



International
Labour
Organization

the
LAB

MARKET SYSTEMS
DEVELOPMENT FOR
DECENT WORK

► Formally challenged: Tackling Informality in Market System Development projects



Find out more
about the Lab:

Website:
www.ilo.org/thelab

Email:
thelab@ilo.org

Twitter:
[@ILOTheLab](https://twitter.com/ILOTheLab)

By Elisa Mandelli,
October 2020

Covid-19 has put the informal economy back in the spotlight. It had a particularly strong impact on the informal economy and its workers¹ – which numbered 2 billion own-account and wage employed workers before the pandemic even started. In June 2020, the ILO² estimated that partial or full lock down measures would impact 1.6 billion informal workers, especially women. Many of these workers lost their jobs and income, while others have put their health at risk by continuing to work in unsafe situations to sustain their livelihood, often defying lockdown measures and incurring fines from authorities.

As governments and development agencies try to develop a coherent response, supporting the informal economy is an important part of the recovery equation.

Against this challenging context, [the Lab](#) has produced this brief to help development practitioners understand how a market systems development (MSD) approach can address some of the issues associated with informality and, in turn, support better work opportunities for the informally employed. To do this, the brief walks through three parts:

- [The first part](#) focuses on unpacking the concept of informality and on understanding **why it is important for decent work**.
- [The second part](#) explores **how MSD can be used** to tackle informality.
- [The third part](#) takes **practical lessons from three market systems projects** to help projects identify key sectors, analyse them and implement initiatives which can help create better jobs for informal workers.

¹ In this brief we will refer to « workers » as a broad category of employees which includes waged workers but also independent or self-employed workers (small-holder farmers, micro traders, etc.) and business owners of micro enterprises (i.e. with 1 to 5 workers) which often represent the majority of people operating in the informal economy.

² ILO, "ILO Monitor: COVID-19 and the world of work (third edition)", 2020.

Box 1: Informality by numbers

- ▶ **2 billion workers** — or **61.2%** of the world's employed population — are in informal employment.
- ▶ **90% of total employment** in low-income countries is informal.
- ▶ **More men (63%) than women (58%) are informally employed**, but women are often in more vulnerable situations than their male counterparts.
- ▶ **8 out of 10 enterprises** in the world are informal, and often these are micro and small enterprises (including own-account workers).

Source: ILO brief [COVID-19 crisis and the informal economy: Immediate responses and policy challenges](#), 2020.

▶ Part 1. Unpacking informality and its relationship with Decent Work

The common discourse on the informal economy tends to be oversimplified and somehow biased. Whether referring to informal enterprises or informal employment (see box 2), many think of a detached part of the economy, operating under its own informal rules and characterized by low-skilled and poor workers: a woman selling her products on a sidewalk, a man working precariously on a construction site, or micro enterprises operating in survival mode.

This view becomes problematic when it influences the design thinking behind development interventions that aim to (directly or indirectly) facilitate a transition to formality. Several formalization efforts have achieved limited results to reduce informality and even sometimes resulted in short-term increases in informality rates³.

³ Evidences and lessons learned from impact evaluations of policy reforms and formalization measures in Latin America are extensively analysed in the third chapter (p.320) of this ILO publication (in Spanish): ["Políticas de formalización en América Latina: avances y desafíos"](#), ILO 2018.

As such, before diving into understanding how MSD projects can address informality, it is important to first understand what informality is (and what it is not), why it exists and why it is complicated to address.

Box 2: Definitions and distinctions

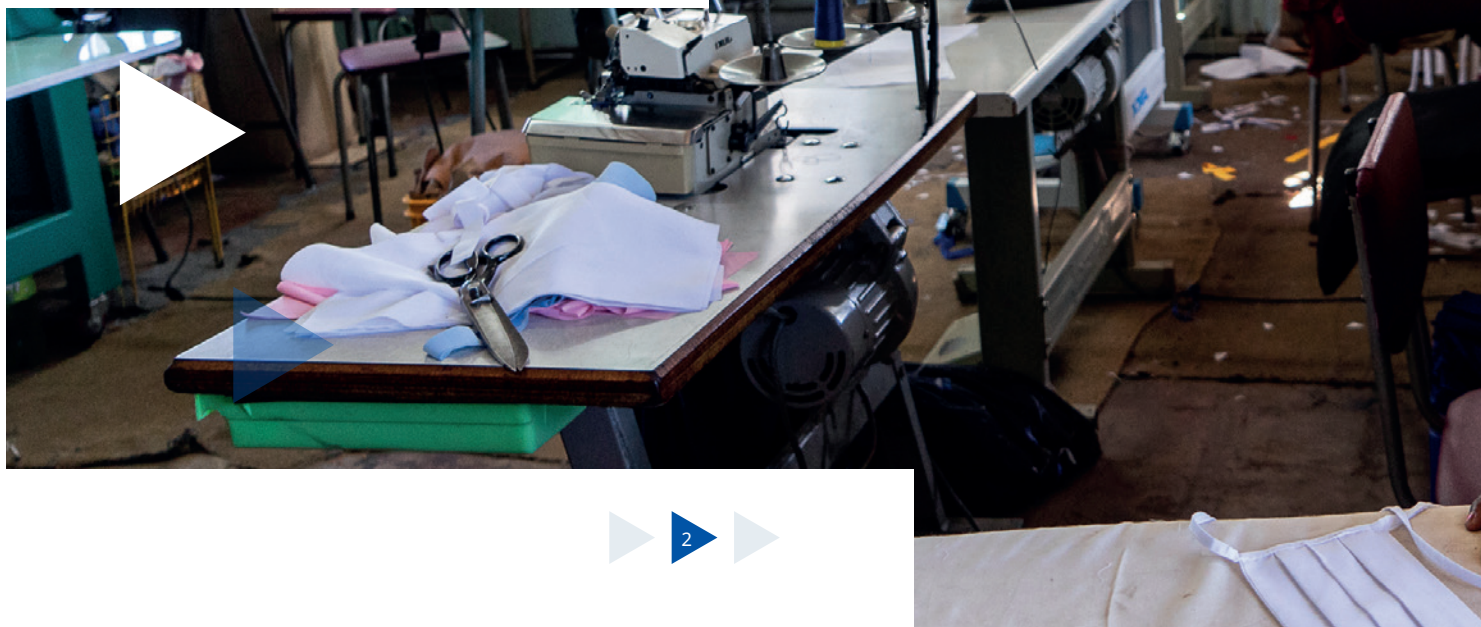
The ILO defines **informal enterprises** (also called informal economic units) as "a group of production units comprised of unincorporated enterprises owned by households, including informal own-account enterprises and enterprises of informal employers (typically small and non-registered enterprises)".

On the other hand, **informal employment** refers to "all remunerative work (i.e. both self-employment and wage employment) that is not registered, regulated or protected by existing legal or regulatory frameworks, as well as non-remunerative work undertaken in an income-producing enterprise".

As such, informal enterprises and informal employment are complementary but distinct concepts as one may exist without the other. A formal enterprise may have informal employment but it is unlikely (if not impossible) for an informal enterprise to have formal workers.

Finally, the **informal economy** encompasses both perspectives and is defined as "all economic activities by workers and economic units that are - in law or in practice - not covered or insufficiently covered by formal arrangements".

Source: ILO webpage [4.5 Informal economy workers](#) and ["Measuring informality: A statistical manual on the informal sector and informal employment"](#) ILO 2013.



Box 3: ILO's work on informality

ILO's work on the informal economy is guided by the [2002 ILC Resolution and Conclusions on Decent Work and Informal Economy](#) and the [Recommendation concerning the transition from the informal to the formal economy \(R204\)](#). ILO's support focuses on:

- ▶ Strengthening country capacity to **develop and implement legislation, national employment policies** and other measures that facilitate a transition to formality.
- ▶ Supporting member States to **create an enabling environment** for entrepreneurship and sustainable enterprises.
- ▶ **Promoting new business models**, technology and techniques to enhance enterprises' productivity and facilitating their transition to formality.
- ▶ Building the capacity of ILO constituents (i.e. government, employer, and worker representatives) at national and global level to **provide adequate labour protection to workers** in diverse forms of work arrangements, including in informal employment.

Source: [ILO Programme and budget for the biennium 2020–21](#)

What is informality? A continuum rather than a dichotomy

Informality is often described in contrast to “formality”. However, **this creates an informal vs. formal dichotomy which then limits how we look at the informal economy, its diversity of actors, incentives, and interlinkages with the “formal” economy.** Unpacking informality starts by acknowledging the complexity and diverse nature of the formal and informal economies and their relationship, which can change over time and take diverse forms and shapes depending on the country, the sector, the market actors involved and the activities performed.

It is important notably to differentiate informality of enterprises from informality of employment (see box 2), because these two do not always go hand in hand. A small manufacturing enterprise, for example, might be formally registered but also employ its workers through a variety of arrangements including partially or fully informal, or simultaneously employ formal workers for daily operations *and* rely on informal sub-contracting (without social security coverage) to respond to special orders or to supply materials. Similarly, a car dealership might be formally registered and keep a registry for each car sold but then, as a parallel business, informally perform unrecorded rental car services. Would this make the enterprise formal, informal, or something in between?⁴ These examples show that the distinction between formality and **informality is better understood as a continuum rather than a clear dichotomy**, a space where workers (including independent and own-account workers), enterprises and relationships are in constant interaction with formal economic systems.

Why it is important? Informality and decent work

For wage and self-employed workers alike, informal employment often means being more exposed to a larger number of decent work deficits (see box 4). As informal workers are more likely to be *working poor*, their increased exposure to decent work deficits often exacerbates their already precarious livelihoods. This will especially be the case for women, which are more exposed to vulnerable situations than their male counterparts, including dangerous working conditions and gender-based violence⁵.

Since low quality employment is precisely what keeps people locked into vicious cycles of poverty, and vulnerability, reducing worker exposure to decent work deficits associated with informal employment is a key condition to promote sustainable and inclusive economic growth and critical to offer a pathway out of poverty for poor workers⁶.

4 The joint ILO-WB study on [“Pathways to Formalization: Going Beyond the Formality Dichotomy. The Case of Peru”](#) (WB, 2018) has been conducted over a sample of 888 Peruvian micro enterprises. It stresses the importance of going beyond a simplistic definition of formal-informal enterprises. Formalization is described as a “gradual and reversible process, with small entrepreneurs weighing their possibilities in each pathway to business (often) or labour (less often) formalization, but rarely both at the same time.” (p.5).

5 ILO, « Women, gender and the informal economy: An assessment of ILO research and suggested ways forward », 2008.

6 The Lab, [« Should we create decent work or make work more decent? Demystifying what decent work means for Market System Development projects »](#), BEAM Exchange blog, 2020.



Box 4: If you are new to Decent Work...

Decent Work can be defined as the aspiration that all women and men are able to work in conditions of freedom, equality, security and human dignity. In turn, decent work *deficits* are the following:

1. Lack of employment opportunities
2. Inadequate earnings and unproductive work
3. Indecent hours
4. Inability to combine work, family and personal life
5. Engaged in work that should be abolished
6. Lack of stability and security of work
7. Unequal opportunity and treatment in employment
8. Unsafe work environment
9. Lack of social safety nets
10. Lack of voice through workers' representation

Source: ILO, *Decent Work and Quality in Work Statistical Indicators: Prospects for conversion?* And [ILO Decent Work](#) page

Why is it so complicated to address?

First, **there is no clear evidence that informality disappears with growth** and improved productivity at enterprise level alone. The informal sector in some countries may have shrunk with economic growth but it has also remained stagnant or even increased in others with high GDP per capita, demonstrating that informality cannot be understood only through the lens of economic growth and productivity. As highlighted by Uruguchi⁷: *"It's a fact that informality happens not just by choice but also by necessity. In other words, the informal sector sometimes emerges by default (i.e. exclusion from the formal sector) and thrives under high unemployment and poverty"*. The importance of this aspect is also stressed in Recommendation 204 of the International Labour Conference concerning the transition from the informal to the formal economy, which guides ILO's work on informality (see box 3)⁸. As such, while productivity growth can contribute to improved working conditions, focusing on this aspect alone is not enough to ensure enterprise and employment formalization⁹.

7 Z. Uruguchi, « *Four Myths about the Informal Economy* » Helvetas, 2019.

8 The Recommendation acknowledges that *"most people enter the informal economy not by choice but as a consequence of a lack of opportunities in the formal economy and in the absence of other means of livelihood."* (R204, p.2).

9 As highlighted by R. Infante in the ILO analysis of trends and impacts of formalization efforts in Latin America (ibid. reference 3, p. 53), other aspects influencing the impact of economic growth on informal employment are linked to changes in the policy framework as well as in the structure and allocation of resources across production and service sectors in the economy of a particular country.

Second, **informal actors are diverse and most of them continuously interact with the formal economy**. Although we often imagine informal workers and enterprises forever trapped in the informal economy, informality (and formality) is far from being a permanent status. Moreover, there are different types and degrees of informality and not all of them are linked to poverty. A recent ILO analysis¹⁰ identifies "in between enterprises" as economic units that have managed to move away from subsistence but have not been able to meet the quality standards that would have allowed them to integrate dynamic value chains at national and international levels. The diversity and duality of workers and enterprises operating in and out of the informal economy makes it difficult for projects to define a targeting strategy that effectively responds to different statuses, challenges, needs, skills, incentives and disincentives, unless exact local circumstances are analysed first.

Lastly, while businesses may make "rational", incentives-based choices to operate with informal workers¹¹, the **access to different types of "formality" (for both enterprises and workers) is often also hindered by structural barriers**. As such, projects aspiring to address the issue of formalization in a given sector or value chain are often only dealing with the visible tip of the iceberg of much larger structural constraints that arise well beyond the targeted sector and the project's scope.

► Part 2. A systemic approach to informality

One way to understand what is beyond the tip of the iceberg and address the complex challenges that underpin informality is to use [a systemic approach to more and better jobs](#) (see box 5). A systemic approach can help in two key ways:

1. It provides an analytical basis to ascertain a deep yet practical **understanding on how a market system (with both its formal and informal components) functions**, where informality is located within the system, how informality impacts job quality and why the market system is not serving the needs of a certain target group.
2. The analytical framing helps projects go beyond the tip of the iceberg to effectively target implementation throughout a market system. This can include private-sector focused interventions for **enterprises and the self-employed using business incentives to set them on a path for sustainable growth and better working conditions** (incomes, registration, worker well-being etc.). The approach can also help in finding solutions for the business and policy environment (or rules and regulations) to address some of the more structural challenges too.

10 Sabel, C., y Ghezzi, P. "The quality hurdle: Towards a development model that is no longer industry-centric" ILO, Forthcoming 2020.

11 Interesting insights on this aspect of informality are analysed in Judith Tendler's note « *Small Firms, the Informal Sector, and the Devil's Deal* », 2009.



Box 5: What is a market system?

A market system is made up of the many 'supporting functions' and 'rules' shaping how well a market works for poor women and men. A market systems approach, in turn, seeks to identify, address and remove constraints that inhibit the growth of more inclusive markets. The ILO uses the approach with a specific more and better jobs focus... The goal is impact that is both:

- ▶ **Sustained.** Projects achieve lasting behaviour change in public and private actors by aligning interventions to their incentive and capacity to adopt new ways of working. Impact continues long after interventions end because actors see organisational value in continuing the new way of working; and
- ▶ **Scaled.** Since constraints to industry growth are removed, change is replicated and mainstreamed across the sector – rather than being confined to just the actors that the project directly works with.

Projects usually partner with a small number of actors to test out new ways of working and, if successful, look to get others to copy the innovation. The activities that projects undertake to encourage partners to change may be varied – from using 'soft' facilitation tactics such as advice or brokering relationships to 'harder' tactics like financial cost-sharing. Such facilitation is an art - not a science. It needs to strike a balance between support to actors that ends up being too light to overcome resistance to change; and too heavy leading to dependence.

For more info see the Lab policy brief "[A Systemic Approach for Creating More and Better Jobs](#)", 2019

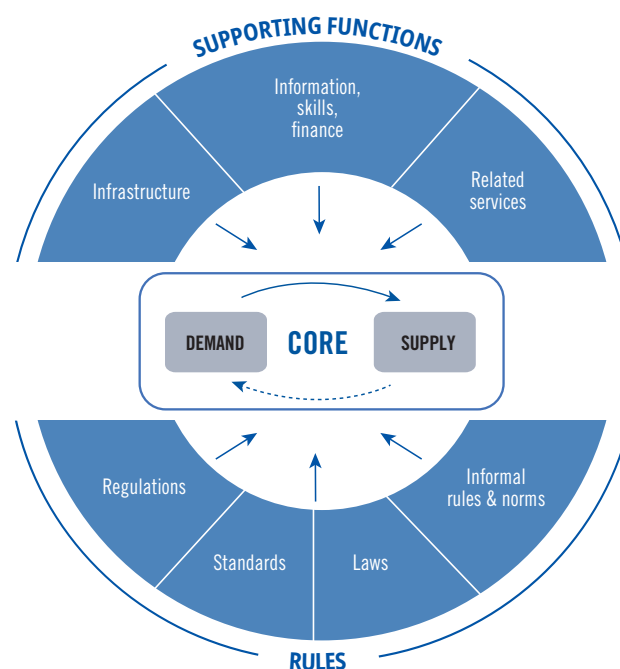
As informality can appear in all parts of a market system, it is important to identify where it exists and how it affects informal (and formal) workers so projects can keep an eye out for it during analysis and implementation¹²:

- ▶ **In enterprises in the core value chain**, where core transactions between buyers and suppliers are made and goods are bought and sold. These transactions take place between input providers, producers, processors, traders, buyers and can be formal and informal, through formal written contracts, or informal spot market transactions and oral arrangements.
- ▶ **In the supporting functions** to businesses in the core value chain. Here, informality can also affect access and use of supporting services like financial services, business development services or product quality certifications.
- ▶ **In the rules and regulations** or in other words, in the business and policy environment and related administrative processes and practices that influence how actors operate. Depending on the context, these rules can be formal laws and regulations or informal norms and unwritten rules. [Rules and regulations](#) determine the level of formality required to sell goods and access services and markets.

¹² This is a summarized version of the methodological annex of "Better cheese, better work: The Alliance Caucasus Programme's Impact on Informality and Working Conditions in Georgia's Dairy Sector", ILO 2020.



Figure 1: Market System 'Donut'



▶ Part 3. Practical lessons from market systems projects

This brief explores how MSD projects have tackled informality directly or indirectly to contribute to more and better jobs in different countries and sectors¹³. It extracts practical lessons from cases on three parts of the project lifecycle:

1. [Sector selection \(Bolivia\)](#)
2. [Market Systems Analysis \(Rwanda\)](#)
3. [Implementation \(Georgia\)](#)

¹³ The case studies that follow have been drafted based on the reports indicated in each project box.

Starting off on the right foot: selecting a strategic sector to work with SMEs in La Paz (Bolivia)

To support a more targeted implementation of the ILO [SCORE programme](#) in Bolivia, [the Lab](#) in collaboration with the SME enterprise formalization specialist, led an exercise to select two high potential sectors: one sector oriented towards export markets and one with potential to facilitate enterprise formalization¹⁴.

SCORE Bolivia Digna y Productiva

Country: Bolivia

Implementer: ILO

Objective of the project: Improve SMEs linkage to national and international markets and increase incentives to formalize.

MSD approach to formalization: Conduct a sector selection exercise to select a sector with the highest potential to achieve impact on informality.

Related report: [Dos vías hacia la exportación y la formalización de empresas](#), ILO The Lab 2019.

The sector selection process specifically targeted small and medium-sized enterprises (SMEs) in the metropolitan area of La Paz and consisted in combining desk-based and field research to compare potential sectors against a set of selection criteria. In line with the ILO [methodology for sector selection](#), the criteria used for the selection of the informality-oriented sector took into account the *relevance* of the sector for informal SMEs, *opportunities* for inclusive growth (and cascading effects on SMEs, employment and formalization) and the *feasibility* for the project to intervene with a systemic and sustainable impact. As Bolivia has one of the highest levels of informal employment in Latin America¹⁵, most (if not all) sectors were somehow relevant for informal SMEs. However, assessing the feasibility and the opportunities for implementation in each sector turned out to be much more complicated.

Selecting a sector amid crisis and recession

With regards to feasibility, the project had only two years of implementation ahead, which considerably limited its ability to address key root causes to enterprise informality. Indeed, this would require overcoming structural challenges such as the length and cost of procedures for enterprise formalization, an increasing tax burden over enterprises and the lack of incentives to formalize.

On the opportunity side, selecting a sector where market actors had business incentives to address informality was key. Yet, data and field research suggested that growth in many sectors had remained stagnant or had declined over the past five years, some due to the withdrawal of Bolivia from regional and bilateral trade agreements

¹⁴ Find more guidance on enterprise formalization in this ILO course: [“Self-guided online course on Enterprise Formalization”](#).

¹⁵ ILO, “Women and men in the informal economy: A statistical picture”, 2018.



(i.e. ATPDEA with the U.S.) and the competition of neighbouring countries; others because of an unfavourable business environment and issues with supply chains and the availability of raw materials. **Selecting a sector in crisis or with limited growth potential would not have been a strategic starting point to engage with capable and motivated partners to facilitate formalization.**

As the field research progressed, the exercise became a sector selection “by exclusion” for which sectors were progressively scrapped from a preliminary long list due to limited opportunities and feasibility to operate (see example in Box 6).

The research team ended up selecting tourism as a suitable sector as it was showing growth thanks to multiple new investments initiated by both private and public actors. Here, the project could build on existing initiatives and extant tourism development strategies to increase SME engagement and growth while addressing decent work deficits such as: inadequate earnings and working hours, lack of safety nets and representation and unproductive work among others. In particular, the research team saw an opportunity in exploring incentives to formalization such as those linked to existing subsidies for hospitality and tourism structures, as well as to product development and tourism coordination¹⁶.

¹⁶ The sector selection exercise was conducted in August and early September 2019, before the political crisis that occurred in Bolivia in September 2019 and before the global COVID-19 pandemic crisis that has brought the tourism sector to its knees. The project is currently looking at opportunities to update its knowledge on the emerging needs and constraints in the sector.



Box 6: Construction in La Paz: a relevant but tricky sector

The building construction sector was part of the longlist of sectors identified by the research team before the field research. As it is [often the case](#), this sector is a massive reservoir of employment in Bolivia (430.000 workers in 2017), mostly informal, low-skilled and high-risk. The team could observe several small constructions sites emerging in every corner of La Paz, which seemed to confirm the hypothesis of a sector in full expansion.

However, in-depth interviews uncovered a different reality in the construction sector. The sector had been sustained by big public works projects but was on the precipice of crisis due to public debt and upcoming elections. Many enterprises had filed for bankruptcy due to unpaid contracts and the lack of new projects. Some interviewees reported that the crisis was starting to affect the price of apartments' square meters, which experienced a fall of almost -40% in 2019. The construction sites emerging in La Paz were mostly small projects informally initiated by private-owners to build their private residences. This posed some serious limitations for the projects, especially in terms of targeting and feasibility. Inevitably, the sector was scrapped from the list.

What can your project learn?

- ▶ **Sector selection is key.** Select a sector that has both operational feasibility and clear business incentives linked to formalization and better working conditions.
- ▶ **It is easier to promote incentives to formalization in a growing sector.** Since MSD projects work

through market actors, selecting a sector where business incentives *can* be established is key. This is much easier to do in a growing sector where enterprises, workers and other market actors are more willing to trial new ways of working rather than working in survival mode.

Unpacking informality and its causes: A market system analysis of Rwanda's tailoring and garment sector

The ILO with the support of Swedish International Development Cooperation Agency (SIDA) in Kigali implemented a three-year project (2017-2020) to promote decent work in Rwanda's informal economy. Although labour rights are well acknowledged in Rwanda's legislation, decent work deficits persist in practice for the vast majority of workers, most of whom are informal. To promote decent work for informal workers, the project used a market systems approach in the garments & tailoring (G&T) sector where most businesses are micro-sized and informal and workers' social security coverage is generally low.

Promoting Decent Work in Rwanda's Informal Economy

Country: Rwanda

Sector: Garment and tailoring

Implementer: ILO

Objective of the project: improve working conditions in Rwanda's informal economy.

MSD approach to formality: Conduct a market system analysis to understand the impact of informality on Decent Work and identify the root causes leading to these problems in the garment and tailoring sectors.

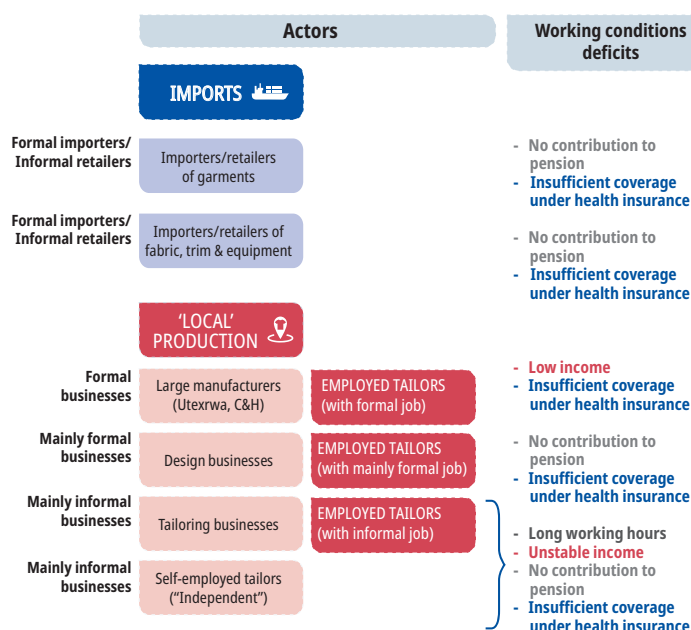
Related report: [Weaving better working conditions into Rwanda's garment industry](#), ILO The Lab 2018.

The first step was to identify and understand the key constraints to decent work and their corresponding root causes through [a market system analysis \(MSA\)](#)¹⁷. The target group were informal workers, and in particular women and youth. **The research was not aimed at promoting immediate formalization but at initially improving working conditions by finding the market constraints to decent work** and the opportunities to address working conditions among workers.

¹⁷ A second MSA has been conducted by the project in the construction sector and can be consulted [here](#)



Figure 2: Main actors in the G&T value chain, formality and working conditions



Source: MSA field research. Note that design businesses are classified as mainly formal business although they do not fully comply with the definition of "formal businesses".

the MSA provided practical insights on the potential areas of intervention. As the fundamental constraint to the sector – low demand – was unlikely to be influenced by the project with short-term and sector targeted interventions, the project team opted to focus on areas where small but strategic improvements in business performance and working conditions could be achieved. These areas included enterprise support to improve managerial skills; assistance to key stakeholders in defining strategies for businesses to move into higher value-addition roles; and promotion of intra-sectorial learning and co-ordination among tailoring businesses, among others.

What can your project learn?

- **Sometimes problems are just beyond your project scope.** The analysis pointed at low market demand as the main constraint to sector development. However, influencing international market trends was clearly beyond the reach of this project. Working on areas like improving managerial skills in turn, is a much more feasible intervention that can have a multiplier effect on decent work deficits and business productivity.

What did the MSA find?

The MSA mapped out the G&T sector and assessed the vulnerability of all the actors in the value chain by evaluating their exposure to decent work deficits (see Figure 2) as well as the presence of women and youth in the target group. The main findings included:

- **Registered businesses continue to operate with elements of informality.** Formal enterprises in the sector were found to be not paying social security contributions for their employees and not formally contracting casual workers. In the case of independent tailors, informality at the business level automatically implies informality at the worker level.
- **The main decent work deficits are common to both formal and informal enterprises.** Tailors working independently or in informal tailoring businesses suffered from the largest number of deficits: long working hours and unstable income plus insufficient coverage of health insurance and lack of pension savings. The MSA further highlighted that the last two above-mentioned deficits affected most workers in the sector, both in formal and informal businesses.
- **Income are lower for women and youth.** Young mothers were likely to earn less while raising children because earnings are linked to the number of garments made and they often cannot work as many hours.
- **The demand is diminishing.** Decreasing demand for locally-made garments, the main sector constraint, was caused by exogenous factors (e.g. increased availability of cheap imports). This made the business climate less favourable for tailors, limiting their ability to grow and to improve their working conditions.
- **Long working hours were due to poor management and coordination.** Most tailors worked 11- 12 hours per day, six days per week. This was somewhat related to poor management, lots of time sitting idle and other times working long hours to cope with peaks in demand.

By unpacking the sector and identifying the root causes of decent work deficits and sector underperformance,

► **Formal and informal workers (and enterprises) may face the same constraints.** The MSA showed that the main decent work deficits affecting workers in G&T were common to both informal and formal enterprises and were linked to broader constraints in the sector. By focusing on these causes of decent work rather than limiting their attention to informality as a “stand alone” problem, the project can generate a much larger impact on workers (informal and formal alike) across the sector.

ALCP Georgia: Improving business models to facilitate formalization

The Alliances Caucasus Programme (ALCP) has been implementing several market systems interventions in the livestock and honey sectors in Georgia since 2008. This brief looks at the interventions carried out in the dairy sector.

The Alliances Caucasus Programme (ALCP)

Country: Georgia

Sector: Dairy

Implementer: Mercy Corps Georgia

Objective: Reduce poverty and exclusion in rural areas of Georgia through higher income and employment opportunities in more sustainable livestock, honey and related market systems.

MSD application to formality: Improve the well-functioning of the market system and support improved business models to contribute to formalization of the enterprises and relationships between market actors.

Related report: [Better cheese, better work: The Alliance Caucasus Programme's Impact on Informality and Working Conditions in Georgia's Dairy Sector](#), ILO 2020.

At the start of the programme, dairy farmers, mostly women, produced cheese and fresh milk for local markets or informal intermediaries and aggregators. These dairy products were produced using traditional practices and without standardized food safety and hygiene methods. Milk powder in turn, was imported in significant amounts (from Iran, the Ukraine and Turkey), and it was often used by dairy enterprises to produce cheese, especially in winter, when raw milk production drops. Compared to fresh Georgian milk, milk powder was cheaper, easy to transform and had significantly lower transaction costs than sourcing raw milk from small farmers. Despite the use of milk powder, producers had the tendency to improperly label their cheese products such as “ecologically clean” or “natural product”, implying the use of fresh Georgian milk.

However, in 2015 the food sector went through a regulatory reform as Georgia adopted the Hazard Analysis and Critical Control Points (HACCP) standards. This new regulatory framework cracked-down on the commercialization of uncertified milk and cheese – non-compliant enterprises could be closed and workers could lose their jobs.

At this strategic moment, ALCP started to implement market-oriented interventions to incentivize dairy farmers to switch from producing and selling cheese informally, to selling certified fresh milk to dairy enterprises. The HACCP standard could be used as an incentive for informal dairy enterprises to formalize and become Food Safety and Hygiene compliant. To support the development and formalization of the dairy sector, ALCP worked on interventions throughout the market



system, including the core value chain, supporting functions and the rules and regulations:

Core value chain	<p>Supported high-potential and motivated dairy enterprises to meet hygiene standards with a co-investment of approx. 50% for machinery and other movable assets.</p> <p>Supported training and improved business plans (with recommendations for hygiene improvements) through a business development services provider.</p> <p>Once HACCP standards were adopted (in 2015), supported enterprises to become HACCP certified.</p>
Supporting functions	<p>Strengthened the capacity of companies providing business development services, especially on business plan development and assistance with loan and grant applications.</p> <p>Strengthened veterinary services, including the expansion and upgrading of veterinary pharmacies in remote rural areas in partnership with a large medicine distributor.</p> <p>Collaborated with finance institutions and vet pharmacies to create low or zero interest credits and instalment plans to establish in-shop pharmacies.</p>
Rules & regulations	<p>Overall, enabled key value chain actors to comply with the emerging regulatory framework rather than to shape it.</p> <p>Through Advisory Committees, co-facilitated regulatory changes and coordinated strategies to address constraints in the operating environment of the livestock and honey sectors. This included for instance a contribution to an injunction against calling milk-powder originated products “cheese”.</p> <p>Co-invested with Government on the establishment of transhumance security centres to coordinate and facilitate the transhumance of hundreds of thousands of sheep and cattle.</p>

Improved business models generate incentives to formalize

ALCP worked on the conditions throughout the market systems which incentivised dairy business to adopt new [business models](#) which included more “formal” practices that helped meet the new hygiene requirements. It was clear to business owners and managers that **the benefits of formalization outweighed the costs of tax compliance**. This helped farmers to **secure access to a new and higher value market** that would have been out of their reach¹⁸.

Systemic changes also started to emerge in areas not directly targeted by the project. Distributors for instance, began to register their businesses to interact with formal market channels and consumer demand for certified and compliant dairy products started to increase. As highlighted in the project study: “[...] formalization was not

¹⁸ ALPC estimates that 23,528 farming households in the rural areas targeted by the project have shifted from cheese production to the sale of hygienic and high-quality raw milk. See [Better cheese, better work](#) report, ILO 2020.

so much *a result* of the changes in the market system that ALCP helped facilitate as being *an integral part* of it. More enterprises registering, adoption of standard procedures and quality standards, vertical integration of the value chain and access to services were at the core of what ALCP was facilitating rather than being an indirect consequence of it. [...] being able to meet the demands of the robust national market for ‘natural’ and increasingly, ‘compliant’ cheese and the growth of formal retail outlets, supermarkets in particular have been critical to ALCP’s success: therefore the demand for raw milk.”¹⁹

What can your project learn?

Build on the changes in the sector or regulatory framework to facilitate new business models.

Changes in the regulatory framework (i.e. constraining or enabling the business environment), supporting functions (i.e. new services or inputs supply to the core chain) and value chain itself (i.e. emerging markets, increased investments) can be mutually supportive to strengthen value chains and help market actors adopt new ways of working, and are particularly important to formalization if they are done at the right time.

Formalize strategic relationships and combine multidimensional measures can lead to wider systemic change.

By mapping the market system and identifying the underlying causes of system underperformance, projects can better target strategic entry points to address different dimensions of informality (relative to transactions, relationships, regulations, etc.) and combine multi-layered measures (at micro, meso and macro levels) to enhance a more formal system overall.

Benefits of formalization need to outweigh costs at different system levels.

Formalization measures have to bring attractive benefits and make them evident to market actors at different levels of the system to be effective. These benefits (social coverage and access to market, services or subsidies, etc.) have to overcome the cost of operating informally and have to be made visible and evident as they are often invisible or unknown²⁰.

¹⁹ Ibid. p. 30

²⁰ For more lessons on enterprise formalization see “Thematic Brief No. 1/2020: Enterprise Formalization: An Introduction”, ILO 2020 (forthcoming).



In conclusion

This brief explored how market systems development projects can approach informality at different stages of the project lifecycle. While there is no clear blueprint or one-fits-all solution, the MSD approach can offer a “systemic lens” through which informality can be better understood as a context-specific and multi-layered phenomenon, which is part of broader systems of interactions, functions, constraints and incentives among market actors. By understanding the root causes of underperformance within the market system and its impact on job quality, the approach can help projects identify and select those entry points that hold the highest potential to effectively and sustainably create better jobs for informal workers.

While many formalization efforts have been focusing on addressing either the “enterprise-micro” level or the “policy-macro” level, few of them have used a systemic approach and combined multi-layered measures to address different dimensions of informality at the same time. As highlighted by a forthcoming ILO analysis:²¹ *“In all episodes of formalisation we find the presence of economic growth, structural transformation together with a combination of incentives and enforcement measures, sticks and carrots, for business and/or labour. Although the evidence indicates that the impacts of each individual intervention tends to be rather small, together they can make a significant difference. In other words, these policies or interventions tend to work better together than in a separated manner.”* (p.21).

Cases like the ALPC project, demonstrate how the MSD approach can help to identify and connect these dimensions of informality and can combine multi-layered interventions to drive systemic change in the overall system. Examples of MSD projects explicitly addressing informality are still scarce, but below we summarize the lessons we could draw from some of them.

21 J. Chacaltana and V. Leung “Pathways to formality: Comparing policy approaches in Africa, Asia and Latin America”, ILO 2020 (forthcoming).

KEY LESSONS

- ▶ Sector selection is key.
- ▶ It is easier to promote incentives to formalization in a growing sector.
- ▶ Sometimes problems are just beyond your project scope.
- ▶ Formal and informal workers (and enterprises) may face the same constraints.
- ▶ Build on the changes in the sector or regulatory framework to facilitate new business models.
- ▶ Formalize strategic relationships and combine multidimensional measures can lead to wider systemic change.
- ▶ Benefits of formalization need to outweigh costs at different system levels.





The author would like to thank
Steve Hartrich, Gun Eriksson Skoog,
Merten Sievers, Judith Van Doorn,
Isaac Cowan Gore, Juan Chacaltana
and Efrain Quicaña for their valuable
inputs and peer review.



International
Labour
Organization



MARKET SYSTEMS
DEVELOPMENT FOR
DECENT WORK



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs,
Education and Research EAER
State Secretariat for Economic Affairs SECO