

INTERNATIONAL LABOUR ORGANIZATION

Background document

**The informal economy:  
enabling transition to formalization**

**Tripartite Interregional Symposium on  
the Informal Economy: Enabling  
Transition to Formalization**

Geneva, 27-29 November 2007



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# The informal economy: enabling transition to formalization

## Introduction

1. By a decision of the ILO's Governing Body, *the Interregional Symposium on the Informal Economy: Enabling Transition to Formalization* brings together in Geneva from 27-29 November 2007 some 50 government and employers' and workers' representatives, in addition to resource persons and institutions, experts and researchers, donor countries and representatives of international and regional organizations and the UN system,.
2. Following on the 2002 International Labour Conference Resolution on Decent work and the informal economy, the Symposium is yet another milestone for analyzing and sharing across countries and regions, approaches that can effectively expand the decent work agenda to reach all workers and economic units, irrespective of where they operate. In March 2007, the ILO Governing Body Committee on Economic and Social Policy reviewed the progress made in operationalizing the framework since 2002. The rich discussion showed that while informality is gaining ground and remains an important development challenge, many countries are searching for new policies, innovative solutions and practical responses in order to promote decent work for a significant proportion of the working population.<sup>1</sup>
3. It is a fact, that at the dawn of the 21<sup>st</sup> century, the larger part of the world's working population earns its livelihood under the vulnerable and insecure conditions of the informal economy. It is estimated that informal employment comprises about 65 per cent of non-agricultural employment in developing Asia, 51 per cent in Latin America, 48 per cent in North Africa, and 72 per cent in Sub-Saharan Africa.<sup>2</sup> This share would be significantly larger in some countries if informal employment in agriculture were included. Women, youth, older people, minorities, migrant workers, indigenous and tribal peoples are disproportionately represented. The informal economy includes mostly small scale activities in traditional sectors of the economy, but also a part of new production strategies and changing patterns of employment in the global economy. In many parts of the world, the greater part of new jobs created is informal, both self-employment and wage work. Informality does not necessarily recede as countries grow; several countries are experiencing growing informalization in spite of good economic performance.
4. In the context of the global decent work deficits, breaking out of informality is increasingly seen as the principal development challenge across regions. The issue is central to realizing decent work as a global goal and for all workers, for achieving the Millennium Development Goals (MDGs) and for promoting a fair globalization. It is against this background that the informal economy debate and possible strategies towards formalization are gaining new momentum at all levels and in various circles.
5. Recently, the 2006 United Nations Economic and Social Council (ECOSOC) Ministerial Declaration on Decent Work placed a central emphasis on policies that promote the integration of the informal economic activity into the mainstream economy and that address

<sup>1</sup> GB.298/ESP/4: *The informal economy*, Governing Body, 298<sup>th</sup> Session, March 2007, Geneva.

<sup>2</sup> *Women and men in the informal economy: A statistical picture* (Geneva, ILO, Employment Sector, 2002).

inter-linkages between rural and urban poverty reduction. Similar concerns and commitments are echoed at the regional and national levels and throughout international institutions.

6. The increased policy momentum has intensified the search for innovative solutions and practical responses that can promote decent work for a significant proportion of the work force preserving and upgrading their income and livelihood prospects while promoting the competitiveness of countries in a global economy. The Symposium will zoom in a number of emerging approaches and strategies that enable transition to formality in different contexts. Their assessment from a tripartite and an inter-regional perspective can enrich the current debate and yield tangible lessons for future and wider application. The Symposium will also identify existing knowledge and implementation gaps and identify ways and means of stepping up action.
7. In this background document, first, the terms and conclusions of the most recent ILO discussion on the informal economy are recalled. Then, key policy issues cutting across the decent work agenda and state-of-the-art debate on these issues are briefly presented followed by examples of innovative initiatives taken by governments and social partners in different regions and contexts addressing these issues. The Symposium will provide the platform for a more thorough analysis of experiences mentioned in the paper. The paper goes on with highlights of ILO action in support of a decent work agenda for the informal economy with some pointers for follow-up action.

## I. The 2002 consensus: Resolution and conclusions of the International Labour Conference on Decent work and the informal economy

8. The 2002 International Labour Conference composed of governments and employers' and workers' organizations from some 179 countries carried out an in-depth tripartite review and discussion of trends and developments in labour markets, of the root causes of informality and the challenges to redress the decent work deficits that are most severe for workers and entrepreneurs in the informal segment of the economy. It adopted a Resolution on *Decent work and the informal economy* which included a broad range of conclusions and directions for action. The Resolution provides a new and comprehensive framework and reflects the most recent and broadest global consensus in addressing the challenges of the informal economy.
9. The main elements of this global consensus are highlighted hereunder<sup>3</sup> :

**On definition and diagnosis, the conclusions highlight diversity of situations across economic sectors, across rural and urban areas, across specific occupational status and across national contexts**

<sup>3</sup> The full text of the Resolution and conclusions concerning decent work and the informal economy, adopted on 19 June 2002, International Labour Conference, 90th Session, Geneva, 2002, can be consulted at <http://www.ilo.org/public/english/standards/relm/ilc/ilc90/pdf/pr-25.pdf> (pp. 52.53). The summary provided does not follow the exact order of the agreed text but includes a regrouping of issues and additional comments for ease of reference and discussion.

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- the term “informal economy” proposed instead of the “informal sector” to accommodate “all economic activities that are, in law or practice, not covered or insufficiently covered by formal arrangements”;
  - the informal economy includes wage workers and own-account workers, contributing family members and those moving from one situation to another;
  - it also includes some of those who are engaged in new flexible work arrangements and who find themselves at the periphery of the core enterprise or at the lowest end of the production chain;
  - there 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;
  - 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;
  - 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.

**Workers and economic units in the informal economy experience specific disadvantages and most severe decent work deficits and their conditions are precarious and vulnerable**

- work in the informal economy is often characterized by small or undefined work places, unsafe and unhealthy working conditions, low level 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 are not recognized, registered, regulated or protected under labour legislation and social protection;
- 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 does deprive them of 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;
- women, young persons, migrants and all the workers are especially vulnerable to the most serious decent work deficits in the informal economy.

**The conclusions point to a comprehensive range of actions to address the decent work deficits in the informal economy and to facilitate integration in the mainstream economy**

- 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, extending social protection to all and dialogue;
- these dimensions of decent work reinforce each other and comprise an integrated poverty reduction strategy;
- 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.
- The government has a primary role to play:
  - providing the conducive macroeconomic, social, legal and political frameworks for the large-scale creation of sustainable, decent jobs and business opportunities;
  - designing and implementing specific laws, policies and programmes to deal with the factors responsible for informality;
  - to extend protection and social security to all workers;
  - to remove the barriers to entry in the mainstream economy;
  - to ensure that the formulation and implementation involve the social partners and the intended beneficiaries in the informal economy;
  - to provide an enabling framework at national and local levels to support representational rights.
- Employers' and workers' organizations can play an important advocacy role:
  - to draw attention to the underlying causes of informality;
  - to galvanize action on the part of all tripartite partners to address them;
  - to publicize and share the innovative and effective strategies and good practices that employers' organizations and trade unions in the different parts of the world have used to reach out to workers and enterprises in the informal economy;
  - employers' organizations could assist economic units with access to information, finance, insurance, technology and entrepreneurship development and could help to develop a

lobbying agenda geared to the needs of micro and small enterprises. They could act as the conduit for the establishment of links between informal enterprises and formal enterprises;

- the trade unions can sensitize workers in the informal economy to the importance of having collective representation; they can include them in collective agreements and provide them with special services including information on their legal rights, legal aid...
- The ILO should develop a comprehensive approach involving the promotion of rights, decent employment, social protection and social dialogue reflecting the diversity of situations and their underlying causes found in the informal economy. The Office should make particular efforts:
- to address the needs of workers and economic units throughout the Organization across the ILO's major strategic objectives; and
  - strengthen its tripartite approach.

## II. Perspectives and priorities across regions

- 10.** In sub-Saharan Africa, typically, the formal segment of the economy does not employ more than 10 per cent of the labour force. This rate has not changed in the recent past and extreme poverty has increased in contrast to other regions.<sup>4</sup> Addressing the challenge of the informal economy and poverty reduction are therefore closely intertwined. The 2004 Ouagadougou Summit's 11-point Action Plan provides the comprehensive range of action for employment and poverty reduction.<sup>5</sup> In a few countries, such as Ghana, Kenya and South Africa, specific policy initiatives have been taken with reference to informal activities.
- 11.** The informal economy was a central focus at the 11<sup>th</sup> African Regional meeting in Addis Ababa, held in April 2007. The meeting underscored the necessity of implementing a range of integrated and coherent policies aimed at moving economic units into the mainstream economy. Policies for employment generation, the extension of social protection, a favorable regulatory environment, promotion of labour rights, entrepreneurial and skill support, local development and strengthened social dialogue were needed to break out of informality. Specific policy agendas should consider a reorientation of growth and investment and poverty reduction strategies targeting the informal economy. Fiscal space also should be created to provide social protection coverage, with measures to prevent discrimination and promote equality.

<sup>4</sup> *Meeting the challenge of employment in Africa: an issues paper*, prepared by the United Nations Economic Commission for Africa for the 25<sup>th</sup> meeting of the Committee of Experts of the Conference of African Ministers of Finance, Planning and Economic Development, Ouagadougou, Burkina Faso, 10-13 May 2006.

<sup>5</sup> *Plan of Action for Promotion of Employment and Poverty Alleviation*, Assembly of the African Union, Third Extraordinary Session on Employment and Poverty Alleviation, Ouagadougou, Burkina Faso, 3-9 September 2004.

12. The meeting provided the platform for Governments and the social partners to update on the policies and programmes in their countries addressing the informal economy. Tanzania and Niger highlighted efforts in extending social protection. Zimbabwe emphasized the need to create employment and support micro-enterprises, particularly in the informal economy. Ghana provided information on the Decent Work Pilot Programme, which targeted the macroeconomic framework, as well as the informal economy with priority given to youth employment, gender equality, the elimination of child labour and social protection. South Africa indicated that informal economy workers in South Africa were covered by the Unemployment Insurance Fund, and that more than half a million domestic workers had access to unemployment benefit that included illness, maternity and adoption benefits.
13. The Asia and the Pacific region, home to over 4 billion people, is the fastest growing region in the world. Its GDP growth rates are twice the world average and productivity rates are almost thrice the rest of the world.<sup>6</sup> In spite of rapid and strong economic growth, unemployment rates have not been reduced and are in fact slightly higher than a decade ago.<sup>7</sup> Incomes of many workers have deteriorated alongside increased labour efficiency and economic growth. Given limited employment opportunities in the formal sector, women and men find ways of generating livelihood activities to augment household incomes in informal activities. Notwithstanding a considerable achievement in poverty reduction, the problem of the working poor remains significant within a range of 47 and 84 per cent of workers in East and South Asia respectively (US\$2 per day or less).<sup>8</sup> Furthermore, the restructuring of Asian economies as they adapt to global competition; changing technology; and new production strategies by expanding global production chains; has led to increases in subcontracting and the outsourcing of production. Many of those at the lower end of global supply chains are micro-enterprises or homeworkers, who are unrecognized, unprotected and lack access to basic services and rights.
14. The Fourteenth ILO Asian Regional Meeting held in Bussan, South Korea, concluded with a commitment to an Asian Decent Work Decade – for the period up to 2015 – during which a concerted and sustained effort will be made to realize decent work in all Asian countries. One of the priorities for national action is the promotion of decent work opportunities in the informal economy, especially in rural areas. In the follow-up meeting, at the *Asian Employment Forum on Growth, Employment and Decent Work* held in Beijing, China, in August 2007, persistent and widespread informality in spite of economic growth was identified as a key challenge and provided one of the central themes for policy attention.<sup>9</sup> The ILO Director-General highlighted the need for serious consideration of the establishment of an effective social floor. Such a floor would take on the issue of informality while continuing to allow small enterprises to develop.
15. Several countries in the region are adopting measures promoting recognition, protection and support to informal economy workers and economic units including support to micro and small businesses, extension of health and social protection schemes, and changes in the labour law. Policy priorities identified at the Beijing Forum included increasing the productivity of informal economy workers by linking the formal with the informal, recognizing skills

<sup>6</sup> ILO: *Labour and social trends in Asia and the Pacific 2006: progress towards decent work*, Bangkok, 2006.

<sup>7</sup> ILO: *Global Employment Trends Model, 2007*. Unemployment rose from 4.2 per cent in 1996 to 4.7 per cent in 2006.

<sup>8</sup> ILO: *Realizing decent work in Asia*, Report of the Director-General, 14th Asian Regional Meeting, Bussan, Republic of Korea, 29 August – 1 September 2006, Geneva, 2006.

<sup>9</sup> ILO: *Rolling back informality*, Background paper for the Asian Employment Forum: Growth, Employment and Decent Work, Beijing, China, 13-15 August 2007.



acquired, and finding new ways to expand skills and entrepreneurship training for the informal economy. There was agreement that the informal economy cuts across all four pillars of the decent work agenda and therefore requires integrated action. Issues such as worker vulnerability, lack of organization and associations, lack of awareness of work-related hazards jeopardizing the health and safety of workers and the need for prevention, and the promotion of a minimum package of working conditions, wage standards and social benefits for workers in the informal economy were reviewed. Goals included acquiring a basic legal framework covering the informal economy, reducing the insecurity of vulnerable workers in the informal economy and sharing knowledge about good practices in all areas of decent work, including innovative ways to improve productivity and working conditions, extending social protection, building self-reliant communities, strengthening representation and voice and extending the outreach of organizations. However, it was determined that all these goals need to be balanced against the need for sustaining productivity and competitiveness.

16. The directions for action also included working on “mapping the informal economy”, building on definitions that have already been outlined by the International Conferences of Labour Statisticians and the Delhi Group.<sup>10</sup> Based on these definitions there is a need to continue improving the collection, analysis and dissemination of information.
17. In Latin America, the informal economy is essentially perceived as an urban phenomenon. It is estimated that the informal economy concerns some 75 per cent of workers in Latin America, contributes to some 40 per cent of the region’s gross domestic product (GDP) and that, over the last 15 years, accounted for 70 per cent of the total number of jobs created.<sup>11</sup> For the last two decades, the conceptualization and policy debate on the informal sector and informal economy have been unabated. Analysis relate the growth and extent of informality to high rates of rural-urban migration, structural adjustment programmes of the 1980s and 1990s<sup>12</sup>, the new production strategies and/or, for some, from burdensome regulations and lack of recognition of the property rights and capital of informal operators.<sup>13</sup>
18. The Summit of the Organization of American States at Mar de Plata in 2005 raised concerns for rising poverty and informality and underscored the importance of promoting targets for the formalization of the informal economy units and workers.<sup>14</sup> Similarly, decent work in the informal economy was a central focus of the ILO’s 16th American Regional Meeting in Brasilia in 2006. Progressive formalization of the informal economy through elimination of the main legal and administrative factors, within the next ten years, was adopted as a key policy target by the tripartite constituents in the ILO’s 2006-2015 Hemispheric Agenda for the

<sup>10</sup> ILO: *Guidelines concerning a statistical definition of informal employment*, endorsed by the Seventeenth International Conference of Labour Statisticians (November-December 2003); the “Delhi Group” is an international expert group on informal sector statistics supported by the Government of India and preparing a Manual on surveys of informal employment and informal sector.

<sup>11</sup> ILO: *Decent work in the Americas: An agenda for the Hemisphere, 2006–15*, Report of the Director-General, 16th American Regional Meeting, Brasilia, May 2006, Geneva, 2006.

<sup>12</sup> V. Tokman: *Una voz en el camino. Empleo y equidad en América Latina: 40 años de búsqueda*, Fondo de Cultura Económica, Santiago de Chile, 2004 and V.E. Tokman: “The informal economy, insecurity and social cohesion in Latin America”, in *International Labour Review* (ILO, Geneva, 2007), Vol. 146/1-2, pp.81-107.

<sup>13</sup> H. De Soto: *Other path: The invisible revolution in the third world*, Harper and Row, New York, 1989.

<sup>14</sup> *Creating jobs to fight poverty and strengthen democratic governance*, Plan of Action, Fourth Summit of the Americas, Mar del Plata, Argentina, 5 November 2005.

Americas.<sup>15</sup> At the recent Inter-American Conference of Labour Ministers, there was a renewed commitment to promote, in collaboration with the competent institutions, a regulatory framework that facilitates the establishment of new enterprises, the promotion of an entrepreneurial spirit, the creation of formal enterprises and the incorporation of informal enterprises into the formal economy, in order to reduce significantly the levels of unregistered work without social protection.<sup>16</sup>

19. In the industrialized countries' context, informality affects a smaller proportion of the workforce although it is still a significant policy concern. In some transition countries, its contribution to the gross national product (GNP) is estimated to vary from 6 to 30 per cent.<sup>17</sup> In this latter group of countries, avoidance of high taxation and social security contributions, and distrust in governance of public institutions are considered major drivers of the spread of informality. There is overlapping discussion between notions of informality and flexibility, although flexible labour arrangements are not necessarily outside formal arrangements. In member countries, where the incidence of informal employment remains high, the 2006 Organization for Economic Co-operation and Development (OECD) jobs strategy underlines the paramount importance of measures promoting transitions to formal employment.<sup>18</sup> The European Union member States have devised new policies to reduce the extent of undeclared work, with the support of social partners. Undeclared work, across EU countries is concentrated in a few sectors mostly construction, hospitality (hotels, restaurants), domestic services and agriculture. The range of policies and programmes include focus on supply chains, registration and information campaigns, support to SMEs and active employment policies.<sup>19</sup>

### III. Enabling transition to formality: multiple dimensions

20. The above characterization of the informal economy and the diversity of situations provide a wide array of routes enabling transition to formality. While it is acknowledged that there are no quick fixes and one-size-fits-all solution, it is also widely accepted that informality represents significant loss and waste for the economy and society as well as for the individual and his/her family. Legal identity and recognition of worker and or entrepreneur status are often necessary first steps. Transition to formality can also be couched in terms of facilitating access of the majority to mainstream economic resources including investment, capital, finance, property and markets. It is certainly about providing effective legal and social protection and bringing it in the ambit of formal arrangements. It is increasingly being

<sup>15</sup> ILO: *Decent work in the Americas: An agenda for the Hemisphere, 2006–15*, op. cit. 6.

<sup>16</sup> Declaration of Port of Spain “*Making decent work central to social and economic development*”, XV Inter-American Conference of Ministers of Labour, Port of Spain, Trinidad & Tobago, September 11-13, 2007.

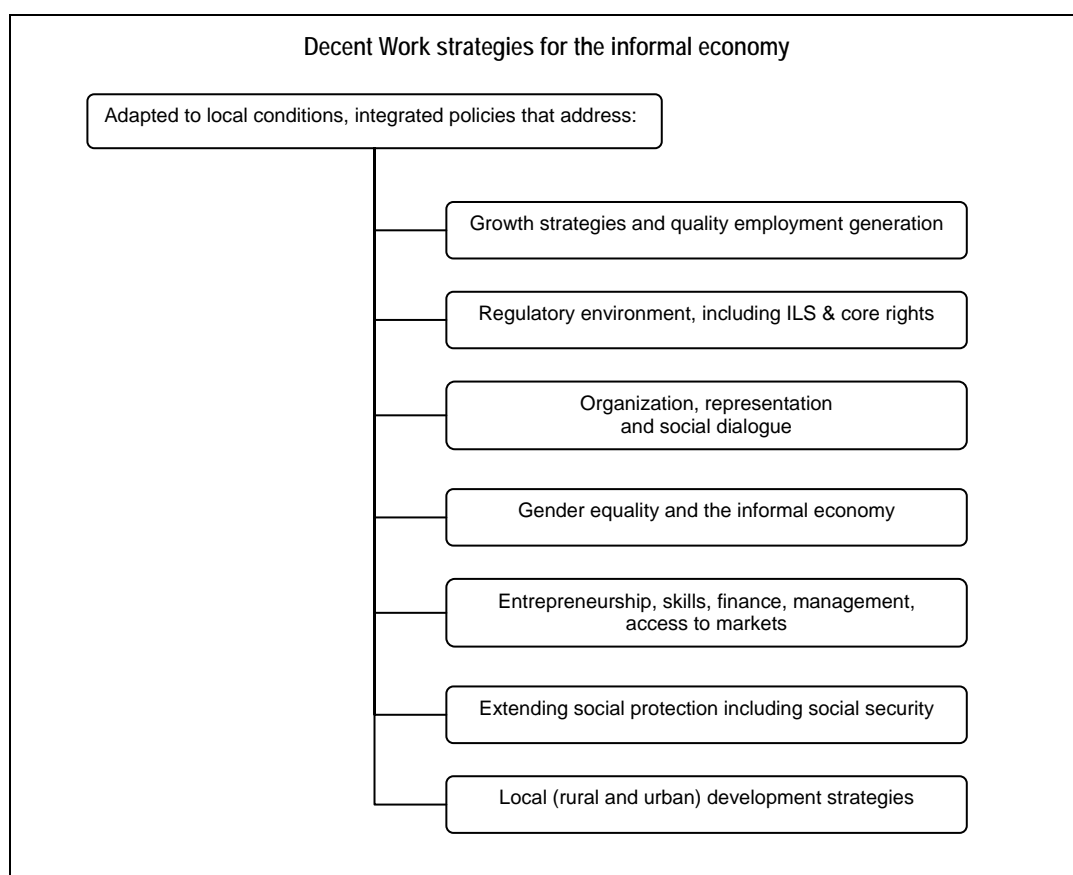
<sup>17</sup> F. Schneider: *The size and development of the shadow economies of 22 transition and 21 OECD countries*, Discussion Paper No. 514, Institute of the Study of Labour (IZA), Bonn, 2002.

<sup>18</sup> OECD: *Boosting jobs and incomes: Policy lessons from reassessing the OECD jobs strategy*, Paris, 2006.

<sup>19</sup> J. Heyes: *Tackling unregistered work through social dialogue: The Turkish and European Experience* (Geneva, ILO, Dialogue Paper No.14, 2007).

considered in terms of providing a minimum floor to all, irrespective of their working situation. Finally, there is consensus that strengthening the organization and representational rights of workers and entrepreneurs in the informal economy is the essential element of a strategy towards formalization, and the gateway towards realizing other rights or accessing resources. The interaction between economic and social policies and the regulatory environment on the functioning of labour markets needs to be understood in different contexts, in order for policies to address root causes and not only the symptoms and manifestations of informality.

21. In all the above avenues towards formalization, diagnoses and proposals vary as to whether enabling transition to formality is about expanding the capacity and outreach systems of institutions that were primarily and historically designed to address larger and formal sector formal wage employment situations, or that the reform should go much further in re-thinking or re-inventing the frameworks, instruments and culture of outreach to suit the specific conditions of the informal economy. Reviewing the relative weight of coercive actions against policies that favour incentives, and supporting measures and recognizing the need and role for extended education, information and advocacy campaigns, are part of the debate on formalization.
22. From a decent work perspective, transition to formality is cast within each of the four pillars of (1) rights at work, (2) employment promotion, (3) social protection and (4) social dialogue, but its intrinsic value is essentially in the integration and the interaction amongst the policy actions covered under each theme. The 2002 ILC perspective provides probably the unique integrated framework at the global level that recognizes and promotes the twin objectives of preserving and expanding the employment, income generation, poverty reduction potential of the informal economy while extending social protection to the vast majority of the population working in the informal economy. International experience shows that strategies for transition to formality need to be developed in the following seven interconnected policy areas.



23. These policy areas are briefly reviewed in the following section. Responsibilities for these different areas of intervention rest with several government ministries and agencies, and consistency, coherence and coordination of action are essential to improving governance of the informal economy. In addition, there is a call for new public/private partnerships and the stronger role for representative organizations, local government and community development structures.

## **IV. Effective and practical strategies to enable transition to formality**

### ***Growth, employment generation and the informal economy***

24. One of the root causes of the informal economy is the inability of economies to create sufficient numbers of quality jobs to absorb the labour force. In recent years, the pattern of development and growth in developing countries, but not only in those, has not met with the global demand for jobs. ILO research and analysis of data show that employment growth in the formal segment of the economy in most countries has lagged behind the growth of the labour force and these trends are likely to continue in the future. Even in countries and regions with high rates of economic growth, the informal economy remains a persistent and sometimes growing problem. Most new job opportunities are created in the informal economy. Enabling transition to formality, therefore, implies the analysis of factors underlying the employment problem in local contexts.
25. A pattern observed in many countries, is the declining role of the industrial sector to absorb labour in more productive jobs and employment leapfrogging from the agricultural to the service sector. While service sector employment spans the entire spectrum of working conditions and wages – from petty trading to sophisticated financial services - there is evidence of the sector's overall lower value-added contribution, and lower productivity and quality jobs are more widespread in the service sector. Another factor is the increasing global competition and the conditions for local enterprises, including the micro and small enterprises to survive, adapt and grow. The drivers of changes in production strategies and in employment patterns and contracts have been analysed in other reports.<sup>20</sup> As companies and global production chains adjust to a more competitive market, they resort to more flexible work arrangements such as subcontracting, part-time employment, temporary or casual work. These new forms of employment offer no or limited security and social protection compared with formal or regular employment contracts. These new dynamics of employment and their characteristics attract migrant workers, often in irregular situations, and are perpetuated by their presence. Economic restructuring processes, including privatization of state enterprises and public service, have in some countries contributed to the growth of the informal economy. Retrenched workers from restructured industries and migrants from rural areas find themselves in situations of underemployment and casual labour. These trends further blur the borderline of formality/informality.

<sup>20</sup> ILO: *Changing patterns in the world of work*, Report of the Director-General, International Labour Conference, 95<sup>th</sup> Session, 2006, Report I (C), Geneva, 2006.

26. This brief review shows that underemployment and informality – structural characteristics of the developing countries’ economies – should be addressed in the core of mainstream development strategies including policies promoting employment by making employment a central concern of economic and social policies, promoting employment-friendly macroeconomic frameworks and making the productive sectors of the economy a priority target of poverty reduction strategies (PRSs), including PRSPs. Channeling appropriate levels of investments, domestic and foreign, into those sectors of the economy that increase the labour absorption and improve productivity in the rural and urban informal economy is a significant part of the response to reducing the growth of informality. These are the focus of the Global Employment Agenda promoted by the ILO and are regularly monitored and discussed in the Employment and Social Committee of the Governing Body.<sup>21</sup> While, the scope of issues involved goes beyond the framework of the Symposium, they provide the necessary background and context to the discussion of the strategies enabling transition to formality.
27. Identifying the specific factors contributing to the dynamics of formality/informality in national and local contexts and understanding its diversity is therefore a necessary, though complex, first step for developing appropriate policy responses. As discussed in the following section, good practices suggest the need to develop a comprehensive set of policy initiatives and, especially, to promote coherence and to reinforce positive synergies across the actions.

### ***The regulatory environment and informality***

28. The relationship between law, regulations and their impact on informality is a key policy issue. The very characterization of the informal economy in the 2002 International Labour Conference discussion is cast in terms of the relationship to law, i.e. all activities falling de facto or de jure out of the reach of law. As underscored in the Conclusions adopted at the International Labour Conference in 2002, informality is also an issue of governance. 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. Three types of legal and institutional frameworks are of particular importance: labour legislation, business regulations and legal frameworks to secure rights to property, title assets and financial capital.

### ***International labour standards, labour legislation and the informal economy: scope and implementation issues***

29. International labour standards were established to protect workers in all parts of the economy. They have been however historically focusing on the wage employment relationship more readily identified and recorded in the formal segment of the economy.<sup>22</sup>

<sup>21</sup> ILO: *Global Employment Agenda*, Geneva, 2003; GB.286/ESP/1(Rev): *Review of the core elements of the Global Employment Agenda*, Committee on Employment and Social Policy, Governing Body, 286<sup>th</sup> Session, Geneva, March 2003; *Implementing the Global Employment Agenda: Employment strategies in support of decent work*, “Vision” document, Global Employment Forum, Geneva, 2006 and GB.300/ESP/2: *Overview of the GEA Implementation*, Governing Body, 300<sup>th</sup> Session, November 2007, Geneva.

<sup>22</sup> Although with some notable exceptions such as Convention No. 169 on Indigenous and Tribal Peoples (1989).

- 30.** There is broad consensus that the rights covered by the *ILO Declaration on Fundamental Principles and Rights at Work* represent the minimum social floor that should apply to all workers regardless of their working status in the formal and/or informal economy. These rights include:
- freedom of association and the effective recognition of the right to collective bargaining;
  - the elimination of all forms of forced or compulsory labour;
  - the effective abolition of child labour; and
  - the elimination of discrimination in respect of employment and occupation.
- 31.** While there is general acceptance of the priority to be given to the promotion of the groups of rights included under the ILO Declaration, there is also recognition that their effective implementation is most challenging in the informal economy context. The informal economy is the main and often only source of livelihood for many groups of workers who accumulate multiple layers of disadvantages based on gender, ethnic origin, migrant status and other factors. These disadvantaged groups, in turn, represent the majority of informal workers and entrepreneurs. It is also in the informal economy that child labour and bonded labour are most prevalent and most difficult to address. Pilot programmes in several countries, integrating a rights-based approach into a comprehensive and multi-component programme of action have shown, however, that a difference can be made. These programmes include multiple targets and interventions. Marginalized groups of women and men are provided with a range of complementary interventions including microfinance, skill training, and rights awareness raising among others, which address the underlying factors, starting from poverty and gender inequality to poor governance. Employers, through dialogue, are persuaded to improve contractual arrangements and working conditions. Trade unions' capacity for advocacy is improved. Capacities of enforcement agencies, labour departments and local committees are developed.
- 32.** The key issue of freedom of association and collective bargaining in the informal economy has been analyzed in the 2004 Global Report.<sup>23</sup> Recent strategies to enhance organization and representation are discussed hereunder.
- 33.** In addition to the four categories of international labour standards included in the Declaration, there is also high demand for the application of occupational safety and health (OSH) measures as priority concerns for informal economy workers, particularly those exposed to accidents and injuries at work. Developing preventive OSH policies and measures adapted to the informal economy is a key requirement for addressing decent work deficits with a direct impact on productivity and poverty reduction. The Promotional Framework for Occupational Safety and Health Convention, No. 187 (2006), provides basic principles for national OSH strategies and programmes to be developed with a view to creating safer working conditions in the formal as well as in the informal economy.
- 34.** With respect to the broader spectrum of labour standards and labour regulations and their effective application, main challenges relate to situations in the informal economy that typically involve one or more of the following types of arrangements and where it is difficult to draw a strict dividing line between the employer and the employee, such as subcontracting arrangements where the transactions take the form of a commercial relationship; or in case of use of intermediaries for purchase of goods and services; or family members or extended kin working as operators and workers.

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<sup>23</sup> ILO: *Organizing for Social Justice, Global Report under the Follow-up to the ILO Declaration on Fundamental Principles and Rights at Work*, Report of the Director-General, International Labour Conference, 92<sup>nd</sup> Session, 2004, Report I(B), Geneva, 2004.

35. Different situations can be distinguished that call for different policy responses. Firstly, there are situations when law is silent, i.e. with respect to activities or groups falling outside the national regulatory framework, such as for the self-employed, domestic workers or new forms of employment like subcontracting. In recent years, in several countries, such as in Chile, Costa Rica, Ghana, Malawi, Morocco, Peru, South Africa, Thailand and the United Kingdom, new laws have been adopted or existing ones modified to extend outreach to specific groups of homeworkers, sub-contractees, domestic workers and/or to address ambiguities in employment relationships.<sup>24</sup> These have involved either enlarging the scope and inclusiveness of labour laws or adopting specific sector- or group-based legislation. More country level work and cross-country analysis is needed to appraise the impact of new legislations and their efficacy and to disseminate the lessons learnt.
36. Another area of policy attention is the labour law and the capacity for compliance by micro and small enterprises that typically constitute a greater contingent of the informal economy. There are a variety of ways in which legal systems deal with the application of labour and labour related laws to micro and small enterprises such as no exemptions, full exemptions, partial exemptions or parallel labour laws. As the discussion at the Governing Body's Employment and Social Policy Committee in November 2006 underscored, there are multiple and diverse reasons underlying non-compliance.<sup>25</sup> Research is underway in a number of countries for a better understanding of the incentives and disincentives and possible strategies that combine the goals of supporting enterprises and enabling the survival and growth of micro-and small enterprises in highly competitive contexts together with the application of labour standards.

### ***Improving labour administration and labour inspection***

37. In most situations however, laws exist but the lack or limited compliance and enforcement of laws and the regulatory framework in the informal economy is the challenge. The weak capacity of labour administration and labour inspection compounded with governance issues have been discussed in various International Labour Conferences and Governing Body Committees.<sup>26</sup> These discussions and research at the country level, point to the need to rethink the traditional functions and methods of work of labour administration and labour inspection in the light of the new realities. They call for multi-pronged approaches that combine information and awareness raising campaigns, empowerment strategies and new culture and modalities of outreach and tripartite partnerships.
38. The mechanisms of labour administration including workplace inspection and advice, dispute mediation and settlement, collective organization and action – principally adapted to the situation of wage employment and where a clearly identifiable employer-employee relationship exists - are thrown into an entirely new terrain with increasing numbers of workers out of their effective reach. Governments often lack adequate personnel and proper

<sup>24</sup> ILO Recommendation No. 198 concerning the employment relationship provides further guidance on this latter point, ILO Recommendation No. 198, International Labour Conference, 95<sup>th</sup> Session, Geneva, June 2006. A user-friendly Guide containing practical information about how countries are dealing with the issues of the employment relationship as set out in the Recommendation is now available at the ILO website (<http://www.ilo.org/public/english/dialogue/ifpdial/downloads/guide-rec198.pdf>).

<sup>25</sup> GB.297/ESP/1: *Business environment, labour law and micro- and small enterprises*, Governing Body, 297<sup>th</sup> Session, Geneva, November 2006.

<sup>26</sup> ILO: *Decent work and the informal economy*, International Labour Conference, 90<sup>th</sup> Session, Report VI, Geneva, 2002 and GB.297/ESP/3: *Strategies and practice for labour inspection*, Governing Body, 297<sup>th</sup> Session, November 2006.

strategies, however, a number of countries are making inroads in framing suitable approaches. These include innovations in workplace inspection and advice, dispute settlement and promotion of collective organization and action.

39. Recognizing that new forms of workplaces are sprouting up in all types of environments, many of the emerging approaches have involved partnerships and shared responsibilities. In relation to workplace advice, labour ministries have teamed up in some countries with trade unions and employers in forming tripartite teams that would enter otherwise hard-to-reach workplaces to provide advice. Complementarities are shared within these partnerships in terms of reaching target groups, familiarity with specific conditions, and technical expertise. In the Philippines for example, the labour department has designed a three-tier inspection system where very large enterprises self-audit, medium and small enterprises are visited by labour inspectors and micro enterprises are advised by tripartite teams.
40. Other ministries with related mandates and community-based facilities are also doing their share as they integrate occupational health, for instance, in their advisory services. Health ministries in some countries have integrated occupational health advice and monitoring in their public health facilities, recognizing that many of the ailments that affect their clients are work-related. Occupational safety and health services in many workplaces have been expanded to cover HIV/AIDS. Agricultural ministries train their extension workers on occupational health and safety as part of conveying to farmers safe agricultural production methods.
41. Formal dispute mediation systems are conventionally available to enterprises registered with the labour ministries and to recognized trade unions. Where these are not available in the informal economy, there is little recourse for producers or informal economy workers who have been unfairly treated. Village-level judicial bodies have helped producers in recalling the offending party and facilitating settlement. The limitation of this approach is that the recall power of the village judicial body is geographically limited. In Eastern Europe where the formal justice system is still evolving, another form of village-based mediation procedure is carried out with considerable success. This involves the disputing parties selecting arbitrator/s that they trust. Successful decisions arrived upon are formalized by the country's legal system.
42. With regard to occupational safety and health, new trends in supplementing labour inspection through good practices are being looked into. The role of social partners in particular and the building of alliances and social movements through collaboration and partnerships between workers' organizations and inspectorates, can promote good practices in occupational safety and health to the informal economy. Labour inspection can also work together with employers' organizations through Corporate Social Responsibility outreach initiatives in supply chain or outreaching codes of practice to their suppliers directly or indirectly. In addition to institutional counterparts, the involvement of a larger range of informal economy operators facilitates advisory services including support to introduce easy-to-use participatory work improvement methods.
43. In introducing the policy and implementation issues under his broad theme, the Symposium features presentations on Argentina's strategy to address the burst in informality and insecurity in the aftermath of the 2002 financial crisis, through multi-faceted public policies and revisited public administration and the improvements in labour inspection in East African countries.

### ***Other regulatory frameworks and informality***

44. There are other sets of regulations that impact upon the functioning of labour markets and informality. These include inter-alia the regulatory environment on property rights, taxation, finance and procedures for registration and exit of enterprises.



45. The recent ILC 2007 discussion on Sustainable Enterprise underscored the importance of the rule of law and secure property rights, including for enabling formalization.<sup>27</sup> A formal and effective legal system which guarantees all citizens and enterprises that contracts are honored and upheld, that the rule of law is respected and that property rights are secure, is a key condition not only for attracting investment, but also for generating certainty, and nurturing trust and fairness in society. Property is more than simply ownership. Extending property rights can be a tool for empowerment and can facilitate access to credit and capital. They also entail the obligation to comply with the rules and regulations established by society.
46. Moreover, unnecessary, burdensome and costly bureaucratic procedures governing registration and start-up of businesses are seen as a major obstacle in bringing into the formal economy, micro and small units of production, thus depriving them of access to resources and services as well as undermining the operation of established enterprises. In a good regulatory environment, businesses should be able to formalize quickly, easily and at minimal cost, contract enforcement and access to the courts be straightforward, and taxation realistic.
47. The above brief presentation shows the multi-faceted relationship between the regulatory environment and informality and its potential role for enabling transition to formality. It also points to the fact that regulations covering specific policy areas such as access to finance or taxation, or labour rights, produce different results. They need to be analyzed separately and specifically take into account contextual factors and a good understanding of the dynamics of local labour markets and diversity of informal economy workers and units. The total effect of the regulatory framework, however, and its internal consistency (or lack of it) can provide a significant incentive (or disincentive) for promoting transition to formality.
48. The 2002 consensus and the underlying decent work approach provide a more complete and integrated perspective to the debate on regulatory frameworks. They propose that adequacy, affordability and efficacy of the regulatory framework be assessed from the integrated objective, i.e. preserving and developing the job-creation potential as well as protecting workers and units.<sup>28</sup> The ILC 2007 discussion on Sustainable Enterprises also concluded that well-designed, transparent, accountable and well-communicated regulations, including those that uphold labour and environmental standards, are good for markets and society. They facilitate formalization and boost systemic competitiveness. Regulatory reform and the removal of business constraints should not undermine such standards.<sup>29</sup>
49. With respect to registration, an experience from Chile will be discussed at the Symposium. In spite of a relatively transparent and enterprise-friendly public sector, registering an enterprise

<sup>27</sup> ILO: *The promotion of sustainable enterprises*, International Labour Conference, 96<sup>th</sup> Session, Report VI, Geneva, June 2007 and *Resolution and conclusions on the promotion of sustainable enterprises*, adopted on 13 June 2007, International Labour Conference, 96<sup>th</sup> Session, Geneva, 2007, available at <http://www.ilo.org/public/english/standards/relm/ilc/ilc96/pdf/pr-15.pdf> (p.95).

<sup>28</sup> Most of the current policy research and debate on regulations and informality analyze one dimension only of this relationship. An example of this view is N.V. Loayza, A.M. Oviedo and L. Servén: *The impact of regulation on growth and the informal sector: Cross country evidence*, World Bank, Working Paper, Apr. 2005, where the impact on economic performance is only taken into account. The main purpose of regulations for creating a level playing field and extending protection to the unprotected are not analyzed. Furthermore, most of these researches use cross-country regression analysis that does not lend themselves to contextualization of the debate and policy implications.

<sup>29</sup> *Resolution concerning the promotion of sustainable enterprises*, adopted on 13 June 2007, International Labour Conference, 96<sup>th</sup> Session, Geneva, 2007, available at <http://www.ilo.org/public/english/standards/relm/ilc/ilc96/pdf/pr-15.pdf> (p.95).

is a considerable burden for the smallest enterprises in Chile, both in terms of financial cost as well as the time needed to fulfil all requirements. Moreover, many micro-enterprises were barred from the possibility of formalizing themselves because they operate in areas which are administratively classified as "residential areas". The law on household-based micro-enterprises (2001) introduced a simplified registration process for micro-enterprises that operate from the owner's residence, hire no more than 5 employees (in addition to family members) and do not cause environmental pollution or excessive noise. In particular, these enterprises are exempted from the zoning regulations. After a few years of implementing the new law, evaluations show that the number of formalized home-based enterprises, which are mostly run by women, is still low compared to the number of potential beneficiaries. Several factors can explain the limited results so far including issues of coordination among different authorities, limited outreach of information campaigns and weak ownership by intended beneficiaries. An in-depth assessment is being carried out by the ILO.

### ***Bridging the organizational and representational deficits and promoting social dialogue***

50. In recent years efforts have been stepped up in enhancing the organization and representation of informal economy workers and units through various strategies.
51. In Latin America, unions have developed their campaigns for the representation and protection of informal workers both in terms of geographical coverage as well as enlarging the range of project activities carried out. Both the CLAT and the Inter-American Regional Organization of Workers of the ICFTU (ORIT) have issued guidelines and manuals to enhance organization and representation of workers in the informal economy. The Congress of Argentine Workers (CTA) in Argentina now allows the affiliation of individual workers, thus opening up space for those without a local or sectoral trade union. In Asia, new strategies include awareness-raising campaigns to promote new government regulations and ensure proper implementation; helping workers access welfare funds; and building strategic alliances with other unions/informal workers' organizations.
52. In Africa, ACTRAV has been supporting African trade unions to organize informal workers into their own unions. In Burkina Faso, the creation of the National Council for the Informal Economy (Conseil National de l'Economie Informelle, CNEI) has provided informal economy workers with a joint platform to dialogue with other relevant partners. In Central and Eastern Europe, strategic alliances have been formed between the social partners, informal economy workers and interested NGOs to campaign for social protection for those in the informal economy and for legislative change and improved regulation to reduce decent work deficits.
53. The Alliance for Zambia Informal Economy Associations was launched in 2002 in partnership with the Zambia Congress of Trade Unions. Since its establishment, the alliance has been increasingly recognized by both local and central Government and has been engaged in dialogue on policy issues concerning market vendors and other informal economy operators. The organization is actively lobbying for the establishment of a collective bargaining forum to ensure the Government is consulting informal economy workers on the issues affecting them. Similar efforts are being made by trade unions in other countries including Ghana, Malawi and Mozambique.
54. To give effect to the Conclusions of the 2002 International Labour Conference, a Bureau for Employers Activities (ACT/EMP) programme on the informal economy was launched in several countries in the Caribbean and Latin America, as well as in Bulgaria, Kenya, Mongolia

and Turkey, focusing on the development of a conducive policy and legal environment, extending the representation of the employers' organizations and functioning as advocate for the small enterprises and operators in the informal economy. This programme has shown that there are several effective forms of intervention by employers' organizations in relation to the informal economy. Lobbying and advocacy by employers' organizations in Bulgaria, Mongolia, Kenya and St. Kitts and Nevis have often successfully induced change, in specific policies and legislative provisions. In Kenya, Mongolia and Peru, the emphasis was laid on strengthening the linkages between informal operators and formal businesses. In several countries, employers' organizations have extended business services to informal and small units. Lessons learned have been reproduced on a CD-ROM to guide future action by employers' organizations.

- 55.** Social dialogue and tripartite partnership are valuable means of ensuring that policy development in relation to the informal economy takes into account contextual factors, diversity of interests and multiple objectives. They can also provide a powerful mean of increasing "buy-in" and support by different parties and enhance effectiveness in implementation.
- 56.** The example of tripartite action in Turkey supported by an ILO/EU project provides interesting good practice insights. The project implemented over the period 2004–07, aims to improve social dialogue to enable the development of tripartite strategies for reducing informality with a focus on unregistered employment, which is estimated to affect some 30–50 per cent of Turkish workers. One key outcome is the adoption of the National Tripartite Declaration on Social Dialogue and Unregistered Employment in March 2006, asserting the social partners' joint commitment towards reducing informality. Analysis of the structure and functioning of labour markets with the special attention paid to the phenomena of registered and unregistered employment provide the basis for dialogue and debate that led to the development and implementation of local action plans in the three Turkish provinces of Bursa, Corum and Gaziantep.
- 57.** The focus of the multi-component and integrated action plans to be implemented by the national and/or provincial authorities is: awareness raising on the risks of informal employment through the media; the development of incentives for registration and registration guides; and linkages with municipal regulations for enterprise registration, among others. The main target groups for this project are local and national government officials, including municipal workers. In addition, workers' and employers' organization skills and capacity for expanding services to unregistered enterprises are improved. Another outcome of this project is the revitalization of tripartite-plus advisory bodies of provincial employment public services, which play a pivotal role in implementing the action plans and which are supported and nurtured by the national level tripartite consensus on improving services for the informal economy.
- 58.** Cooperatives are yet another modality enabling transition to formality. The ILO Recommendation No. 193 states that "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."<sup>30</sup>
- 59.** Pooling individual resources increases negotiating power, helps the transfer of knowledge and know-how and facilitates recognition as a legal entity. Cooperatives present the following major advantages:

<sup>30</sup> ILO Recommendation No. 193 concerning the promotion of cooperatives, International Labour Conference, 90<sup>th</sup> Session, Geneva, 2002.

- in almost all countries, information, education and training on the formation of cooperatives are available;
  - lack of capital is not an obstacle to forming a cooperative as the initial share of capital can be minimal;
  - by definition, cooperatives must not only promote economic development of their members but also pursue social goals, a combination which is of great value in the informal economy context;
  - and finally cooperatives offering education and training to their members and employees can be a means of legal empowerment.
- 60.** The SYNDICOOP approach is a joint approach by trade unions and cooperative movements to engage with workers of the informal economy in view of capacitating them to form their own organizations to gain better livelihoods and defend their rights. An example of a SYNDICOOP project is implemented in Kenya, Rwanda, United Republic of Tanzania and Uganda where trade unions and cooperatives work together to organize workers out of the informal economy and to improve their working conditions. The project was able to upscale and link with the PRSP process.
- 61.** The Symposium will feature several good practice examples across regions that provide innovative strategies for overcoming the representational and organizational gaps in the informal economy workers and entrepreneurs and extending the scope of tripartite partnerships.

## ***Gender equality, decent work and the informal economy***

- 62.** In most developing countries, the percentage of working women in the informal economy is greater than the proportion of working men. Over 60 per cent of working women are in informal employment outside agriculture, and when agriculture is taken into account the figures are even higher.<sup>31</sup> Even within the informal economy women are concentrated at the lower end where decent work deficits are the greatest. Outside of agriculture, women are in the least protected and most precarious forms of work including domestic work, unpaid contributing family workers and industrial outworkers. The latter have some of the lowest average earnings of all since they often lack firm contracts, they may not be paid for months and they are made responsible for non-wage costs of production.
- 63.** The economic changes in the past few decades and the re-organization of production into global production systems have further affected the position of women in the informal economy. Available evidence suggests that globalization of the economy tends to reinforce the links between the formal and informal economies. Examples are when formal wage workers are shifted to informal employment or when informal units shift workers from semi-permanent contracts without minimum wages or benefits to piece-rate or casual work arrangements. The impact of changing global production systems can also be positive as some of those who work in the informal economy, whether men or women have been able to find new jobs or new markets for their products.

<sup>31</sup> UNIFEM: *Progress of the World's Women 2005*, UNIFEM, New York, 2005.

- 64.** The discussion on gender and the informal economy will review the main issues in gender segmentation in the informal economy and focus on the impact of global economic transformation and the differential effects on men and women. It will also analyse the growth of the informal economy in recent decades and the growing links between gender, poverty and working in the informal economy.
- 65.** Promoting women's entrepreneurship is one way to facilitate transition from the informal to the formal economy. In most regions, self employment is more important as a source of employment among women workers than among men. Social norms that constrain women's mobility in some regions are often reflected in a higher incidence of women working from home.<sup>32</sup> When self-employed women in the informal economy work outside their home, available evidence indicates that their enterprises tend to be smaller, both in terms of workers employed and in terms of the value of their assets. Women's enterprises also tend to be concentrated in low investment, less remunerative sectors which build on traditional skills.<sup>33</sup> The reasons for this include the heavy demands of unpaid work that fall primarily on women, and the particular barriers and lack of adequate support for women's entrepreneurship which can limit the growth of their enterprises. These include limited access to assets such as land, credit, skills, technology, networks, business information and markets.
- 66.** Nonetheless with appropriate policy support, entrepreneurship development for women can result in strong growth-oriented businesses which can significantly reduce poverty. In many cases both a mainstreaming and a gender specific strategy is needed. An either/or approach can result in, on the one hand, not adequately addressing the particular needs of the most discriminated groups of women entrepreneurs or, on the other hand, fails to integrate women's entrepreneurship development into the mainstream of policy and budget allocation.
- 67.** An integrated approach that is sensitive to gender differences is required in order to equip women entrepreneurs with the means to enable them to shift from marginal income generation to profitable business. At the micro level, this includes combining provision of skills training with basic business development and other soft skills which in many cases may include literacy. This is in addition to a range of support services which include legal awareness raising, supports for unpaid family responsibilities and access to information, including information on markets and micro finance opportunities. Another area is encouraging the organization of women entrepreneurs, through pooling their resources, which has the potential of increasing their bargaining power and voice. Indeed, group-based savings and loans schemes have enabled many women to enjoy, not only economic multiplier effects, but also personal empowerment.
- 68.** At a meso level, policy needs to ensure that business development support and financial providers do not exclude women and when necessary develop targeted approaches toward women. Market access is also essential and encompasses a range of strategies from encouraging women to participate in trade fairs, e-commerce programmes, development of fair-trade initiatives, supporting women producers in design, quality control and marketing strategies and linking women to trade and export markets.
- 69.** At a macro level, equality promoting legislation and policies to enhance access to productive resources for women including land, property, inheritance, technology, skills development and credit are a vital component of an enabling environment for pro-poor growth strategies. Fiscal policies and trade policies need to be designed in ways that avoid distortions in favour of male

<sup>32</sup> ILO: *Women and men in the informal economy: A statistical picture*, Geneva, 2002.

<sup>33</sup> International Organization of Employers: *The Informal Economy: The Employers' Approach*, Geneva, 2006.

producers and towards large-scale and foreign-owned businesses. Investing in infrastructure, roads, utilities, sanitation, health facilities, childcare, and labour saving technologies in the home can significantly increase the amount of time women can devote to remunerative production.

70. A critical need for expanding women's employment opportunities is the development of policies and measures aimed at supporting workers, particularly women's unpaid family responsibilities. Indeed, understanding the predominance of women in the informal economy requires an analysis of the linkages between women's productive and reproductive work. Given that family responsibilities continue to fall primarily on women in most societies around the world, women's ability to participate in the paid economy is contingent on their care responsibilities within the home and community. These burdens are intensified through macro-economic policies that minimize the social responsibilities of the state through policies and measures. Cuts in social services, food subsidies, healthcare and infrastructure, which are usually undertaken in structural reform processes, shift further responsibilities onto households and women in particular, thus putting more pressure on women's ability to earn an income. The care economy is rarely acknowledged or given an economic value despite the overwhelming evidence of its contribution to national and global economies.
71. The issue of family responsibilities is rarely addressed in relation to informality, while it is an essential factor pushing workers, primarily women, to informal economy employment. For many women, the lack of support for family responsibilities means that the informal economy offers the only paid work that provides enough flexibility, autonomy, and geographic proximity to allow them to combine paid economic activity with family responsibilities. At the same time, their family responsibilities limit the amount of time they can spend on their paid activity.
72. Childcare plays an essential role in supporting the employment of workers, and particularly women who continue to carry the primary responsibility for childcare in most societies. The lack of childcare support undermines women's employment and steers women into the poorly paid, poorly protected informal economy. To address the gender dimension of informality, policy responses, programmes and projects need to recognize that providing childcare is a basic necessity for expanding women's employment opportunities and enabling them to shift from informal economy activity to formal economic activity. In addition, policy responses need to approach the subject from a public policy approach rather than as an issue which only relates to women's needs.
73. The Symposium will explore good practices on women's entrepreneurship as well as support to child care through a series of examples taken from different regions.

### ***Entrepreneurship development, business services and access to finance and markets***

74. Many countries in all regions have found innovative ways to support micro and small enterprises through various entrepreneurship development packages, often with the support of ILO tools. These aim at upgrading the MSEs including those operating in the informal economy through policy, institutional and enterprise-level interventions. Many such programmes have focused on the needs of specific groups in society (i.e. youth, women entrepreneurs and socially excluded groups) and/or addressed decent work deficits in certain

sub-sectors or clusters. This experience suggests the following policy lessons for wider applicability:

- the paramount importance of improving the business environment for upgrading SMEs through social dialogue and proper consultation with informal economy associations;
- the increasingly multifaceted and integrated nature of entrepreneurship development programmes with strong roles for public-private partnerships and value chain linkages;
- the need to adopt a strategy of focusing on certain sub-sectors/clusters benefiting the most marginalized and socially excluded groups, including youth and women;
- the need to adapt tools and outreach mechanisms to the broad diversity of the informal economy units and entrepreneurs, through attention to issues such as family businesses, less visible outlets, lower educational attainments, gender, ethnicity and other related constraints. The eligibility criteria and appropriate information campaigns are crucial as often the poorer and more disadvantaged groups are overlooked by the general policies and measures to support MSEs;
- the importance of analyzing the supply and demand side and expanding access to local and global markets and linkages with formal businesses;
- the importance of creating safer and healthier workplaces in order to maintain the working capacities of informal workers and to improve productivity of small enterprises;
- the priority of simplifying, harmonizing and reducing the cost and procedures for business registration and promoting “one-stop” business registration mechanisms for increased recognition and integration of informal economy units, as discussed under the regulatory environment.

**75.** A number of emerging good practices, including value-chain upgrading in India, Kenya and Brazil strengthening the linkages of the formal and informal will be introduced.

**76. *Microfinance*** or more broadly, access to finance by informal economy units is another policy area where pilot schemes have been fast developing in the last few years. There are at least three reasons why microfinance, or more broadly, measures to improve the access to finance – can be expected to play a key role in triggering and accompanying the progressive formalization of units in the informal economy. First, microfinance functions in some respects fairly closely and flexibly as the informal finance<sup>34</sup> but presents the advantage of being regulated. For example, microfinance operations borrow from the moneylender and rotating savings and credit associations (ROSCAs or “tontines”), certain techniques such as use of social control and capital to ensure compliance with contractual obligations, but also incite a level of regulation. All micro-loans need at least to register; savings and credit cooperatives get their licence from the authority set up by a cooperative act or the Central Bank and MFIs that take deposits from the public are required by law to register under the bank supervisor. From a legal point of view, microfinance institutions stand firmly in the formal economy.

<sup>34</sup> Informal finance are all legal, but officially unrecorded and unregulated financial activities and transactions. The moneylender’s transactions are not officially recorded, nor are the deposits made by members of a rotating savings and credit club.

77. Positioned somewhere in the middle, between formal financial institutions (banks, insurance companies, equity funds, etc.) and the informal financial market, MF institutions maintain the flexibility and outreach needed by informal economy operators. For example, they use less written documentation than banks and rely on interpersonal information to get a sense of the risk in lending to a client. Above all, they do not generally insist on formal property rights to be pledged as collateral to secure a loan, as banks do. However, some MFIs, depending on the average size of transactions in microfinance and their portfolio growth, increasingly resort to conventional types of collateral, reduce the volume of group-based lending and emphasize more individual transactions.
78. Secondly, MFIs are the gatekeepers for many informal operators to other markets and income-generating opportunities. In addition to offering financial services, funding from a MFI sometimes allows subcontracts with formal enterprises. Shaktri, a MFI in India, for example, finances and mentors more or less informal subcontractors of a UNILEVER subsidiary (HLL). Administrations cannot offer such incentives, but MFIs can and are therefore attractive partners for informal economy operators that wish to grow.
79. A third reason is the sensitivity by most MFIs to formalization issues in general. With the exception of a handful of MFIs that transformed after a few years into banks, MFIs still largely come under a lighter and voluntary regulatory regime. It is only when they take deposits from the general public then they must obtain a licence, get registered, submit periodic reports and disclose their financial situation.
80. The Alexandria Business Association (ABA)<sup>35</sup> experience in Egypt is an innovative example of a progressive scheme where the size of the loans offered are made conditional on the client's production of different and additional documents, at each level, attesting his or her identity, ownership of assets, and fiscal and social security status. After only four years, the scheme reaches several hundred clients. Currently a survey by the University of Geneva and the ILO is being carried out to establish the profile of clients and the various implications of this incentive scheme for formalization. It is assumed that units running high growth potential lines of activities see a net advantage to exposing themselves to tax and municipal authorities, whilst other operators see their advantage in remaining below the visibility threshold of public authorities.
81. Among other recent developments are numerous fair and/or ethical trade initiatives that seek through networking and alliances between companies and/or NGOs in the industrial countries and local producers in developing countries, to increase the access of informal and small producers to international markets, promote better trading conditions, better remuneration and raise consumer awareness. There are good practices emerging that seem to show the positive impact in stabilizing incomes of small producers especially women or indigenous and tribal peoples, formalizing cooperatives and extracting investment funds for infrastructure and social spending.<sup>36</sup> These initiatives often use licensing and certification assistance, contacts, training, IT and market information in improving local producers, access to global markets and increasing their bargaining and organizational capabilities. The initiatives however have had a very limited outreach so far, remain scattered in spite of recent trends in networking and are heavily dependent on the intermediary and sponsoring entities.

<sup>35</sup> The Alexandria Business Association (ABA) is affiliated to the Egyptian Employers' Organization.

<sup>36</sup> M. Carr: *Chains of fortune: Linking women producers and workers with global market*, Commonwealth Secretariat, London, 2004; and A. Redfern and P. Snedker: *Creating market opportunities for small enterprises: Experiences of the fair trade movement*, SEED Working Paper No. 30, ILO, Geneva, 2002



## ***Enhancing productivity and working conditions***

### ***Skills and employability***

- 82.** Improving the skills of informal economy workers is key to their ability to access gainful jobs, improve productivity and income. Yet, formal training systems have proven inadequate to reach out to and to meet the needs of informal economy workers. Community-based programmes and projects are partially filling this gap. The ILO has developed a specific methodology and programmes that are applied in several countries. The methodology emphasizes the identification of potential wage and self-employment opportunities and their training and non-training requirements before organizing and providing training and post-training support services to poor and/or disadvantaged individuals in communities. Such opportunities are assessed in the context of communal development plans and make use of both formal and non-formal training offerings that are available in the localities.
- 83.** Some conclusions can be drawn from these experiences. Training programmes need to be flexible, targeted, practical and adapted to the diverse characteristics and educational levels of trainees which are usually a heterogeneous group with accumulated layers of disadvantage. Yet, many non-formal training services are weak and not recognized by the formal systems. The non-recognition and non-certification of on-the-job skills acquisition by informal economy workers including through traditional apprenticeship systems are major obstacles for marketing these skills in the formal economy, an issue which has not yet been given sufficient attention by policy-makers.
- 84.** Field experience also shows that informal economy workers can ill afford time to invest in training, and what training may be accessible may be supply oriented rather than responsive to actual livelihood opportunities. More successful experiences combine skills acquisition and upgrading with practicing production and income-generating activities within broader and multi-component training for entrepreneurship development, such as through establishing and managing cooperatives and producers, associations and access to finance, technology and markets.
- 85.** The Symposium will feature innovative pilot schemes and policies currently under consideration in West African countries that are aiming at merging the traditional apprenticeship systems with the mainstream formal training systems by maximizing the relevance and advantages of both systems.

### ***Safer workplaces and better conditions of work***

- 86.** Informal economy workers have often the most hazardous jobs and the worst working conditions. A work accident affecting a family member can easily drive the entire family into destitution. Due to a lack of awareness of the hazards and their adverse effects for the workers, as well as for the economic unit, preventive occupational safety and health measures are rarely implemented in the informal economy. Moreover, in the informal economy, working and living conditions are often intertwined. Improving safety at work and working conditions means securing the viability and productivity of MSEs, improving the physical, psycho-social and income security of workers and the interface between their work and their personal, family and community lives.
- 87.** Long working hours are a reality for many workers in the informal economy. On the other hand, there are many workers who devote rather short hours to paid work. Data show that working hours seem to be shorter among older and younger workers. This suggests that many

informal jobs are no more than a short-term coping strategy for survival or underemployment. But the incidence of short hours tends to be concentrated on self-employed women who instead invest long hours in looking after their children and other dependent relatives. In their case, short hours are often the result of difficulties in reconciling work and family responsibilities. Long working hours for many workers in the informal economy is essentially related to low wages which often do not meet costs for survival. The causes of low wages are multi-dimensional and cannot be solely reduced to low labour productivity. Income deriving from informal work is the most important source of livelihood for poor people. Hence measures aimed at raising and regularizing work-related incomes are essential. Recent ILO research shows that the minimum wage can have a positive impact on informal wages, depending, among other things, on the level at which they are set, and used as a reference wage in the bargaining between employers and workers. An integrated approach, which recognizes the inter-connectedness of different dimensions of working conditions, is the key to developing better policies and maximizing their impacts.

- 88.** Poverty, job insecurity, gender inequality and lack of decision-making power of workers in the informal economy put them at risk of HIV/AIDS and other occupational diseases. To address HIV/AIDS and other diseases which disproportionately impact on employers and workers within the informal economy, it is of paramount importance to provide workers and employers in the informal economy with a 'voice' and representation in national policy formulating bodies on HIV and AIDS.
- 89.** Several approaches are possible to address safety and health at the workplace. In particular, the informal economy dimension should be given priority attention when designing or strengthening national occupational safety and health (OSH) policies, programmes and systems. The formulation of national OSH programmes promoting safe and healthy working conditions should aim not only at the formal but also at the informal economy. This is a key condition to protect informal economy workers' life and health as well as the enterprise productivity and viability. Such programmes, developed on a tripartite basis would provide employers and workers with a unique opportunity to play a leading role. Enlarged partnerships at the community level would also facilitate and maximize long-lasting improvements in working and living conditions of informal economy workers.
- 90.** A serious issue faced by the informal economy is the lack of awareness of work-related hazards and of their consequences in terms of human suffering, loss of wage-earning capacity and economic impact on the enterprise. The absence of information channels and appropriate means of action to reach micro enterprises, including home-based workers, exclude a large share of the working population from vital safety and health information and services. The need to foster a preventative safety and health culture can be addressed by launching national OSH campaigns on a wide scale using different channels and media at national and local levels. Furthermore, institutions that support OSH advice have historically been available only to formal enterprises. Mechanisms to facilitate the role of OSH authorities, to develop partnerships with a larger range of governmental institutions, non-governmental institutions, and community-based facilities are avenues to be further explored.
- 91.** Another policy response consists in developing training programmes and practical strategies for workplace improvement suitable for the informal economy, especially for farmers, micro-enterprises and home-based workers. Various institutional mechanisms can be used in delivering OSH training, in particular workers' and employers' organizations, decentralized public services at the provincial level, partnerships with Ministries of Agriculture or Health, or local state bodies. New approaches such as, for instance, the building of links with primary health care systems are also explored. The ILO's efforts in developing such programmes have already proved successful.
- 92.** Examples on reducing risks and improving working conditions in Cambodia and Thailand are worth being cited. Cambodia has been progressively extending practical safety and health

protection into informal economy workplaces such as home-based work, or small construction sites. The ILO's Informal Economy, Poverty and Employment Project funded by DFID (2003-06) provided practical support to the self-help initiative of the Cambodian people. Lessons of experience suggest the following factors of success. First, the varied networks through the government and workers' and employers' representatives and NGOs were mobilized to reach a range of informal economy workplaces. Second, the development and application of easy-to-use, participatory training programmes like the WISH (Work Improvement in Safe Home), a training programme for home-based workers was undertaken. Representatives of the government, workers and employers were trained as local OSH trainers and carried out many on-site training workshops by using the WISH and other participatory training programmes. The third important element was the national policy support. The Department of Occupational Health and Safety of the Ministry of Labour and Vocational Training regularly organized OSH achievement workshops to facilitate exchanging experiences among all the agencies involved. The Department has drafted the national OSH programme and included OSH for informal economy workplaces as a priority.

93. In Vietnam the WIND (Work Improvement in Neighbourhood Development) training programme for improving OSH in agriculture has been extensively applied. The WIND is a participatory training programme, first developed in Cantho Province, Vietnam in 1995. Since then, the WIND programme has been expanded to many other provinces. Departments of Labour, Health and Agriculture at the provincial level have collaboratively trained many WIND farmer volunteers. These farmer volunteers have conducted a number of mini WIND training workshops for their neighbouring farmers by using practical training tools such as illustrated-checklists or good example photo booklets. In 2006, Vietnam launched its first national OSH programme up to 2010 and allocated the necessary national budget for implementing the programme. OSH in agriculture was identified among the seven priority action areas of this national programme. More and more WIND farmer volunteers are being trained by using the national budget and expertise for wider coverage. The WIND projects have been carried out or are planned in Mozambique, Senegal, the Philippines, Mongolia, former Soviet Union countries, and other countries around the world.

### ***Improved access to social security***

94. Lack of social security coverage is so widespread among informal economy workers that it is often taken as a definition of informality. In June 2001, at the International Labour Conference, ILO's tripartite constituents agreed that the highest priority should be given to "policies and initiatives which can bring social security to those who are not covered by existing schemes"<sup>37</sup> and that "each country should determine a national strategy for working towards social security for all".<sup>38</sup> The Conference also suggested that a major campaign should be launched to "promote the extension of social security". The ILO launched the campaign "Social security for all" in 2003.
95. A growing number of countries are actually adopting policies and initiatives to extend social security coverage, in particular to groups in the informal economy. These include measures such as the gradual extension of social insurance schemes, the introduction of special arrangements for informal economy workers, the provision of non-contributory social pensions, the development of conditional or unconditional cash transfer programmes combining benefit payments with incentives for further education and health, and employment guarantee schemes.

<sup>37</sup> ILO: *Social Security: a new consensus*, Geneva, 2001, p. 2.

<sup>38</sup> *Ibid*, p. 4.

- 96.** The right mix of policy instruments used and their design should be adapted to specific characteristics and needs of the groups to be covered and to the national environments. The informal economy is very heterogeneous with regard to the degree of formalization, the status of employment, the revenues, the level of coverage, the ability to pay of the different workers groups. While universal access to some essential social security benefit is a human right the heterogeneity does not allow for proposing uniform solutions for extending social coverage.
- 97.** In general, social security in the informal economy can start with basic elements such as:
- access to basic health care through pluralistic national systems that consist of public taxed-financed components, social and private insurance and community-based components;
  - a system of family benefits that facilitate the school attendance of children;
  - a system of targeted basic cash transfer programmes that provide some degree of income security for people in active age groups, i.e. social assistance associated with public work programmes and similar labour market policies (e.g. cash for work programmes);
  - a system of basic universal pensions for old age, invalidity and survivorship that, in effect, supports entire families.<sup>39</sup>

These core benefits can be considered a social security floor. The promotion of such a floor is one of the nuclei of the ILO's global campaign. Obviously, at the early stages of development the fiscal space for social transfers is more limited than at the later stages, so the introduction of social security benefits may have to be sequenced by order of priority. However, ILO actuarial calculations have shown, in the case of 12 developing countries, that some form of basic social security can be afforded by virtually all countries. The effects of a basic social security benefit package on poverty reduction could be quite dramatic. Our distributional analysis shows that the combination of a modest cash benefit for children and a modest pension, which could be an entry level benefit package for poorer countries, could reduce the poverty head count by about 40 per cent – a major contribution to the achievement of MDG one in some African countries.

- 98.** Several examples of policies and practices to extend social security coverage will be presented: notably, two different approaches to extend social health protection in the informal economy (Ghana and Thailand), experiences in covering self-employed workers (Argentina, Chile, Uruguay) and providing minimum social security coverage to all informal economy workers (India).
- 99.** The first presentation will concern the country experiences of Ghana and Thailand in improving access to healthcare for the workers in the informal economy and their families. This example will provide an overview of the problem by defining low access to health services and present the current global options to improve access.
- 100.** In fact, how to address poverty and the access of the poor to health care remain to be an enormous challenge in developing countries. The informal economy, usually comprised of people who live in poverty, is most vulnerable and less secure due to the limited national financing and organizational mechanisms to cover workers in developing countries. Workers in the informal economy and their families, as a consequence, are not covered for risks related

<sup>39</sup> ILO Social Security Department: *Social security for all: investing in global social and economic development. A consultation*, Issues on Social Protection, Discussion Paper No. 16, Geneva, 2006.

to illness, financial burden and catastrophic costs due to ill health. The ILO strategy on rationalizing the use of pluralistic finance mechanisms proposes the extension of existing means of funding health care rather than creating new structures to achieve universal access. Such were demonstrated by Ghana and Thailand in their utilization of various schemes to improve their population's access to health care.

- 101.** In the early 1990s, in Ghana, the Mutual Health Insurance Organizations were started which initially provided financial protection and access to health services for the poor. The National Health Insurance Act of Ghana was passed in 2003 and operationalized in 2004. It is a decentralized national health insurance system that incorporates various health insurance schemes, including most of the previously independent Mutual Health Insurance Schemes. The premiums of the poor are subsidized. Effective population coverage is presently in the order of 40 per cent and will increase further.
- 102.** Thailand, on the other hand, implemented the "30 Bhat Scheme" in 2001. This is a scheme that affords for those not covered by the Social Security Health insurance scheme (SSO scheme) or the Civil Servants' Medical Benefit Scheme (CSMBS). For example, in this scheme, a member pays a very minimal co-payment of 30 baht for every outpatient visit or hospital admission. The co-payment is presently under review. The Thai example shows that universal access to essential health care is feasible in a developing country context.
- 103.** An evaluation of the strategies utilized by these countries and the lessons other developing countries can learn from their experiences will also be tackled.
- 104.** As regards self-employment and social security coverage, the example presented will focus on three Latin American country experiences: Argentina, Chile and Uruguay. These countries historically show similarities in the development of their social security schemes and labour market conditions; however important differences apply to the self-employed and their social protection arrangements. Self-employment accounts for a large part of total employment in Latin America. The large majority of the self-employed usually lack decent work conditions, particularly access to social security coverage. Even though the southern cone countries show the lowest incidence of self-employment, it still accounts for an important share of total employment. In other words, any strategy to improve the extension of social security coverage needs to comprise policies and instruments for the self-employed.
- 105.** In Argentina, Chile and Uruguay, self-employment accounts for a large part of employment, approximately 25 per cent. Most of the uncovered workers are self-employed. Self-employment represents the largest share of the informal employment. The three countries are developing public policies to increase social security coverage and reduce decent work deficits.
- 106.** Even though the incidence of self-employment is similar in these three countries, they are attempting different strategies to provide better coverage. Self-employment is extremely heterogeneous and it is difficult to find "one" social security arrangement that fits all. It is not clear whether all self-employed workers should be mandated. There are important differences in contributory capacity. Social security arrangements for the self-employed could have important effects on informality. Argentina and Uruguay have implemented "simplified schemes" for the self-employed with mixed and controversial results in terms of social security coverage. The main strategy followed by Argentina and Uruguay to increase social security coverage is the "Monotributo" (mono-tax). Chile is undertaking a pension reform and introducing gradual mandatory coverage of the self-employed, and a basic old-age income security system for the uncovered poor.
- 107.** Concerning minimum social security coverage extension to all informal economy workers, the case of India will be presented. The National Common Minimum Programme (NCMP) of the United Progressive Alliance (UPA) which was formed after the general elections in April/May

2004 was announced on 27 May 2004. It set out the major policy orientations adopted in order to enhance sustainable development in India. In the spirit of the Alliance, it referred in its preamble to the welfare of farmers, agricultural workers and weaker sections of society and strongly stated a commitment to ensure, through social security, health insurance and other schemes, the welfare and well-being of all workers, particularly in the unorganized sector which now constitutes 94 per cent of the labour force.

- 108.** In September 2007, the Government of India released its plan to fulfil its commitment to provide social security to informal economy workers. Targeting first the “Below Poverty Line” population, a health insurance scheme was to be launched in a phased manner so as to reach 60 million workers (300 million with family members) over the next five years. Although benefiting from both the technical and financial assistance provided by the Central Government, the respective State Governments were to retain the key responsibilities for the design and the implementation of their scheme. In addition, the new social security plan will provide an old-age pension to all citizens above the age of 65, living below the poverty line, and life and disability cover to the head of all poor families.

### ***Integrated strategies at the local level***

- 109.** Integrated local development strategies are potentially amongst the most promising strategies for a comprehensive and multifaceted approach to enable transition to formality. The decentralized local government structures in rural and urban areas provide favourable ground for bringing together the spatial, social and economic dimensions of the informal economy, linking the macroeconomic dimensions with micro-level interventions, the supply with demand and access to land with access to services and to markets.
- 110.** Municipal- and village-level governance units comprise the first level of engagement for informal economy workers and entrepreneurs in many aspects of their lives in rural and urban areas. The choice of local industries to prioritize for promotion, the choice of infrastructure development, the delivery of medical care for workers who fall ill or encounter accidents, the issuance of licenses to operate, the decisions on investments in education, vocational training, health and housing, are often made at the local level, especially in countries where governance is decentralized and powers are devolved.
- 111.** The demand for democratization of political processes has also meant greater motivation to create venues for local representation in planning and policy making. Whether decentralization takes place in a wholesale formal manner, accompanied by legislative, administrative and fiscal restructuring, or in an incremental manner where selected functions are shared, there is broad agreement that subnational administrative levels of governance potentially yield policies, programmes and services that can better address local needs. While local governance units represent a strategic level of intervention, this is still where large capacity gaps are found. Local constituents are often weakly organized and vulnerable sectors are underrepresented.
- 112.** Several approaches aim at developing capacities for local governance and support the promotion of decent work. They involve interalia, creating an enabling environment for decentralization and governance, institutionalizing participation and dialogue through consultative mechanisms, fostering the economic integration and development of local and informal businesses, strengthening membership-based organizations and delivering services to local communities.
- 113.** With respect to effective service delivery, partnerships between the public and private sectors can be a key factor to good performance. In Cambodia, private-public partnership in managing

local health units has been critical in improving the quality of health services in poor and remote villages. In Uganda, the management of a public market was transferred from the municipality to a joint management coalition consisting of the municipality which sets service delivery standards; a local council which monitors revenue collection and service delivery; a private company which collects dues and provides basic services such as water, electricity and sanitation; and vendors who look after security and settlement of vendor disputes. Similar partnerships have been carried out in waste collection, community infrastructure improvements and street cleaning with positive results, not only in service delivery, but also in deepening dialogue between local governments and local associations.

- 114.** Many informal units are in fact based in informal settlements. Programmes to upgrade informal settlements, including slum upgrading schemes in growing urban centres and basic infrastructure provision for rural areas, are often seen to simultaneously upgrade living and working conditions for informal economy workers. Municipalities have also the possibility of raising taxes and using the proceeds at the local level, promoting a more coherent regulatory environment, including on zoning regulations, the establishment of SMEs, public contracts and tendering procedures and fostering public/private partnerships. Such local initiatives can facilitate local employment creation especially for disadvantaged youth and women and encourage labour-intensive methods to deliver goods and services.
- 115.** While strategies at the local level can play an important role for transition to formality, this potential is not always fully exploited. A more in-depth evaluation of good practices is necessary to draw lessons for successful strategies that help transition to formality and promote decent work through local governance and local development.
- 116.** In Ghana, at the macro level, the Poverty Reduction Strategy Paper (PRSP) – the GPRS II 2006–07 – stresses the importance of employment creation for poverty reduction and specifically addresses the informal economy. It reflects the growing recognition that private sector development needs to encompass the micro- and small enterprises (MSEs) in the informal economy which represent some 95 per cent of private enterprises in Ghana. Measures include the promotion of entrepreneurship and of good business practices like bookkeeping and banking, strengthening technological proficiency and improved access to credit. A policy instrument, connecting this macro policy with local governance from the perspective of decent work has already been designed and tested in two pilot rural districts in the Central Region of Ghana. In both districts, a public-private forum were established, comprising public agencies and small businesses, to deliberate and design strategies for local development. Called the District Assembly Sub-Committees on Productive and Gainful Employment (SPGEs), this forum is a body mandated under the Local Government Act. Through the dialogue that takes place in this forum, small business associations were able to influence local tax regulations and receive technical assistance to develop specific local industries, such as palm oil processing.
- 117.** Statutory subcommittees of the District Assembly for Productive and Gainful Employment have drawn up and are implementing local economic development plans that are helping hundreds of small enterprises to upgrade and extend their businesses. Women account for over two-thirds of the beneficiaries and persons with disabilities are well represented. The exercise of rights enables development. The partnership between the private and the public sector enables them to remove binding constraints to growth and improvement that neither local government, nor the enterprises alone, could have overcome. The subcommittees have created full inventories of all small and medium-sized enterprises (SMEs) and encouraged those not yet affiliated to associations to organize. They are also instrumental in extending social protection to the informal economy by linking SMEs to the new national health insurance scheme and/or the pension fund. Both subcommittees have initiated “decent work savings and credit unions” that count some 3,000 members bolstering economic stability as well as mobilizing capital for investment.

- 118.** Voice, organization and local social dialogue have also generated improvements in governance, conflict resolution and local government budgets. Local government funds are increasingly allocated under plans agreed by subcommittees. Local taxes for SMEs are set and collected in cooperation with small business associations, significantly increasing revenue, without threatening the enterprises. Trade unions and the Ghana Employers' Association have supported the approach and appropriated a number of the methodologies and tools developed by the programme. The initiative was first introduced by the ILO through the Decent Work Pilot Programme. It is currently supported by the United Kingdom Department for International Development (DFID) and in cooperation with Germany's Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ). Discussions are under way to upscale the pilot scheme to a much larger number of districts.
- 119.** In South Africa, the Durban Metropolitan Council has established a range of policies to support informal economy workers and operators. Initiatives include: capacity building of informal economy organizations; regular dialogue with their representatives on policy; legalized vending zones; a licensing system with incentives such as training; support to homeworkers through differential rates and water tariffs for the poor, infrastructural development, market access and business support. The Council has also been providing significant support to particular sectors of the informal economy. One striking example is the traditional medicines sector. To support this potentially lucrative informal industry, Durban has provided market buildings with infrastructure, a processing plant, training in sustainable harvesting techniques and several plant nurseries. The Council has also invested in research and development as well as marketing support to attract national and global buyers.
- 120.** In the Philippines, Naga City, has successfully transformed itself from a blighted city into one of the best performers in Asia, acknowledged by several regional awards and citations. Naga City has put together policies to promote investment, develop enterprises, protect workers and create jobs – in a way that exemplifies how a city can develop a comprehensive set of employment and protection policies. It has designed and carried out its strategy through a very strong partnership with its constituents through the city development council, bolstered by an “Empowerment Ordinance” which declares the city government’s commitment to sharing responsibility with organized groups. This Ordinance thus created the Naga City People’s Council which is made up of over a hundred organizations representing 13 sectors, including business, labour, the urban poor, women, people with disabilities and youth. How Naga City has created comprehensive policies as well as active partnerships that led to more informed policies and new governance culture is elaborated in the presentation.

## V. The way forward

- 121.** The preceding review shows that there is clearly renewed interest and action by policy-makers, social partners, development practitioners, academics and researchers, in industrialized and developing countries alike, for policy innovation with respect to effective approaches that can curb the spread of informality. Good practices and practical approaches are emerging in various fields. In addition to country initiatives, the policy debate on informality and breaking away from it have become a central focus of new initiatives by international and regional organizations and emerging global partnerships.<sup>40</sup>

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<sup>40</sup> Examples are recent programmes of research launched by the World Bank on Good jobs, bad jobs; the African Union initiative on the informal economy. Another prominent example is the



122. Five years down the road, the broadened framework proposed by the 2002 International Labour Conference Resolution covering self-employment, wage employment and economic units has proven most relevant for capturing the realities on the ground.
123. The preceding review also shows that the Decent Work Agenda provides an integrated and comprehensive menu of action that can adapt to the diversity of situations and contexts and to fast evolving labour markets. The ILO has followed up on this Resolution and supported its operationalization by mainstreaming work on the informal economy into its global programmes. It has also developed over the years, a wealth of knowledge, experience, tools and strategies in support of the policy areas reviewed in the paper.<sup>41</sup> Since 2006, it has stepped up its efforts through an In-Focus Initiative on the Informal Economy, by synergizing action and developing partnerships.<sup>42</sup>
124. The time has come now to broaden these partnerships, mobilize resources and keep up the momentum of political commitments with a priority focus on the following areas:
- ***Supporting country level actions:*** the informal economy is emerging as a clear priority in national agendas including the Decent Work Country Programmes. Inclusion of the informal economy is key to national development and to economic growth strategy. It has also strong connections with the poverty reduction agenda, with rights-based approaches to development and with the enabling environment for inclusive globalization. Good practices such as those reviewed are still being developed through pilot project frameworks with short-term funding. Scaling up and replication into mainstream policies and programmes are the next achievable scale. In addition, integrated action across the decent work objectives needs to be encouraged and supported. Mobilizing resources and strengthening partnerships especially in the context of the current ILO/UNDP partnership and the “ONE UN” programme can boost the scope of current activities;
  - ***Systematic identification, documentation and sharing of good practices:*** the process initiated in the preparation for the Symposium needs to be continued through country, regional and inter-regional partnerships. Effective means of sharing the experience and building on the knowledge should be continued. Decent work knowledge networks currently being explored in Asia and in Africa have identified the informal economy as one of the key subjects. Means of sustaining inter-regional exchanges need to be explored;
  - ***Empirical analysis, research and advocacy campaigns*** on key features of the policy debate, including on the regulatory environment and informality from a decent work perspective, on the definition and promotion of a social floor, on the root causes and dynamics of formality and informality, and on the gender dimension;

Commission on Legal Empowerment of the Poor, established in 2006 and chaired by Madeleine Albright and Hernando de Soto.

<sup>41</sup> See the Informal Economy Resource Database at <http://www.ilo.org/dyn/dwresources/dwbrowse.home>.

<sup>42</sup> Launched by the ILO Director-General in 2006, the In-Focus Initiative on the Informal Economy is co-managed by the Employment and Social Protection Sectors with contributions from technical and field units. The main elements of the Initiative are highlighted in the Appendix.

- ***Mapping and measurement of the informal economy through use of comparable methodologies:*** following the 2002 Resolution, the ILO developed a conceptual framework for employment in the informal economy based on internationally agreed statistical definitions bringing together the two aspects of informalization: employment in the informal sector and informal employment<sup>43</sup> and providing technical advice and training for its use. Both aspects of this work, i.e. methodological developments and capacity building need to be continued and expanded, for a better mapping and monitoring through reliable data and information.

<sup>43</sup> Informal employment comprises own account workers and employers in their own informal sector enterprises, contributing family workers, members of informal producers' cooperatives, employees holding informal jobs, and own account workers engaged in production of goods exclusively for their own use. For a more detailed discussion, see R. Hussmanns: *Measuring the informal economy: From employment in the informal sector to informal employment*, Policy Integration Department and Bureau of Statistics, Working Paper 53, ILO, Geneva, 2004.

## Appendix: The In-Focus Initiative on the Informal Economy (IFI-IE)\*

Priority Focus	Output	Description
<p><b>1. Knowledge development and knowledge sharing</b></p> <p><b>1.1 Analysing and monitoring</b> changing patterns and trends in the informalization of labour and labour markets</p> <p><b>1.2 Good practice reviews</b></p> <ul style="list-style-type: none"> <li>• Country experiences</li> <li>• Sectoral/occupational focus</li> </ul>	<p>Research outputs and publications</p> <p>An integrated approach by sector/occupation</p>	<ul style="list-style-type: none"> <li>▪ Research and analysis of the dynamics of formality and informality in different regions, monitoring changing patterns and trends in the context of global competition and production</li> <li>▪ Compilation of good practices across the four DW strategic objectives</li> <li>▪ Networking with other organizations and research groups</li> <li>▪ Policy debate and exchange</li> </ul>
<p><b>2. Assessment and integration of ILO tools</b> to support informal economy objectives in the DWCPs</p>	<p>A consolidated and integrated reader of policy briefs and package of tools</p>	<ul style="list-style-type: none"> <li>▪ Inventory of all ILO tools relevant to the IE</li> <li>▪ Assessment of existing tools and their integration into a comprehensive package</li> <li>▪ Development/adaptation of new tools when required</li> <li>▪ Dissemination of the integrated package</li> </ul>
<p><b>3. Support to DWCPs</b></p>	<ul style="list-style-type: none"> <li>▪ Policy briefs</li> <li>▪ Application of tools</li> <li>▪ Technical cooperation activities</li> </ul>	<ul style="list-style-type: none"> <li>▪ Support to IE policy priorities in DWCPs</li> <li>▪ Promoting integrated approaches for upgrading and formalization</li> <li>▪ Scaling up and mainstreaming existing initiatives</li> <li>▪ Country programmes (subject to availability of TC funding)</li> </ul>
<p><b>4. Policy Dialogue</b></p>	<p><i>Inter-regional symposium on the Informal Economy: Enabling Transition to Formalization (27-29 Nov. 2007)</i></p>	<ul style="list-style-type: none"> <li>▪ Tripartite discussion on policies and innovative practices that facilitate transition to formality. The outcomes of the IFI-IE will provide background material for the symposium</li> </ul>
<p><b>5. Organization and Tripartism</b></p>	<p>Good practice reviews</p>	<ul style="list-style-type: none"> <li>▪ Documentation and dissemination of good practices by employers' and workers' organisations, including work on cooperatives</li> <li>▪ Analysis of the role and extent of tripartite dialogue and tripartism in the informal economy</li> </ul>
<p><b>6. Measurement and Data Collection</b></p>	<p>Updated statistical picture</p>	<ul style="list-style-type: none"> <li>▪ Updating the 2002 ILO publication, <i>Men and Women in the Informal Economy: A Statistical Picture</i> with the new country data available</li> <li>▪ Brief on various methodologies for the estimate of the extent of the informal economy</li> <li>▪ Survey questionnaire to assess decent work deficits</li> </ul>