biriwa in the central region of Ghana, for example, it is the chief fishermen and their council of elders who decide on the rules of business conduct in the sub-sector. It is important to note that the rules, regulations, by-laws and constitutional provisions decided upon by the management committees are strictly enforced. Registered members pay dues and special levies, whilst also voluntarily making ad hoc contributions to support the sub-sector activities.

An important functional innovation observed within the organizations in the fisheries sub-sector was the loans that could be advanced from the Senior Fishermen's Association coffers to members of that association. Amounts could range from 100,000 cedis to a couple of million, at an interest calculated at ¢12,500 per month on every ¢100,000 loan given out. It was also learnt that the repayment rate had been good (nearly 100 per cent). The few defaults were basically due to poor catches, accidents and operational losses. Thus, in the fishing sub-sector there are institutions formed by the fishermen to regulate and also give assistance to members and these associations serve as entry points for trade union activities in this sub-sector.

Agricultural sub-sectors

Economic activities undertaken in the agricultural sector can be grouped into production and processing of agriculture produce. The production activities are in the areas of food and cash crops. Food production activities range from production to processing. Cassava, oil palm, coconut and shea production and processing enterprises are found in many parts of the country.

On the other hand, cash crops are those that go directly on to the local or export market as raw materials for the production of other consumable goods. It is important to emphasize that some of the cash crops are sold in the domestic market.

Research done by Ghartey et al. (1999) showed that many existing organizations were indeed functioning as well as could be expected in the circumstances. Examples of such organizations, which cover areas such as producers, processors and marketing of agriculture produce are:

- Co-operative Food Farmers' Association
- Dawenya Food Farmers' Association
- Nkoranza Maize Growers' Association
- Sankpala Sheanut Processors' Association
- Coconut Oil Processors' Association
- Coconut Oil Marketing Association.

These associations work with executive committees. And the benefits derived include easy access to credit and information and inputs as well as organized produce marketing. Therefore, these associations serve as an entry point for trade union activities in the agriculture sub-sectors. Some unions have made inroads into the sector through these associations.

Urban informal sector

Another very important segment of the informal sector in Ghana are the urban informal activities. This sector comprises small-scale industries or producers and their employees, the self-employed engaged in various economic activities, and those working in commerce, transport and other services-related areas. Informal workers are also found in metalworking, food and wood processing, textiles and garments, including batik tie-dye production. Many people work in this sector throughout all the main cities in the country.

In terms of management of their activities, most of these operators have their own association that brings together people working or operating in the same area. The trade unions in Ghana have been able to draw some of these associations into their fold. Examples are the Ghana Beauticians and Hairdressers Association, the Small-Scale Carpenters Association, the Tie and Dye Batik Producers Association and the Ghana Private Road Transport Union.

Trade union organization in the informal sector

Formal sector trade unions, with their rich experience of organization and mobilization, should develop new and dynamic strategies for effective organization of the informal sector. Any attempt at organizing the informal sector should involve their various associations in designing and implementing policies and programmes aimed at addressing the specific needs of each particular association, since the needs vary from one association to another.

Since there are many categories of worker in the informal sector, it is important for the trade unions to analyse their activities critically and then decide which categories they would like to organize. Furthermore, any attempt at organizing them should take into account the following factors:

- ***Labour force background:*** One needs to look at the background and characteristics of the people operating in the particular sector as regards education and the size of their households. The labour force within this sector is not homogeneous in terms of social background and therefore position. Rather, it consists of a hierarchy of social groups with varying degrees of need and a relationship structure that impacts on each other's well-being. There are low levels of mechanization in the activities of many operators and this means heavy dependence of the sector on physical strength to accomplish tasks. Thus, one needs to analyse informal workers' educational background in order to know how best to reach out to them at their level.
- ***Informal sector enterprises:*** The production systems of enterprises in this sector are household-based, with strong community and organizational identification. In the urban informal sector, both self-employed workers and master-and-apprentice relationships are frequently found. Apprentices are not paid. Rather, they are there to acquire more skills for themselves. Therefore, one needs to decide which type of enterprise or association the trade unions can best bring into their fold by focusing on the needs of the people concerned.
- ***Working conditions:*** The availability of labour for the informal sector depends on the type of labour used. The household is the most readily available source, complementing any communal pools of labour. Labour types identified for the sector revealed a high level of heterogeneity in terms of labour relations and conditions under which the labour force operated. Labour heterogeneity was further complicated by two other characteristics of labour within the sector:
  - Employment statuses were highly fluid, allowing operators to adopt several employment statuses at one point in time in response to the economic situation in which they found themselves. Fishing and agro-processing enterprises had a more clearly defined employment status than the other sub-sectors particularly in the food crop sub-sector. The presence of multina-

tional corporations also influences the fluidity with which employment status can be changed.

- Labour entry into and exit from enterprises in the sector was quite easy, creating a labour force that was highly mobile horizontally. The ease of labour entry was prompted by the fact that not much discrimination existed in terms of employment requirements. There is, in addition, virtually no form of contractual obligation by most paid workers to particular enterprises. Workers tend to vacate their posts at will.

Conditions of work for labour within the sector are very poor indeed, both in terms of remuneration, and health and safety conditions in which all the operators worked. Wages are generally low, with no structures for rewarding long service or productivity. Dissatisfaction with wages was rife amongst paid labour. Most survived through holding multiple jobs. Low levels of income were further compounded by the fact that the risk elements already outlined, rendered incomes unstable and irregular, thus aggravating poverty levels for all operators within the sector. The level of remuneration remains a problematic area for both the employers and the employed. Remuneration is too low to sustain hired labour and at the same time too high for employers to absorb, given the level of production and the costs incurred.

In general, feelings of job insecurity are high as a result of the uncertainties and risks that plague the sector. The sector's heavy dependence on nature and the effect of structural adjustment policies leaves operators in doubt about the security of employment, and thus the sustainability of their earnings.

The problems enumerated above needed to be addressed by trade unions in a manner that will make them relevant to the operators in the informal sector. Hence, critical analysis of the problems relating to working conditions in general is crucial in winning the informal sector workers over to trade unionism.

Recommendations

In fact, there is no specific formula for organizing the informal sector, but based on the experience of the Trades Union Congress of Ghana, the following recommendations are offered to help in this task:

- Since the sector is heterogeneous, it is important to ***target existing informal sector associations as organization points*** rather than the individual operators.
- ***Focus on the problems of the various categories of operator and formulate strategies together with them to address their concerns.*** Note that the problems of the sector vary from one association or operator to another. Sometimes, you need to discuss their production chain with them and try to determine where their problem is actually located. Sometimes, they do not even know their own problems, and are therefore not able to trace the source of them.
- ***Improving occupational health and safety*** (OHS) in the sector is very important. Most of the unions who have organized the informal sector operators in Ghana have focused on issues pertaining to OHS. Some informal workers do not know the side-effects of the chemicals that they use in their work.
- ***Enhancement of the packaging and marketing of their products*** is another area where many informal sector operators have a lot of problems. Assistance could be given to them to expand the market base of their products. For example, the Industrial and Commercial Workers' Union of the Trades Union Congress of Ghana has created a sales opportunity for tie-dye batik producers in the Hall of Trade Unions in Ghana. The union has given them specific days in the week when they bring their products to hall to sell to people who either work there or visit the hall. Arrangements are also made for them to advertise their products during national trade fairs.

- ***Access to credit*** is a further problem area. Most of the informal sector operators contacted cite lack of funds as their number-one problem. But critical analysis of their problems later shows that, in fact, a lack of storage or of a market is their major constraint. However, lack of finance is indeed a problem for some of them who do not have the necessary collateral to access funds from the country's financial institutions. Thus, the unions can use their strength and influence to access credit for them and also ensure that the monies are paid back. This can be done by assisting them to acquire effective management skills.

The dark side of competition in microfinance

The battle between socially oriented microcredit and the consumer credit companies has been a tough one in Bolivia. As a result, many poor people within the informal sector are now saddled with excessive debts. Ironically, this unexpected, aggressive competition was sparked by the microcredit institutions themselves, as they had managed to create a profitable market that was capable of supporting a real industry.

Luis Bredow
Journalist

Microcredit takes pride of place these days among the development strategies of emerging societies. This is because microloans fit in well with the new concepts of development financing. They are seen as an efficient means of getting resources to a poor section of the world population and of encouraging these people to seize market opportunities and take economic initiatives that will enable them to generate their own incomes.

It is worth noting that microcredit concepts first appeared precisely at the time when the old paradigms of development finance were beginning to break down. The State ceased to be regarded as the engine of economic growth, and the market took over. So private enterprises, including private micro-enterprises, became the bright new hope.

For this reason, microcredit has won support among the promoters of development and has become a real world movement. Some experiments, such as the Grameen Bank in Bangladesh, have become models that are imitated or adapted to the conditions in various countries.

Another model is the one pursued by the Bolivian institutions. The difference between the microcredit movement advocated by the Grameen Bank and the Bolivian model is that the latter aims to do without donations and to serve the poor on a purely commercial basis. To distinguish between them, the former is called "microcredit" and the latter is termed "microfinance". Nonetheless, "microcredit" is still used to describe loans given to people who have few resources.

The "Bolivian model" of developing a microfinance industry is being studied with a view to applying it in other contexts. This model consists of creating institutions on the basis of donations, then building them up through efficient management, so as to gradually bring them into the dominant financial system, where they will follow a purely commercial logic, without the granting of subsidies.

But, as we have seen in Bolivia, the creation of a purely commercial industry means the arrival on the scene of other protagonists who do not have the specific aim of contributing to social development. This means that the market is getting competitive.

Lending to the poor

Up to about 20 years ago, lending money to people who did not have savings or financial guarantees was thought to be an unsustainable risk. However, it could not be denied that the poor were in urgent need of credit in order to make their economic activities viable and thus to generate income.

In Bolivia, there is a clear correlation between the explosive demographic growth of the informal sector and the creation of microcredit. The first microcredit institution, PRODEM, saw the light of day in 1986, one year after the dismantlement of the state capitalist system, which had plunged into hyperinflation. These reforms established the liberal model, which drastically reduced waged employment.

PRODEM was a non-governmental bid to mitigate the high social cost of the reforms. For the common people, the new economic order had some very cruel sides, and small loans opened up more promising paths towards the liberalized market. Many people who had taken refuge in the informal sector gave up all hope of finding waged employment and began to see themselves as micro-entrepreneurs who needed capital.

The new liberal order also created the financial climate needed for microcredits. Not only did it throttle hyperinflation, it also liberalized interest rates.

Much has been written about the development of microfinance in Bolivia and the successes of the Bolivian institutions that began operating from 1986 onwards.[1]

Up to 1995, interest centred on the methods that enabled these institutions to lend money to people who did not have the financial guarantees that a bank usually demands before granting a loan. The Bolivian bankers, who had always looked down on this section of the population, were amazed to find that poor people paid back the money more punctually than did rich customers. In fact, the institutions flaunted loan portfolios in which default rates never even reached 0.5 per cent, while defaults to formal bankers were running at more than 4 per cent.

The "great leap"

Interest in the Bolivian experiment revived when the biggest of the institutions, PRODEM, decided to turn itself into BancoSol while in 1995 another, PRECRÉDITO, converted itself into Caja los Andes, a private financial fund (FFP). This option, which distanced them from the realm of donated funds, enabled them to tap into much bigger sources of finance, thus helping them to meet the growing demand that they had experienced. It also obliged them to perfect their already excellent financial viability, as the capital that they were now seeking could be attracted only if it received a substantial return.

This qualitative leap was admired by some and viewed with disquiet by others. Those who hailed the change saw it as the vanguard of a course that had to be taken. On this analysis, only when it is capable of attracting greater capital than can be got from donations can microcredit reach the scale required by the needs of the world's vast numbers of poor people.

Supporters also approved of the new operating rules because these demanded greater efficiency and innovative capacity within the institutions. And they hoped that, when microfinance became a real industry, there would be healthy competition between the institutions, which must be to the public's advantage.

At the other extreme were those who feared that the "great leap" would inevitably lead the institutions, now excessively concerned about their returns, into lending money to the richer echelons of society, where lower operating costs and the scale of the loans would increase profits.

The NGOs were aware that the change could lead to a situation where they would have to give up their original status. To avert this danger, they were looking for an "ideal capitalist" who, while demanding efficiency and profits, would not abandon the social sector. Moreover, they were seeking a capitalist who knew about the subtleties of microcredit and who would accept and promote the new methods needed in order to gain access to the market. The ideal capitalist must be willing to invest money in a nascent industry that is still seen as high-risk.

In fact, the new owners of BancoSol and Caja los Andes are not purely mercenary in their aims. The transformation has attracted development institutions that, although they operate on commercial principles, nonetheless feel an affinity with the social aims of microfinance. One interesting development is that these are institutions that were not involved with microcredit in the past.

Part of BancoSol's funds comes from deposits by the public. Another segment of the credit lines comes from banks that are lenders of second resort and that provide capital at market interest rates. Finally, BancoSol and Caja los Andes achieved their main aim. Within three years, BancoSol's portfolio grew from US$4 million to US$33 million, while that of Caja los Andes rose from US$6 million to US$20 million. This growth would have been impossible when they were NGOs.

So the fear that the transformation would endanger the original mission proved unfounded. That danger came from another, unexpected source – competition.

Euphoric competition

Although, from the second half of the 1990s onwards, some Bolivian banks decided to enter the microfinance market, they did so by imitating the methods of the pioneering institutions. It was a Chilean institution that took to offering consumer credits in Bolivia. This led to much more aggressive competition, because it used very different methods.

Consumer credit is found in countries that have more formal economies than in Bolivia. In Chile, it is available to middle class wage earners. Since the wage-earning sector is small in Bolivia, the new institution very soon began looking for customers in the social sector where BancoSol and the other microfinance institutions were operating – in other words, in the world of small retailers and artisans. It made only slight adjustments to the methods that it was using in Chile to extend loans to wage earners.

Consumer credit was sold by an army of young reps who sought out the members of schemes run by BancoSol and the other microfinanciers. This saved the bother of assessing their credit worthiness.

Under BancoSol's system, the person who approves a loan is also responsible for recovery. This procedure obliged loan officers to pay close attention to the customer's capacity to pay, and to advise the customer accordingly.

The public, who were used to the loan officers' way of doing things, tended to trust the advice given by the consumer credit sales reps, who were earning commissions on the loans that they granted and were not concerned about collection. These reps had no scruples about inciting customers to seek loans that exceeded their capacity to pay.

Subsequently, the applications were processed by different people, working on a sort of production line. One of the selling points for the consumer credits was that they were processed quickly, so the production line was not too fussy about checking up. Many people in the informal sector obtained loans on the basis of forged pay slips. These lax attitudes were rooted in the company's own practices, as it considered that a default rate equivalent to 17 per cent of the portfolio was acceptable. In fact, defaults were not only tolerated, they were welcomed, because the contracts included penalties for every day that repayments were delayed. The other side of this policy was the aggressive recovery methods. The debt collectors did not shrink from humiliating visits to tardy customers at the places where they worked or socialized. This toleration of default set the alarm bells ringing in the microfinance institutions, which saw how the compliance culture that they had created was losing its hold.

This whole process, which was later shown to have been driven by an imprudent arrogance, seemed at that time to be aimed at cornering the market, even at the cost of dumping. Certainly, consumer credits were being offered by institutions that could afford to operate at a loss.

The sudden advent of these practices created a climate of feverish competition, with a number of Bolivian banks joining in and using the Chilean firm's methods. The competition was reflected in brash advertising campaigns. Within three years, consumer credit had reached 120,000 people and was worth $150m. It had taken the microfinance institutions 12 years of work to reach similar figures.

The customers felt the attraction of easy money, and more and more people started taking out several loans at once, with different institutions. Previously, it had been a matter of personal honour to meet one's obligations on time, but now the "bicycle" was in fashion – the practice of settling one debt by contracting another. When customers use one loan to pay off another, competition turns into a fight between the institutions to be first in line for debt recovery. The recovery methods become more and more robust and destroy the amicable relations between the institutions and their clients.

This dynamic has been observed in a number of countries: when, for some reason, competition reaches euphoric extremes, customers cannot resist the temptation to take out credit and the more conservative banks are sucked into this spiral for fear of losing market share. This syndrome can only be broken from the outside. Which is what the banking supervisory authority did at the end of 1999, when it ruled that a person's debt servicing must not exceed 25 per cent of his or her pay. It also toughened the rules on provision against debt defaults.

But what really put the brakes on this extreme competition was the recession that hit Bolivia in 1999. Economic growth and consumption there took a sudden tumble after a crisis affected Brazil and a number of Asian countries. The true level of over-indebtedness then became clear in the default rates among the clients of the banks, of the credit companies and, also, the microfinanciers. BancoSol saw its default rate rise from 2 per cent in 1998 to 17 per cent. The rest of the banks reached a default rate of 20 per cent. The supervisory authority had to intervene in one bank and the consumer credit companies gradually started pulling out. But behind them, they left a traumatized market.

The contamination of a market

Although the consumer credit companies have abandoned the market, the debt recovery drives continue. As long as this goes on, the market will stay shrunk, because many people are no longer able to take out new loans.

Under pressure from the debtors' associations, the supervisory authority has temporarily suspended some of the provision requirements, so as to enable the banks to defer debt recovery. The banks fear the precedent set by bowing to pressure from the debtors' associations.

The extraordinary compliance culture that used to be demonstrated by the customers of the microfinance institutions has taken a severe knock. One way of measuring the damage is to note the rise in the default rate. Another is to recall the vision that led the microfinance institutions to try to instil the discipline of repaying on time.

The social activists who created PRODEM in 1986 were motivated by the desire to bring about a profound structural change in Bolivian society. Their vision was that credit should be a way of introducing dynamism into the country's social pyramid. Their aim was to strengthen the economy of an enormous sector which, although it was very active, had few possibilities for economic growth and remained on the margins of the factors that make up the quality of life.

The way forward proposed by the microfinance social activists, who had worked in aid institutions, was to foster people's initiative so that this social group would produce wealth, by facing up to reality. They hoped that the practice of micro-enterprise would lead to more proactive demands and behaviour by the social sector.

A vision that sought political and social change acquired a practical aspect through the microcredit movement. The vision sought to create a new citizen. The institutions sought to create a new kind of customer.

As they refused to go down the road of paternalism, the institutions needed customers who were ready to stand on their own two feet and to take total responsibility for their income-generating schemes. This is why the institutions refused to concern themselves with the use to which the recipient put the loan. In return, the policy of "zero tolerance of default" established fulfilment of one's obligations as a central element of the clients' behaviour. The institutions used various methods, with equally favourable results for themselves and their customers. What they all had in common was the wish to preserve their clients' payment capacities and to encourage them to plan ahead.

According to José Meruvia, BancoSol's manager in Cochabamba, the main difference between the methods used by consumer credit firms and those of microfinance is that BancoSol "educates" its customers, while consumer credit companies, under conditions of euphoric competition, "pervert" their clients.

Methodologies in crisis

We should not run away with the idea that competition is harmful for microfinance. Euphoric competition produces one effect. Rational competition produces quite another. The former harms the customer. The latter works in the customer's favour.

The first effect of overindebtedness was to destroy confidence. The institutions were obliged to demand bigger, more tangible guarantees before granting loans. It also shrank the market by expelling from it many people who had previously had access to loans and who no longer had the capacity to pay.

Moreover, the banking authorities brought in stricter rules on risk assessment. It should be emphasized that the new regulations were not in response to overindebtedness. Rather, they were part of a whole programme brought in by the banking authorities to strengthen the banking sector and to bring it into line with world rules.

But the effect of the new regulations was to increase the cost of credit and, therefore, to make it more difficult for the institutions to offer attractive products.

This happened just when the increase in the number of institutions granting small loans made the industry more competitive. Even before the arrival of consumer credit, microcredit had already been saturating its own market. By the end of 1997, the institutions had made 300,000 loans with a total value of US$170 million. This is a very high level, considering that the urban informal sector consists of 600,000 people and that not all of them qualify for credit. Consumer credit achieved similar figures, although not all of its loans were given to informal workers.

Given this saturation, the search for new market niches is becoming imperative.

The Bolivian microcredit institutions have proved time and again that they are capable of innovating. It must be hoped that, in future, methods will be found of further reducing the cost of small loans and that new services will be offered to the poorer sections of the population. Savings and microcredit in the rural sector are the next big challenges.

Note

[1] The experiment has been described from different angles and has become a source of studies aimed at discovering the formulas for success. Dr. Elisabeth Rhyne has been an outstanding observer of microfinance in Bolivia. In her latest book, *Mainstreaming microfinance: How lending to the poor began, grew and came of age in Bolivia* (Kumarian Press, 2001), Rhyne gives an accurate account of this adventure and a clear exposition of the dilemmas.

Informal finance: Exploitation or empowerment?

There are various ways of giving the working poor better access to financial services. The ILO is among those promoting appropriate credit schemes.

Bernd Balkenhol
Social Finance Unit
ILO

The working poor in the informal economy need a whole range of different financial services for different needs: funds to buy tools and equipment for some income-generating activity, working capital loans to keep a small business going, but also safe and secure deposit facilities to mitigate and cope with risk and to reduce income shocks and vulnerability in times of stress and crisis. In order to minimize vulnerability, the working poor require assets – financial, social, human and physical. They need money to send their children to school, to buy medicines, to repair a hut, to celebrate a wedding. Access to finance is the most important single factor needed to create and sustain a household enterprise, to keep it going and to maintain jobs. This is reflected in the rapid growth of microfinance initiatives in recent years directed at the needs of those working in the burgeoning informal economies.

Compared to formal banking, informal finance is generally more accessible and affordable. This goes for a whole range of services such as credit, deposit facilities, insurance, payment services, leasing and guarantees, etc.

In the formal financial market, loans are based on contracts between banks and their clients. Contracts have a written form, so they can be used in judicial proceedings if the borrower becomes insolvent. These norms are enforceable by law. Informal finance works differently, without written contracts, courts and lawyers. It is based on mutual knowledge, trust and social capital. Two forms of informal finance can be found in almost all parts of the developing world: commercial transactions and shared-benefit transactions. In the first instance, the transaction leads to a net return to one party. In the second, the return is evenly distributed among all parties involved. Both presuppose a close knowledge of the contracting parties. Proximity replaces a formal written contract.

The prototype of commercial informal finance is the moneylender who provides emergency loans, occasionally under usurious conditions. Some moneylenders are specialized, others lend money in conjunction with other economic activities (agriculture, transport, commerce). This conjunction can, in extreme cases, lead to “inter-linked contracts”, involving parties in an exchange of goods and services in different markets. An illustration of this is the landlord who supplies emergency loans to labourers working in his fields. If the loan is long-term, and if the wage and interest rates are deliberately set at rates that secure the availability of labour throughout the seasons, then this is known as debt bondage.[1]

Another example of informal financial arrangements of a commercial nature is the informal money collectors, “motorcycle bankers”, who collect money from market women, deposit it in a bank at the end of the day and charge a handling fee.

Rotating savings and credit associations (ROSCAs or *tontines* in French-speaking Africa) group 10 to 200 people who have some common bond – parish, neighbourhood, ethnic group, age or economic activity. ROSCAs are mainly savings-based. Poor people in the informal economy save for a variety of motives, but basically because they need to protect themselves against risks. In this respect, savings in the informal economy are the main vehicle for risk mitigation and the smoothing of income flow. This is a form of non-contractual insurance. The strong propensity to save in the informal sector is shown by the fact that in most savings-based micro-finance institutions, like credit unions, village banks or savings and credit cooperatives, the number of people making deposits at any point in time is at least six times greater than of those taking out loans.

ROSCA members meet about once a month. It is a social and convivial gathering where everyone pays a fixed and equal amount of money into a common fund. At every meeting, one ROSCA member takes the entire kitty, according to a pre-established sequence. ROSCAs amongst women help take advantage of independent income-generating activities. ROSCA money is generally used by the working poor in the informal economy to finance consumer items, rites of passage (marriages, funerals) or personal emergencies. People join ROSCAs for access to financial services, but also for the sense of belonging to a group. They appreciate the feeling of being able to go back to their tontine in case of need: a ROSCA expresses social capital. While ROSCAs may not always be appropriate for financing the development of informal enterprises, as access to the funds is governed by a strict order or an auctioning system, they nevertheless provide some social safety nets.

Microfinance institutions like Grameen, the Bank Rayat Indonesia (Indonesia) or South Africa's Small Enterprise Foundation imitate some of the features of informal finance: collateral free lending, quick and simple transactions, client graduation and, above all, the use of joint liability as a substitute for collateral. One point that informal finance and microfinance have in common is that they consider the household and the enterprise as a unit, together with all the relevant financial flows – whether for consumption, investment or savings. Microfinance schemes frequently operate in the same market as informal finance, often in direct competition. Grameen Bank appears to have pushed down the interest rates charged by moneylenders in some areas.

Can informal finance be promoted? Should it be? The debate on this has not led to a conclusive outcome. There are different promotion strategies to ensure better outreach and performance of financial mechanisms in the informal sector. Grameen considers that a net injection of capital is required to trigger a surplus-yielding transaction. Promoters of financial cooperatives such as credit unions, on the other hand, believe that a more efficient allocation of resources is required, greater access for the working poor to member-based, decentralized financial systems, and also better management.

Since the 1980s, the ILO has included financing mechanisms within technical cooperation projects designed primarily to make credit available to specific groups. For the most part, these have comprised revolving loan funds or credit guarantee funds. Not much is known about their impact and performance. A recent initiative launched by the Social Finance Programme should soon help to provide a better overview of the quality of these funds. The ILO Director-General's report to the 2001 International Labour Conference underlined the strategic importance of finance and microfinance for decent work. Within the Strategic Policy Framework for 2002-05 it is intended that the ILO's work on informal finance and microfinance will concentrate on:

- eradicating debt bondage by at least 30 per cent;
- integrating financial components in all poverty-focused ILO programmes;

- extending globally the policy dialogue with central banks and ministries of finance to ensure better social outcomes of financial sector reform; and
- promoting within the framework of the Poverty Reduction Strategic Papers initiative, direct funding to social funds and similar mechanisms.

Note

[1] The ILO Global Report on Forced Labour submitted to the International Labour Conference in 2001 examines the disastrous social consequences of monopolistic and backward local financial markets that lead to debt bondage.

The costs of informality: An illustration from India

Informal work may bring some immediate benefits to workers and employers alike – but the social costs are high. So do the wider burdens outweigh the short-term gains? The author gives a personal view, which does not necessarily represent the opinions of the NCAER.

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A worker with secure job tenure and a defined workplace is surrounded by a package of benefits that constitute their "cost to the company". These include the communications facilities offered to them, the room and office equipment, and their maintenance. They also include benefits available to them such as pension facilities, medical expenses, school fees, maternity benefits, and so forth.

It is easy to believe that replacing such a worker by one who is on contract and available as short-term flexible labour would be advantageous to both worker and employer, without any losses to the larger world. Does the worker not gain from flexibility of time, the employer through reduced outlays on infrastructure? As posed, this question is difficult to answer if one is positioned in the developing world, because most workers are not, to begin with, in such a secure work environment. The question can however be inverted – given a worker in informal employment, are there costs to the company or to the country in sustaining informality that would not be incurred, or would be lower, with some degree of formalization of the work arrangement?

Although the terms "formal" and "informal" work are used in the sense of alternate choices, in practice there is a spectrum of work arrangements. In moving along the spectrum, a worker could gain from regularity of work agreements, security of tenure or access to benefits, and finally be in a position where all of this is available.

Consider a self-employed woman worker doing piece-rate work in a poor Indian household. This kind of work is characterized by the absence of an employer, no written contract, no fixed hours of work, no assurance of any minimum return. It is possible to place such work at the "informal" end of the spectrum. If now this worker joins a trade union and is able therefore to ask for a higher wage, or gain access to some benefits, the use of a collective voice has also enabled a small movement away from the isolated and extremely vulnerable situation of complete informality. Such a movement away from complete informality still stops well short of what would be described as a formal work situation. If we consider what would be the implications of such a change, typically it would result in changes such as these: the woman would: (a) become visible as a worker; (b) perhaps become part of a group of workers, in an association or union of sorts, through which she would have access to some benefits; (c) perhaps be able to claim a minimum wage; and (d) perhaps have easier access to savings institutions, as well as to training and the upgrading of skills.

At such low levels of income, it is unlikely that this move would convert her into a taxpayer. It is in fact more likely that her claims on government-supported agencies would increase. She may be more careful now to send her children to school. She may be more willing and able to access public health facilities.

That such outcomes are not purely hypothetical is borne out by the experience of the Self Employed Women's Association (SEWA) in Ahmedabad, India, and further supported by research findings. The SEWA experience shows the outcomes of organizing and trying to reduce some of the worst implications of informal employment among poor workers. In its annual report, SEWA gives its own estimates of how much new employment has been generated through its activities, new access to benefits, and the contributions that its members have made to such agencies as insurance companies.

For example, SEWA estimates that the additional benefits (in the form of wage rate increases and other benefits such as scholarships, social security benefits, etc.) were 12 per cent of the total earnings from new urban employment.[1] This would imply that organizing women helped to make their employment more secure, but also enabled a small movement in the direction of formality. SEWA organizes women not just to give them more secure employment (even though this is still informal employment, and they are still poor) but also to give them some access through their membership of SEWA to insurance, savings facilities, training, the upgrading of skills and a range of other such supports. This combination of development intervention and trade union action allows women to change somewhat their behaviour as economic agents. For example, they could now put their children into childcare centres, a move associated not just with better outcomes for the child but also with the woman's being able to work more steadily and earn better. Or they might take out a small insurance policy to help with medical expenses and so forth. Or they might save small but regular amounts in order to be able to build a house.[2]

One way of describing this, albeit a perverse way, is to say that these in fact are costs to the economy of "formalizing" employment. Women workers who were previously invisible and passive are now demanding outlays on childcare facilities, microfinance institutions, and skill and training facilities. A better interpretation would be to argue that these outlays have a high positive externality to the economy at large, whether we wish to evaluate these from the perspective of growth potential or equity and human development.

The potential that even a small degree of formalization has to generate such externalities can be illustrated from the findings of different studies. A recent study conducted in Ahmedabad, for example, showed that informal enterprises paid a range of fees to the authorities to be able to conduct their business, albeit not without harassment.[3] Of the total payments made, nearly 62 per cent were collected illegally, that is, in the form of bribes. Presumably, if the State collected such payments legally, and also demonstrated its genuine concern through resource allocations that benefit informal enterprises – simple examples being legal access to public spaces (especially important to vendors), better public lighting and roads, better drainage, better maintenance of public spaces used by all, and so forth – this would result in a win-win outcome. The net benefit to the State in the form of additional revenue could enable much-needed higher public investments. The only assumption needed for this outcome is that enforced collections could be replaced by voluntary tax compliance, turning a private gain into a public one.

Another illustration of the positive externalities that could result from a degree of formalization comes from a study of home-based workers recently conducted by NCAER.[4] This study surveyed subcontracted home-based workers by drawing a purposive sample in selected clusters of such workers in three sectors and four locations. These are *agarbathi* or incense stick making in Bangalore, Karnataka; *bidi* rolling, i.e. rolling tobacco in tendu leaf, in Indore, Madhya Pradesh and North district, Tamil Nadu; and *zardosi* or gold thread embroidery in Lucknow.

Around 600 households were canvassed (of which 25 per cent were a control group), and focus group discussions and case studies were also conducted. The study confirmed that subcontracted home-based work has been on the increase in these sectors since the mid seventies, chiefly explained by expanding demand, specially export demand, in *zardosi* and *agarbathi*, and by efforts to avoid labour legislation in the case of *bidi*. With the extension of home-based work to more urban households as well as to rural or semi-urban areas, there has been an increase in women's participation. Home-based work in these sectors is thus heavily female-intensive, most so in the case of *agarbathi*, followed by *zardosi*. This is not an example of formal jobs being converted into informal, it is rather an example of new jobs being created as informal ones in preference to formal.

To understand this preference for informal employment, in this case home-based work, it has been argued from a theoretical and efficiency perspective that subcontracting may be more efficient than wage employment in these sectors.[5] The factors that explain the choice of subcontracting over wage employment include the following. From the point of view of workers, the value of working close to / within homes is that they can also undertake other activities. This predisposes them in favour of subcontracted work. In a cultural context, where there are often some mental barriers to women's working outside the home, no questioning of existing gender roles is required with home-based work, further adding to the acceptability to households of this type of work arrangement. For contractors, outsourcing means saving on several types of cost. For example, labour-related regulations (and their costs) can be avoided; there is a saving on costs of space. To a large extent, technology determines the viability of such outsourcing: this is viable when no large outlays are required on equipment, i.e. the technology used is such that each worker is able to provide for herself. Most of all, what makes this a viable arrangement is the existence of strong social networks that constitute an informal system managing entry into a particular type of job, acquisition of skills, and social controls that allow the use of verbal agreements with a high level of assurance that workers will bide by them. Since the system has a reasonable degree of stability, repeated transactions can take place with the same workers, further bringing down costs.

The NCAER survey confirmed, however, that from a well-being perspective, there are important issues relating to payment delays, seasonality, debt bondage and other forms of control, and social security, that make the system an imperfect one. Other findings included the incidence of child labour. The percentage of children working in home-based work was found to range between 1.2 and 6 per cent for 5-10 year-olds, and between 2.8 and 43 per cent for 11-14 year-olds. In general, more girls were found to be working than boys, a much higher percentage of the older age group of children was working, and around 20 per cent of working children aged 5-14 were also in school. Among the three sectors, the highest participation of children was in *zardosi*. Children from the control group, however, were not found to be working. The health status of home-based workers was found to be generally low. The survey found that *bidi* workers had better access to health and education. More use was made of public health facilities, and a higher proportion of children were enrolled in school. In terms of the spectrum of formality and informality, *bidi* workers, being organized and also having access to a welfare fund, the Bidi Workers Welfare Fund, can be regarded as having taken one step towards formalization. This appears to have made an impact, especially with respect to children's schooling and hygienic awareness. Better outcomes would however require further investments: it was apparent that dealing with poor health status requires improvements in the environment in and around the house through better sanitation, water and power supply.

If the Government is to succeed in some of its stated policy objectives, it needs to be able to reach out to the unreached, to the most difficult areas and groups of people. For example, the State is committed to universalizing education for all children. If this objective is to be met, and if such schooling is to lead to higher levels of skills and new opportunities for children, then any level of engagement in home-based work by a child that is not purely voluntary and a way of learning something new, becomes a matter for concern. The manner in which production is undertaken is thus linked to a range of social outcomes. Economic growth is clearly linked to productivity, in turn linked to people's health and educational status. The findings of the SEWA experience, and of the research studies cited above, suggest that there is a close link between being in informal employment (excluding, of course, such employment at the high income end), and having access to the institutions through which education, training, health and credit are obtained. It also seems that such access can be provided through small movements in the direction of formalization and do not necessarily require the full conversion of jobs from being wholly informal to being wholly formal.

Various significant costs of informality have been documented: bribes and the growth of the black economy, poor levels of human development as evidenced by high illiteracy and low health status, children out of school and in work.

It might be wondered how typical the above argument would be: the illustrations are, after all, based on small samples. To understand the importance of these small samples, it may be useful to review once again what we know about the size of the informal economy in India. Official data tell us that the unorganized sector contributes 60 per cent to the net domestic product (NDP), and around 45 per cent to the non-agricultural component of the NDP. Of total employment, around 93 per cent is estimated as being informal, including 83 per cent of the non-agricultural workforce.

Moreover, the incidence of informal employment appears to be on the increase through practices such as subcontracting. What the sample tells us about the universe is a matter of judgement, but the examples cited above are fairly typical. From a policy perspective, the situation of the large majority of poor workers in informal employment is the most relevant one. Evidence that an improvement in the terms of work could have repercussions on social development outcomes and human capital concerns provides a useful point of entry for policy purposes.

The immediate benefits to the contractor or the employer, and possibly some convenience to the worker, from informal employment are thus accompanied by high social costs. From a development as well as equity perspective, there is much to gain from some degree of formalization of informal work.

Notes

[1] SEWA. 2000. *Annual Report*. p. 19.

[2] For details, see SEWA (2000), *Annual Report*, Shri Mahila Sewa Trust, Ahmedabad, and related documentation.

[3] Rani, Uma; Unni, Jeemol. 2000. *Urban informal sector: Size and income generation processes in Gujarat, Part II*, Report No. 3. National Council of Applied Economic Research, New Delhi, p. 54.

[4] NCAER. 2001. *Outsourcing of manufacturing to households: Sub-contracted home based work in India.* Unpublished.

[5] For a more detailed discussion, see NCAER (2001), ch. 3.

Undeclared jobs threaten Europe's "social model"

Undeclared employment is on the increase in Europe and may eventually pose a threat to the European "social model". The loss of tax revenue or social contributions could mean fewer social benefits or public services. The European Commission favours solutions in line with Europe's employment strategy. The unions stress the need for prevention.

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Informal employment is "contrary to the European ideals of solidarity and social justice". So says the European Commission.[1] But, since Europe's informal jobs are undeclared jobs, they are by definition difficult to count.

The Commission defines the undeclared economy as "any legal remunerated activity that is not declared to the public authorities, bearing in mind the differences between the regulatory systems in the Member States". Depending on the method used to estimate it, this activity is said to account for between 7 and 16 per cent of the European Union's (EU) gross domestic product (GDP), or 7-19 per cent of the total number of declared jobs.[2] Another study put the number of people working on the side within the EU at 30 million in 1997-98.[3]

So to gauge the true extent of all this will be a time-consuming business. But EU Commissioner for social affairs and employment Anna Diamantopoulou wants these numbers first. "If we can quantify" the problem, then "we can tackle it", she explained at the launch of a new report on policies to combat undeclared work.[4]

A distinction is made between three groups of countries: those where the undeclared economy is said to account for about 5 per cent of GDP (the Nordic countries, Ireland, Austria and the Netherlands), those where it is put at more than 20 per cent of GDP (Greece and Italy) and an intermediate group (on the one hand, the United Kingdom, Germany and France, and on the other, Belgium and Spain, with a slightly higher percentage).

The situation seems to be getting worse. In many EU countries, the informal economy is growing faster than the formal one. Moreover, the EU's forthcoming enlargement may shift many undeclared jobs into eastern Europe.

Labour intensive

Undeclared employment is concentrated in labour-intensive, low-earning sectors such as agriculture, construction and domestic service, as well as in manufacturing industry and commercial services whose competitiveness is governed by costs (such as textiles in southern Europe). It is also to be found in the new sectors – particularly among the self-employed.

Undeclared workers tend to hold two jobs, one in the formal economy and one in the informal. Then there are the "economically inactive" population (students, housewives, early retirees), the unemployed and people from outside countries living illegally within the EU. In Europe, however, these illegal immigrants are not the main contributors to the growth of undeclared jobs, although they are the most exposed to bad working conditions. They work in construction and agriculture, but also increasingly in the service sector.

The profiles vary from country to country. In Scandinavia, the Netherlands, Belgium, France and the United Kingdom, undeclared workers are often skilled young men. In southern Europe, they are often young people, women working at home and illegal immigrants.

Poverty and taxes

One of the main reasons for working on the side is poverty. This explains why the phenomenon is more widespread in poor areas and low-wage sectors.

Undeclared work is also fostered by the growing demand for "personalized services" (carers, cleaners, etc.), industry's increased reliance on subcontracted supply chains (implying more self-employed, sometimes undeclared, workers) and the spread of so-called "light" technologies (such as personal computers).

In this respect, the European Trade Union Confederation (ETUC) emphasizes the influence of technological change and permanent restructuring (including relocations).

The growth of undeclared employment spells particularly high taxes and social contributions for the citizen, while for enterprises, it leads to excessive administrative burdens and general costs. Its main attraction, the European Commission thinks, is economic – "this type of activity permits higher earnings while escaping income tax and social contributions".

The extent of the phenomenon also depends on new working patterns (non-standard hours, temporary contracts, etc.), industrial structures (since undeclared jobs are more common in local economies with many small enterprises) and the competitiveness of the sector (because working on the side is sometimes the only chance of survival for firms that are waning in the face of competition).

But, says the ETUC, it would be "too easy" to blame undeclared work on high taxes and social charges or on labour law rigidities supposedly harmful to competitiveness and productivity. "In reality," the ETUC stresses, "European enterprises have reached a level of competitiveness comparable to that of American firms."

Instead, the ETUC criticizes "blind individualization and deregulation, the proliferation of non-standard contracts, […] attempts to weaken the role of collective bargaining and reduce workers' rights". These new types of work organization have not helped to strike "the right balance between flexibility and security", the European trade unions argue. Rather, they have contributed to the growth of undeclared employment.

Generally, the ETUC wants "more detailed analysis" of the causes of undeclared work, instead of "overly simplistic" affirmations.

A vicious circle

Difficult to quantify, and fostered by a whole range of factors, undeclared work in Europe could undermine the European "social model". "Undeclared work threatens the financing of the social services, which are already under pressure", the European Commission believes. "It weakens social protection for the citizens, reduces the prospects for the labour market and may harm competition."

Working on the side does have a significant impact on public finances, due to the loss of tax revenue and social contributions. The revenue shortfall means a drop in the level of service that the State can provide. This is a vicious circle. To maintain these services, governments would have to increase taxes, thus encouraging even more undeclared work.

For individuals, the consequences are just as harmful. Undeclared workers are generally not insured against accidents at work. Moreover, they are not covered by unemployment benefits. They do not have either health insurance or pension entitlements, where these are contribution-based, and they cannot join complementary pension schemes.

Undeclared workers who do not hold two jobs also lose the advantages given by a formal contract of employment, such as training, wage scales and the feeling of being part of an enterprise. They will also have more difficulty in changing jobs. The development of the informal economy is also deepening the inequalities between the sexes.

Penalize or prevent?

To combat this problem, a Commission study suggests that each Member State should use a policy mix that suits its particular context, rather than applying any one standard remedy.[5] At the EU level, it recommends that such action should be built into the European employment strategy. This is in accord with guidelines dating from 2001, which advocate measures to stimulate formal sector employment, the dismantling of barriers to employment and enterprise, flexible working patterns and the reinforcement of equal opportunity policies.

Certainly, the ETUC supports this approach, as job creation in the formal sector will help to increase tax revenues and social contributions. But, the unions insist, this must not "become an excuse for greater deregulation, or for tighter controls and penalties against the unemployed and non-EU nationals". What is needed, says the ETUC, is "a strategy of inclusion, through active labour market measures, rather than a strategy of exclusion".[6]

If undeclared work is seen as a problem of people profiting from the system while putting solidarity at risk, the report published by the Commission recommends a punitive approach, with tighter controls and penalties, and the creation of multidisciplinary cooperative networks.[7]

However, the Commission warns against a reliance on penalties that prove "less effective than they should be". The ETUC, meanwhile, wants the emphasis to be on prevention, but without this turning into deregulation.

If hidden employment is a result of increased labour market flexibility, while the legislation has lagged behind, then the study[8] invites member states to take preventive measures, such as cutting taxes and social charges and liberalizing and flexibilizing employment relationships (temporary work, seasonal work).

Some voices though, including the ETUC's, warn that tax cuts will not automatically reduce the informal economy. The important thing is to apply fiscal measures effectively, taking account of the role played by the administration and of the level of corruption or fraud.

"Better fiscal implementation could produce significant gains in revenue", the ETUC claims. It suggests targeted fiscal reforms that would place low wage earners outside the direct taxation system.

The Commission also favours measures that would ease access to the formal economy, through help in dealing with formalities, subsidies for the creation of new enterprises or tax credits for wage-earners.

Finally, where undeclared work is linked to attitudes or culture, Member States are invited to conduct information and awareness campaigns.

A dual strategy of prevention and penalization is also favoured by the European Parliament.[9] It particularly recommends cuts in value-added tax (VAT) on labour-intensive services, and measures to regulate and standardize paid domestic work, which is performed mainly by women.

At the EU level, it calls for legislative action to coordinate policies on taxation and social security. It also wants the Commission to investigate the extent of undeclared cross-border labour and the exploitation of work performed by minors.

The "black sheep" should, the Parliament says, be excluded from bidding for EU-supported tenders in Member States. In plain terms, no contract should be awarded to a firm whose bid is clearly based in part on undeclared labour.

The Parliament also suggests that the social partners should have the right to take collective legal action in order to get undeclared work under control.

Not yet a priority

On the union side, some representatives of "sensitive" sectors, such as cleaning, construction and agriculture, have taken a close look at this issue. However, it does not yet seem to be a priority for European trade unionists.

At the end of 1998, the cleaning section of the European service union federation UNI-Europa and the European industrial cleaning employers' federation agreed to conduct information campaigns against "the damaging effects of the policy of awarding public contracts on abnormally low terms",[10] and they called for a cut in the rate of VAT on cleaning services for private customers. In January 2001, the same organizations jointly emphasized the "cause-and-effect relationship between the use of subcontractors and bogus self-employed workers and the growth of undeclared work".[11]

Last November, the European Federation of Building and Wood Workers (EFBWW) launched a survey of its affiliates on this subject. Its findings are expected in 2003.

Several interesting proposals emerged from a study[12] commissioned by the agricultural section of the European Federation of Trade Unions in the Food, Agriculture and Tourism Sectors and Allied Branches (EFFAT). Agriculture is one of the "least regulated" labour markets, characterized by "the precariousness and misery of waged labour". Trade unionism has "little hold" on this sector.

So the EU's Common Agricultural Policy (CAP) should serve principally to stabilize employment levels and improve the earnings of agricultural producers and workers. Firms that outsource must be made responsible for their subcontractors. To achieve this, there should be co-operation between unions and consumer associations, and the whole supply chain (from the food and agriculture industry to the big retailers) should be covered by the same trade union.

As well as improvements in the legislation, the report calls for European-level penalties against undeclared work and advocates financial assistance for "better contracts", so as to combat precarious employment conditions.

Unionization rates among seasonal workers, and especially immigrants, are almost zero. The report therefore suggests organizing either through seasonal union reps, as the Cypriots already do, or from mobile union offices.

Notes

[1] European Commission. 1998. *Communication sur le travail non déclaré*. Brussels, 7 Apr.

[2] Schneider, F. 2001. *The size and development of the shadow economies and shadow economy labor force of 21 OECD countries*, Aug.

[3] European Trade Union Confederation. 1998. *Eléments pour la discussion*. Working document presented to the Committee on Employment, 19-20 Oct.

[4] Mateman, S.; Renooy, P. *Undeclared labour in Europe. Towards an integrated approach of combining measures*. Report for the Commission, dated October 2001, published in Brussels in February 2002. Seven countries were studied (France, Germany, Italy, Netherlands, Spain, Sweden and the United Kingdom).

[5] ibid.

[6] ETUC, op. cit.

[7] Mateman and Renooy, op. cit.

[8] ibid.

[9] European Parliament. 2000. Resolution on undeclared work, 21 Sep.

[10] UNI-Europa / Fédération européenne du nettoyage industriel. 1998. Joint declaration on 4 Dec.

[11] UNI-Europa / Fédération européenne du nettoyage industriel. 2001. Joint conclusions on a report concerning certain key aspects of the industrial cleaning sector in Europe, 31 Jan.

[12] EFFAT. 1997. *Le travail au noir dans l'agriculture*, Brussels, Nov.

Conclusions concerning decent work and the informal economy

(90th Session of the International Labour Conference, Geneva, June 2002)

1. Recognizing the commitment of the ILO and its constituents to making decent work a reality for all workers and employers, the Governing Body of the International Labour Office invited the International Labour Conference to address the issue of the informal economy. The commitment to decent work is anchored in the Declaration of Philadelphia's affirmation of the right of everyone to "conditions of freedom and dignity, of economic security and equal opportunity". We now seek to address the multitude of workers and enterprises who are often not recognized and protected under legal and regulatory frameworks and who are characterized by a high degree of vulnerability and poverty, and to redress these decent work deficits.

2. The promotion of decent work for all workers, women and men, irrespective of where they work, requires a broad strategy: realizing fundamental principles and rights at work; creating greater and better employment and income opportunities; extending social protection; and promoting social dialogue. These dimensions of decent work reinforce each other and comprise an integrated poverty reduction strategy. The challenge of reducing decent work deficits is greatest where work is performed outside the scope or application of the legal and institutional frameworks. In the world today, a majority of people work in the informal economy – because most of them are unable to find other jobs or start businesses in the formal economy.

3. Although there is no universally accurate or accepted description or definition, there is a broad understanding that the term "informal economy" accommodates considerable diversity in terms of workers, enterprises and entrepreneurs with identifiable characteristics. They experience specific disadvantages and problems that vary in intensity across national, rural, and urban contexts. The term "informal economy" is preferable to "informal sector" because the workers and enterprises in question do not fall within any one sector of economic activity, but cut across many sectors. However, the term "informal economy" tends to downplay the linkages, grey areas and interdependencies between formal and informal activities. The term "informal economy" refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements. Their activities are not included in the law, which means that they are operating outside the formal reach of the law; or they are not covered in practice, which means that – although they are operating within the formal reach of the law, the law is not applied or not enforced; or the law discourages compliance because it is inappropriate, burdensome, or imposes excessive costs. The ILO's work needs to take into account the conceptual difficulties arising from this considerable diversity.

4. Workers in the informal economy include both wage workers and own-account workers. Most own-account workers are as insecure and vulnerable as wage workers and move from one situation to the other. Because they lack protection, rights and representation, these workers often remain trapped in poverty.

5. In some countries, the term “informal economy” refers to the private sector. In some other countries, the term is considered synonymous with the “underground”, “shadow” or “grey” economy. However, the majority of workers and enterprises in the informal economy produce legal goods and services, albeit sometimes not in conformity with procedural legal requirements, for example where there is non-compliance with registration requirements or immigration formalities. These activities should be distinguished from criminal and illegal activities, such as production and smuggling of illegal drugs, as they are the subject of criminal law, and are not appropriate for regulation or protection under labour or commercial law. There also may be grey areas where the economic activity involves characteristics of both the formal and informal economy, for instance when formal workers are provided with undeclared remuneration, or when there are groups of workers in formal enterprises whose wages and working conditions are typical of those existing in informality.

6. The informal economy absorbs workers who would otherwise be without work or income, especially in developing countries that have a large and rapidly growing labour force, for example in countries where workers are made redundant following structural adjustment programmes. Most people enter the informal economy not by choice but out of a need to survive. Especially in circumstances of high unemployment, underemployment and poverty, the informal economy has significant job and income generation potential because of the relative ease of entry and low requirements for education, skills, technology and capital, but the jobs thus created often fail to meet the criteria of decent work. The informal economy also helps to meet the needs of poor consumers by providing accessible and low-priced goods and services.

7. Workers and economic units in the informal economy can have a large entrepreneurial potential. Workers in the informal economy also have a reservoir of skills. Many people working in the informal economy have real business acumen, creativity, dynamism and innovation, and such potential could flourish if certain obstacles could be removed. The informal economy could also serve as an incubator for business potential and an opportunity for on-the-job skills acquisition. In this sense, it can be a transitional base for accessibility and graduation to the formal economy, if effective strategies are put in place.

8. In many countries, both developing and industrialized, there are linkages between changes in the organization of work and the growth of the informal economy. Workers and economic units are increasingly engaged in flexible work arrangements, including outsourcing and subcontracting; some are found at the periphery of the core enterprise or at the lowest end of the production chain, and have decent work deficits.

9. The decent work deficits are most pronounced in the informal economy. From the perspective of unprotected workers, the negative aspects of work in the informal economy far outweigh its positive aspects. Workers in the informal economy are not recognized, registered, regulated or protected under labour legislation and social protection, for example when their employment status is ambiguous, and are therefore not able to enjoy, exercise or defend their fundamental rights. Since they are normally not organized, they have little or no collective representation vis-à-vis employers or public authorities. Work in the informal economy is often characterized by small or undefined workplaces, unsafe and unhealthy working conditions, low levels of skills and productivity, low or irregular incomes, long working hours and lack of access to information, markets, finance, training and technology. Workers in the informal economy may be characterized by varying degrees of dependency and vulnerability.

10. Although most at risk and therefore most in need, most workers in the informal economy have little or no social protection and receive little or no social security, either from their employer or from the government. Beyond traditional social security coverage, workers in the informal economy are without social protection in such areas as education, skill-building, training, health care and childcare, which are particularly important for women workers. The lack of social protection is a critical aspect of the social exclusion of workers in the informal economy.

11. While some people in the informal economy earn incomes that are higher than those of workers in the formal economy, workers and economic units in the informal economy are generally characterized by poverty, leading to powerlessness, exclusion, and vulnerability. Most workers and economic units in the informal economy do not enjoy secure property rights, which thus deprives them access to both capital and credit. They have difficulty accessing the legal and judicial system to enforce contracts, and have limited or no access to public infrastructure and benefits. They are vulnerable to harassment, including sexual harassment, and other forms of exploitation and abuse, including corruption and bribery. Women, young persons, migrants and older workers are especially vulnerable to the most serious decent work deficits in the informal economy. Characteristically, child workers and bonded labourers are found in the informal economy.

12. Unregistered and unregulated enterprises often do not pay taxes, and benefits and entitlements to workers, thus posing unfair competition to other enterprises. Also workers and economic units in the informal economy do not always contribute to the tax system, although often because of their poverty. These situations may deprive the government of public revenue thereby limiting government's ability to extend social services.

13. To promote decent work, it is necessary to eliminate the negative aspects of informality while at the same time ensuring that opportunities for livelihood and entrepreneurship are not destroyed, and promoting the protection and incorporation of workers and economic units in the informal economy into the mainstream economy. Continued progress towards recognized, protected decent work will only be possible by identifying and addressing the underlying causes of informality and the barriers to entry into the economic and social mainstream.

14. Informality is principally a governance issue. The growth of the informal economy can often be traced to inappropriate, ineffective, misguided or badly implemented macroeconomic and social policies, often developed without tripartite consultation; the lack of conducive legal and institutional frameworks; and the lack of good governance for proper and effective implementation of policies and laws. Macroeconomic policies, including structural adjustment, economic restructuring and privatization policies, where not sufficiently employment-focused, have reduced jobs or not created adequate new jobs in the formal economy. A lack of high and sustainable economic growth inhibits the capacity of governments to facilitate the transition from the informal to the formal economy, through the creation of more jobs in the mainstream economy. Many countries do not have explicit employment creation and business development policies; they treat job quantity and quality as a residual rather than as a necessary factor of economic development.

15. In appropriate circumstances, trade, investment and technology can offer developing and transition countries opportunities to reduce the gap that separates them from advanced industrialized countries, and can create good jobs. However, the problem is that the current globalization processes are not sufficiently inclusive or fair; the benefits are not reaching enough people, especially those most in need. Globalization lays bare poor governance. Trade, without export subsidies that distort the market, without unfair practices or the application of unilateral measures, would help living standards to be raised and conditions of employment to be improved in developing countries, and would reduce decent work deficits in the informal economy.

16. Since a defining characteristic of workers and enterprises in the informal economy is that they often are not recognized, regulated or protected by law, the legal and institutional frameworks of a country are key. The ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up and the core labour standards are as applicable in the informal as in the formal economy. But some workers are in the informal economy because national labour legislation does not adequately cover them or is not effectively enforced, in part because of the practical difficulties of labour inspection. Labour legislation often does not take into account the realities of modern organization of work. Inappropriate definitions of employees and workers may have the adverse effect of treating a worker as self-employed and outside the protection of labour legislation.

17. Inappropriate legal and administrative frameworks that do not guarantee and protect freedom of association make it difficult for workers and employers to organize. Democratic, independent, membership-based organizations of wage workers, own-account workers, self-employed persons or employers in the informal economy are sometimes not allowed to operate under local or national legislation and are often unrecognized and excluded from or under-represented in social dialogue institutions and processes. Without organization and representation, those in the informal economy generally do not have access to a range of other rights at work. They are not able to pursue their employment interests through collective bargaining or to lobby policy-makers on issues such as access to infrastructure, property rights, taxation and social security. Women and youth, who make up the bulk of workers in the informal economy, are especially without representation and voice.

18. Economic units operate in the informal economy mainly because inappropriate regulations and excessively high tax policies are responsible for excessive costs of formalization and because barriers to markets and the lack of access to market information, public services, insurance, technology and training exclude them from the benefits of formalization. High transaction and compliance costs are imposed on economic units by laws and regulations that are overly burdensome or involve dealing with corrupt or inefficient bureaucracies. The absence of an appropriate system of property rights and the titling of the assets of the poor prevents the generation of productive capital needed for business development.

19. Informality can also be traced to a number of other socio-economic factors. Poverty prevents real opportunities and choices for decent and protected work. Low and irregular incomes and often the absence of public policies prevent people from investing in their education and skills needed to boost their own employability and productivity, and from making sustained contributions to social security schemes. Lack of education (primary and secondary) to function effectively in the formal economy, in addition to a lack of recognition of skills garnered in the informal economy, act as another barrier to entering the formal economy. The lack of livelihood opportunities in rural areas drives migrants into informal activities in urban areas or other countries. The HIV/AIDS pandemic – by illness, discrimination or loss of adult breadwinners – pushes families and communities into poverty and survival through informal work.

20. The feminization of poverty and discrimination by gender, age, ethnicity or disability also mean that the most vulnerable and marginalized groups tend to end up in the informal economy. Women generally have to balance the triple responsibilities of breadwinning, domestic chores, and elder care and childcare. Women are also discriminated against in terms of access to education and training and other economic resources. Thus women are more likely than men to be in the informal economy.

21. Since decent work deficits are often traceable to good governance deficits, the government has a primary role to play. Political will and commitment and the structures and mechanisms for proper governance are essential. Specific laws, policies and programmes to deal with the factors responsible for informality, to extend protection to all workers and to remove the barriers to entry into the mainstream economy will vary by country and circumstance. Their formulation and implementation should involve the social partners and the intended beneficiaries in the informal economy. Especially in countries struggling with abject poverty and with a large and rapidly growing labour force, measures should not restrict opportunities for those who have no other means of livelihood. However, it should not be a job at any price or under any circumstances.

22. Legislation is an important instrument to address the all-important issue of recognition and protection for workers and employers in the informal economy. All workers, irrespective of employment status and place of work, should be able to enjoy, exercise and defend their rights as provided for in the ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up and the core labour standards. To ensure that labour legislation affords appropriate protection for all workers, governments should be encouraged to review how employment relationships have been evolving and to identify and adequately protect all workers. The elimination of child labour and bonded labour should be a priority goal.

23. The informal economy provides an environment that allows child labour to thrive. Child labour is a key component of the informal economy. It undermines strategies for employment creation and poverty reduction, as well as education and training programmes and the development prospects of countries. Child labour also exists in industrialized countries. The eradication of child labour requires poverty reduction, good governance, effective enforcement, improved access to universal education and social protection. It requires commitment and cooperation between the social partners as part of the promotion of fundamental rights and the programme to transfer jobs from the informal to the economic mainstream. Key to the success of abolishing child labour is the creation of more quality jobs for adults.

24. It is the responsibility of governments to provide an enabling framework at national and local levels to support representational rights. National legislation must guarantee and defend the freedom of all workers and employers, irrespective of where and how they work, to form and join organizations of their own choosing without fear of reprisal or intimidation. Obstacles to the recognition of legitimate, democratic, accessible, transparent and accountable membership-based organizations of workers and employers in the informal economy must be removed, so that they are able to participate in social dialogue structures and processes. Public authorities should include such organizations in public policy debates, and provide them access to the services and infrastructure they need to operate effectively and efficiently and protect them from harassment or unjustified or discriminatory eviction.

25. Policies and programmes should focus on bringing marginalized workers and economic units into the economic and social mainstream, thereby reducing their vulnerability and exclusion. This means that programmes addressing the informal economy, such as provision of education, training, microfinance, etc., should be designed and implemented with the main objective of bringing workers or economic units in the informal economy into the mainstream, so that they are covered by the legal and institutional framework. Statistical and other research should be focused and designed to give effective support to these policies and programmes.

26. Governments must provide the conducive macroeconomic, social, legal and political frameworks for the large-scale creation of sustainable, decent jobs and business opportunities. Governments should adopt a dynamic approach to place decent employment at the centre of economic and social development policies and also to promote well-functioning labour markets and labour market institutions, including labour market information systems and credit institutions. To increase job quantity and quality, emphasis should be placed on investing in people, especially the most vulnerable – in their education, skills training, lifelong learning, health and safety – and encouraging their entrepreneurial initiative. Poverty reduction strategies, in particular the Poverty Reduction Strategy Papers (PRSPs), should specifically address the problems in the informal economy. The creation of decent jobs should be a measure of success for these strategies. In many developing countries, rural development and agricultural policies, including supportive legal frameworks for cooperatives, need to be enhanced and strengthened. Special attention should be given to the care responsibilities of women to enable them to make the transition from informal to formal employment more easily.

27. A conducive policy and legal environment lowers the costs to establish and operate a business, including simplified registration and licensing procedures, appropriate rules and regulations, reasonable and fair taxation. It also increases the benefits of legal registration, facilitating access to commercial buyers, more favourable credit terms, legal protection, contract enforcement, access to technology, subsidies, foreign exchange and local and international markets. Besides, such policies discourage businesses in the formal economy from shifting into the informal economy. This helps new businesses to start and smaller businesses to enter the formal economy and to create new jobs, without lowering labour standards. This also increases state revenues.

28. Another high priority is a coherent legal, judicial and financial framework for securing property rights to enable assets to be turned into productive capital through sale, lease or use as collateral. Reform of legislation regarding property rights should give special attention to gender inequalities in rights to own and control property.

29. To address the needs of the poor and vulnerable in the informal economy, the conclusions concerning social security adopted by the 89th Session of the International Labour Conference in 2001 should be supported and implemented. Governments have a lead responsibility to extend the coverage of social security, in particular to groups in the informal economy which are currently excluded. Micro insurance and other community-based schemes are important but should be developed in ways that are consistent with the extension of national social security schemes. Policies and initiatives on the extension of coverage should be taken within the context of an integrated national social security strategy.

30. The implementation and enforcement of rights and protections should be supported by improved systems of labour inspection and easy and rapid access to legal aid and the judicial system. There should also be provisions for cost-effective dispute resolution and contract enforcement. National governments and local authorities should promote efficient bureaucracies that are corruption and harassment free, are transparent and consistent in the application of rules and regulations, and that protect and enforce contractual obligations and respect the rights of workers and employers.

31. An important objective for both employers' and workers' organizations is to extend representation throughout the informal economy. Workers and employers in informal activities may wish to join existing trade unions and employers' organizations, or they may want to form their own. Employers' and workers' organizations play a critical role in either strategy: extending membership and services to employers and workers in the informal economy, and encouraging and supporting the creation and development of new member-based, accessible, transparent, accountable and democratically managed representative organizations, including bringing them into social dialogue processes.

32. Both employers' and workers' organizations can play an important advocacy role to draw attention to the underlying causes of informality and to galvanize action on the part of all tripartite partners to address them, and to remove the barriers to entry into mainstream economic and social activities. They can also lobby the public authorities for the creation of transparent institutions and the establishment of mechanisms for delivering and linking services to the informal economy. The innovative and effective strategies and good practices that employers' organizations and trade unions in different parts of the world have used to reach out to, recruit, organize or assist workers and enterprises in the informal economy should be more widely publicized and shared.

33. Employers' organizations in collaboration with or through other relevant organizations or institutions could assist economic units operating in the informal economy in a number of important ways, including access to information which they would otherwise find difficult to obtain, such as on government regulations or market opportunities, and also access to finance, insurance, technology and other resources. They could extend business support and basic services for productivity improvement, entrepreneurship development, personnel management, accounting and the like. They could help develop a lobbying agenda specially geared to the needs of micro and small enterprises. Importantly, employers' organizations could act as the conduit for the establishment of links between informal enterprises and formal enterprises, the opportunities for which have increased due to globalization. They could also initiate activities adapted to the needs of the informal economy that can yield important results such as improved safety and health, improved labour-management cooperation or productivity enhancement.

34. Trade unions can sensitize workers in the informal economy to the importance of having collective representation through education and outreach programmes. They can also make efforts to include workers in the informal economy in collective agreements. With women accounting for a majority in the informal economy, trade unions should create or adapt internal structures to promote the participation and representation of women and also to accommodate their specific needs. Trade unions can provide special services to workers in the informal economy, including information on their legal rights, educational and advocacy projects, legal aid, provision of medical insurance, credit and loan schemes and the establishment of cooperatives. These services should not, however, be regarded as a substitute for collective bargaining or as a way to absolve governments from their responsibilities. There is also a need to develop and promote positive strategies to combat discrimination of all forms, to which workers in the informal economy are particularly vulnerable.

35. The ILO should draw upon its mandate, tripartite structure and expertise to address the problems associated with the informal economy. An approach based on decent work deficits has considerable merit and should be pursued. The ILO approach should reflect the diversity of situations and their underlying causes found in the informal economy. The approach should be comprehensive involving the promotion of rights, decent employment, social protection and social dialogue. The approach should focus on assisting member States in addressing governance, employment-generation and poverty-reduction issues. The ILO should take into account the conceptual difficulties arising from the considerable diversity in the informal economy.

36. The efforts of the Office should:

(a) better address the needs of workers and economic units in the informal economy and they should be addressed throughout the Organization, including already existing policies and programmes;

(b) strengthen its tripartite approach to all activities in this area and especially to ensure close consultation and active involvement of the Bureau for Workers' Activities and the Bureau for Employers' Activities in all aspects of the work programme, in particular their design;

(c) include an identifiable and highly visible programme of work with dedicated resources that is able to draw together relevant expertise including experts in workers' and employers' activities;

(d) be linked logically and integrally to the ILO's major strategic objectives and InFocus programmes, for example the Decent Work Agenda, the Declaration on Fundamental Principles and Rights at Work and its Follow-up, the Global Employment Agenda, and upholding the overall goals of gender equality and poverty reduction; and be able to draw upon the multidisciplinary expertise and experience of all four technical sectors and operate effectively across all sectors and field structures. Linkages should also be made with major international initiatives, such as the Millennium Development Goals and the Youth Employment Network;

(e) be organized in innovative and effective ways to focus the particular and / or combined expertise of specialists in labour law, eradication of the worst forms of child labour, equal opportunities, social aspects of globalization, labour inspection, social dialogue, social protection, micro and small enterprise development and employment policy, together with specialists in workers' and employers' activities, to deliver specifically designed strategies to address the identified causes and impacts of decent work deficits thus contributing to poverty reduction;

(f) ensure that technical assistance activities seek to integrate workers and economic units in the informal economy into the mainstream economy and are designed to produce this result;

(g) be reflected in the programme and regular budget and technical assistance priorities and supported by adequate regular budget and extra-budgetary resources.

37. Specific priority areas for the ILO's work programme and technical assistance should be to:

(a) help member States to formulate and implement, in consultation with employers' and workers' organizations, national policies aimed at moving workers and economic units from the informal economy into the formal economy;

(b) place special emphasis on removing obstacles to, including those in the legal and institutional framework, the realization of all the fundamental principles and rights at work;

(c) identify the obstacles to application of the most relevant labour standards for workers in the informal economy and assist the tripartite constituents in developing laws, policies, and institutions that would implement these standards;

(d) identify the legal and practical obstacles to formation of organizations of workers and employers in the informal economy and assist them to organize;

(e) gather and disseminate examples and best-practice models of innovative and effective strategies used by employers' organizations and trade unions to reach out to, recruit and organize workers and economic units in the informal economy;

(f) undertake programmes and policies aimed at creating decent jobs and education, skill-building and training opportunities to help workers and employers move into the formal economy;

(g) target those areas of the informal economy where child labour is prevalent with the objective of assisting member States to design and implement policies and programmes to eradicate child labour;

(h) apply the ILO's policies and programmes on enhancing employability, skills and training, productivity and entrepreneurship to help meet the massive demand for jobs and livelihoods in ways that respect labour standards and enable entry into the economic and social mainstream;

(i) assist member States to develop appropriate and facilitating legal and regulatory frameworks to secure property rights and title assets, and to encourage and support the start-up and sustainable growth of enterprises and their transition from the informal to formal economy;

(j) mainstream the issues concerning and solutions to the challenges often presented by the informal economy in poverty reduction strategies, in particular the Poverty Reduction Strategy Papers (PRSPs);

(k) promote the renewed campaign agreed at the International Labour Conference in 2001 to improve and extend social security coverage to all those in need of social protection, especially those in the informal economy, inter alia, through the development and piloting of innovative ideas, such as the Global Social Trust;

(l) address discrimination in the informal economy and ensure that policies and programmes specifically target the most vulnerable, in particular women, young first-time jobseekers, older retrenched workers, migrants and those afflicted with or affected by HIV / AIDS;

(m) develop greater understanding of the relationship between the informal economy and the feminization of work, and identify and implement strategies to ensure that women have equal opportunities to enter and enjoy decent work;

(n) assist member States to collect, analyse and disseminate consistent, disaggregated statistics on the size, composition and contribution of the informal economy that will help enable identification of specific groups of workers and economic units and their problems in the informal economy and that will inform the formulation of appropriate policies and programmes;

(o) expand the knowledge base on governance issues in the informal economy and solutions and good practices for dealing with these issues;

(p) collect and disseminate information on transitions made to the mainstream economy, how such transitions were facilitated, and key success factors;

(q) take the lead role in working with other relevant institutions whose expertise could complement that of the ILO in addressing the issues in the informal economy;

(r) include work with other international organizations including United Nations and Bretton Woods institutions, promoting dialogue to avoid duplication, identify and share expertise, while the ILO itself takes the lead role.

Promotion of Cooperatives Recommendation, 2002 (No. 192)

The General Conference of the International Labour Organization,

Having been convened at Geneva by the Governing Body of the International Labour Office, and having met in its 90th Session on 3 June 2002, and

Recognizing the importance of cooperatives in job creation, mobilizing resources, generating investment and their contribution to the economy, and

Recognizing that cooperatives in their various forms promote the fullest participation in the economic and social development of all people, and

Recognizing that globalization has created new and different pressures, problems, challenges and opportunities for cooperatives, and that stronger forms of human solidarity at national and international levels are required to facilitate a more equitable distribution of the benefits of globalization, and

Noting the ILO Declaration on Fundamental Principles and Rights at Work, adopted by the International Labour Conference at its 86th Session (1998), and

Noting the rights and principles embodied in international labour Conventions and Recommendations, in particular the Forced Labour Convention, 1930; the Freedom of Association and Protection of the Right to Organise Convention, 1948; the Right to Organise and Collective Bargaining Convention, 1949; the Equal Remuneration Convention, 1951; the Social Security (Minimum Standards) Convention, 1952; the Abolition of Forced Labour Convention, 1957; the Discrimination (Employment and Occupation) Convention, 1958; the Employment Policy Convention, 1964; the Minimum Age Convention, 1973; the Rural Workers' Organisations Convention and Recommendation, 1975; the Human Resources Development Convention and Recommendation, 1975; the Employment Policy (Supplementary Provisions) Recommendation, 1984; the Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998; and the Worst Forms of Child Labour Convention, 1999, and

Recalling the principle embodied in the Declaration of Philadelphia that "labour is not a commodity", and

Recalling that the realization of decent work for workers everywhere is a primary objective of the International Labour Organization, and

Having decided upon the adoption of certain proposals with regard to the promotion of cooperatives, which is the fourth item on the agenda of the session, and

Having determined that these proposals shall take the form of a Recommendation;

adopts this twentieth day of June of the year two thousand and two the following Recommendation, which may be cited as the Promotion of Cooperatives Recommendation, 2002.

I. Scope, definition and objectives

1. It is recognized that cooperatives operate in all sectors of the economy. This Recommendation applies to all types and forms of cooperatives.

2. For the purposes of this Recommendation, the term "cooperative" means an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspi-

rations through a jointly owned and democratically controlled enterprise.

3. The promotion and strengthening of the identity of cooperatives should be encouraged on the basis of:

(a) cooperative values of self-help, self-responsibility, democracy, equality, equity and solidarity; as well as ethical values of honesty, openness, social responsibility and caring for others; and
(b) cooperative principles as developed by the international cooperative movement and as referred to in the Annex hereto. These principles are: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; cooperation among cooperatives; and concern for community.

4. Measures should be adopted to promote the potential of cooperatives in all countries, irrespective of their level of development, in order to assist them and their membership to:

(a) create and develop income-generating activities and sustainable decent employment;
(b) develop human resource capacities and knowledge of the values, advantages and benefits of the cooperative movement through education and training;
(c) develop their business potential, including entrepreneurial and managerial capacities;
(d) strengthen their competitiveness as well as gain access to markets and to institutional finance;
(e) increase savings and investment;
(f) improve social and economic well-being, taking into account the need to eliminate all forms of discrimination;
(g) contribute to sustainable human development; and
(h) establish and expand a viable and dynamic distinctive sector of the economy, which includes cooperatives, that responds to the social and economic needs of the community.

5. The adoption of special measures should be encouraged to enable cooperatives, as enterprises and organizations inspired by solidarity, to respond to their members' needs and the needs of society, including those of disadvantaged groups in order to achieve their social inclusion.

II. Policy framework and role of governments

6. A balanced society necessitates the existence of strong public and private sectors, as well as a strong cooperative, mutual and the other social and non-governmental sector. It is in this context that Governments should provide a supportive policy and legal framework consistent with the nature and function of cooperatives and guided by the cooperative values and principles set out in Paragraph 3, which would:

(a) establish an institutional framework with the purpose of allowing for the registration of cooperatives in as rapid, simple, affordable and efficient a manner as possible;
(b) promote policies aimed at allowing the creation of appropriate reserves, part of which at least could be indivisible, and solidarity funds within cooperatives;
(c) provide for the adoption of measures for the oversight of cooperatives, on terms appropriate to their nature and functions, which respect their autonomy, and are in accordance with national law and practice, and which are no less favourable than those applicable to other forms of enterprise and social organization;
(d) facilitate the membership of cooperatives in cooperative structures responding to the needs of cooperative members; and
(e) encourage the development of cooperatives as autonomous and self-managed enterprises, particularly in areas where cooperatives have an important role to play or provide services that are not otherwise provided.

7. (1) The promotion of cooperatives guided by the values and principles set out in Paragraph 3 should be considered as one of the pillars of national and international economic and social development.

(2) Cooperatives should be treated in accordance with national law and practice and on terms no less favourable than those accorded to other forms of enterprise and social organization. Governments should introduce support measures, where appropriate, for the activities of cooperatives that meet specific social and public policy outcomes, such as employment promotion or the development of activities benefiting disadvantaged groups or regions. Such measures could include, among others and in so far as possible, tax benefits, loans, grants, access to public works programmes, and special procurement provisions.

(3) Special consideration should be given to increasing women's participation in the cooperative movement at all levels, particularly at management and leadership levels.

8. (1) National policies should notably:

(a) promote the ILO fundamental labour standards and the ILO Declaration on Fundamental Principles and Rights at Work, for all workers in cooperatives without distinction whatsoever;
(b) ensure that cooperatives are not set up for, or used for, non-compliance with labour law or used to establish disguised employment relationships, and combat pseudo cooperatives violating workers' rights, by ensuring that labour legislation is applied in all enterprises;
(c) promote gender equality in cooperatives and in their work;
(d) promote measures to ensure that best labour practices are followed in cooperatives, including access to relevant information;
(e) develop the technical and vocational skills, entrepreneurial and managerial abilities, knowledge of business potential, and general economic and social policy skills, of members, workers and managers, and improve their access to information and communication technologies;
(f) promote education and training in cooperative principles and practices, at all appropriate levels of the national education and training systems, and in the wider society;
(g) promote the adoption of measures that provide for safety and health in the workplace;
(h) provide for training and other forms of assistance to improve the level of productivity and competitiveness of cooperatives and the quality of goods and services they produce;
(i) facilitate access of cooperatives to credit;
(j) facilitate access of cooperatives to markets;
(k) promote the dissemination of information on cooperatives; and
(l) seek to improve national statistics on cooperatives with a view to the formulation and implementation of development policies.

(2) Such policies should:

(a) decentralize to the regional and local levels, where appropriate, the formulation and implementation of policies and regulations regarding cooperatives;
(b) define legal obligations of cooperatives in areas such as registration, financial and social audits, and the obtaining of licences; and
(c) promote best practice on corporate governance in cooperatives.

9. Governments should promote the important role of cooperatives in transforming what are often marginal survival activities (sometimes referred to as the "informal economy") into legally protected work, fully integrated into mainstream economic life.

III. Implementation of public policies for the promotion of cooperatives

10. (1) Member States should adopt specific legislation and regulations on cooperatives, which are guided by the cooperative values and principles set out in Paragraph 3, and revise such legislation and regulations when appropriate.

(2) Governments should consult cooperative organizations, as well as the employers' and workers' organizations concerned, in the formulation and revision

of legislation, policies and regulations applicable to cooperatives.

11. (1) Governments should facilitate access of cooperatives to support services in order to strengthen them, their business viability and their capacity to create employment and income.

(2) These services should include, wherever possible:

(a) human resource development programmes;
(b) research and management consultancy services;
(c) access to finance and investment;
(d) accountancy and audit services;
(e) management information services;
(f) information and public relations services;
(g) consultancy services on technology and innovation;
(h) legal and taxation services;
(i) support services for marketing; and
(j) other support services where appropriate.

(3) Governments should facilitate the establishment of these support services. Cooperatives and their organizations should be encouraged to participate in the organization and management of these services and, wherever feasible and appropriate, to finance them.

(4) Governments should recognize the role of cooperatives and their organizations by developing appropriate instruments aimed at creating and strengthening cooperatives at national and local levels.

12. Governments should, where appropriate, adopt measures to facilitate the access of cooperatives to investment finance and credit. Such measures should notably:

(a) allow loans and other financial facilities to be offered;
(b) simplify administrative procedures, remedy any inadequate level of cooperative assets, and reduce the cost of loan transactions;
(c) facilitate an autonomous system of finance for cooperatives, including savings and credit, banking and insurance cooperatives; and
(d) include special provisions for disadvantaged groups.

13. For the promotion of the cooperative movement, governments should encourage conditions favouring the development of technical, commercial and financial linkages among all forms of cooperatives so as to facilitate an exchange of experience and the sharing of risks and benefits.

IV. Role of employers' and workers' organizations and cooperative organizations, and relationships between them

14. Employers' and workers' organizations, recognizing the significance of cooperatives for the attainment of sustainable development goals, should seek, together with cooperative organizations, ways and means of cooperative promotion.

15. Employers' organizations should consider, where appropriate, the extension of membership to cooperatives wishing to join them and provide appropriate support services on the same terms and conditions applying to other members.

16. Workers' organizations should be encouraged to:

(a) advise and assist workers in cooperatives to join workers' organizations;
(b) assist their members to establish cooperatives, including with the aim of facilitating access to basic goods and services;
(c) participate in committees and working groups at the local, national and international levels that consider economic and social issues having an impact on cooperatives;
(d) assist and participate in the setting up of new cooperatives with a view to the creation or maintenance of employment, including in cases of proposed closures of enterprises;
(e) assist and participate in programmes for cooperatives aimed at improving their productivity;
(f) promote equality of opportunity in cooperatives;
(g) promote the exercise of the rights of worker-members of cooperatives; and

(h) undertake any other activities for the promotion of cooperatives, including education and training.

17. Cooperatives and organizations representing them should be encouraged to:

(a) establish an active relationship with employers' and workers' organizations and concerned governmental and non-governmental agencies with a view to creating a favourable climate for the development of cooperatives;
(b) manage their own support services and contribute to their financing;
(c) provide commercial and financial services to affiliated cooperatives;
(d) invest in, and further, human resource development of their members, workers and managers;
(e) further the development of and affiliation with national and international cooperative organizations;
(f) represent the national cooperative movement at the international level; and
(g) undertake any other activities for the promotion of cooperatives.

V. International cooperation

18. International cooperation should be facilitated through:

(a) exchanging information on policies and programmes that have proved to be effective in employment creation and income generation for members of cooperatives;
(b) encouraging and promoting relationships between national and international bodies and institutions involved in the development of cooperatives in order to permit:
  (i) the exchange of personnel and ideas, of educational and training materials, methodologies and reference materials;
  (ii) the compilation and utilization of research material and other data on cooperatives and their development;
  (iii) the establishment of alliances and international partnerships between cooperatives;
  (iv) the promotion and protection of cooperative values and principles; and
  (v) the establishment of commercial relations between cooperatives;
(c) access of cooperatives to national and international data, such as market information, legislation, training methods and techniques, technology and product standards; and
(d) developing, where it is warranted and possible, and in consultation with cooperatives, employers' and workers' organizations concerned, common regional and international guidelines and legislation to support cooperatives.

VI. Final provision

19. The present Recommendation revises and replaces the Co-operatives (Developing Countries) Recommendation, 1966.