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The Informal Economy and Decent Work: A Policy Resource Guide Supporting Transitions to Formality

International Labor Office

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The Informal Economy and Decent Work: A Policy Resource Guide
Supporting Transitions to Formality

Abstract
Some forty years after the initiation of the concept of “informal sector”, informality represents a contemporary challenge for policy makers and labour market analysts. Informal employment characterizes half of the global labour force and is strongly associated with decent work deficits, quality of jobs, working poverty, low productivity, discrimination and exclusion, insecurity and vulnerabilities in the labour market. As the impacts of the global financial and economic crises, cut deep into communities around the world, and as ordinary women and men face greater insecurity and rising unemployment and inequality, it is evident that our attention must be drawn to addressing informality in all its forms and everywhere with renewed vigor.

The destabilizing effects of informality go beyond the individuals and affect enterprises, state revenues and the adequate functioning of labour market institutions and policies.

In our objective to support member States and social partners to promote the transition to formality the ILO starts from a good point. We have gained a wealth of policy experience and evidence from country practices and research. We are also better capturing the phenomenon through improved data collection. Most importantly we have an historic tripartite consensus around a framework – garnered in the 2002 International Labour Conference Resolution – on the best ways to address informality in a comprehensive manner and anchored in the Decent Work Agenda.

Since the adoption of that Resolution, we have seen continued strong demand for ILO support to its member states in reaching out to the informal economy in various technical fields.

This practical Policy Resource Guide, initiated and completed by the Employment Policy Department, is the first initiative to bring together in one volume, a synthesis of knowledge, policy innovations and good practices facilitating transition to formality highlighting the multiple pathways and the indispensable synergies and coherence amongst the objectives of employment promotion, social protection and upholding rights.

Keywords
decent work, informal economy, social protection, labor rights

Comments
Suggested Citation
THE INFORMAL ECONOMY
AND DECENT WORK:
A POLICY RESOURCE GUIDE
SUPPORTING TRANSITIONS TO FORMALITY
Contents

Acknowledgements
Foreword
Preface
How to use this Policy Resource Guide
Acronyms

PART I: Key concepts

1. Decent Work and the Informal Economy
   1.1 Key conceptual issues

2. Measurement of the Informal Economy
   2.1 Addressing statistical challenges

PART II: Policies to support transitions to formality

3. Growth Strategies and Quality Employment Generation
   3.1 Patterns of economic growth and the informal economy

4. The Regulatory Framework and the Informal Economy
   (A) International Labour Standards
      4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work
      4.a2 International Labour Standards (ILS): bringing the unprotected under the law
      4.a3 Understanding the employment relationship and its impact on informality
   (B) Specific Groups
      4.b1 Domestic Workers: strategies for overcoming poor regulation
      4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law
      4.b3 Street vendors: innovations in regulatory support
      4.b4 Micro and Small Enterprises (MSEs), informality and labour law: reducing gaps in protection
      4.b5 Strategies for transforming undeclared work into regulated work
   (C) Labour Administration
      4.c1 Labour administration: overcoming challenges in reaching the informal economy
      4.c2 Labour inspection and the informal economy: innovations in outreach
5. Organization, Representation and Dialogue

5.1 Social dialogue: promoting good governance in policy making on the informal economy
5.2 The role of Employers’ organizations and small business associations
5.3 Trade unions: reaching the marginalized and excluded
5.4 Cooperatives: a stepping stone out of informality

6. Promoting Equality and Addressing Discrimination

6.1 Promoting women’s empowerment: a gendered pathway out of informality
6.2 Migrant workers: policy frameworks for regulated and formal migration
6.3 Disability: inclusive approaches for productive work

7. Entrepreneurship, Skills Development, Finance

7.1 Informal enterprises: policy supports for encouraging formalization and upgrading
7.2 Enhancing skills and employability: facilitating access to the formal economy
7.3 Microfinance: targeted strategies to move out of informality

8. Extension of Social Protection

8.1 Extending social security coverage to the informal economy
8.2 HIV/AIDS: overcoming discrimination and economic exclusion
8.3 Extending maternity protection to the informal economy
8.4 Childcare: an essential support for better incomes

9. Local Development Strategies

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

Some forty years after the initiation of the concept of “informal sector”, informality represents a contemporary challenge for policy makers and labour market analysts. Informal employment characterizes half of the global labour force and is strongly associated with decent work deficits, quality of jobs, working poverty, low productivity, discrimination and exclusion, insecurity and vulnerabilities in the labour market. As the impacts of the global financial and economic crises, cut deep into communities around the world, and as ordinary women and men face greater insecurity and rising unemployment and inequality, it is evident that our attention must be drawn to addressing informality in all its forms and everywhere with renewed vigor.

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Jose Manuel Salazar- Xirinachs
Executive Director, Employment Sector
Preface

Informal employment is a key contemporary challenge in today’s globalized economies, from the perspective of millions of women and men who earn their livelihoods and incomes working and producing under informal arrangements and from the perspective of policy makers who strive to find the right policy responses.

This Resource Guide on Decent work strategies supporting transitions to formality was developed to respond to demands from ILO constituents. The 2002 International Labour Conference Resolution concerning Decent Work and the Informal Economy first established the importance of taking a comprehensive approach across the Decent Work Agenda. In 2007, a Tripartite Interregional Symposium was held by the ILO to showcase national experiences and good practices in enabling transitions to formality. These two milestones revealed an important gap: the lack of a single package which could bring together the various elements of an integrated approach to address the challenges of the informal economy.

Amidst the flurry of debates, analytic diagnostics on what drives informality and what facilitates transition to formality and how these opposite dynamics should be tackled, this Resource Guide combines a value-driven, didactic, evidence-based, practical and dynamic approach.

First, this guide is anchored in the ILO’s vision and values to promote decent work for all who work, irrespective of where they work.

The guide is a didactic tool as it provides a one gate access to a comprehensive set of approaches that cut across the decent work agenda and indicate multiple avenues towards formality. These are grouped under seven broad policy areas and 28 practical Briefs. Each Brief details the challenges facing institutions, actors and enterprises within the informal economy, and highlights the range of policy innovations in facilitating transitions to formality. Each brief also contains a Resources section with information on how to access relevant publications and tools to enable the reader to delve deeper into the particular issue.

Through this comprehensive perspective, users are encouraged to appreciate the interactions and complementarity amongst policy measures that improve job and income opportunities, extend social protection and empower workers and entrepreneurs in the informal economy.

It is evidence-based as it draws on good practices and practical approaches from real country experiences. It shows that informality concerns a diverse range of occupational status and work arrangements in today’s labour markets; that is has survived, often expanded and evolved into new forms together with the major shifts in the production strategies, work organization and technological innovations. The evidence shows that if there isn’t a single magic bullet that can work in all circumstances and for all those working in informality, there are plenty
of policy innovations and multiple pathways to transitions to formality that are producing tangible results on the ground. The enormous diversity of situations in the informal economy requires equally diverse solutions adapted to specific contexts. This policy resource guide shows the sheer range of approaches towards different groups and sectors.

It takes a practical approach as it demystifies transitions to formality, looking at all possible approaches that can present win-win situations for workers, entrepreneurs and enterprises, communities, and the State. It looks at progressive realization of this goal and emphasizes the need to think out of conventional boxes and to draw lessons from unsuccessful attempts too.

Finally, it is proposed as a dynamic tool. We acknowledge that like any other dimension of our fast changing economies and labour markets, policy approaches to informality and our analysis of drivers of formalization constantly evolve.

This Resource Guide in particular its web-application is designed to enable integration of new experiences and practices as they become available. Regular updates will enable this tool remain responsive to the continual evolution of policies, and meet new requests from constituents.

Azita Berar Awad
Director, Employment Policy Department
ILO, Geneva
How to use this Policy Resource Guide

Why a policy package?

The ILO’s work with its constituents has shown that the move out of informality requires approaches that are targeted, comprehensive and inter-disciplinary. It requires good data collection to understand the dimensions of informality as it manifests itself in specific contexts, and good diagnostic tools to understand the drivers and root causes of informality. Most of all it requires policy coherence across an integrated strategy, with the explicit object of facilitating the transition to formality.

This Policy Resource Guide was developed to support country efforts in policy development to overcome economic exclusion and marginalization. Its aim is to build the capacities of ILO constituents in approaches that facilitate the move out of informality. Country experience has shown that policies that are ad-hoc, piece-meal and in isolation from each other rarely have a sustained impact. Thus this tool brings together for the first time a number of technical fields across the Decent Work Agenda. The ILO’s 2008 Declaration on Social Justice for a Fair Globalization emphasized the mutually reinforcing linkages between the different dimensions of Decent Work. The need for this comprehensive approach could not be better illustrated than in the objective of moving out of informality, as defined by the 2002 International Labour Conference Resolution concerning Decent Work and the informal economy.

The Guide brings together selected examples both from within the ILO and from external sources; it highlights conceptual issues and practical experience in a range of technical fields. Policy examples are summarized in the text of the briefs, with further details accessible through the Resources section.

It is intended that this tool will be updated with new information and additional briefs as it responds to demand from constituents and to the continual evolution of policy experiences.

Who are the intended users?

While the intended audience for this Guide are policy makers and social partners it will also be of use to labour-market specialists, development practitioners, academia, NGOs media and others involved in poverty alleviation and addressing labour markets issues.
What does the Guide consist of?

The Guide consists of a number of technical briefs within nine thematic sections. All the briefs are structured around three main areas:

- **(i) Key challenges**
  This section of the brief sets out the symptoms and causes of exclusion from the formal economy of the relevant technical area, both related to the internal constraints and characteristics of the informal unit; and the limitations within existing institutions and mechanisms to extend their reach to the informal economy.

- **(ii) Emerging approaches and innovative policies and practices**
  This section of the brief provides a review of good practices and innovative approaches from different regions, and assesses lessons learned. Policy examples are summarized in the text, with the opportunity to find out more details through accessing the documents from the Resources section below.

- **(iii) Resources**
  This section of the brief provides a list of resources which can be used to shape more effective strategies, programmes and policies to promote decent work and the move out of informality. Details of the good practice examples cited in the previous section can be accessed here. The section comprises ILO instruments and International Labour Conference conclusions, relevant publications and tools. This list is not exhaustive, and readers are encouraged to utilize additional resources from the relevant department websites and external sources.

Few people are likely to read this Guide in its entirety. Indeed each brief is able to stand alone. Nonetheless while each brief is self-contained, extensive cross referencing is used, recognizing the importance of an integrated policy approach to move out of informality.

Users are encouraged to use the briefs and build on them for advocacy, capacity building, media information or use them to clarify particular issues.

How the information is organized

The title of the broad thematic policy area is at the top of the header page, with the specific title of the brief and its number code further below. A full list of the contents is on the back of each brief, indicating the relevant brief within the list.

Within each brief, information is organized in specific ways:

- **A summary** is provided at the beginning of each brief

- **Information notes** to clarify concepts or issues, highlight relevant international labour standards and provide additional useful information are contained in boxes both in the margins and in the main body of the text.

- **Key points** in the text are highlighted in the margins with a bullet point
Good practices in the second section of each brief are provided in the text, highlighted in boxes, and additionally summarized in the margins. More details of the good practices can be accessed through the Resources section.

What is the analytical framework that structures the Guide?

The 2002 International Labour Conference (ILC) Resolution concerning Decent Work and the Informal Economy structures the overarching framework of this Guide. The Resolution emphasized the critical need for an integrated and comprehensive approach, grounded in the four pillars of Decent Work (Employment generation, Rights, Social Dialogue, and Social Protection), to meet the objective of moving out of informality.

Subsequent ILO policy discussions1 since 2002 have reaffirmed the ultimate goal of facilitating the transition to formality and have fine-tuned the integrated approach into a Policy and Diagnostic Framework2. The diagram below illustrates this policy and diagnostic framework and highlights several key policy areas which indicate the multiple avenues towards the transition to formality. These seven areas structure this Policy Resource Guide and are broken down further into specific technical briefs. The diagram below demonstrates that horizontal deepening is possible through concerted action in each technical area, while vertical integration of all the areas illustrate the critical importance of a comprehensive strategy.

Decent Work Strategies for the Informal Economy
An integrated approach to move out informality


1 Subsequent policy discussions include in ILO Regional meetings, the Tripartite Interregional Symposium on the Informal Economy, and the ILO Governing Body’s Employment and Social Policy Committee.
Overview of the Contents of the Guide

Part I: Key concepts

Section 1: Decent Work and the informal economy: key conceptual issues

Explores the main conceptual issues including what is the informal economy, who is in it and what are the main drivers of informality? It emphasizes that informality manifests itself in different ways according to different country contexts and labour market characteristics.

Section 2: Measurement of the Informal Economy: addressing statistical challenges

Examines the methodological issues related to the collection of accurate data on the informal economy. It highlights the innovations from the international statistical community which will enable data on the informality to be captured more fully.

Part II: Policies to support the transition to formality

Section 3: Growth Strategies and Quality Employment Generation

Examines the complex relationship between economic growth and informality. It makes the case for employment-centred macro-economic policies explicitly targeted to curbing informality.

Section 4: The Regulatory Environment and the Informal Economy

This thematic area covers ten technical briefs, which are divided into three subsections (A) international Labour Standards, (B) Specific Groups and (C) Labour Administration. Among the briefs in this section are a survey of ILO Conventions and Recommendations most pertinent to the informal economy; the challenges of applying labour law to micro and small enterprises; a brief on the issues surrounding the employment relationship; technical briefs on gaps in the regulatory frameworks covering specific groups, and briefs examining the scope of labour administration and labour inspection to reach the informal economy.

Section 5: Organization, Representation and Dialogue

Social dialogue is an essential component of democratic policy making on the informal economy, and good governance in the labour market in general. This section looks at the diverse ways in which informal economy actors are organizing, mobilizing and engaging in social dialogue.
Section 6: Promoting Equality and addressing discrimination

Examines issues of discrimination and exclusion from formal labour markets which pushes particular groups into informality. It also examines segmentation within informal labour markets and makes the case for inclusive approaches based on equal opportunities for marginalized groups.

Section 7: Entrepreneurship, Skills Development, Finance

This section comprises three briefs: the brief on informal enterprises examines the incentive structures, supports and services which can encourage them to both formalize and upgrade; the brief on skills development looks at how skills upgrading can enhance access to the mainstream economy and the brief on microfinance details how it can be used as a catalyst out of informality through incentives and targeting.

8. Extension of Social Protection

This section currently contains four briefs. Firstly, on innovative practices in social security and health insurance in an effort to extend social security to all; and three briefs reviewing evolving practices in child care, maternity protection and measures to address the economic and social exclusion of those living with HIV/AIDS.

9. Local Development Strategies

This section examines the potential of local development strategies to generate integrated measures to support the move out of informality for poor communities.

This Policy Resource Guide is available hardcopy, CD Rom and on the internet via the ILO website. These formats address the personal preferences of users, and variation in access to technology of ILO staff and constituents. The Guide will eventually also be available in Spanish, French and Arabic.
# Acronyms

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<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tr>
<td>ARV</td>
<td>Antiretroviral drugs</td>
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<td>CBT</td>
<td>Community Based Training</td>
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<tr>
<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<td>DEWD</td>
<td>Decent Employment for Women with Disabilities project</td>
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<td>DWA</td>
<td>Decent Work Agenda</td>
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<td>DWCP</td>
<td>Decent Work Country Programme</td>
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<td>EU</td>
<td>European Union</td>
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<td>IAT</td>
<td>Informal Apprenticeship Training</td>
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<td>ICA</td>
<td>International Cooperative Alliance</td>
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<td>ICLS</td>
<td>International Conference of Labour Statisticians</td>
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<td>IGO</td>
<td>Inter-governmental organization</td>
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<td>ILC</td>
<td>International Labour Conference</td>
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<td>ILO</td>
<td>International Labour Organization</td>
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<td>ILS</td>
<td>International Labour Standards</td>
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<tr>
<td>IOE</td>
<td>International Organization of Employers</td>
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<td>ITUC</td>
<td>International Trade Union Confederation</td>
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<td>MDG</td>
<td>Millennium Development Goal</td>
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<td>MFIs</td>
<td>Micro Finance Institutions</td>
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<td>MSEs</td>
<td>Micro and small enterprises</td>
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<td>MSMEs</td>
<td>Micro, small and medium enterprises</td>
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<tr>
<td>NGO</td>
<td>Non-governmental organization</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<td>WB</td>
<td>The World Bank</td>
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<tr>
<td>SEWA</td>
<td>Self Employed Women's Association</td>
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<td>SMEs</td>
<td>Small and medium enterprises</td>
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<tr>
<td>TREE</td>
<td>Training Rural Economic Empowerment (ILO)</td>
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<tr>
<td>VET</td>
<td>Vocational Education and Training</td>
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<tr>
<td>WED</td>
<td>Women's Entrepreneurship Development programme (ILO)</td>
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<td>WIEGO</td>
<td>Women in the Informal Employment, Globalizing and Organizing</td>
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Decent Work and the Informal Economy

1.1 THE INFORMAL ECONOMY AND DECENT WORK: KEY CONCEPTUAL ISSUES

This brief sets out key issues, debates and concepts behind analytical discussions on the informal economy. It outlines the ILO’s integrated and comprehensive approach to both understanding informality and to develop strategies to move out of informality. It ends with a description of the diagnostic and analytic framework that the ILO is using to analyse the specificities of informality in different country contexts and support the development of effective policy responses.
KEY CHALLENGES

1. The 2002 International Labour Conference (ILC) consensus on informality
2. What is the informal economy?
3. Who is in the informal economy?
   • Categories of work
   • Specific groups
4. What drives informality?
   • Poverty
   • Poor absorption capacity of the industrial sector
   • The drive for flexibility
   • Changing production structures
   • Economic restructuring
   • The labour regulation debate
   • Economic crises
5. Decent Work and the informal economy
6. The move out of informality
7. Refining the integrated approach

The 2002 International Labour Conference (ILC) consensus on informality. The ILO has been one of the leaders in the analysis of informality ever since it’s conceptual ‘discovery’ in the 1970s, (see box below). Over the past three decades the informal economy has been subject to much research and policy debate, and the understanding of its dimensions has evolved considerably from the earlier narrow terminology of ‘informal sector’. Theories which had envisaged it as a temporary phenomenon which would dissipate with economic development have given way to more modulated views in light of its growth and persistence in developing - and even developed countries. The 2002 International Labour Conference (ILC) Resolution on Decent Work and the Informal Economy marked a breakthrough in analysis - providing a framework which recognised the diversity and heterogeneity of actors and activities in the informal economy and broadening the understanding of its parameters. It established that informality exists across a wide range of sectors and, importantly, also includes casualized and precarious work within the formal economy.

While recognising the resilience and dynamism of workers and entrepreneurs in the informal economy, ILO tripartite constituents (Workers’ organizations, Employers’ organizations and Governments) at the 2002 ILC developed a broad consensus on the need to address their vulnerabilities. Actors in the informal economy are often not recognised, registered or counted in national statistics. And even where they are registered, they may be outside the reach of social protection, labour legislation and protective measures at the workplace. Their employment status may be ambiguous - further reinforcing their limited protection under the law. They are often unorganized, and for this and other reasons they are often unable to articulate their rights. Workplaces

1 In 1972 an ILO Employment Mission to Kenya first analyzed economic activities outside the formal economy using the term ‘informal sector’ which had been coined by economist Keith Hart’s previous study of economic activities in Ghana.
The informal economy and Decent Work: Key conceptual issues

May be unsafe and unhealthy with serious and sometimes life-threatening hazards. Despite long working hours, productivity and incomes are usually low. Moreover, limited access to productive resources such as finance, land, property, technology and markets may be compounded by low levels of skills, information and literacy, confining many in the informal economy to marginalized and survivalist activities.

In view of this, ILO constituents at the 2002 ILC proposed a comprehensive response grounded in the four pillars of Decent Work: Employment, Rights, Social Dialogue and Social Protection. The ultimate objective is to support transition to formality by bringing the informal economy progressively into formal channels of protection and support, while seeking to preserve existing dynamic potentials. Analysis of the root causes of informality (see further below on drivers of informality) and its specificities in particular country reveals that piece-meal approaches are unlikely to have a sustained impact. What is required is an integrated approach across a range of policy areas. This call for policy coherence and a comprehensive approach at the 2002 ILC has been further reinforced by the 2008 ILO Declaration on Social Justice for a Fair Globalisation, which establishes that the four pillars of Decent Work are ‘inseparable, interrelated and mutually supportive’. Meeting the objective of moving out of informality is a clear example of this need for policy coherence.

Before looking at this integrated strategy to support the move out of informality in detail, it is worth examining differing understandings of informality since this can lead to very different policy responses (see box below), and also visiting some key conceptual issues that emanated from the 2002 ILC Resolution concerning Decent Work and the Informal Economy.

Differing interpretations of informality

The ‘traditional sector’

Discussions of informality can be traced back to economic theories, prominent in the 1950s, of the ‘traditional sector’. Many economists such as Arthur Lewis and others believed that this sector – comprised of the vast pool of surplus labour in developing countries, and including petty traders, small holders and casual wage workers - would gradually become absorbed into the modern industrial sector as these economies grew. It was also believed that this sector was marginal and not linked to the formal economy or to modern capitalist development.

The term ‘informal sector’

In the early 1970s, economic anthropologist Keith Hart observed from his research on Ghana, that the ‘informal sector’ had not just persisted but expanded. The terminology of ‘informal sector’ gained widespread acceptance after the ILO used it to analyse economic activities in Kenya for an ILO Employment mission in 1972 conducted by a number of specialists. The ILO team systematically analysed these activities, noting that they were unrecognized, unrecorded, unprotected and unregulated. They observed that the informal sector included a range of activities from marginal survivalist work to profitable enterprises.
In the following decades there was on-going debate about the nature and causes of the informal sector. Two schools of thought saw it as a feature of pre-capitalist economies. The Dualist school (including some in the ILO during the 1970s) believed that the informal sector comprised peripheral activities not linked to the formal sector. The persistence of peasant forms of production was seen to be caused by imbalances where labour supply outstrips economic development and when traditional skills do not match new economic opportunities.

The Legalists school of thought (popularized by Hernando de Soto and others) believed that the informal sector was comprised of micro entrepreneurs who try to avoid the costs and responsibilities of formal registration. Onerous and complicated regulations and costs stifle private enterprise and drive them underground. De Soto and others have championed property rights as a means of converting informally held capital into real capital.

The Structuralist school (including proponents such as Alejandro Portes) argued, in contrast to the other schools of thought, that the informal sector was a feature of capitalist development. In this view the informal sector is seen as being subordinated to, even exploited by, the formal sector, in order to lower costs and increase the competitiveness of large firms.

The Il-legalist school of thought, is closely linked to neoliberalism and neo-classical economics. In this view informality is seen as a way for entrepreneurs to avoid taxes and labour market regulation. Informality is thus viewed as a choice.

From informal sector to informal economy
During the 1990s, a renewed interest in the informal sector and analysis of the patterns of informality in both developed countries and developing countries showed that informality was persisting and growing. This led to a fundamental rethinking of the informal sector and deepened understanding of its dimensions and dynamics. In 2002, the International Labour conference broke new ground in the debates surrounding informality, broadening it’s conceptual from a ‘sector’ to an economy wide phenomenon, and from an enterprise based concept to one that included not just the production unit but also the characteristics of the job or worker.

This broadened understanding of informality opened opportunities for a more nuanced and country specific perspective on the causes and consequences of informality, the characteristics of informality, and the linkages with the informal economy and formal regulatory environment.

Source: Adapted from Martha Chen ‘Rethinking the Informal Economy, from enterprise characteristics to employment relations’, in Rethinking Informalization, Poverty, Precarious Jobs and Social Protection, Edited by Neema Kudva and Lourdes Beneria, Cornell University Open Access Repository.

■ What is the informal economy? The 2002 ILC Resolution proposed the term ‘informal economy’ rather than the previous term ‘informal sector’ to better describe the sheer scope and diversity of the phenomenon around the world. Rather than a specific definition, the framework provided parameters for understanding the informal economy as ‘all activities that are, in law or practice, not covered or insufficiently covered by formal arrangements’. The notion of exclusion lies at the heart of these parameters – that it refers to working people who are largely excluded from the exchanges that take place in the recognised system. They are often not captured by national accounts and official statistics and as a consequence invisible in policy formulation.
Poor governance is a key issue underlying informality.

From this point of view, several aspects of informality are revealed: actors can be informal in that they lack social protection, do not exercise rights at work and lack representation and voice in the workplace. They are therefore excluded from the benefits that are provided by the state, private markets and political processes, and because of this, the informal economy is largely unprotected, insecure and vulnerable.

Exclusion from the mainstream economy may come about for various reasons including:

- On the labour supply side: internal constraints brought about by poverty, inadequate human capital accumulation, such as low education, training and ability to manage risks and income. These prevent workers from taking more productive employment or from accessing financial and other services;
- On the labour demand side: a policy incentive regime that encourages labour saving technologies and capital intensive growth which orients public and private support institutions away from small enterprises and private sector growth; and
- On the external environment: globalization and greater competitiveness that force companies to rely on atypical, non-standard work arrangements that are less costly to employers but result in greater precariousness for workers.

The literature distinguishes between voluntary and involuntary exclusion, the former being wilful evasion from taxes and regulatory controls. The complex debates surrounding issues of de-regulation (and what should be de-regulated) will be touched on later in this brief (see also briefs on International Labour standards, the regulatory environment and on informal enterprises). Nonetheless the phenomenon of exclusion highlights the weakness of governance: of institutions that are unable to meet the needs and capacities of the populations they are mandated to serve.

Indeed the 2002 ILC Resolution emphasised poor governance as a key issue underlying informality. The growth of informality can be traced to:

‘inappropriate, ineffective, misguided or badly implemented macroeconomic and social policies, often developed without tripartite consultations; the lack of conducive legal and institutional frameworks; and the lack of good governance for proper and effective implementation of policies and laws’.

Inadequacy in governance results in populations of workers and entrepreneurs who are not recognised or protected by law. The legal and institutional frameworks whose design and enforcement are essential to combating informality are those that govern labour, social protection, business regulation and securing property rights, including access to financial capital. (see briefs on Regulatory Frameworks).

Who is in the informal economy? The informal economy has continued to grow throughout the world. In 2002 ILO estimates placed the informal economy at around 72 percent of non-agricultural employment in sub-Saharan Africa, 71 percent in Asia, 51 percent in Latin America and 47 percent in the Middle East and North Africa. When agricultural employment is included...
The informal economy has traditionally been viewed as a catchbasin for women and men who cannot find jobs in the formal economy and who are therefore pushed to take any work or create their own employment through small, even marginal, economic activities. Not everyone in the informal economy, however, is poor. There are those who have started out operating on the margins, but through their dynamism, have grown their enterprises and broken out of poverty. And there may be firms which are formal but choose to remain informal in some aspects such as their failure to declare income to tax authorities or have not registered their owners and workers with the labour ministry or social security system. Still, it remains that most of those found in the informal economy are poor and earn low incomes, and there is very little element of ‘choice’ in their position in the informal economy. Even where informal economy actors are able to earn more than their formal counterparts, they still remain, in several aspects, out of the main circuits of market exchange and state protective systems.

- **Categories of work.** The broader categorisation of ‘informal economy’ proposed in 2002, better captures the phenomenon of not only unregistered and unrecognised enterprises, but also workers who are in precarious circumstances, whether in the formal or informal economy. The new term better illustrates informality in terms of both the production unit and the characteristics of the job or worker. (See brief on Measurement of the Informal Economy).

Consequently in 2003 the 17th International Conference of Labour Statisticians (ICLS) spelled out these categories based on the expanded concept. It includes the following categories of work:

i. Own-account workers (self-employed with no employees) in their own informal sector enterprises;
ii. Employers (self-employed with employees) in their own informal sector enterprises;
iii. Contributing family workers, irrespective of type of enterprise;
iv. Members of informal producers’ cooperatives (not established as legal entities);
v. Employees holding informal jobs as defined according to the employment relationship (in law or in practice, jobs not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (paid annual or sick leave, etc.);
vi. Own-account workers engaged in production of goods exclusively for own final use by their household.

This has been a major innovation by the international statistical community in capturing informality in terms of data which is dealt with in more detail in the brief on Measurement.

- **Specific groups.** The informal economy has become the last resort for many indigenous and tribal peoples, workers with disabilities, and those affected by HIV/AIDs. They often remain trapped in the informal economy in conditions of vulnerability and insecurity, as a result of discrimination in access to formal labour markets.

Women and youth are also disproportionately represented in the informal economy and often at the most marginalised end of it. Strong gender segmentation is evident, with employers being predominately male and

● The 2002 categorisation of the informal economy better captures the phenomenon of not only unregistered and unrecognised enterprises but also workers who are in precarious circumstances whether in the formal or informal economy

● Gender segmentation is embedded within the informal economy
contributing family workers predominately female. Additionally within any given employment status category, women’s earnings are less than men’s. Moreover women spend fewer hours in remunerative work than men, in part due to the hours they spend in unpaid care work. Responsibilities for unpaid care work also reinforce labour market segmentation – women may be restricted to own-account or homebased employment, even if total hours worked are longer and incomes lower. Women also tend to be clustered in ‘traditional female’ oriented economic activities such as tailoring and cooking which are often more poorly remunerated and suffer greater market saturation than other types of economic activities.

All these factors influence women’s risk of poverty and marginalisation within the informal economy. (See also brief on Gender Equality).

The box below illustrates the gender segmentation apparent in the informal economy. It should be noted however, that the exact composition of the segmentation varies in different country contexts.

A multiplicity of factors drive informality, and their precise combination in different country contexts varies

What drives informality? Contrary to common expectations that the informal economy acts as a transit hub for the unemployed which dissipates once economies grow and absorb the surplus labour found in it, evidence across countries shows that informality persists in countries which have experienced robust and sustained economic growth. In many developing countries, a more complex relationship emerges – one where economic downturns throw people into the informal employment (as a survival option) and economic upturns fail to bring them back into the formal system. A discussion of the phenomenon of job-less growth and the critical importance of

6 For more details see Resources section to access UNIFEM: Progress of the World’s Women 2005, Overview – Women, Work and Poverty Pg 50
employment policies as the key nexus between growth and poverty reduction, is detailed in the brief on Patterns of economic growth and the informal economy.

• **Poverty.** There are multiple factors underlying informality. First and foremost is the problem of poverty and the limited livelihood opportunities and jobs for the working poor. Though not everyone in the informal economy is poor, as noted in the ILO report Working Out of Poverty, there is a frequent overlap between informality and poverty. This link is elaborated in the foregoing sections and again elaborated in the brief on Patterns of economic growth and the informal economy. Low incomes and limited access to public institutions prevent the poor from investing in skills that could boost their employability, productivity and ensure their protection from income shocks and risks. Lack of education and limited recognition of skills garnered in the informal economy also prevent poor people from entering the formal economy, while the scarcity of livelihood opportunities in rural areas often drives migrants into informal work in urban areas and in developed countries. Labour market discrimination of vulnerable groups such as poor women, disabled, ethnic groups, persons with HIV/AIDS often pushes these families and communities into poverty and survival through informal work.

• **Poor absorption capacity of the industrial sector.** Another factor driving informality is the inability of the industrial sector to absorb labour in more productive jobs. This often results in the preponderance of low quality employment in the service sector. As developing countries industrialize, the associated decline in rural-urban migration and industrial expansion are often not accompanied by a proportionate increase in industrial jobs. Rather, most of the jobs end up being created in the service sector. While service sector employment spans the entire spectrum of working conditions and wages, and includes petty trading as it does sophisticated financial services, there is evidence of the sector’s overall low value-added contribution in many regions. This suggests that a substantial amount of jobs created in these sectors could include the poor quality, and low productivity types associated with the informal economy.

• **The drive for flexibility.** Flexibilization of work in the formal economy as a result of globalization pressures is another factor contributing to the growth of informality. Previously, formal or regular employment contracts would offer workers security of job tenure as well as some income stability and social security. It also allowed workers to avoid risks associated with investment in tools, materials and premises, as these were borne by the employer. As companies keep up with a more competitive market, they resort to flexible work arrangements such as subcontracting, temporary or casual work.

• **Changing production structures.** Similarly, the easing of trade and financial barriers, coupled with the fall in the cost of transportation and communication, has made it easier for businesses to break up production processes and subcontract them in countries where labour costs are lower.

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9 ILO: Resolution and Conclusions concerning Decent Work and the Informal Economy. op.cit

10 For more details see Resources section to access ILO 2008, Decent Work and the Transition to formalization: Recent Trends, policy debates and good practices, Report of the Tripartite Interregional Symposium on the Informal Economy: Enabling Transition to Formalization
This is seen in the fact that, while the share of industrial employment to total employment worldwide has remained steady at around 21 per cent in 1995 and 2005, the share in industrialized countries has declined while the same has increased in several developing countries, including Brazil, China, Indonesia, Mexico, Pakistan, Russian Federation, South Africa, Thailand, Turkey and Viet Nam11.

- **Economic restructuring.** Economic restructuring processes, including privatization of state enterprises and public service, have in some countries contributed to the growth of the informal economy. For instance, in the region of Central and South-Eastern Europe (non-EU) and the Central Independent States, the breakdown of the Soviet system was followed by high unemployment rates and rapid rural-urban migration without corresponding increases in the share of workers in industry. This has resulted in high shares of employment in the service sector, almost stagnant vulnerable employment and unemployment rates, as well as discouragement among the youth.

- **The labour regulation debate** A more controversial debate on the drivers of informality concerns the regulatory environment. Proponents of deregulation, argue that the high cost of compliance to regulation results in ‘rigidity of the labour market’ and the ‘voluntary choice of informality’. In this view regulation negatively affects formal employment creation and drives it underground. However a review of the literature does not provide evidence for arguments put forward by supporters of ‘systematic deregulation’. The Commission on the Legal Empowerment of the Poor and more particularly its working group of independent experts (including ILO and the World Bank) examined the studies and empirical evidence that established the linkage between rigid labour market regulatory frameworks and rise in informality over a selected period and concluded that the evidence was not conclusive12. The Commission recommended instead examining the adequacy of the regulatory framework in local contexts with a view to strengthen its empowering role for those working in the informal economy. It also recommended the development and effective enforcement of a minimum package of rights that embraces and goes beyond the ILO 1998 Declaration on Fundamental Principles and Rights at Work13.

Several country surveys and studies that have come out since do not sustain either the inferred causality between the rise in informality and “rigidity” in labour markets. A recent example is the Report by the India’s National Commission on the Unorganized Sector released in June 200914. The report analyzed growth and employment data of the last decade in India and concludes that the pace of job creation has been greater in low quality/informal employment as compared to job creation in formal employment during a period when the country experienced strong growth and no “tightening” of labour market regulations. In other words, rise in informality, including for both groups of self-employed and in particular for wage employees in the formal sector cannot be imputed to stricter regulations15. In Brazil, recent ILO studies, show on the other hand, increase and acceleration in formal employment generation at a time when minimum wages had been elevated.

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13 Ibid
15 The Informal Economy- Think Piece. ILO 2009 internal note.
and labour inspection strengthened. In Argentina, a recent World Bank survey did not sustain the thesis of "voluntary informal employment" and demonstrated how a multi-dimensional policy package could curb the dramatic increase which occurred in informality after the financial crisis.

(The regulatory debate is also discussed in the brief on the Regulatory environment, and see also brief on Patterns of Economic growth for more discussion on Brazil and Argentina).

While systematic deregulation has not proven to be an appropriate policy response, there are aspects of regulations which clearly need to be streamlined, simplified and made cost-effective. High transaction costs, overly burdensome regulations, complicated, costly and inappropriate processes for registration as well as dealing with corrupt or inefficient bureaucracies for example can be serious barriers to entry into the mainstream economy.

- **Economic crises.** Economic crisis create new pressures on formal employment and often result in the expansion of the informal economy. Job losses in the formal economy exert double pressure on the already vulnerable situations in the informal economy. The informal economy is often considered as a natural and flexible "shock absorber", that can provide unlimited self employment and livelihood opportunities for those who lose their formal jobs. However contraction of aggregate demand globally and in key sectors such as construction, textiles or toy industry is affecting informal job and business opportunities in the current global financial crisis. Both trends increase competitive pressures in the informal economy and further deteriorate earning opportunities and income levels. Measures for recovery need to focus beyond the formal economy to avoid setbacks in the goal of transition to formality. They must integrate and support the livelihoods, coping strategies and safety nets of informal workers if these long term effects are to be mitigated.

- **Decent Work and the Informal Economy.** The ILO’s goal of promoting opportunities for women and men to obtain decent and productive work applies not just to the formal labour market but to all types of workers and employers. In his Report to the 89th Session of the International Labour Conference, the ILO Director-General emphasized that:

  "it is in the informal economy and among the poor that the needs are greatest. If we claim universality, (that) ‘all those who work have rights at work’ – then we are obliged to tackle these issues."

In 2002, the ILC re-emphasized this same challenge, when it pointed out the need to address deficits in decent work conditions in the informal economy, calling for a -

...broad strategy (of) realizing fundamental principles and rights at work; creating greater and better employment and income opportunities; extending social protection; and promoting social dialogue.

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16 See Resources section to access: Berg, J. Laws or Luck: Understanding rising formality in Brazil in the 2000’s
17 Taken from The informal economy – Think Piece’, ILO 2009 Internal note. World Bank and Ministerio de Trabajo, Empleo y Seguridad Social: Aportes a una nueva visión de la informalidad laboral en la Argentina (Buenos Aires, WB and Ministerio de Trabajo, Empleo y Seguridad Social, 2008).
18 ILO 2002 Resolution and Conclusions concerning Decent Work and the Informal Economy
19 See Resources section to access: ILO 2010: Employment policies for social justice and a fair globalization – Recurrent Item Report on Employment
21 See Resources section to access: ILO 2002: Resolution and Conclusions concerning Decent Work and the Informal Economy
Decent Work has become an internationally accepted reference point and is recognized not only as an end in itself but as a key means of achieving global development goals including poverty eradication.

Informality and the four Decent Work Pillars
( Employment, Social Protection, Social Dialogue and Rights)

Employment
The need to expand opportunities for people to find productive work and earn a decent livelihood.
Informality and exclusion as far as employment is concerned includes not only access to quality jobs which earn decent incomes but also access to inputs that improve informal economy actors’ capacity to find productive opportunities (for example skills training, financial services, market information) and policies that open the space for the economic activities of the poor, utilize their assets and expand their markets (for example labour intensive production techniques, infrastructure facilities accessible to clusters and communities, trade policies that do not unduly discriminate against the products of the poor, financial services and market space accessible to the poor).

(Social) Protection against vulnerabilities
The need to address the contingencies that take people out of work, whether these arise from unemployment, loss of livelihood, maternity, sickness or old age.
Informality as far as social protection is concerned occurs when social security systems are out of reach of certain types of workers and entrepreneurs leaving them vulnerable to risks of sudden impoverishment; and when occupational safety and health advisory services do not extend beyond formal enterprises.

Social dialogue
Organization, representation and dialogue are the essential processes to set in place the enjoyment of a range of rights at work. Freedom of association and social dialogue are the cornerstone of democratic good governance in the labour market.
Informality and exclusion from social dialogue processes occur when informal economy actors are unable to organize and articulate their needs and interests; where organizations formed among workers and own-account workers are not recognized, and worse, suppressed; when the avenues of participation are captured by dominant interests to the exclusion of workers and the poor; and when workers’ and employers’ organizations as well as tripartite formations are not inclusive of certain categories workers and entrepreneurs.

Rights
All those who work have rights at work, irrespective where they work. The ILO calls for improvement of the conditions in which work is carried out, wherever work might occur, whether in the formal or the informal economy, whether at home, in the community or in the voluntary sector, whether workers are organized or not.
Informality in terms of rights can be found among populations that are not protected by labour legislation and administration, have no access to dispute settlement mechanisms, cannot form legally-recognized associations, are beyond the reach of legal and rights education, and work under bonded or unfair conditions out of the purview of state scrutiny.
Progressive steps in moving out of informality. Decent Work provides a coherent framework for identifying which aspects of informality need to be looked at (i.e. the specific components of decent work) and also which types of policy and institutional instruments can foster or hinder greater inclusion with the mainstream economy. This process of moving out of informality is a comprehensive and progressive one rather than a simplistic one-off approach. The goal of decent work must be pursued progressively by:

- giving priority to reducing decent work deficits in the informal economy in the immediate term, by ensuring those found in it are recognised by law, have rights, legal and social protection and representation;
- ensuring, in the short and medium term, that job seekers and potential entrepreneurs are able to enter the formal, protected and mainstream economy, and
- in the longer term, creating enough employment opportunities that are formal, protected and decent for all workers and employers.

While the goal and the challenge remains to move out of informality, the path is depicted not in terms of a one-dimensional remedy but rather as a gradual approach that can catalyse transition through comprehensive and integrated strategies that addresses the multi-rooted problems of the informal economy.

Refining the ILO’s integrated approach. Since the 2002 ILC Resolution the ILO has further fine-tuned this comprehensive framework in subsequent policy discussions, including at ILO Regional meetings, the 2007 Tripartite Interregional Symposium on the Informal Economy, and in the ILO Governing Body’s Employment and Social Policy Committee. The framework recognises that:

...to promote decent work, there needs to be a comprehensive and integrated strategy cutting across a range of policy areas that eliminates the negative aspects of informality, while preserving the significant job creation and income-generation potential, and that promotes the protection and incorporation of workers and economic units in the informal economy into the mainstream economy.

Drawing on its research at country level and its operational work, the ILO has translated this comprehensive approach into a policy and diagnostic framework that includes seven key areas of policy action, as shown in the diagram below. This framework serves multiple functions. It is for use as a diagnostic tool to analyse and monitor processes and determinants of informalization / formalization in a given country context; encourage broad based tripartite dialogue for assessing the impact of policies; and engage in dialogue with other global actors and international institutions which are increasingly focused on the informal economy and promote their own perspectives. The framework points to the multiple avenues towards formality by deepening action in each of the policy areas (listed in the rows in the diagram). It also shows the total impact of these different policies that can create an enabling / disabling environment towards formality in a given country context (coherence among these policy areas). The totality of incentives and disincentives that motivate each of the players, governments, employers’, and workers’ organisations, as well as the workers and entrepreneurs in the informal economy, can be better evaluated as a result.

22 For more details see Resources section to access: ILO 2007 The Informal Economy, Governing Body, 298th Session, Geneva March 2007, GB.298/ESP/4
Decent Work Strategies for the Informal Economy

- Growth strategies and quality employment generation
- Regulatory environment, including enforcement of ILS and core rights
- Organization, representation and dialogue
- Equality: gender, ethnicity, race, caste, disability, age
- Entrepreneurship, skills, finance, management, access to markets
- Extension of social protection, social security, social transfers
- Local (rural and urban) development strategies


This policy and diagnostic tool provides the framework for the ILO’s support to its constituents in developing strategies to transition to formality. The structure of this Policy Resource Guide is therefore based on this framework. The seven policy areas are further broken down within this Guide into specific technical briefs, but within an overall perspective of the need for a comprehensive, integrated and targeted approach to moving out of informality.
1. Decent Work and the Informal Economy

1.1 THE INFORMAL ECONOMY AND DECENT WORK: KEY CONCEPTUAL ISSUES

Stenographer in the streets of Lima, Peru.
This section provides a list of resources which can enable the reader to delve deeper into the issue. The section comprises international instruments, International Labour Conference conclusions, relevant publications and training tools. A bibliography of references in the text is further below. There may be some overlap between the two.

**ILO and UN Instruments and ILC Conference conclusions**

ILO 1998 Declaration concerning fundamental principles and rights at work
http://www.ilo.org/ilolex/cgi-lex/pdconv.pl?host=status01&textbase=iloeng&document=2&chapter=26&query=%23docno%3D261998+%26ref%26highlight=&querytype=bool&context=0

ILO 2002 Resolution and conclusions concerning decent work and the informal economy
International Labour Conference, 90th session, 2002 Geneva

ILO 2008 Declaration Concerning Social Justice for a Fair Globalisation

ILO 2009 Recovering from the crisis: A Global Jobs Pact
International Labour Conference 98th session, 2009, Geneva

ILO 2010 Resolution and Conclusions concerning the recurrent discussion of Employment
International Labour Conference 99th session, 2010 Geneva

**Fundamental Conventions**


Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87)
Right to Organise and Collective Bargaining Convention, 1949 (No. 98)

Forced Labour Convention, 1930 (No. 29)
Abolition of Forced Labour Convention, 1957 (No. 105)

Minimum Age Convention, 1973 (No. 138)
Worst Forms of Child Labour Convention, 1999 (No. 182)

Equal Remuneration Convention, 1951 (No. 100)
Discrimination (Employment and Occupation) Convention, 1958 (No. 111)

**Governance Conventions**


Labour Inspection Convention, 1947 (No. 81)
Labour Inspection (Agriculture) Convention, 1969 (No. 129)
Employment Policy Convention, 1964 (No. 122)
Tripartite Consultation (International Labour Standards) Convention, 1976 (No. 144)
Relevant Publications

Berg, J. 2010: Laws or Luck?: Understanding rising formality in Brazil in the 2000’s, Working paper 5, ILO Office in Brazil


http://www.ilo.org/wcmsp5/groups/public@ed_emp/@emp_policy/documents/meetingdocument/wcms_125489.pdf


References

Berg, J. 2010: Laws or Luck?: Understanding rising formality in Brazil in the 2000’s, Working paper 5, ILO Office in Brazil


--- 2006c Realizing Decent Work in Asia. Report of the Director General, 14th Asian Regional Meeting, Busan, Republic of Korea, August-September 2006(Geneva ILO)


--- 2007b Governing Body, Committee on Employment and Social Policy, 298th Session, March 2007, the Informal Economy. GB.298/ESP/4


1. Decent Work and the Informal Economy

1.1 THE INFORMAL ECONOMY AND DECENT WORK: KEY CONCEPTUAL ISSUES

Shoe Repair shop, Syrian Arab Republic.
A POLICY RESOURCE GUIDE SUPPORTING TRANSITIONS TO FORMALITY

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

PART I: Key concepts

1. Decent Work and the Informal Economy
   1.1 Key conceptual issues

2. Measurement of the Informal Economy
   2.1 Addressing statistical challenges

PART II: Policies to support transitions to formality

3. Growth Strategies and Quality Employment Generation
   3.1 Patterns of economic growth and the informal economy

4. The Regulatory Framework and the Informal Economy
   (A) International Labour Standards
      4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work
      4.a2 International Labour Standards (ILS): bringing the unprotected under the law
      4.a3 Understanding the employment relationship and its impact on informality
   (B) Specific Groups
      4.b1 Domestic Workers: strategies for overcoming poor regulation
      4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law
      4.b3 Street vendors: innovations in regulatory support
      4.b4 Micro and Small Enterprises (MSEs), informality and labour law: reducing gaps in protection
      4.b5 Strategies for transforming undeclared work into regulated work
   (C) Labour Administration
      4.c1 Labour administration: overcoming challenges in reaching the informal economy
      4.c2 Labour inspection and the informal economy: innovations in outreach

5. Organization, Representation and Dialogue
   5.1 Social dialogue: promoting good governance in policy making on the informal economy
   5.2 The role of Employers’ organizations and small business associations
   5.3 Trade unions: reaching the marginalized and excluded
   5.4 Cooperatives: a stepping stone out of informality

6. Promoting Equality and Addressing Discrimination
   6.1 Promoting women’s empowerment: a gendered pathway out of informality
   6.2 Migrant workers: policy frameworks for regulated and formal migration
   6.3 Disability: inclusive approaches for productive work

7. Entrepreneurship, Skills Development, Finance
   7.1 Informal enterprises: policy supports for encouraging formalization and upgrading
   7.2 Enhancing skills and employability: facilitating access to the formal economy
   7.3 Microfinance: targeted strategies to move out of informality

8. Extension of Social Protection
   8.1 Extending social security coverage to the informal economy
   8.2 HIV/AIDS: overcoming discrimination and economic exclusion
   8.3 Extending maternity protection to the informal economy
   8.4 Childcare: an essential support for better incomes

9. Local Development Strategies
   9.1 Local development: opportunities for integrated strategies for moving out of informality
Measurement of the Informal Economy

2.1 MEASURING THE INFORMAL ECONOMY: ADDRESSING STATISTICAL CHALLENGES

Since the 1970s when the term “informal sector” became widely used, efforts have been made to develop more precise definitions that lend themselves to statistical estimation. The informal economy as a concept has been elusive not only as a category given its many possible associations, but also as a traceable entity given its mobility and lack of visibility. With the broadening of the concept of informality first by the International Labour Conference Resolution in 2002, and secondly by the International Conference of Labour Statisticians in 2003, work has progressed in terms of developing guidelines for improved availability and quality of statistics that are better harmonized. This brief looks at the current state of statistics in defining and measuring the informal economy. It describes the conceptual development of the term and assesses remaining challenges for measurement and data collection. Innovative responses from the ILO and the international statistical community to address existing information gaps are discussed.
The paucity of data. The informal economy plays a major role in employment creation, income generation and production in many countries—contributing 75 percent and more of non-agricultural employment in some developing countries. Yet, for many countries a detailed statistical knowledge of the informal economy remains at best fragmented, cursory and anecdotal. In recent years, significant efforts within the international statistical community have resulted in clarification of the concepts and operational definitions of the informal economy. The key challenges that still remain are:

- to promote better understanding of the statistical concepts of the informal economy,
- to guide countries on the practical application of international standards within statistical frameworks and
- to demonstrate good practices in the analysis of informal economy statistics for policy design.

Why is measurement important? The development of statistics that measure the magnitude and nature of the informal economy are important for a number of reasons including: as the basis for the formulation and evaluation of effective policies to support the transition to formality; as an advocacy tool for the population groups involved; in depicting global and national employment trends; and in analyzing linkages between growth and employment.

In terms of employment, national policies are better informed when the magnitude of informal work, as well as the conditions found in these employment patterns, is known. Labour market information in countries tends to relate to the volume of work that is or is not available, utilizing general statistics of employment and unemployment. What are missing are the details of the various layers and forms of precarious work. Since the informal economy is generally recognized as entailing missing legal identity, poor work conditions, lack of membership in social protection systems, incidence of work related accidents and ailments, and limited freedom of association, generating statistics that count the number of persons will certainly broaden the knowledge base concerning the extent and content of policy responses required.

Additionally, without more detailed employment data, it is difficult to determine whether economic growth policies are able to improve the quantity and quality of employment and, ultimately eradicate poverty. Therefore, globally, the development community is better served when it has an improved reflection of the extent to which informalization is a regional or worldwide phenomenon; and the extent to which employment patterns impact on human development and poverty reduction in different countries.
Including informal activities in national accounts provides a more comprehensive assessment of national wealth, which is important for framing policy responses as well as making comparisons over time and across countries. Measurement of gross domestic product and employment can be grossly underestimated if informal activities are not taken into consideration. This bias leads to inaccurate figures of national poverty levels (measured by GDP per head), environmental standing (measured by pollutant emission per GDP), as well as GDP based developmental assistance. Further, measuring the informal economy serves the goal of national statistical systems, which is to “reduce as far as possible the incidence of non-observed activities and to ensure that those remaining are appropriately measured and included in GDP” and other data estimates.

Conceptualizing the informal economy. Since the coining of the term “informal sector” in the 1970s, it has served as a conceptual handle for any number of activities that are excluded from the law or are situated beyond the scope of regulation and taxation. One reason for the vagueness is that for many years the development community had to make do with a description rather than a definition of the informal sector. The ILO stated in 1991, for instance, that the informal sector was “made up of small-scale economic activities, consisting of self-employed persons who hire family labour or a few workers”. It described typical features such as having little capital, using low level technology, and lacking access to markets and formal institutions, but did not adopt a formal definition.

In 1993, the statistical conception of informal sector activities was adopted at the 15th International Conference of Labour Statisticians (ICLS). More than 15 years later, the concept of informality has evolved, broadening its scope from employment in a specific type of production unit (or enterprises) to an economy-wide phenomenon, with the current focus now on the development and harmonization of informal economy indicators. The conceptual change from the informal sector to the informal economy (described further below), while certainly technically sound and commendable as a reflection of the evolving realities of the world of work, has resulted in challenges for the measurement of a concept that was already fraught with difficulties (these are addressed below). The current statistical concept of informal employment is also described below. However, because it takes time for a “new” statistical concept to take hold some countries will continue to report on the concept of employment in the informal sector for a few years to come, the statistical definition of the latter remains the topic of the brief discussion in the following sub-section.

Employment in the informal sector and informal sector enterprises. The definition of employment in the informal sector that was formally adopted by the 15th ICLS is based on the concept of the informal sector enterprise, with all jobs deemed to fall under such an enterprise included in the count. In other words, employment in the informal sector basically comprises all jobs in unregistered and/or small-scale private unincorporated enterprises that produce goods or services meant for sale or barter.

2 Ibid.
4 For more details see Resources section to access ICLS Resolution concerning statistics of employment in the informal sector,
5 For full details regarding the history of the informal economy as a statistical concept, specifically as concerns the path from measurement of employment in the informal sector to informal employment, see Resources section to access: Hussmanns, R., 2004.
There are considerable nuances and complexities to the definition. The term “enterprise” is used in a broad sense, as it covers both units which employ hired labour and those run by individuals working on own account or as self-employed persons, either alone or with the help of unpaid family members. Workers of all employment statuses are included if deemed to be engaged in an informal enterprise. Thus, self-employed street vendors, taxi drivers and home-based workers are all considered enterprises. The logic behind establishing the criterion based on employment size was that enterprises below a certain size are often exempted, under labour and social security laws, from employee registration and are unlikely to be covered in tax collection or labour law enforcement due to lack of government resources to deal with the large number of small enterprises (many of which have a high turnover or lack easily recognizable features).

Certain activities, which are sometimes identified with informal activities, are not included in the definition of informal enterprises for practical as well as methodological reasons. Excluded activities include: agricultural and related activities, households producing goods exclusively for their own use, e.g. subsistence farming, domestic housework, care work, and employment of paid domestic workers; and volunteer services rendered to the community.

An illustration of employment in the informal sector as a statistical concept is included in the box below:

<table>
<thead>
<tr>
<th>Informal sector enterprises</th>
<th>Statistical/labour force categories</th>
<th>Not included:</th>
</tr>
</thead>
</table>
| • are not incorporated. They do not have legal identity separate from owners and lack complete accounts | Informal employers  
• if enterprise is small  
• and/or if employees are not registered  
• and/or if enterprise is not registered | • non-market production of goods by households  
• agriculture  
• paid domestic services  
• domestic and personal services provided by unpaid household members  
• volunteer services rendered to the community. |
| • produce marketable goods and services. Their goods and services are meant for sale or barter. | Informal own-account workers  
• all own-account workers  
• or if enterprise is not registered  
Employees and contributing family workers in informal enterprises, and members of informal producer’s cooperatives. | |
| • have few workers or are unregistered. Their size falls below a threshold (e.g. less than 5 employees) | | |
| • are non-agricultural | | |

The definition of informal sector enterprises was subsequently included in the System of National Accounts (SNA 1993), adopted by the United Nations Economic and Social Council on the recommendation of the United Nations Economic and Social Council. The recommendation to exclude agricultural and related activities from the scope of informal sector surveys, and to measure them separately, was made for practical data collection reasons. To cover a huge agricultural sector, for instance, would entail a considerable expansion of survey operations and increase in costs. Furthermore, established agricultural survey systems appear better suited to meeting the requirements of measuring agricultural and related activities.
Nations Statistical Commission. Inclusion in the SNA was considered essential, as it was a prerequisite for identification of the informal sector as a separate entity in the national accounts and hence for quantification of the contribution of the informal sector to gross domestic product.

- **The concept of “informal employment”**. The definition of the 15th ICLS relates to the informal sector and the employment therein. But it has been recognized, also within the statistical community, that there are also aspects of informality that can exist outside of informal sector enterprises as currently defined. Casual, short term and seasonal workers, for example, could be, informally employed – lacking social protection, health benefits, legal status, rights and freedom of association, but when they are employed in the formal sector are not considered within the measure of employment in the informal sector.

### Avoiding confusion in terminologies

Within the statistical community, application of accurate terminology is important. To the layperson, the terms “informal sector”, “informal economy”, “employment in the informal sector” and “informal employment” might all seem to be interchangeable. They are not. The nuances associated with each term are extremely important from a technical point of view. The following can serve as an easy reference for the terminology associated with informality and their technical definitions:

(a) **Informal economy**
All economic activities by workers or economic units that are – in law or practice – not covered or sufficiently covered by formal arrangements (based on ILC 2002)

(b) **Informal sector**
A group of production units (unincorporated enterprises owned by households) including “informal own-account enterprises” and “enterprises of informal employers” (based on 15th ICLS)

(c) **Informal sector enterprise**
Unregistered and/or small-scale private unincorporated enterprises engaged in non-agricultural activities with at least some of the goods or services produced for sale or barter (based on 15th ICLS)

(d) **Employment in the informal sector**
All jobs in informal sector enterprises (c), or all persons who were employed in at least one informal sector enterprise, irrespective of their status in employment and whether it was their main or a secondary job (based on 15th ICLS)

(e) **Informal wage employment**
All employee jobs characterized by an employment relationship that is not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (based on 17th ICLS)

(f) **Informal employment**
Total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households; including employees holding informal jobs (e); employers and own-account workers employed in their own informal sector enterprises; members of informal producers’ cooperatives; contributing family workers in formal or informal sector enterprises; and own-account workers engaged in the production of goods for own end use by their household (based on 17th ICLS)

(g) **Employment in the informal economy**
Sum of employment in the informal sector(d) and informal employment (f) outside the informal sector; the term was not endorsed by the 17th ICLS

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In the early 2000s, there was a growing momentum behind the call for more and better statistics on the informal economy, statistics that capture informal employment both within and outside of the formal sector. There was a gradual move among users of the statistics, spearheaded by the Expert Group on Informal Sector Statistics (the Delhi Group) – an international forum of statisticians and statistics users concerned with measurement of the informal sector and improving the quality and comparability of informal sector statistics – towards promotion of this broader concept of informality. The idea was to complement the enterprise-based concept of employment in the informal sector with a broader, job-based concept of informal employment.\(^8\)

At its 5th Meeting in 2001, the Delhi Group called for the development of a statistical definition and measurement framework of informal employment to complement the existing standard of employment in the informal sector.

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8 The Delhi Group was set up in 1997 to address various methodological issues involved in the measurement of the informal sector. The group has since broadened its focus to informal employment as well as assessing links between informality and poverty. For further information see: http://www.mospi.gov.in
Women vendors in a vegetable market in Nepal.

2.1 MEASURING THE INFORMAL ECONOMY: ADDRESSING STATISTICAL CHALLENGES
New frameworks for capturing informality. The ILO Department of Statistics and the 17th ICLS took up the challenge of developing new frameworks which could better capture the phenomenon of informality. The ILO conceptualized a framework for defining the informal economy that was presented and adopted at the 2002 International Labour Conference. The informal economy was defined as “all economic activities by workers or economic units that are – in law or practice – not covered or sufficiently covered by formal arrangements”. In 2003, the 17th ICLS adopted guidelines endorsing the framework as an international statistical standard.

In tracing the evolution of the informal concept (see Table below), it is important to bear in mind that the purpose of the expansion to an informal economy concept was not to replace one term with another (see Box on terminology on page 5), but rather to broaden the concept to take into consideration different aspects of the “informalization of employment”. It is also worth bearing in mind that for statistical purposes the 17th ICLS did not endorse using the term “employment in the informal economy”, to represent the totality of informal activities. The reasons are (i) that the different types of observation unit involved (enterprise vs. job) should not be confused, (ii) that some policy interventions would have to be targeted to the enterprise and others to the job, and (iii) that the informal sector concept from the 15th ICLS needed to be retained as distinct from informal employment since it had become a part of the SNA and a large number of countries were already collecting statistics based on this definition.

Timeline of informality as a statistical concept

- 1993: Definition of informal sector adopted by the 15th ICLS.

- 1999: Third meeting of the Expert Group on Informal Sector Statistics (Delhi Group), where it was concluded that the group should formulate recommendations regarding the identification of precarious forms of employment (including outwork/home-work) inside and outside the informal sector.

9 See Resources section to access ILO, 2002. Decent work and the informal economy
2. MEASURING THE INFORMAL ECONOMY: ADDRESSING STATISTICAL CHALLENGES

2.1 Defining informal employment. The 17th ICLS defined informal employment as the total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households, during a given reference period. Included are:

i. Own-account workers (self-employed with no employees) in their own informal sector enterprises;
ii. Employers (self-employed with employees) in their own informal sector enterprises;
iii. Contributing family workers, irrespective of type of enterprise;
iv. Members of informal producers’ cooperatives (not established as legal entities);

v. Employees holding informal jobs as defined according to the employment relationship (in law or in practice, jobs not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (paid annual or sick leave, etc.));
vii. Own-account workers engaged in production of goods exclusively for own final use by their household.

Only items i, ii and iv would have been captured in full under the statistical framework for employment in the informal sector. The remaining statuses might or might not be included, depending on the nature of the production unit under which the activity took place (i.e. if deemed an informal enterprise). The major new element of the framework was item v, employees holding informal jobs. This category captures the bulk of the “informal employment outside the informal sector” in many countries and includes workers whose “… employment relationship is, in law or in practice, not

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10 See Resources section to access: Guidelines concerning a statistical definition of informal employment, adopted by the 17th International Conference of Labour Statisticians.
11 Informal employment outside the informal sector also includes contributing family workers working in formal sector enterprises, and own-account workers engaged in the production of goods exclusively for own final use by their household.
subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (advance notice of dismissal, severance pay, paid annual or sick leave, etc.). These include:

- unregistered employees who do not have explicit, written contracts or are not subject to labour legislation;
- workers who do not benefit from paid annual or sick leave or social security and pension schemes;
- most paid domestic workers employed by households;
- most casual, short term and seasonal workers.

**Employment in the informal sector.** The concept of informal sector was consciously kept flexible in order to accommodate country situations and specific country needs. In practice, this has led to a collection of national statistics on employment in the informal sector, with countries reporting on their preferred variation of the criteria laid out in the international resolution. Some countries apply the criterion of non-registered enterprises but registration requirements can vary from country to country. Others apply the employment size criterion only (which may vary from country to country) and other countries still apply a combination of the two. As a result of the national differences in definitions and coverage, the international comparability of the Employment in the informal sector indicator is limited.

In summary, problems with data comparability for the measure of employment in the informal sector result especially from the following factors:

- differences in data sources;
- differences in geographic coverage;
- differences in the branches of economic activity covered. At one extreme are countries that cover all kinds of economic activity, including agriculture, while at the other are countries that cover only manufacturing;
- differences in the criteria used to define the informal sector, for example, size of the enterprise or establishment versus non-registration of the enterprise or the worker;
- different cut-offs used for enterprise size;
- inclusion or exclusion of paid domestic workers;
- inclusion or exclusion of persons who have a secondary job in the informal sector but whose main job is outside the informal sector, e.g. in agriculture or in public service.

**Informal employment.** As with the concept of the informal sector, the concept of informal employment was designed in such a way as to allow countries to accommodate their own situations and needs. The 17th ICLS Guidelines specifically say that “the operational criteria for defining informal jobs of employees are to be determined in accordance with national circumstances and data availability.” Some countries (especially developing countries) may choose to develop a measure that includes informal jobs of own-account workers, employers and members of producers’ cooperatives, while other countries (especially developed countries) may choose to develop a measure that excludes informal jobs of own-account workers, employers and members of producers’ cooperatives, while other countries (especially developed countries) may choose to develop a measure that excludes informal jobs of own-account workers, employers and members of producers’ cooperatives, while other countries (especially developed
countries) may wish to limit the measurement of informal employment to employee jobs only. The built-in flexibility of the statistical concept, while certainly a commendable and necessary feature for a new concept, does create limitations when it comes to the comparability of statistics across countries. More comparability will only be achieved in the long run when good practices will have driven out less good ones.

In the hopes of reducing comparability issues and improving the availability and quality of data, the ILO, in collaboration with members of the Delhi Group, has embarked on a publication entitled Manual on Surveys of Informal Employment and Informal Sector. The manual will consolidate the progress made by the ICLS and the Delhi Group on the conceptual framework for measuring the informal sector and informal employment, bringing out concepts, definitions and survey methodologies utilizing best practices and experiences.

The importance of capturing informal employment and disaggregating the categories within it can be seen in the following notable findings from informal employment statistics as obtained for 12 countries:

- **Share of informal employment outside the informal sector.** As earlier mentioned, informal employment outside the informal sector can be as relevant, if not more so, than employment inside the informal sector. This is, for example, the case in South Africa where informal employment outside the informal sector was 42 percent of total non-agricultural employment while informal employment within the informal sector was 16 percent. (See Figure below.)

- **Share of employment in the informal sector.** In most countries, the shares of men and women employed in the informal sector are lower than the share in informal employment, which is understandable given the broader scope of the latter concept. There is one country, however, where the share of people in the informal sector actually came out higher than in informal employment. The exception is Russia, where 11.9 percent of total non-agricultural employment is in the informal sector as against 8.6 percent in informal employment. Closer scrutiny would reveal that the reason for this pattern is that many workers in the informal sector are actually legally protected by an employment contract.

- **Shares of women in employment in the informal sector and informal employment.** It is often assumed that more women are found earning a living in the informal economy than men, but accurate statistics show wide variations across countries when applying the measure of employment in the informal sector. Among the 12 countries surveyed, it was only in three (Ecuador, Mali and South Africa) that women were more likely to be engaged in the informal sector than men. When looking at the broader measure of informal employment, however, most countries did show greater shares of women than men (an exception were the transition economies of Kyrgyzstan, Moldova and Russia).

15 These 12 countries are: Brazil, Ecuador, Kyrgyzstan, Mali, Mexico, Moldova, Panama, Peru, Russia, South Africa, Turkey and Venezuela. These findings are reported in: Heintz, J. and G. Chang, 2007.
Informal employment, employment in the informal sector and informal employment outside the informal sector as a percentage of total non-agricultural employment (2004)

Data for Ecuador and Brazil refer to urban areas only. Data for Brazil refer to 2003 and are ILO estimates based on a combination of official data from various sources. Data ranked by percentage of informal employment.

Source: ILO Department of Statistics

Data sources. Generally, the data on employment in the informal sector and informal employment can be generated from a labour force survey. To this end, only a few questions need to be added to the survey at relatively low cost. Alternatively, some countries run special informal sector surveys, based on a mixed household and enterprise survey approach or an economic or establishment census/survey approach. Other sources include multipurpose household surveys, household income and expenditure surveys, surveys of household economic activities or household industries, small and micro-enterprise surveys, and official estimates prepared by the countries themselves.

Some considerations should be borne in mind when using a labour force survey. Firstly, many labour force surveys are devised to collect information on one’s primary job only. Since informal activities can often be secondary jobs, this activity will go unreported in the survey unless specific questions about the characteristics of secondary jobs are added to the survey. Additionally, special probes on activities that may go unreported as jobs might be needed, such as unpaid work in family enterprises, women’s own account work at home, and other similar activities. Secondly, the labour force survey measures employment relative to a short reference period, normally one week. Many work activities performed during that period may not be representative of the whole year, e.g. seasonal work or casual labour. In this case either a longer reference or survey period should be used or frequent updates of the measurement should be done through the conduct of quarterly, monthly or continuous surveys. Such limitations and their solutions will be addressed in the forthcoming Manual.

The choice of data sources depends on the objective. If, for example, the aim is to generate a broad range of information about the informal sector, including the number and characteristics of the enterprises involved, their production activities, employment, income generation, capital equipment, conditions and constraints in which they operate, etc. then a special informal sector survey will be necessary.
One of the biggest challenges in developing statistics on the informal economy is that in many countries, especially those with a large informal economy, the capacity for generating statistics tends to be low. This is particularly an issue in many developing countries where labour force surveys are not conducted on a regular basis due to resource constraints. This means that the challenges related to improving measurement of the informal economy as a whole are directly related to the need for improving the capacity of national statistical agencies and/or ministries of labour for producing statistics at the country level.

Proxy measurement and related indicators. When official national statistics on the informal economy do not exist, researchers and policy makers often turn to proxy measures/indicators in order to generate discussions around the topic. The following sub-sections present some examples of such approaches.

The residual methodology. This is a very simple but controversial method for estimating informal employment from existing published statistical data. The calculation is a simple subtraction of persons in the non-agricultural labour force, obtained from a labour force survey (or other household surveys that have cross-tabulated data by kind of economic activity (industry), employment status and sex) and the number of employees found in a nationally-representative establishment survey, i.e. the proxy for total formal employment. The estimation steps are as follows:

1. **Step 1:** Using a labour force survey or estimate from other source, determine the *total non-agricultural workforce*.
2. **Step 2:** Using an establishment survey, economic census or administrative records that record corporations and other formal sector enterprises, determine the *number of formal employees*. Since economic censuses do not include civil servants and military forces it will be necessary to obtain an estimate of government workers from another source.
3. **Step 3:** Subtract (2) formal employees from (1) total non-agricultural workforce to obtain *total informal employment*.

The estimates are not precise and are somewhat akin to a back-of-the-envelope methodology for proxying informal employment. The arguments pointing out the inaccuracies of the approach – including the validity of mixing data sources and that the total non-agricultural workforce is a measure of all those in the labour force, not all those who are actually working – will be significant.

A serious problem with the residual method is that it assumes that there is no formal employment in informal sector enterprises and no statistically recorded informal employment in formal sector enterprises. Depending upon the country and statistical system both assumptions can be wrong.

But, still, given the choice of no data and an approximate estimate, the residual method can be useful when it comes to generating attention around an issue. An ILO report in 2002 used this method to generate estimates for 35 countries with interesting results on the gender breakdown.17

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17 Ibid.
Vulnerable employment. Vulnerable employment is an indicator that attempts to identify vulnerability by linking quality of work to status of employment. There are two main categories of status of employment: (i) wage and salaried workers and (ii) self-employed, which is further subdivided between self-employed workers with employees (i.e. employers), own-account workers (i.e. self-employed workers without employees), members of producers cooperatives, and contributing family workers. Vulnerable workers are measured as a summation of own-account and contributing family workers, since these two groups of workers are less likely to have formal work arrangements. Particularly in developing countries own-account workers tend to be associated with informal activities such as subsistence agriculture and petty trade; while contributing family workers are generally unpaid and less likely to benefit from formal social protection and engage in social dialogue than their waged and salaried counterparts.

The correspondence between vulnerable employment and informal employment is inexact; vulnerable employment can, at best, be described as a subset of informal employment since it does not include employees holding informal jobs (who may be much more vulnerable than own-account or contributing family workers), employers of informal enterprises or members of informal producers’ cooperatives. Still, when other statistical measures of informal employment are lacking, countries may wish to consider using the indicator as a sort of proxy for identifying at least a portion of the workers who are “vulnerable” to informality.

Working poor. Working poor links remuneration to quality of work. The ILO defines the working poor as individuals who work but live on less than US$1.25 a day per family member, but various other definitions have been developed most notably by the World Bank. The measure gives a reflection of decent work, because if a person’s work does not provide an income high enough to lift them from poverty then these jobs, at the very least do not fulfill the income component of decent work and it is likely that other components are not being fulfilled either (including the lack of protection implied in the informal sector). It is important to remember however that there is no clear relationship between informal employment and the working poor. Not all people working in the informal economy are poor, and not all employed poor people work in the informal economy.

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Both the vulnerable employment share in total employment and the working poverty rate have been selected as indicators to measure progress toward MDG target 1B to “Achieve full and productive employment and decent work for all, including women and young people”. But neither indicator captures the essence of the informal economy concept, ignoring particularly the growing forms of informalization that may be detached from remuneration and employment status, such as wage and salaried workers in formal enterprises. As a consequence, the target indicator list still misses out on capturing a strong component of what constitutes progress toward decent work for all, namely the shrinking of shares of informal employment. Such weaknesses suggest an even greater need for more and improved statistics on the informal economy.

Recent data compilations are providing fresh insights into the scale of the informal economy.

**Informal employment**

In 2011 the ILO Department of Statistics, launched new statistics on the dimensions of the informal employment, in the publication: Statistical Update on Employment in the Informal Economy. Using data from 46 medium and low income countries, the report showed that five countries (India, Brazil, Mexico, Vietnam and Pakistan) concentrate three-fourths of the total informal employment estimated for the group of countries. In eleven countries, informal employment represents at least two-thirds of non-agricultural employment. The lowest percentages of informal employment are observed in central and eastern European countries. In all except two countries, the number of persons employed in the informal sector exceeds those in informal employment outside the informal sector, suggesting that the bulk of informal employment is concentrated in employment in the informal sector among the countries.

In over half of the 44 countries that had data disaggregated by sex, women outnumbered men in informal employment as a percentage of non-agricultural employment. However, the majority of the countries registered higher shares of men in informal sector employment as a share of non-agricultural employment as compared with women. Informal employment is negatively correlated with income per capita and positively correlated with poverty across countries.

For more details see http://laborsta.ilo.org/sti/DATA_FILES/20110610_Informal_Economy.pdf

**Domestic workers**

2011 also saw the launch of new global and regional estimates of domestic work in ILO Domestic Workers Policy Brief 4: Global and Regional Estimates of domestic workers. Using data from 117 countries and territories, the brief provided estimates of minimum levels of domestic workers worldwide of some 52.6 million women and men in 2010, with the majority, some 83 per cent, being women.

For more details see http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_155951.pdf

The above-mentioned policy brief will be complemented by a much more in-depth analysis of estimates of domestic work which will be launched by the ILO in 2012. The report will not only provide greater analysis of the scale of domestic work, but also provide new information about the extent of legal protections around the world, thus giving an indication of some dimensions of informality in domestic work.

See the ILO (2012), ‘Domestic workers across the world: Global and regional statistics and the extent of legal protection’ (Geneva).

**National data using direct measures of the informal economy**

In 2013, the ILO and WIEGO will be launching new data on the informal economy, for the first time using direct estimates from some 47 countries. This new statistical compilation is an important improvement on the earlier 2002 ILO publication Women and Men in the Informal Economy: A Statistical Picture. The latter publication relied on residual and indirect measures of informality, since a statistical definition of informal employment had not been developed at that time. Improvements in data collection and analysis which have been described in this technical brief are now bearing fruit and revealing the true scale, composition and characteristics of the informal economy.

See ILO and WIEGO (forthcoming) Women and Men in the informal economy 2012: A Statistical Picture

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Ibid.
Improvised hair dressing salon, Colombia.
This section provides a list of resources which can enable the reader to delve deeper into the issue. The section comprises relevant publications, statistical guidelines, compilations of statistics and training tools. A bibliography of references in the text is further below. There may be some overlap between the two.

**Relevant Publications**


ILO and WTO 2009: Globalization and informal jobs in developing countries (Geneva);

**Statistical guidelines**

Delhi Group http://www.mospi.gov.in


Resolution concerning statistics of employment in the informal sector, adopted by the 15th International Conference of Labour Statisticians, Geneva, 1993;

**Compilations of statistics**

ILO and WIEGO (forthcoming): Women and Men in the informal economy 2012: A Statistical Picture

http://kilm.ilo.org/KILMnet/

http://www.oitchile.cl/pdf/panorama08.pdf


ILO 2011: Statistical Update on Employment in the Informal Economy
http://laborsta.ilo.org/sti/DATA_FILES/20110610_Informal_Economy.pdf
ILO 2011 Domestic Workers Policy Brief 4: Global and Regional Estimates of domestic workers


Tools

http://www.oecd.org/dataoecd/16/16/2389461.pdf


References

Guidelines concerning a statistical definition of informal employment, adopted by the 17th International Conference of Labour Statisticians, Geneva, 2003;


Resolution concerning statistics of employment in the informal sector, adopted by the 15th International Conference of Labour Statisticians, Geneva, 1993;
2.1 MEASURING THE INFORMAL ECONOMY: ADDRESSING STATISTICAL CHALLENGES

Young man transporting bananas to sell in the market, Cambodia.
A POLICY RESOURCE GUIDE SUPPORTING TRANSITIONS TO FORMALITY

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

**PART I: Key concepts**

1. Decent Work and the Informal Economy
   1.1 Key conceptual issues

2. Measurement of the Informal Economy
   2.1 Addressing statistical challenges

**PART II: Policies to support transitions to formality**

3. Growth Strategies and Quality Employment Generation
   3.1 Patterns of economic growth and the informal economy

4. The Regulatory Framework and the Informal Economy
   (A) International Labour Standards
   4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work
   4.a2 International Labour Standards (ILS): bringing the unprotected under the law
   4.a3 Understanding the employment relationship and its impact on informality
   (B) Specific Groups
   4.b1 Domestic Workers: strategies for overcoming poor regulation
   4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law
   4.b3 Street vendors: innovations in regulatory support
   4.b4 Micro and Small Enterprises (MSEs), informality and labour law: reducing gaps in protection
   4.b5 Strategies for transforming undeclared work into regulated work
   (C) Labour Administration
   4.c1 Labour administration: overcoming challenges in reaching the informal economy
   4.c2 Labour inspection and the informal economy: innovations in outreach

5. Organization, Representation and Dialogue
   5.1 Social dialogue: promoting good governance in policy making on the informal economy
   5.2 The role of Employers’ organizations and small business associations
   5.3 Trade unions: reaching the marginalized and excluded
   5.4 Cooperatives: a stepping stone out of informality

6. Promoting Equality and Addressing Discrimination
   6.1 Promoting women’s empowerment: a gendered pathway out of informality
   6.2 Migrant workers: policy frameworks for regulated and formal migration
   6.3 Disability: inclusive approaches for productive work

7. Entrepreneurship, Skills Development, Finance
   7.1 Informal enterprises: policy supports for encouraging formalization and upgrading
   7.2 Enhancing skills and employability: facilitating access to the formal economy
   7.3 Microfinance: targeted strategies to move out of informality

8. Extension of Social Protection
   8.1 Extending social security coverage to the informal economy
   8.2 HIV/AIDS: overcoming discrimination and economic exclusion
   8.3 Extending maternity protection to the informal economy
   8.4 Childcare: an essential support for better incomes

9. Local Development Strategies
   9.1 Local development: opportunities for integrated strategies for moving out of informality
3.1 PATTERNS OF ECONOMIC GROWTH AND THE INFORMAL ECONOMY: FINDING THE POLICY MIX TO CURB INFORMALITY

While economic growth is an essential element in reducing informality, evidence suggests that there isn’t an automatic relationship between the two. Indeed, there can be cases where informality may persist despite strong economic growth. This brief endeavors to show that the policy mix supporting economic growth is a key determinant of the way economic growth impacts on informality. The brief makes the case for the importance of policies for inclusive and job-rich growth, and, in the emerging approaches section, looks at the sorts of integrated policies which can achieve this.
KEY CHALLENGES

- Economic growth alone cannot reduce informality
  - GDP per capita and informality
- Recent trends in informality
  - Late 20th century trends in informality
  - Early 21st century trends in informality
  - The period from the financial crisis

Early theoretical analyses of the informal economy (or informal sector/traditional sector as it was previously termed) held the view that informality was a temporary phenomenon that would dissipate once economies grew and absorbed the surplus labour within it. Contrary to expectations, informality has not disappeared, but instead persists and often appears in new guises in both developed and developing countries. Even more perplexing is that informality can sometimes be impervious to strong and sustained economic growth. What has become clearer is that there is a complex relationship between economic growth and informality. This is illustrated for example in analysis of the graph below which shows informal employment and GDP per capita.

What is economic growth?

Economic growth is defined as the expansion of the productive potential of the economy. Annual economic growth is measured by annual percentage increase in real gross domestic product (GDP). Depending on the policy mix supporting it, economic growth may be capital intensive resulting in limited job creation, or conversely, it may have a high employment content. The pattern of economic growth is likely to have an impact on the extent of poverty reduction and the pace of improvements in living standards.

Informality can grow even in spite of economic growth

Figure 1: GDP per capita and informality

![Graph showing the relationship between informal employment and GDP per capita across 38 countries.](image)

Source for data: ILO, Department of Statistics and IMF, World Economic Outlook

This graph shows for each country the percentage of informal employment in total non-agricultural employment and the value of income per capita (expressed in natural logarithms). Country names have been abbreviated due to space constraints. The axis passes through the unweighted sample means. A linear trend line is depicted, and the size of the bubbles reflects the size of total informal employment (in logarithms). Only countries with data on persons in informal employment have been included. GDP data correspond to the same year as latest year available on employment in the informal economy.
One way of capturing the impact of sustained economic growth on the incidence of informality in the long run is to focus on the relationship between GDP per capita and the prevailing economic structure. The use of increases in per capita GDP as a proxy for structural transformation makes sense if there is reliable empirical association between levels of per capita GDP and an index of economic structure. It is plausible to assume that the share of informal activities in an economy can stand as a proxy for the preponderance of low productivity activities. In that case, increases in per capita GDP should allow us to track the evolution of the informal economy, that is, higher GDP per capita is associated with lower levels of informality. This is what the graph above aims to do. To fix ideas, consider two countries that fall on the ‘line of best fit’ – Madagascar and Brazil. Madagascar has a per capita income (US 2010 prices) of 421 while Brazil has a per capita income of 10,721 (USD 2010 prices). As one makes the transition from Madagascar to Brazil, the share of informality declines from 75 per cent to 45 per cent. How long will it take Madagascar to reach Brazilian per capita GDP?

If GDP per capita grows at a rate of 7 per cent per annum, the per capita income doubles in just over 10 years. So, using this simple rule-of-thumb, it will take more than 40 years for Madagascar to reach the Brazilian threshold and attain the associated share of informality of 45 per cent. In any case, few countries in the world – 13 according to the Growth Commission 1 – have managed to grow at 7 per cent for two to three decades. This means that the probability that the typical developing country will grow at rapid rates is quite low. Madagascar is no exception. Hence relying on a ‘growth only’ strategy is not a particularly effective way of reducing informality within a reasonable time frame.

An additional reason why the focus needs to go beyond growth alone, is that the graph plotting per capita GDP-informality relationship shows that there are considerable deviations from the ‘line of best fit’. In other words, countries at similar levels of per capita GDP exhibit significant variations in the incidence of informality. This means that there are country-specific factors pertaining to a complex mix of institutions and policies that can enable a country to reduce its degree of informality for any given level of per capita income.

What this graph shows overall is the first hint that while economic growth is vital to reduce informality, the policy mix that surrounds it is also of great importance. In the same way that it has now become well established that economic growth on its own is insufficient to reduce poverty, it has also become clearer that economic growth on its own cannot curb informality. What is needed is an examination of the types of economic growth strategies which can either increase or decrease informality. In order to explore the relationship between economic growth and the effects on the informal economy this brief will look at two questions:

1) What have been the recent trends in informality and the growth strategies linked to it?
2) What sorts of policies need to be implemented if economic growth is to result in a reduction of informality?

1 See Resources section to access: Commission on Growth and Development, World Bank
Recent Trends in Informality

It is helpful to look at recent broad trends in informality to further tease out the notion of the critical importance of the policies surrounding and complementing growth in relation to impacts on informality. This part of the brief will look at three broad periods: the last decades of the 20th century, which saw increases in informality, the early 21st century which was a period of moderate decline of informality, and the period from the global financial crisis from 2008 to the present.

The later decades of the 20th century. During the late 20th century there was a general increase in the informal economy in many countries around the world. Heintz and Pollin, for example, show that within a data set of 23 countries, 19 showed increases in informality. Similarly, ILO data from 2002 shows that self-employment increased in all developing regions, and world-wide increased from about one quarter to one third of non-agricultural employment during the period 1980 - 2000. Furthermore, Charmes (2000), using data from national sources, has shown that the relative weight of the informal sector increased significantly in all regions in relation to non-agricultural employment between 1980 and 1999.

It is important to examine the policy environment of the time to see the factors that underpinned this increase. During the later decades of the twentieth century many countries adopted economic models of development based on what became known as the ‘Washington consensus’. This model emphasized tight monetary policy to keep low inflation, fiscal prudence, free markets, and a circumscribed role for the state. The policy environment supported free trade, financial liberalization, market deregulation, privatization, making labour markets more flexible, outsourcing production and the growth of temporary and casualized work. These policy prescriptions often resulted in economic growth which had a very low employment content. Moreover the types of jobs that were created were often of poor quality – lowly paid and poorly regulated – and often found in the informal economy. Analysis of this type of growth strategy has revealed that without an explicit focus on increasing the demand for labour, economic growth will not generate as many jobs as needed, nor will it have a major impact on reducing poverty and informality. Since work is the primary source of income for the poor, lowly paid and insufficiently productive jobs mean that the poor will not be able to earn enough to enable themselves and their families to work their way out of poverty. Thus we can see that the period of increase in informality in many countries and regions around the world was at a time when free-market oriented economic models dominated policy making.

Early 21st century trends in informality. While informality increased during the last decades of the 20th century, the early 21st century – a time of global economic prosperity - saw a moderate decline in informality. The evidence for this can be seen in the following data from the working poverty indicator, the vulnerable employment indicator and direct estimates.

Informality grew in many parts of the world during the late 20th century, which was also a period when neo-classical economic models were adopted.
Working poverty as an indicator of informality

Working poverty is a useful indicator when focusing on informality, firstly because the main employment-related problem in developing countries is less a problem of widespread unemployment (the poor are too poor not to work) but rather mass underemployment and working poverty; and secondly because there is a frequent overlap between being amongst the working poor and working informally. Although some activities in the informal economy offer reasonable livelihoods and incomes, most people engaged in the informal economy face insecure incomes and a wide range of decent work deficits. Many workers in informal employment, including own account workers, unpaid contributing workers, and those operating very small enterprises, often have lower earnings and face higher poverty risks than those working in formal employment. Thus there are strong linkages between informality and working poverty.

See also brief on Statistical challenges

Working poverty

Recent ILO data from 2012 (Figures 2 and 3 below) on working poverty reveals some progress over the last decade, but nonetheless rates and levels of working poverty remain unacceptably high. As the graphs below show, there has been a decline in extreme working poverty (persons living below the US$1.25 per day poverty line). Similarly there has been a reduction in the numbers of persons living below the US$2 per day poverty rate – mainly as a result of declines in poverty in East Asia and China.

Figure 2: Global working poverty trends 2000-11 (US$1.25 a day)

Figure 3: Global working poverty trends 2000-11 (US$2 a day)

7 See Resources section to access: ILO 2012, Global employment trends 2012 page 41
8 See Resources section to access: ILO 2012 Global employment trends 2012 page 41
**Vulnerable employment**

Figure 4 shows a declining trend of global vulnerable employment (defined as the own-account workers and unpaid family workers) of 49.1 per cent, down from 52.8 per cent in 2000\(^9\). This moderate decline however, was not sufficient to prevent absolute numbers of workers in vulnerable employment from increasing by nearly 23 million since 2009, as a result of the expansion of the labour force in those countries heavily affected by vulnerable employment conditions.\(^{10}\)

*Figure 4 Global Vulnerable employment trends 2000-11*

**Direct estimates of informality**

The ILO has time series data for 15 countries which shows total informal employment, employment in the informal sector and informal employment outside the informal sector as a share of non-agricultural employment for 2 or 3 points of time: in or around 2000, 2005 and 2010 (see Table 1 on page 7). This sample of 15 countries is not large enough to be representative. Nonetheless the available data suggests that, in the developing world, total informal employment is increasing in some countries such as Zambia and India, decreasing in middle and higher income countries (Latin America, with the exception of Mexico and Thailand); and that in transition countries employment in the informal sector is increasing\(^{11}\).

\(^{9}\) Ibid.
\(^{10}\) Ibid.
\(^{11}\) ILO and WIEGO (forthcoming), Women and Men in the Informal Economy: A Statistical Update 2012
Table 1: Informal non-agricultural employment and its components – Time series

<table>
<thead>
<tr>
<th>Country</th>
<th>Year (Quarter)</th>
<th>Informal employment</th>
<th>Employment in the informal sector</th>
<th>Informal employment outside the informal sector</th>
<th>as % of total non-agricultural employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>2003 (IV)</td>
<td>60.8</td>
<td>35.5</td>
<td>25.5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2005 (IV)</td>
<td>57.0</td>
<td>33.4</td>
<td>23.7</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2009 (IV)</td>
<td>49.7</td>
<td>32.1</td>
<td>17.9</td>
<td></td>
</tr>
<tr>
<td>Ecuador</td>
<td>2005 (IV)</td>
<td>65.7</td>
<td>40.2</td>
<td>26.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2009 (IV)</td>
<td>60.9</td>
<td>37.3</td>
<td>24.0</td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>2005 (II)</td>
<td>53.2</td>
<td>34.9</td>
<td>19.1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2009 (II)</td>
<td>53.7</td>
<td>34.1</td>
<td>20.2</td>
<td></td>
</tr>
<tr>
<td>Panama</td>
<td>2005 (Aug)</td>
<td>48.2</td>
<td>30.6</td>
<td>17.7</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2009 (Aug)</td>
<td>43.8</td>
<td>27.7</td>
<td>16.3</td>
<td></td>
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<tr>
<td>Peru</td>
<td>2005</td>
<td>76.3</td>
<td>52.7</td>
<td>24.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>69.9</td>
<td>49.0</td>
<td>21.7</td>
<td></td>
</tr>
<tr>
<td>Uruguay</td>
<td>2006</td>
<td>43.4</td>
<td>37.4</td>
<td>10.8</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>39.8</td>
<td>33.9</td>
<td>9.8</td>
<td></td>
</tr>
<tr>
<td>South Africa</td>
<td>2001</td>
<td>46.2</td>
<td>24.6</td>
<td>21.6</td>
<td></td>
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<tr>
<td></td>
<td>2005</td>
<td>39.1</td>
<td>20.3</td>
<td>18.8</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2010 (IV)</td>
<td>32.7</td>
<td>17.8</td>
<td>14.9</td>
<td></td>
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<tr>
<td>Zambia</td>
<td>2005</td>
<td>59.4</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>2008</td>
<td>69.5</td>
<td></td>
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<td></td>
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<tr>
<td>Turkey (a)</td>
<td>2005</td>
<td>44.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>46.2</td>
<td></td>
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<tr>
<td>Moldova, Rep. of</td>
<td>2005</td>
<td>19.4</td>
<td>6.3</td>
<td>13.1</td>
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<tr>
<td></td>
<td>2009</td>
<td>15.9</td>
<td>7.3</td>
<td>8.6</td>
<td></td>
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<tr>
<td>Russian Federation</td>
<td>2000</td>
<td></td>
<td>8.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td></td>
<td>13.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td></td>
<td>12.1</td>
<td></td>
<td></td>
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<tr>
<td>Ukraine</td>
<td>2000</td>
<td></td>
<td>7.0</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>2005</td>
<td></td>
<td>7.8</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>2009</td>
<td></td>
<td>9.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>1999-2000</td>
<td>80.4</td>
<td>67.7</td>
<td>13.5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2004-2005</td>
<td>83.5</td>
<td>68.8</td>
<td>15.4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2009-2010</td>
<td>83.6</td>
<td>67.5</td>
<td>16.8</td>
<td></td>
</tr>
<tr>
<td>Sri Lanka (b)</td>
<td>2006</td>
<td>62.2</td>
<td>51.0 (c)</td>
<td>11.6 (d)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>61.8</td>
<td>49.8 (c)</td>
<td>12.0 (d)</td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td>2006</td>
<td>42.6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>41.9</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(a) Employers and own-account workers only.
(b) Excluding Northern and Eastern Provinces.
(c) Including domestic employees and producers of goods exclusively for own final use by the household.
(d) Excluding domestic employees and producers of goods exclusively for own final use by the household.

Note: Due to the existence of some formal wage employment in the informal sector, for some countries total informal employment is slightly lower than the sum of informal sector employment and informal employment outside the informal sector.

Thus we can see from the various data sources that the recent pattern, at least until the onset of the global financial crisis in 2008, has been of a moderately declining trend in informality. What is important to note is that this downward trajectory in informality was in a period of global economic boom. During the period 2000-2007 global GDP was estimated to have grown by 4.2 per cent, compared with 3.1 per cent during the preceding eight years (1992-1999). Emerging and developing economies experienced particularly high rates of economic growth, averaging 6.5 per cent from 2000-2007 compared to 3.6 per cent during the period 1992-1999. Despite strong economic growth in many parts of the world, the impact on reduced informality was surprisingly modest. While an assessment of the various growth strategies pursued during this period around the world is beyond the scope of this brief, this finding again suggests that economic growth alone is insufficient to reduce informality.

• **Trends in informality: from 2008 to the present.** With regard to the most recent period since the global financial crisis, the long term impacts on the size of the informal economy are yet to be determined. The epicenter of the crisis has been in high income countries, with the emerging economies and developing economies less impacted and in some cases making a faster recovery. Evidence from country aggregates does show a universal deceleration in growth and it can be postulated that there has been at the least, a slow-down in the rate of poverty reduction in many developing countries. This has more than likely also contributed to a slow-down in the decline in informality, though the precise impact on the size of the informal economy in different countries is as yet unclear. Since there appears to be a strong link between the policy environment surrounding growth and its effect on informality, it follows that a number of factors will come into play in determining the impact on the informal economy in individual countries, including: the way the crisis has been transmitted to specific countries, the sector affected and importantly, the policy responses to mitigate the crisis.

These trends and data on informality provide insights into the complex relationship between growth and informality. The informal economy grew during the later decades of the 20th century, a time when neo-classical economic models were adopted in many countries. The more recent trend (the first years of the 21st century) has been of a downward trajectory in informality at a time of considerable economic prosperity around the world. Nonetheless this decline was fairly modest. And the trends relating to the global financial crisis and beyond are yet to be determined. What these periods do show clearly is that while economic growth is essential, it is clearly not sufficient on its own to decrease informality. This is further borne out by a study by Heintz and Pollin of 20 countries which shows that growth will reduce the rate at which informalization is increasing in developing countries, though it

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13 Ibid.


15 Ibid.

16 Leaving aside whether and how much the informal economy has grown as a result of the crisis, there is clear evidence that it has hit particular groups very hard. For example WIEGO/ Inclusive Cities research from Asia, sub-Saharan Africa and Latin America shows that in four informal sectors, the income and employment trends during the crisis - decreasing demand and wages aggravated by rising competition are the strongest in the poorest paying and lowest barriers-to-entry informal sectors and sub sectors where women are concentrated. The crisis is compounding women’s paid and unpaid work burdens. As a result the socio-economic vulnerability of poor working women has deteriorated as a result of the crisis. For more details see Resources section to access: Horn,Z. 2010. *The effects of the global economic crisis on women in the informal economy: research findings from WIEGO and Inclusive cities partners.* In Gender and Development, Volume 18, Issue 2, 2010
cannot on its own, create an environment in which informalization actually declines. The study also found that increasing rates of informalization are consistent with positive average rates of economic growth. And finally, the weight of evidence does suggest that, after controlling for short-term cyclical factors, high rates of economic growth are associated with either declines in informalization or slower rates at which informalization is increasing.

17 See Resources section to access: James Heintz and Polin, 2005, “Informalization, economic growth, and the challenge of creating viable labor standards in developing countries”, in Rethinking Informalization. Neema Kudva and Lourdes Beneria (eds.)
The previous section has endeavored to show that policies surrounding economic growth are critical to understanding impacts on informality. The following section will respond to the second question posed in the introduction to this brief: what sorts of policies need to be put in place to support and complement economic growth if informality is to be reduced? This section will examine seven broad policies areas which indicate the multiple avenues towards formality (and which also structure this Policy Resource Guide).

- **The need for an integrated approach**

- **Policy area one: growth strategies and quality employment generation**
  - Placing employment at the heart of economic and social policies
  - Reorienting macro-economic policies
  - Monetary and financial sector reform
  - Exchange rate policies
  - Public investment, access to public assets, and fiscal policy

- **Sectoral policy**

- **Policy area two: The Regulatory Environment**

- **Policy area three: Social dialogue, organization and representation**

- **Policy area four: Promoting equality and addressing discrimination**

- **Policy area five: Supporting entrepreneurship development**

- **Policy area six: Extending social protection**

- **Policy area seven: Local development strategies**

Informality manifests itself in very country-specific ways, so the policy mix to support the reduction in informality needs to be adapted to the particular drivers of informality in different labour markets. Experience at country level shows the importance of a number of elements in curbing informality including: ensuring that employment policies are embedded within growth strategies rather than seen as a residual element of economic growth; and developing an explicit strategy aimed at curbing informality. The examples below on Argentina and Brazil – two countries which have successfully curbed informality and have seen a growth in formal job creation in the recent period – exemplify these elements.
Argentina – public policies for reversing informality

Argentina is an example of an explicit strategy developed by the Ministry of Labour, with ILO support, that has succeeded in curbing the trends in increased informality that followed the 2001 economic crisis. In the context of strong employment growth, unregistered salaried employment decreased from 43 percent to 39 percent between 2004 and 2007. Lessons learned include the following:

- the strategy for transition to formality should be embedded in the core of the employment and labour strategy pursued by the Government and not as a stand-alone project;
- the curbing of informality was projected as a major priority and challenge;
- the strategy pursued was consistent with the public policy framework and promoted social partnerships; and
- the implementation has been monitored and evaluated periodically.

The ILO advocated an integrated strategy framed within the Decent Work Country Programme that included six areas: prioritizing employment in the growth strategy; defining a consistent policy and regulatory framework; strengthening labour inspection and labour administration; promoting education and awareness on formalization issues; extending social protection to the informal economy; and promoting social actors and private-public partnerships.


Brazil’s rise in formalization in the 2000s

During the 1980s and 1990s stagnant growth and economic downturns had seen a swelling of informal economies in many countries in the Latin American region. By the 2000s however Brazil saw a significant reversal in this trend and a rise in formalisation. Several reasons can be attributed to this phenomenon including:

1) Macroeconomic environment
Macroeconomic performance during the 2000s was favourable towards the growth of formal jobs. Analysts have suggested that there is a significant and positive relationship between movements in real exchange rates and the rate of unemployment. The appreciation of the currency during the 1990s gave way to devaluation in 1999. Following the devaluation and until 2005 the real exchange rate remained highly competitive, boosting exports and protecting domestic industries from import competition. New jobs were created, particularly in the export sector, but also the import-competing manufacturing sector. Between 2000-2008 there were significant increases in formal jobs in numerous sectors including mining, agriculture and fishing, and manufacturing.

Importantly there were also strong efforts to ensure the redistribution of the benefits of growth. The Bolsa Familia programme, which covers nearly one quarter of the population, has been an important mechanism in making growth more inclusive. The programme, along with the consumption patterns of the sizeable Brazilian middleclass, has driven internal demand resulting in boosts in consumption and economic growth.

2) The Simples law
In 1996 the Government instituted a new system of tax exemption and simplification for small and micro enterprises known as the Simples law. It includes a progressive tax structure and a simplification of tax collection. Analysis suggests that it was responsible for the formalisation of some 500,000 microenterprises between 2000-2005, accounting for 2 million jobs. Formalisation of enterprises led to the creation of virtuous circles: firms could easily register, they then had better access to formal finance and credit, which improved their viability, and because they were legitimate businesses it was more risky for them to not register their workers.

3) Reduced labour supply pressure
Demographic trends have seen a lowering of fertility rates and a reduction of the numbers of youth entering the labour market. The latter not only because of the reduced birth rate but also because of a greater proportion of youth in education.

4) Improved labour inspection and new approaches to Formalization
Improved labour inspection – not as a result of more inspectors but – as a result of changes in incentive structures and new methods for meeting inspection targets were introduced in the mid-1990s. The new system led to an increase in the number of workers registered as a result of inspection.

5) Greater respect for the law
Segments of the informal economy, particularly domestic workers, saw notable increases in formalization during the 1990s despite historical exclusion from labour law coverage. The 1988 Constitution engendered greater respect for the law and placed many workers in a better position to exercise their rights.

The Government of Brazil is also putting in place other measures to support the growing trend towards formalization. These include reduction in the costs of social security contributions of employers of domestic workers, through income tax credits; raising the minimum wage to stimulate domestic demand and the 2009 Individual Entrepreneur Law which facilitates registration of micro enterprises and reduces the cost of social security contributions for the self-employed.


What is clear is from the examples of Brazil and Argentina is that ad-hoc policies are unlikely to make a sustained impact on informality. Rather, what is needed is a comprehensive approach across a range of policy areas, and policy coherence between these measures. This comprehensive approach first established through the 2002 International Labour Conference discussion on Decent Work and the Informal Economy – has been refined into seven broad policy areas which indicate the multiple avenues towards formalization. These policy areas are: i) growth strategies, ii) the regulatory framework, iii) social dialogue, organization and representation, iv) promoting equality and addressing discrimination, v) measure to support entrepreneurship, vi) the extension of social protection and vii) local development strategies. Each of these will be addressed here, though the reader is encouraged to examine the more detailed approaches in specific technical briefs within this guide.

Macro-economic policies need to be focused on achieving employment growth, poverty reduction as well as macro-economic stability.

Policy area one: Growth strategies and quality employment generation.

- Placing employment at the heart of economic and social policies.

  This first policy area covers macro-economic policies to support the transition to formality, including ensuring the centrality of employment policies in macroeconomic frameworks. Curbing the spread of informality means, first and foremost, 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). Channeling appropriate levels of investments, domestic and foreign into those sectors of the economy that increase labour absorption and improve productivity in the rural and urban economy is a significant part of the response to reducing the growth of informality.

- Reorienting macro-economic policies

  Secondly, addressing the issue of the informal economy means reorienting macro-economic policy. There needs to be a focus on achieving employment growth and poverty reduction targets together with macro-economic stability. The explicit goal of the new macro-economic framework should be to raise productivity, facilitate economic transformation, and increase the availability of formal jobs, while improving the ability of workers to do those jobs. Thus macroeconomic policy should focus on creating a supportive environment for employment generation, resource mobilization and allocation and economic transformation. This has implications for Central Bank policy, financial policy and regulation, industrial policy and fiscal policy. It means that Central Bank policy in some countries, for example, could be oriented to be part of the overall coordinated governmental development effort rather than a completely isolated entity, while having sufficient autonomy to ensure its stabilization function.

  Moreover, the financial sector must become much more supportive of economic development and growth than it is at present.

- Monetary and financial sector reform.

  The conduct of monetary policy can have a direct impact on two key constraints for informal economy workers: (1) the development of domestic markets and (2) access to productive assets (via credit and financial institutions). To generate better employment opportunities, monetary policy must encourage investment in productive assets, facilitate the development of markets, and maintain macroeconomic stability. Inappropriate monetary policy will constrain economic growth and investment, and, as a result, will hinder efforts to create better employment opportunities. Therefore, it is important to consider what monetary policy regime would best serve the developmental objectives of improving employment and reducing poverty. Restrictive monetary policy can affect the productive potential of the economy by limiting access to and investment in productive resources. Credit and financial services can play an instrumental role in allowing enterprises, including small-scale and informal enterprises, to acquire and accumulate productive assets. Monetary policies that aim to reduce inflation to the lower single digits affect the cost of credit throughout.

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the economy as it raises real interest rates. Credit rationing is pervasive in most developing countries and constraints on the growth of credit, imposed by a restrictive monetary regime, can exacerbate this problem. Macroeconomic tools, such as asset-based reserve requirements, development banking, and loan guarantees, should be made available to support priority sectors with a high employment multiplier, both to direct investments and to mobilize resources for high-value-added, high-employment sectors.

- **Exchange rate policies.** Considering the heterogeneity of the informal economy, the effect of an exchange rate policy can be ambiguous on actors in the informal economy. A competitive exchange rate through managed devaluations could hurt the living standards of informal economy retailers of imported goods, particularly if they cannot pass on the cost increases as higher prices or if demand for their products is highly sensitive to price movements. Meanwhile, informal firms could benefit from a competitive devaluation if they supply specific goods and services to export-oriented or import-competing sectors. Similarly, an exchange rate regime that maintains a competitive rate could indirectly support faster growth of the domestic market, if export-oriented sectors and/or import-competing sectors are an important source of income for other segments of the labour market. In this case, the growth of these sectors could also lead to the growth of the domestic market, as incomes and purchasing power grow.

- **Public investment, access to public assets, and taxation policy.** Public investment is central for raising productivity, improving access to markets, and reducing spatial barriers to mobility. A poor economic infrastructure and limited access to public services increases the operating costs of informal firms, limits their ability to meet quality standards, reduces their access to markets and their productivity (as a consequence of poor health and education levels). In terms of financing such investments, the national budget is the primary developmental instrument which governments have under their control. Moreover, labour-based approaches to infrastructure works have become an important element of job creation strategies in many low-wage developing countries with an oversupply of underemployed labour. Well-managed labour-based methods have proven to be a viable and cost-effective alternative to equipment-based methods because they produce good quality results, allow cost savings – particularly in terms of foreign exchange – and can generate high levels of outputs, provided that they are introduced in an appropriate institutional setting. Electrification, rural roads, health and education centers or market spaces have an impact on private productivity, and earnings of small-scale producers. The issue of productivity is important because the level of productivity will ultimately limit individual earnings and household living standards. Therefore, barriers to improving the productivity and earnings potential of informal workers present one set of factors that keep incomes low. Productivity improvements are necessary, but not sufficient, for sustainable increases in living standards. Productivity improvements will not raise earnings if, for example, such improvements lead to less favorable terms of trade for the informal self-employed due to adverse price adjustments. Nevertheless, productivity improvements make higher earnings possible.

With regard to taxation policies, policy makers need to develop the types of appropriate measures which will not overburden different types of enterprises such as micro, small and medium sized enterprises. Tax holidays and progressive taxation systems which enable lower taxes for smaller
enterprises are an important part of a policy framework to support the move out of informality. The case of Brazil’s Simples Law (see box on Brazil) is a good example of the taxation policy which is tailored to the needs of different sized enterprises to encourage compliance with fiscal regulations.

**Sectoral policy**

Taking a sectoral and sub-sectoral approach to encouraging the move out of informality can help clearly identify those sectors and sub-sectors where informality is particularly prevalent, for example in agriculture and services, and develop appropriate policy responses. Many countries for example, particularly in Latin America, have been developing measures to bring the domestic services sub-sector under the protection of the law, and hence promoting the transition to formality.

A sectoral approach is also important in identifying particularly dynamic and growth-oriented sectors for national policy support. In pursuit of the objective of ensuring full and productive employment many developing countries face a wide range of fundamental policy questions including: *What should be the priority sectors for potential job creation? What key industrial policy measures and reforms could accelerate job-rich growth?* Countries are developing new analytical and policy frameworks to explore constraints on and opportunities for enhancing (i) the employment content of growth and (ii) the extent to which the working poor and the unemployed are able to access the benefits from economic development.

To promote job-oriented patterns of growth it is crucial to provide an overview of the structure of employment in each sector and some key information about: (i) employment creation potential within each sector and (ii) upstream and downstream linkages for a better understanding of the role of each sector in employment creation. Rigorous analysis is data dependent and often draws from input-output tables, and Social Accounting Matrices (where they have been built). In doing this, it is recognized that the opportunity to intensify job rich growth at the country level is seldom uniform across an entire economy. Economic sectors vary, and their performance is often mutually dependent on social sectors, such as education, for the provision of skilled labour to meet market demand or health.

**Policy area two: The Regulatory Environment**

Another essential policy area for addressing informality is the regulatory environment. Labour regulation stands at the heart of the policy debate surrounding the growth of informality. For some analysts government regulations on the labour market are seen to impose excessive costs and constraints on economic actors who in turn seek to avoid these costs by operating in the informal economy. In this view the transaction costs of the formal economy for small firms and the self-employed are likely to exceed the benefits these firms derive from the legal system. However, as firms grow in size or become more capital-intensive the need to participate in institutions that protect property, enforce contracts, provide access to low cost credit or pool risk, grows. When the benefits of formality outweigh the costs, rates of informality are likely to decline. This approach can provide useful insights into how a prevailing regulatory environment can influence the growth of informality, but it is undermined by the historical conditions in

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which informality rose during the 1980s – 1990s. That is, that this was precisely the period in which labour market regulations in developing countries were declining, that informality was at the same time rising during these two decades.

On the other side of the debate are those who see the rise in informality during this same period as a result of the pervasiveness of neo-classical economic models of the time: a decline in government regulations in both financial and labour markets; privatization, reduced barriers to free trade, and macroeconomic policies oriented towards inflation targeting rather than full employment. In this view, the combination of these policy measures resulted in the strong growth of the informal economy during the period under question. The policy mix to reverse informalization therefore must take into account ensuring good governance in the labour market through effective and appropriate labour regulation adapted to specific country contexts. This is an approach which is very much in line with the Decent Work Agenda, in which ensuring the rights and recognition of workers, the self-employed and employers who are currently unprotected in the informal economy, is seen as a major step out of informality. The examples from Argentina and Brazil provide evidence that reducing informality was not brought about through systematic labour-market deregulation, but rather through better and more effective regulation. For more details see the technical briefs under the Regulatory Environment section.

Policy area three: Social dialogue, organization and representation
The policy mix supporting the reduction of informality and poverty requires an environment where social dialogue can flourish. Social dialogue underpins good governance and democratic decision making in the labour market. Policy formulation on the informal economy requires that actors in the informal economy are able to organize, articulate their needs and rights, and engage effectively within social dialogue platforms. Governments have a key role to play in setting the enabling framework for social dialogue, including ensuring the fundamental rights of freedom of association and the right to collective bargaining. For more details see specific technical briefs under the thematic area of Social dialogue, organization and representation.

Policy area four: Promoting equality and addressing discrimination
Curbing informality means addressing the factors which push many vulnerable groups into the informal economy. Labour market discrimination against poorer women, youth, disabled, ethnic groups, migrant groups often results in these groups being concentrated in the informal economy. Policy and legal frameworks need to eliminate discrimination in the formal labour market and open access to the formal economy through targeted strategies in all policy areas. Both mainstreaming strategies and specifically targeted policies may be required to ensure more effective functioning of labour markets and facilitate the opening of opportunities for vulnerable groups to move out of informality. For more details see technical briefs under the thematic area of Promoting Equality and Addressing Discrimination.

29 ibid
Policy area five: Supporting entrepreneurship development

Entrepreneurship is one of the largest sources of employment in developing countries, but these enterprises are often in the informal economy. The challenge for policy makers is to address the heterogeneity of informal enterprises, and to provide the correct balance of incentives for transitioning to formality and disincentives for remaining informal. An enabling environment for reducing the numbers of informal enterprises includes, but is not limited to: establishing simplified, streamlined and cost effective registration procedures; capacity building of enterprises to enable compliance with regulations and improve working conditions; fiscal incentives; opening access to skills training, microfinance, business advisory services, market information, technology, productive resources, social protection and trade opportunities. For more details see the technical briefs under the section Entrepreneurship, Skills, Finance.

Policy area six: Extension of social protection

A defining feature of informality is the limited or lack of access to social protection. Instruments to mitigate risks can have major impacts on both poverty reduction and on reducing informality. Social protection is a means of redistributing the gains of economic growth and they are a vital part of strengthening aggregate demand and alleviating poverty risks. A range of instruments are available which are often used in different combinations to reach the most vulnerable segments of society located within the informal economy.

Social protection, both in the form of insurances against risks and in the form of income stabilization policies such as employment guarantee schemes have numerous multiplier effects in the local economy. It increases the disposable incomes for households, reduces vulnerability to shocks, stimulates demand for products and services in the local economy, which in turn can increase employment and incomes within poor communities.

The ILO’s recent Recommendation on social protection: Recommendation concerning national floors for social protection 2012 (No.202) makes clear reference that social security strategies should apply to persons both in the formal and the informal economy and support the growth of formal employment and the reduction of informal employment\(^{30}\).

Various social protection measures in different countries are having great impact on reducing vulnerability in the informal economy. For example India is moving towards minimum social security coverage for all informal workers\(^{31}\) and at the same time has set up a National Rural Employment Guarantee scheme which offers up to 100 days of work. Both strategies will significantly reduce vulnerability in poor households. Ghana and Thailand have both put in place significant measures to expand the scope of health coverage to the informal economy\(^{32}\) while Argentina, Chile and Uruguay are amongst many countries seeking to reduce vulnerabilities for the self-employed\(^{33}\). Brazil has set up Bolsa Familia and other instruments which cover a large proportion of Brazilian society. For more details of these and other measures see the technical briefs under the thematic area of social protection.

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32 See brief on social security for details

Policy area seven: Local development strategies

The last broad policy area covers local development strategies. These offer an important opportunity to translate national priorities for supporting the transition to formality to the local level. Integrated strategies for moving out of informality, based on social dialogue, are more readily implementable at the local level. A range of strategies can be incorporated into local development strategies such as setting up basic infrastructure, supporting Small and Micro Enterprise development, streamlining registration and zoning regulations, facilitating public contracts and tendering processes, fostering public-private partnerships, supporting market access, targeting disadvantaged groups and using labour intensive methodologies. The combinations of these and other tools can have a major impact in supporting the move out of informality at the local level. For more details see the technical briefs under thematic area of Local Economic Development.

These seven policy areas described above need to be adapted to the root causes and specificities of informality as they manifest themselves in individual countries. The policy areas identify the broad and multiple avenues towards formality, and they indicate the range of policies which can support and complement economic growth to enable it to effectively reduce the informal economy. Without them the impact that economic growth will have on reducing informality will be minimal.
Child vendor, Moldova
This section provides a list of resources to enable the reader to delve deeper into the issue. A bibliography of references in the text is further below. There may be some overlap between the two.

### ILO Instruments and ILC Conference Conclusions

Employment Policy Convention, 1964 (No.122)

Employment Promotion and Protection against Unemployment Convention, 1988 (No.168)

NB: Numerous International Labour Standards make implicit and explicit reference to the informal economy. The reader will find more information in specific briefs within this Guide.

ILO 2002. Resolution concerning decent work and the informal economy, ILC 90th session, Geneva

ILO 2009. Global Jobs Pact

ILO. 2010. Conclusions concerning the recurrent item on Employment ILC 99th session, Geneva

### Relevant Publications


http://ecommons.library.cornell.edu/bitstream/1813/3716/1/Rethinking%20Informalization.pdf

http://www.inclusivecities.org/pdfs/GEC_Study.pdf

http://www.tandfonline.com/doi/abs/10.1080/13552074.2010.491339


World Bank. Commission on Growth and Development

Tools


ILO. 2009. Gender Guidelines in Employment Policies (Geneva ILO)


ILO. 2011. A Statistical update on employment in the informal economy


References


ILO 2011. A Statistical update on employment in the informal economy (Geneva: ILO)
3.1 PATTERNS OF ECONOMIC GROWTH AND THE INFORMAL ECONOMY


# A POLICY RESOURCE GUIDE SUPPORTING TRANSITIONS TO FORMALITY

## Contents:

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

## PART I: Key concepts

<table>
<thead>
<tr>
<th>1. Decent Work and the Informal Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 Key conceptual issues</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. Measurement of the Informal Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1 Addressing statistical challenges</td>
</tr>
</tbody>
</table>

## PART II: Policies to support transitions to formality

### 3. Growth Strategies and Quality Employment Generation

| 3.1 Patterns of economic growth and the informal economy |

### 4. The Regulatory Framework and the Informal Economy

- **International Labour Standards**
  - 4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work
  - 4.a2 International Labour Standards (ILS): bringing the unprotected under the law
  - 4.a3 Understanding the employment relationship and its impact on informality
- **Specific Groups**
  - 4.b1 Domestic Workers: strategies for overcoming poor regulation
  - 4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law
  - 4.b3 Street vendors: innovations in regulatory support
  - 4.b4 Micro and Small Enterprises (MSEs), informality and labour law: reducing gaps in protection
  - 4.b5 Strategies for transforming undeclared work into regulated work
- **Labour Administration**
  - 4.c1 Labour administration: overcoming challenges in reaching the informal economy
  - 4.c2 Labour inspection and the informal economy: innovations in outreach

### 5. Organization, Representation and Dialogue

| 5.1 Social dialogue: promoting good governance in policy making on the informal economy |
| 5.2 The role of Employers’ organizations and small business associations |
| 5.3 Trade unions: reaching the marginalized and excluded |
| 5.4 Cooperatives: a stepping stone out of informality |

### 6. Promoting Equality and Addressing Discrimination

| 6.1 Promoting women’s empowerment: a gendered pathway out of informality |
| 6.2 Migrant workers: policy frameworks for regulated and formal migration |
| 6.3 Disability: inclusive approaches for productive work |

### 7. Entrepreneurship, Skills Development, Finance

| 7.1 Informal enterprises: policy supports for encouraging formalization and upgrading |
| 7.2 Enhancing skills and employability: facilitating access to the formal economy |
| 7.3 Microfinance: targeted strategies to move out of informality |

### 8. Extension of Social Protection

| 8.1 Extending social security coverage to the informal economy |
| 8.2 HIV/AIDS: overcoming discrimination and economic exclusion |
| 8.3 Extending maternity protection to the informal economy |
| 8.4 Childcare: an essential support for better incomes |

### 9. Local Development Strategies

| 9.1 Local development: opportunities for integrated strategies for moving out of informality |
This brief provides an introduction for the technical briefs which follow on the regulatory framework. It provides an overview of not only the challenges in providing legal protection and recognition to those in the informal economy but also discusses the policy debates regarding regulation and de-regulation. Within a Decent Work framework all those who work have rights at work irrespective of whether it is in the informal or formal economy. This brief argues that creating a minimum social floor through rights, and regulation of those rights, can have major economic and social benefits including the more efficient functioning of markets. It is therefore a crucial aspect of the transition to formality and forms a central plank in addressing poverty and social exclusion. There is no section on Emerging approaches within this brief since the different aspects of labour regulation are discussed in all the briefs in this section and throughout the Guide.
Labour regulation and informality

As the 2002 Resolution on Decent Work and the Informal Economy established, informality is primarily an issue of governance - including weak legal and institutional frameworks and fragmentary and ineffective implementation of laws and policies. Bringing the multitude of workers and enterprises within the informal economy under the protection of the law would be a major step in the direction of Decent Work.

Yet regulation is at the centre of many debates concerning the origins and means of tackling the informal economy. In particular, the impact of labour legislation, and more broadly, labour regulation, on the informal economy is a highly contested issue which is embedded in the complex debates regarding the benefits of regulation and deregulation. Within economics, for example, some argue that regulation impedes economic efficiency by generating extra costs, and indeed may even be a driver of informality, while others believe that regulation is an essential way to correct market imperfections and achieve redistribution. (see also brief on Key Conceptual issues).

The ILO offers the most comprehensive international framework for unifying economic growth with social justice for all. It is devoted to promoting social justice through internationally recognised human and labour rights, pursuing its founding mission that social justice is essential to peace and prosperity. Furthermore, its mission is firmly grounded in the international legal order which has respect for human rights as one of its essential elements. From this point of view, many rights that the ILO promotes, such as fundamental rights at work, are considered non-negotiable and warrant no discussion about their intrinsic validity or desirability (see brief on International Labour Standards). The ILO’s main aims, as defined in its Decent Work agenda, are to promote rights at work, encourage decent employment opportunities, enhance social protection and strengthen dialogue on work-related issues. Normative action is an indispensable tool to make decent work a reality.

Labour regulation and informality

Regulation is seen by the ILO as an essential way to correct market imperfections, achieve redistribution and set a minimum social floor for all those who work

What is labour regulation?

"Labour regulation" is understood here as including all legislations, institutions and policies in the labour field. “Labour law” is understood as all legislation, collective agreements and case law concerned with all labour issues.

2 One reason for such divergent views is that they are underpinned by fundamentally different premises concerning the nature of society, as well as the desirability of regulation in the labour sphere. For a review of various neo-classical and neo-institutional positions, see for example, Sengenberger, 2005; Freeman, 2005.
The social case for labour regulation

The social case for labour regulation originates from the fundamental principle, underlining the work of the ILO, that labour is not a commodity. Unlike, steel or machines, labour has a humane aspect; workers’ behaviour is highly affected by the environment and the various incentives they are confronted with. Work, which is an essential part of human condition, cannot be treated on the basis of market relationships.


- An influential strand of thinking, influenced by neoclassical economics, sees labour regulation as a market externality which increases informality

- Problems with legislation. There exist however several issues concerning the informal economy and labour regulation that need attention. These will be touched upon in the next sections. One significant general problem is that legislation is often not implemented, whether in the formal or informal economy, or may not serve its initial purpose. Legislation can also be out-of-sync with its environment and in need of amendments. Legislation is not always good – badly drafted and badly implemented laws can clearly have negative effects. More generally, labour regulation needs to be adapted to the context it is applied in, which is why it is important to evaluate legal practices in the environment they are operating in. National good practices in labour regulation are therefore not necessarily replicable in different national contexts – a good legal practice adopted in one country may not have the same results if it is transplanted in another environment. This comment is valid for all aspects of the question of national regulation of workers in the informal economy. Nonetheless, while there is not always a “one size fits all” solution to the regulation of labour, carefully crafted regulation is an essential means of enabling the enjoyment of rights for all those who work.

- The conflicting theoretical views on the effect of labour regulation – a brief overview. As mentioned above, there are broadly speaking two major views within economics of the potential relationship between labour regulation and informal economic activity.

- Does labour legislation increase the size of the informal economy?

A currently influential strand of economic thinking, heavily influenced by mainstream neoclassical economics, believes that labour regulation is a market externality that is detrimental to economic efficiency, and therefore counter-productive. According to the neoclassical theory, wage and employment are set by supply and demand, and informality stems from a structural imbalance between too many job seekers and not enough jobs. Labour regulation is seen to lead to the growth of the informal economy by increasing the cost of formal employment, therefore acting as a barrier to entering the formal economy. Within this view of things, informality is often seen as a voluntary choice for workers.

Such a perspective is quite influential amongst some experts and international development agencies, including by some within the World Bank. The latter, for example, stated in its World Development Report of 1990 that labour market policies such as minimum wages, job security regulations and social security, which are usually intended to raise welfare or reduce exploitation, actually work to raise the cost of labour in the formal sector and reduce labour demand. This, according to the report, increases the supply of labour to the rural and urban informal sectors.

4 Kucera and Roncolato, 2008, give the example of minimum wage legislation in Colombia (pp.338-339).
5 There is of course a continuum between the successful transfer of laws and its failure: some initiatives may be directly transposed, others clearly not (on the problems and possibilities of transplanting laws, see Kahn-Freund, 1974).
7 World Bank, 1990, p.63. This argument was repeated subsequently in other World Development Reports.
Another more recent strand of empirical research has also pointed in the same direction, and has fed into the World Bank’s construction of the very influential, Employing Worker Indicator of its Doing Business report. This essentially aims to capture the possible costs to businesses of employing workers, without regards to the social and economic benefits of regulation. There has been widespread criticism of this indicator and the theory behind it, however. In particular, it has been noted that the fact that the starting premise of the research underlying the index is the notion that excessive regulation prevents formality, almost inevitably leads to very drastic and influential policy recommendations that explicitly call for a weakening of labour regulation. After consultations involving, amongst others, the ILO, International Trade Union Confederation (ITUC) and the International Organization of Employers (IOE), the use of this indicator has been suspended and is under review.

Furthermore, as many have argued, the view that labour regulation makes the informal economy grow is not based on sound empirical evidence. The data used or the way it is gathered is questioned, and the results, based on weakly constructed indicators are said to be not only misleading but also lead to simplistic policy conclusions. It is often noted, for example, that there are critical problems relating to the measurement of the informal economy itself and of labour legislation, its enforcement and its efficiency. There is no doubt that measuring these is not an easy task. However, some indicators are clearly not satisfactory, and focus, for example, on the strictness of employment protection using only indicators such as the number of month’s notice required for individual dismissals. Labour regulation concerns much more than hiring and firing laws. A further problem concerns the fact that most studies on the impact of regulation do not take into consideration the fact that the operation of legal rules is often incomplete or imperfect (legal rules do not always have a clear scope of application and they do not produce results automatically – they are not “self-executing”, in the sense that further action is needed for them to lead to a specific outcome), and claim to measure the effect of legislation regardless of whether it is applied in practice. Finally, many studies do not have a clear cause and effect linkage.

A different point of view starts from the premise that there is a lack of appreciation of the positive functions of labour regulation for economic activity. Rather than a driver of informality, labour regulation can act as positive influence on economic activity. Indeed, regulation is essential to correct

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8 See for example, Perry et al., 2007, who state that “excessive labor costs, whether arising through labor legislation—exaggerated minimum wages, severance costs, labor taxes, or unrealistic union demands—depress the number of jobs in the formal sector” (p. 125). See also Feldmann, 2009, who included 73 industrial, developing and transition countries in his study. He concluded from his regression results that tight labour regulations increase unemployment all over the world. Similarly, Ameida and Carneiro, 2009, found that stricter enforcement of labour regulation constrains firm size and leads to higher unemployment. For a recent overview of this literature, see Kucera and Roncolato, 2008 and Lee, McCann and Torm, 2008.

9 This indicator is based on several assumptions about the worker and the business. The rigidity of employment index is the average of three subindices (difficulty of hiring, rigidity of hours and difficulty of redundancy) – see World Bank, Employing Workers Methodology, http://www.doingbusiness.org/MethodologySurveys/EmployingWorkers.aspx.

10 Most importantly by the World Bank’s Independent Evaluation Group (IEG, 2008); See also, Berg and Cazes, 2008; Lee, McCann, and Torm, 2008; Deakin, 2009.


12 For a thorough overview, see Kucera and Roncolato, pp.340-341. See also Berg and Cazes, 2008 and Deakin, 2009.

13 For example, labour law enforcement has been measured rather simplistically by the number of registration fines by Almeida and Carneiro, 2005.

14 Deakin, op.cit, p.1.

15 Deakin, op.cit, p.1.

16 ibid, p.9. As Deakin states, the fact that “a study shows that more stringent employment protection legislation is correlated with higher levels of unemployment, may not be evidence of the economic impact of that particular legal institution, but evidence instead of a change in the macro-economic environment (higher unemployment) triggering a certain policy response (stricter controls over dismissals)”.
market imperfections and the absence of labour regulation creates a context where persistent inequality, unemployment and economic inefficiency prevail. There are a number of studies, including from the ILO, the OECD and the World Bank, which support this view.

It is clear that the effects of the law will vary across industry, region, country, and that the implementation of the law will necessarily be affected by social norms and practice. It is therefore of crucial importance to know the specific context in which the law is applied as well as the wider political and economic context in order to evaluate its real impact. According to some empirical research which evaluates the impact of particular labour legislation by collecting and analysing data on a range of legal and institutional features over a long period, employment protection legislation may, for example, have positive impacts on productivity because it encourages training and innovation at firm level.

Despite decades of theoretical and empirical research however, the debate on the effects of labour regulation on economic and labour market outcomes continues and the specific question of whether it is possible to capture the effects of labour legislation on economic performance and on the informal economy remains current.

- **The ILO’s position.** The tripartite consensus established through the 2002 ILC Resolution on Decent Work and the Informal Economy affirmed that a defining characteristic of the informal economy is that workers and enterprises are not recognised, regulated or protected by law. While it is true that simplifying laws and procedures are often warranted to open up avenues into the formal economy, it is important not to erase what has been achieved in basic rights and principles governing the world of work.

Labour regulation has, as one of its fundamental objectives, to redress the inherent inequality between employers and workers while promoting enterprises, thereby aiming to bring about social justice. While the costs of labour regulation are immediately visible, their benefits are more indirect, and therefore more difficult to measure. They are also conditioned by the effective implementation of the law, which in turn depends on a range of non-legal factors, such as the moment in the economic cycle at which the law was introduced, or the existence of social norms or self-regulatory practices.

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17 Deakin, op.cit, p.1.
18 Deakin and Wilkinson, 2000, p.61. See also Sengenberger, 2005.
19 Supporting the view that employment protection legislation in particular is positive, see for example, OECD, 2003, pp.89-90.
20 Deakin and Sarkar, 2008 (the results showed a positive correlation between regulation and growth in employment and productivity in France and Germany). See a Deakin, 2009, p.5-8 - he is describing indexes developed by the Cambridge Centre for Business Research.
21 Berg and Cazes, 2008; See also Freeman, 1994, p.80.
22 See Deakin, op.cit.2009.
23 For more details see Resources section to access: ILO, 2002a, Decent work and the informal economy, p.44.
The social and economic justifications of international labour standards (ILS), when reflected in national legislation, are very significant and important to take into account because they counter the “partly wrong and partly exaggerated” view that they engender higher costs. ILS, when enforced at the national level through domestic law, generally lead to higher productivity, innovation and other improvements in economic performance.

The benefits to workers are clear: compliance with labour standards usually implies, for example, more certainty and financial stability, better training, less work-related accidents, better health, better education (for children who do not work, for example), all of which have positive spill-over effects on the economy and the society. Many view improved labour standards as self-financing for employers. Indeed, complying with legislation on minimum working hours, for example, and rest leads to better productivity, less absenteeism, fewer accidents and mistakes. If competition based on wages and minimum employment costs is eliminated for instance, a competition based on productivity, improved management, work organisation and worker competence is likely to emerge and will squeeze out inefficient firms leading to an overall more efficient economy. Worker participation brings mutual trust and cooperation, for example.

The following briefs in this thematic section will look at the various ways in which law and law-related initiative can make a difference in the way we tackle the informal economy. More specifically, they will look at law, informality and: ILS, the employment relationship, MSEs, domestic workers, homeworkers, street vendors, and undeclared work in the European Union. These technical briefs acknowledge the important role that law plays, together with other initiatives, in moving out of informality.

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27 Ibid., and Dorman, 2000.
28 In general, see Sengenberger, 2005 and 2006. See as well CLEP, 2008, pp.157-165.
Cooking falafel in a street in Bethlehem, Occupied Palestinian Territories.
4. The Regulatory Framework and the Informal Economy

4.a1 SETTING A SOCIAL FLOOR FOR ALL WHO WORK

*Child street vendor, Moldova.*
RESOURCES

This section provides a list of resources which can enable the reader to delve deeper into the issue. The section comprises international instruments, International Labour Conference conclusions, relevant publications and training tools. A bibliography of references in the text is further below. There may be some overlap between the two.

ILO and UN Instruments and ILC Conference conclusions

Conventions
http://www.ilo.org/ilolex/english/convdisp1.htm

Recommendations
http://www.ilo.org/ilolex/english/recdisp1.htm

Declaration on Fundamental Principles and Rights at Work, 1998

Declaration on Social Justice for a Fair Globalization, 2008

ILO, 2002, Resolution concerning decent work and the informal economy, Provisional Record 25, ILC, 90th Session, Geneva: ILO

Relevant Publications


ILO, 2002, Report VI, Decent work and the informal economy, ILC, 90th Session (Geneva


Lee,S., and D.McCann (editors) 2011, Regulating for Decent Work: New Directions in labour market regulation

4. The Regulatory Framework and the Informal Economy


Tools


ILO 2010 Extending the scope of application of labour laws to the informal economy: A digest of comments of ILO’s supervisory bodies related to the informal economy. ILO: Geneva

References


CLEP, 2008, Making the Law Work for Everyone, Vol. II,


ILO, 2002a, Report VI, Decent work and the informal economy, ILC, 90th Session (Geneva).


A POLICY RESOURCE GUIDE SUPPORTING TRANSITIONS TO FORMALITY

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

PART I: Key concepts

1. Decent Work and the Informal Economy
   1.1 Key conceptual issues

2. Measurement of the Informal Economy
   2.1 Addressing statistical challenges

PART II: Policies to support transitions to formality

3. Growth Strategies and Quality Employment Generation
   3.1 Patterns of economic growth and the informal economy

4. The Regulatory Framework and the Informal Economy
   (A) International Labour Standards
   4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work
   4.a2 International Labour Standards (ILS): bringing the unprotected under the law
   4.a3 Understanding the employment relationship and its impact on informality
   (B) Specific Groups
   4.b1 Domestic Workers: strategies for overcoming poor regulation
   4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law
   4.b3 Street vendors: innovations in regulatory support
   4.b4 Micro and Small Enterprises (MSEs), informality and labour law: reducing gaps in protection
   4.b5 Strategies for transforming undeclared work into regulated work
   (C) Labour Administration
   4.c1 Labour administration: overcoming challenges in reaching the informal economy
   4.c2 Labour inspection and the informal economy: innovations in outreach

5. Organization, Representation and Dialogue
   5.1 Social dialogue: promoting good governance in policy making on the informal economy
   5.2 The role of Employers’ organizations and small business associations
   5.3 Trade unions: reaching the marginalized and excluded
   5.4 Cooperatives: a stepping stone out of informality

6. Promoting Equality and Addressing Discrimination
   6.1 Promoting women’s empowerment: a gendered pathway out of informality
   6.2 Migrant workers: policy frameworks for regulated and formal migration
   6.3 Disability: inclusive approaches for productive work

7. Entrepreneurship, Skills Development, Finance
   7.1 Informal enterprises: policy supports for encouraging formalization and upgrading
   7.2 Enhancing skills and employability: facilitating access to the formal economy
   7.3 Microfinance: targeted strategies to move out of informality

8. Extension of Social Protection
   8.1 Extending social security coverage to the informal economy
   8.2 HIV/AIDS: overcoming discrimination and economic exclusion
   8.3 Extending maternity protection to the informal economy
   8.4 Childcare: an essential support for better incomes

9. Local Development Strategies
   9.1 Local development: opportunities for integrated strategies for moving out of informality

International Labour Standards (ILS)

4.a2 BRINGING THE UNPROTECTED UNDER THE LAW

ILS are the result of a consensus between governments, workers and employer’s representatives. They remain extremely relevant to workers and employers and are applicable in many situations - some of which are clearly labelled “informal” today. Rather than being ‘costly’ or relevant only to the formal economy, the application of ILS at the national level is one of the essential ways of bringing those without organization and protection into the mainstream of economic and social life. Their application can have major benefits for economies and for improved productivity. They are important therefore not only from a rights perspective but also from an economic efficiency rationale. This brief provides information on international labour standards: what they are, why they are needed and how they are supervised. It explores a range of labour standards and their relevance to progressing out of informality towards decent work for all.
KEY CHALLENGES

- International Labour Standards and informality
- The heterogeneity of the informal economy and the difficulty of offering a uniform response
- The reach of the law
- Identifying the employer
- Non-enforcement
- ILS and their flexibility
- Misconceptions regarding application of ILS
- Fundamental rights at work
  - Freedom of association and the effective recognition of the right to collective bargaining
  - Elimination of all forms of forced or compulsory labour
  - Elimination of discrimination in respect of employment and occupation
  - Effective abolition of child labour
- Governance Conventions and other relevant ILS
  - Labour inspection
  - Employment Policy
  - Employment promotion
  - Tripartism
  - Labour administration
  - Vocational guidance and training
  - Wages
  - Social security
  - Occupational Safety and Health (OSH)
- ILS dealing directly with specific groups
  - Workers and Private Employment Agencies
  - Rural workers
  - Homeworkers
  - Migrant workers
  - Indigenous and tribal people
  - Fishers
  - Domestic workers

1 Since the application of ILS at the national level is adapted to the specific historical, economic and social contexts of a state, the way they are applied to the informal economy is country specific. In many cases their application in different countries is discussed in other sections of this Policy Resource Guide. Hence this brief deviates from the usual structure of the resource guide. It acts as an information resource on ILS and the informal economy without a section on Emerging responses and good practices.
International Labour Standards and informality. Since its inception the ILO has always affirmed that all those who work have rights at work, irrespective of where they work. The Decent Work agenda has reaffirmed this principle. International labour standards (ILS) set the framework for the application of rights at the national level. They are essential not only from a human rights and social justice perspective but also because they have profound economic and social benefits. Rights included in ILS - fundamental rights at work and beyond - are also included in basic human rights instruments such as the 1948 Universal Declaration of Human Rights and the two 1966 Covenants that apply to all human beings.

As the ILO argues, many benefits derive from international labour standards. They provide a path for decent work, an international legal framework for a fair and stable globalization, a level playing field that contributes to avoiding a race to the bottom, a means of improving economic performance, an important safety-net in times of economic crisis, and a strategy for reducing poverty. Most importantly, they represent the sum of international experience and knowledge and reflect international consensus on the way a labour issue can be tackled at the global level.

Yet multitudes of worker and entrepreneurs around the world work in vulnerable situations in the informal economy, often not registered, not regulated, unprotected and unrecognised. Informality is often cast in terms of the weak relationship to the law. The 2002 Resolution concerning Decent Work and the informal economy emphasised this lack of protection by the law. It recognized that informality encompasses ‘activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements’. This may be because their activities are not included in the formal reach of the law or because the law is not applied or not enforced, or because compliance with the law imposes excessive costs, and procedures may be burdensome or inappropriate.

Serious “rights deficits” exist for workers in the informal (and formal) economy and these concern all ILS, including fundamental rights at work:

- **Forced labour** is often characterised as “the antithesis of decent work”. The least protected persons – women, youth, indigenous peoples, migrant workers – are particularly vulnerable to forced labour. While most countries have legislation that considers forced labour a criminal offence, it prevails in the informal economy where the law is de facto not applied.

- **Child labour** is closely associated with the informal economy. Child labour is largely beyond the reach of formal institutions, including labour inspection services.

- **Discrimination** is widespread everywhere but workers who suffer discrimination in the formal economy are more present in the informal economy (women, migrants, or workers with disabilities, for example). However, legal provisions prohibiting discrimination often exclude certain categories of workers (such as casual workers, domestic workers and migrant workers), do not cover all the grounds of discrimination and
do not cover all aspects of employment, from recruitment to termination. Moreover, discriminatory laws still exist.  

- Obstacles remain great in the informal economy with regards to Freedom of Association – union coverage is low – and the recognition of the right to Collective Bargaining is rare.

Although there are many examples of actors in informal situations having successfully organized, the case of freedom of association shows the difficulties faced in law and in practice when dealing with the informal economy. In some countries, freedom of association is limited by law to those in regular employment or those considered “employees” – those in the informal economy cannot create legally recognised trade unions. Being recognised and acquiring legal identity is essential for trade unions to function and provide services. There are also practical difficulties relating to organising informal workers as they are often either geographically dispersed or physically isolated, and can frequently change jobs or sector of activity. Moreover, many of these workers face economic hardship which makes them focus on day to day survival rather than medium to long term commitments. Furthermore, as it may be difficult to know who the employer is, an added difficulty for trade unions is knowing with whom to engage in collective bargaining and social dialogue. (see also briefs on Social Dialogue and on Trade unions in this Policy Resource Guide).

• The heterogeneity of the informal economy and the difficulty of offering a uniform response. Informal work covers a wide spectrum of situations that present different legal challenges. The broad parameters for understanding informality, i.e. the non application, de jure or de facto, of the law, implies that the situations informal workers and employers find themselves in are extremely varied, as are the difficulties they face. This diversity of the informal economy makes a uniform response impossible: an informal worker may be working for a transnational company, in an EPZ, be an illegal migrant, be a child labourer working in dangerous situations, s/he may be working informally because it suits him/her (admittedly, these cases are rare), or, much more frequently, because of lack of choice.

The various forms that informality can take include the following categories:

- **unregistered workers** (those in a genuine employment relationship but who do not enjoy any rights - the situation is worse if they are irregular migrants or if their employer is unregistered);

- **under-registered workers** (those who receive part of their earnings informally - they are registered as part-time workers but in fact work full-time – which means that less taxes are paid on their behalf);

- **disguised workers** (those who perform the same tasks as ‘regular’ employees but often do not have the same rights because they are employed under different contracts such as civil or commercial contracts);

- **ambiguous workers** (those about whom doubts are raised concerning whether they are employees or not);

- In some countries, freedom of association is limited by law to those in regular employment or those considered “employees”

- The diversity of the informal economy makes a uniform response inappropriate

7 ILO, 2008, Report I (B), Paras. 206-222.
8 Taken from Tuch, 2005.
- **vulnerable own-account workers** (those who are genuinely self-employed but vulnerable and exploited);

- **employees in precarious situations** (fixed-term, part-time or temporary workers who may not enjoy the same rights as ‘regular’ workers, or do not enjoy the same rights in practice);

- **special cases** (domestic workers, home workers, and other types of workers who are not always covered by employment laws); and

- **workers in triangular relationships** (often, one does not know who the employer is because of the involvement of one or more third parties to the relationship; this includes situations where one resorts to an employment agency, or where there is franchising – see brief on the employment relationship).

**The reach of the law.** One of the issues raised by the problem of informal work may be the reach of the law. Its scope is – willingly or not – limited. This involves, for example, excluding certain activities or sectors from the scope of the law, but also, excluding, in law or in practice, certain type of atypical work. Discussions on how to encompass new types of atypical work are not recent and emerged at the same time as atypical contracts in industrialised countries during the 1970s. Discussions at the international level took place notably in the 1990s, with an attempt by the ILO to adopt a convention on the topic of contract labour. The difficult discussions surrounding the topic finally led to the adoption in 2006 of a Recommendation on the employment relationship (No.198) (see brief on the Employment Relationship). This is a key instrument concerning the application of labour regulation to the informal economy as the application of national labour law often depends on the establishment of an employment relationship.

**Extending the scope of application of labour laws to the informal economy**

In 2010, the ILO’s International Labour Standards department launched a valuable tool to support the application of labour standards to the informal economy, as part of the process of facilitating the transition to formality. This Digest of comments from the ILO’s supervisory bodies related to the informal economy provides a wealth of information which can assist policy makers to assess the extent of application of nation laws, regulations and practices, as well as to identify obstacles to the application of relevant labour standards to unprotected workers and how they can be addressed. Importantly, it counters widespread misconceptions that International Labour Standards are applicable only to the formal economy.

The tool compiles not only principles and comments from various ILO supervisory bodies, but also lists Conventions and Recommendations relevant to the informal economy, with their key provisions. The tool will be an important resource to assist ILO’s tripartite constituents in developing laws, policies and institutions at the national level afford greater protection to those currently vulnerable and unprotected in the informal economy.

identify the employer. The answer to the question "who is the employer" is also vital in order to determine the applicable law, the competent tribunal or jurisdiction (federal or provincial for example), and the applicable collective agreement. The simple question of who is the owner of an enterprise has been rendered much more difficult with globalization: complex layers of subcontracting, and the spread of multinationals has added further problems, which may escape national and international law. International business operators now have the opportunity to "zap through an infinite variety of normative zones"; leaving workers in uncertainty as to which law is applicable to them. However, the employer is not the only one to bear obligations - the State has obligations as well.

Non-enforcement. Certainly, changing the law alone will not solve the problem which must be fought by diverse actors and on a variety of fronts. The lack of access to courts is not only a legal problem, but can also be a much wider problem of underdevelopment, for example. Similarly, the recourse to specific types of contracts that do not afford as many rights as others, or the non registration of employees, is more often than not a problem of poverty but also of exploitation, vulnerability and inequality. However, it is also a problem of lack of workers' legal awareness, of lack of information on affordable means to conform with the legislation and of lack of information concerning the social and economic benefits of conforming with legislation. An enabling framework of institutions and administrative resources is imperative to translate rights into reality. Law must be viewed as a tool: it will always be facilitated or constrained by social, economic or political factors.

ILS and their flexibility. Concrete problems emerge when national legislations exclude workers from their scope but ILS do not, and also when ILS permit the exclusion of workers from their scope through flexibility clauses. These clauses are essential to finding a consensus between the ILO's constituents, and in respecting the variable levels of development, historical background and legal systems of Members States. Flexibility clauses may mean that the scope of ILS does not reach certain sectors or certain workers, or that some key definitions are left to be determined at the national level. MSEs in particular are sometimes excluded from the scope of ILS. Some conventions exclude from their scope "particular categories of workers or establishments when its application to them would raise particular problems of a substantial nature" (Part-Time Work Convention, 1994 (No. 175); see also the Maternity Protection Convention, 2000, (No. 183) – although no State has to date made use of this flexibility clause – and the Safety and Health in Agriculture Convention, 2001 (No. 184)). It is important to underline that the use of these flexibility clauses is often not meant to be permanent.

The simple question of who is the owner of an enterprise has been rendered much more difficult with globalization: complex layers of subcontracting, and the spread of multinationals has added further problems, which may escape national and international law.

ILS are flexible to enable ILO's constituents to reach consensus and also to respect variable levels of development of member states. Nonetheless ILS flexibility clauses are often not meant to be permanent.

9 Daugareilh, 2008.
10 See Lee and McCann, 2009.
12 Faundez, 2008.
ILO supervision

The ILO supervises and encourages the application of ILS through a number of bodies. These include:

- The Committee of Experts on the application of conventions and recommendations (Committee of Experts) engages in a dialogue with Governments by examining their reports on the application in law and in practice of ratified conventions. Governments are required to submit copies of their reports to employers’ and workers’ organisations, who may submit comments; they may also send comments on the application of conventions directly to the ILO. This allows for a national tripartite dialogue to take place. In its annual General Surveys, the Committee highlights good practices that may serve as examples;
- The Conference Committee on the Application of Standards, a tripartite body, examines the work of the Committee of Experts and selects a number of cases that are discussed at the ILC;
- The Committee on Freedom of Association (CFA) examines cases brought by workers or employers’ associations concerning the violation of the constitutional principle of freedom of association and the right to collective bargaining and makes recommendations;
- Representations, brought by a workers or an employers’ association, and complaints, brought by a member State which has ratified the convention in question, an ILC delegate or the Governing body, may be brought against a State for non-compliance with a ratified convention. The latter may involve the setting up of a Commission of inquiry that will make recommendations.

- ILS apply to all workers, dependent, independent, formal and informal

**Misconceptions regarding application of ILS.** The ILO’s mandate is not limited to workers in the traditional meaning of the word; it extends to all human beings. There is a common misconception that ILS are not applicable to the informal economy when in fact, most ILS are applicable to all workers, dependant and independent, and are as relevant to the informal economy as to the formal economy. Indeed, a number of ILS apply to “workers” rather than the legally narrower term “employees”, and some explicitly refer to the informal economy. It is certainly true that many ILS are not applied in practice to informal workers, but non-enforcement is unfortunately not limited to the informal economy: the question is therefore not whether to apply relevant standards, but how.

How do States respect ILS?

In international law, there is a legal obligation on States that have ratified a convention to respect it. There are several ways to comply with ILS, often provided in ILS themselves: through law, regulation, collective agreements, arbitration, awards, courts decisions or a combination of these methods. A State may decide to bring its law in line with a ratified convention – for example, if a State has ratified the Right to Organise Convention, 1948 (No. 87), which applies to awards, courts decisions or a combination of these methods. A State may decide to bring its law in line with a ratified convention. ILS, including unratified conventions and recommendations, are models for States, they can help shape their laws and policy, they can inspire NGOs or various labour rights defenders, and they can be used by national Courts in deciding cases.

- Eight fundamental conventions and four “Governance” conventions are particularly relevant to the informal economy

Fundamental rights are often cited in isolation as being particularly relevant to the informal economy. The implementation of the eight fundamental conventions is indeed essential but is not sufficient to attain Decent Work. In this regard, four other conventions have been considered by the ILO’s Governing Body to be “priority conventions” since 1995 (they are today referred as “governance” conventions”). They relate to three topics: labour inspection,
employment policy, and tripartite consultation, and they were singled out in the 2008 Declaration, along with core labour standards, as “the most significant from the viewpoint of governance.”¹⁶ These conventions are the:

- Labour Inspection Convention, 1947 (No. 81),
- the Labour Inspection (Agriculture) Convention, 1969 (No. 129),
- the Employment Policy Convention, 1964 (No. 122), and the
- Tripartite Consultation (International Labour Standards) Convention, 1976 (No. 144)

Taken together, the effective application of these twelve conventions constitute the minimum to help workers and employers progress out of informality. However, implementation of other ILS is of crucial importance as well. As stated by the ILO in its 2002 report on Decent work and the informal economy, “to address more fully the decent work deficits in the informal economy, it is necessary to extend basic minimum standards on substantive matters such as conditions of work, safety and health and income security, as well as basic rules for fair treatment, for example with regard to job security and vulnerable groups”.¹⁷

Of course, not all up-to-date conventions are applicable all the time – some are clearly aimed at formal enterprises, such as the Termination of Employment Convention, 1982 (No. 158) which provides for notification of closure of undertakings of a certain size. While some ILS are applicable immediately to informal workers, others have provisions for the progressive extension of their terms to workers or sectors they do not initially cover. Progressive extension is more generally endorsed by the Labour administration Convention, 1978 (No. 150) and by the Employment Policy Recommendation, 1984 (No. 169). What follows is an overview of the most relevant ILS and their scope.

**Fundamental rights at work.** It is well accepted that fundamental rights at work should be promoted, realized and respected in the formal and the informal economy. As discussed above, however the application of fundamental rights at work poses particular challenges in the informal economy:

- **Freedom of association and the effective recognition of the right to collective bargaining.** Freedom of association and the right to collective bargaining aim to give voice to workers and employers, enabling them to influence issues that have a direct effect on them and improve their conditions of work. In other words, it represents democracy at the workplace. The two relevant fundamental conventions are the Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87), which establishes the right for workers and employers to establish and join organisations of their own choosing without previous authorisation, and the Right to Organise and Collective Bargaining Convention, 1949 (No. 98), which provides for protection against anti-union discrimination and acts of interference. It also provides for measures to be taken to encourage and promote voluntary negotiation between employers or employers’ organisations and workers’ organisations, with a view to the regulation of the terms and conditions of employment by means of collective agreements.

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¹⁶ For more details see Resources section to access: ILO 2008 Declaration, Para. II B iii) and Annex, Para. II A vi).
¹⁷ For more information see Resources section to access: ILO, 2002 Decent Work and the Informal Economy, p.44.
The right to establish and to join organisations provided by Convention No. 87 applies to all workers and employers. The CFA has therefore stated that this right should be enjoyed by self-employed workers, domestic workers, agricultural workers, temporary workers, migrant workers, etc. It has also stated that legal formalities for the establishment of a trade union are in breach of Convention No. 87 when they are applied in such a manner as to delay or prevent the establishment of a trade union. The right to collective bargaining afforded by Convention No. 98 is also held by all workers – with the exception of members of the police and the armed forces and public servants engaged in the administration of the State.

Other relevant non-fundamental conventions concerning freedom of association and collective bargaining are the Rural Workers’ Organisations Convention, 1975 (No. 141) which applies to all categories of rural workers, whether they wage earners or self-employed, and the Collective Bargaining Convention, 1981 (No. 154).

- **Elimination of all forms of forced or compulsory labour.** Forced labour occurs when work or service is exacted under the menace of any penalty – such as withholding food or land or wages, physical violence or sexual abuse, restricting peoples’ movements or locking them up – and is undertaken involuntarily. The interdiction of forced labour is covered by two fundamental conventions: the Forced Labour Convention, 1930 (No. 29), which asks ratifying States to suppress the use of forced labour and requires that the illegal extraction of forced labour be punishable with adequate and strictly enforced penalties, and the Abolition of Forced Labour Convention, 1957 (No. 105), which specifies certain purposes for which forced labour can never be imposed. Both conventions apply to all human beings.

- **Elimination of discrimination in respect of employment and occupation.** The elimination of discrimination is essential for workers to choose their employment freely, to fully develop their potential, and to obtain economic rewards on the basis of merit. This fundamental right is covered by the Equal Remuneration Convention, 1951 (No. 100), which requires ratifying States to ensure the application of the principle of equal remuneration for men and women workers for work of equal value, and the Discrimination (Employment and Occupation) Convention, 1958 (No. 111). For the purpose of Convention No. 111, “discrimination” means any distinction, exclusion or preference made on the basis of race, colour, sex, religion, political opinion, national extraction or social origin, which has the effect of nullifying or impairing equality of opportunity or treatment in employment or occupation. Convention No. 111 requires ratifying States to declare and pursue a national policy designed to promote, by methods appropriate to national conditions and practice, equality of opportunity and treatment in respect of employment and occupation, with a view to eliminating any discrimination in these fields. Both conventions apply to all workers but Convention No. 111 covers specific grounds of discrimination only.

Other non-fundamental conventions and recommendations relevant to this fundamental right are: the Workers with Family Responsibilities Convention, 1981 (No. 156) and its accompanying recommendation no. 165 – the latter mentions in particular that part-time workers, homeworkers

18 With the exception of members of the armed forces and the police.
19 ILO, 2006, Para. 279.
and temporary workers should have adequately regulated and supervised
terms and conditions of employment (Paragraph 21); the Vocational Rehabilitation and Employment (Disabled Persons) Convention, 1983 (No. 159), which, according to the Commission of Experts, facilitates the placement and employment of disabled persons in the formal and the informal economy;\(^\text{21}\) and the Indigenous and Tribal Peoples Convention, 1989 (No. 169).

- **Effective abolition of child labour.** Children are considered in need of special protection because, by virtue of their age, they may lack the knowledge, experience or physical development of adults and the power to defend their own interests. Child labour also perpetuates poverty and reproduces the informal economy through the generations - children who will not go to school which will limit their future possibilities including the ability to enter the formal economy. The abolition of child labour is dealt with by the Minimum Age Convention, 1973 (No. 138), and the Worst Forms of Child Labour Convention, 1999 (No. 182).

Convention No. 182 applies to all children under the age of 18. According to the convention, the worst forms of child labour include trafficking, debt bondage and other forms of forced labour including forced recruitment of children for use in armed conflict; prostitution and pornography; and the use of children for illicit activities such as the trafficking of drugs; dangerous work that can harm the health, safety or morals of children as determined at national level in consultation with workers’ and employers’ organisations.

Convention No. 138 is the fundamental convention with the most flexibility clauses. It has a clear objective however: to achieve the total abolition of child labour. In order for this goal to be attained, it requires States to "pursue a national policy designed to ensure the effective abolition of child labour and to raise progressively the minimum age for admission to employment or work to a level consistent with the fullest physical and mental development of young persons" (Article 1). It sets the general minimum age for admission to employment or work at 15 years (13 for light work) and the minimum age for hazardous work at 18 (16 under certain strict conditions). It provides for the possibility of initially setting the general minimum age at 14 (12 for light work) where the economy and educational facilities are insufficiently developed. Convention No. 138 is flexible and allows States to exclude limited categories of work and employment on a temporary basis, only when necessary and after consultation with the employers and workers’ organisations concerned (Article 4). It also allows ratifying States whose economy and administrative facilities are insufficiently developed to limit its scope, again, after consultation with the organisations of employers and workers concerned. Convention No. 138 however also lists sectors that cannot be excluded.

Other non-fundamental conventions relevant to this fundamental right are: the Medical Examination of Young Persons (Non-Industrial Occupations) Convention (No. 78). Its scope clearly encompasses the informal economy (occupations carried out in the street, etc).

\(^{21}\) Schlyter, 2002.
How ILS contribute to the promotion of Decent Work for all

ILS are designed to be flexible and adaptable to specific national contexts. They should be adopted through tripartite consultations to ensure the democratisation of the legal environment and better governance. ILS set a minimum social floor for all those who work, enabling them to not only enjoy basic rights but contributing toward their ability to articulate more broad ranging rights. They are therefore a vital pathway towards Decent Work and the move out of informality. ILS are useful in a variety of ways:

“(i) some enable and empower people in the informal economy;
(ii) some contain substantive provisions that guide policy, particularly for governments that may have neglected informal economy issues;
(iii) when ratified (or examined in a general survey), international labour standards trigger a supervisory system that involves periodic review and offers opportunities for employers’ and workers’ organizations to raise issues of concern in relation to the informal economy;
(iv) they can offer platforms for advocacy towards achieving “decent work for all”;
(v) when not applied (although applicable), they lay bare failures of governance;
(vi) when applied in the context of the informal economy, they promote development with equity”.


Governance Conventions and other relevant ILS

• **Labour inspection.** Labour inspection is key to ensure the application of labour regulation and its establishment is requested by many ILS related to working conditions and the protection of workers. It is an essential element to combat informal work.

• **Employment Policy.** A number of ILS provide guidance to national economic and social policy, and as such are extremely relevant to the informal economy; they concern “all who are available for and seeking work”. The *Employment Policy Convention, 1964 (No. 122)* requires ratifying States to “declare and pursue, as a major goal, an active policy designed to promote full, productive and freely chosen employment” and the Committee of Experts has stated that, in the application of this policy, Governments should consult representatives of persons active in the informal economy.

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22 Protocol of 1995 to the Labour Inspection Convention, 1947 (No. 81)
Employment promotion. Another important and quite comprehensive instrument is the Job creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189), which addresses in details the issue of workers’ rights in SMEs. The Committee of Experts believes that this recommendation provides valuable guidance for the adoption of measures aimed at encouraging job creation or facilitating the integration of informal employment into the formal sector by promoting SMEs. Mention should also be made of the Promotion of Cooperatives Recommendation, 2002 (No. 193). The need to “establish an institutional framework with the purpose of allowing for the registration of cooperatives in as rapid, simple, affordable and efficient a manner as possible” is recognised in Paragraph 6(a) and it 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” (Para. 9).

Tripartism. Tripartism is important at the international level, for the functioning of the ILO, but is also crucial at the national level. Indeed, it encourages cooperation between social partners and their participation in the implementation of ILS and therefore promotes wider social dialogue on different labour issues within a country. The Tripartite Consultation Convention, 1976 (No. 144) establishes that all ratifying States undertake to operate procedures which ensure effective consultation with respect to some ILS related activities of the ILO (Government reports on ratified conventions, re-examination of unratified conventions and Recommendations to which effect has not been given, denunciations of ratified conventions, etc). The Committee of Experts has stated in regard to this convention that although it “requires that the most representative organisations of employers and workers participate in consultations, it does not in any way prevent the involvement of representatives of other organisations. Above all, it may be useful to receive the opinions of representatives of categories of workers or employers who may be inadequately represented by the principal representative organizations, such as self-employed workers, farmers or members of cooperatives.”

A number of ILS provide guidance to national economic and social policy, and as such are extremely relevant to the informal economy; they concern “all who are available for and seeking work”

Labor Administration Convention, 1978 (No. 150), promotes “the extension, by gradual stages if necessary, of the functions of the system of labour administration” to workers who are not in law employees, such as the self-employed who do not engage outside help and who are occupied in the informal sector.

Tripartism is essential at the national level to develop effective and sustainable solutions to informality.
**Labour administration.** Both the Labour Administration Convention, 1978 (No. 150), and the Protocol No. 81 of 1995 to the Labour Inspection Convention, provide for a progressive extension of coverage. Convention No. 150 provides that “[w]hen national conditions so require, with a view to meeting the needs of the largest possible number of workers (...) each Member (...) shall promote the extension, by gradual stages if necessary, of the functions of the system of labour administration” to workers who are not in law employees, such as the self-employed who do not engage outside help and who are occupied in the informal sector, as defined by Members (Article 7).

**Vocational guidance and training.** Training and education are key to keeping people employable and to realising decent work. The Human Resources Development Convention, 1975 (No. 142), and the Human Resources Development Recommendation, 2004 (No. 195) are concerned with skills and are thus relevant to the informal economy. The Committee of Experts has stated that the informal sector is implicitly covered by various provisions of Convention No. 142 and related instruments.\(^\text{27}\) Convention No. 142 applies to “persons” and the Vocational Rehabilitation and Employment (Disabled Persons) Convention, 1983 (No. 159) covers “individuals”. The Recommendation No. 195 (adopted in 2004 and replacing a previous recommendation No. 148) refers explicitly to the informal economy by stating that Members should identify human resources development, education, training and lifelong learning policies which “address the challenge of transforming activities in the informal economy into decent work fully integrated into mainstream economic life; policies and programmes should be developed with the aim of creating decent jobs and opportunities for education and training, as well as validating prior learning and skills gained to assist workers and employers to move into the formal economy” (Para. 3). Moreover, Members should “promote access to education, training and lifelong learning for people with nationally identified special needs, such as youth, low-skilled people, people with disabilities, migrants, older workers, indigenous people, ethnic minority groups and the socially excluded; and for workers in small and medium-sized enterprises, in the informal economy, in the rural sector and in self-employment” (Para. 5). (see also brief skills and employability).

**Wages.** ILS related to wages address the questions of regular payment of wages, fixing of minimum wage levels, and the settlement of unpaid wages in case of employer insolveny. The Minimum Wage Fixing Convention, 1970 (No. 131) requires ratifying states to establish mechanisms for fixing a minimum wage that are capable of determining and periodically reviewing and adjusting it. This Convention has been said to “explicitly or implicitly provide[...] for the implementation of standards in a way that is appropriate to local circumstances, including the inequalities between the formal and the informal economy”.\(^\text{28}\) The Protection of Wages Convention, 1949 (No. 95) applies to all persons to whom wages are paid or payable (Art. 2(1)). Certain persons may be excluded from the scope of the Convention however. The Commission of Experts noted that, in certain cases, large numbers of workers - such as agricultural workers, casual workers and home workers - are left unprotected by national law. It considers this inconsistent with the limited and provisional nature of the exemptions permitted the Convention.\(^\text{29}\) The Protection of Wages Recommendation, 1949 (No. 85) contains specific protections in relation to payment periodicity for work done on a piece-work basis (Paras. 4 and 5).

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28 Sengenberger, 2005, p. 53.
29 ILO, 2003, Para. 64.
• Social Security. The main relevant instrument regarding social security is the Social Security (minimum Standards) Convention, 1952 (No. 102), which, despite its gender-biased language, is based on the notion of solidarity and aims at the progressive extension of its coverage. Conventions adopted subsequently expand the scope of protection while authorising certain exceptions to ensure flexibility. The Maintenance of Social Security Rights Convention, 1982 (No. 157) applies to persons who are, or have been, the subject of legislation in several States. The Maternity Protection Convention, 2000 (No. 183) specifically applies to “all employed women, including those in atypical forms of dependant work”.

The most recent instrument: the Recommendation concerning national floors for social protection 2012 (No.202) makes explicit reference to people in the informal economy, acknowledging that social security is an important tool to prevent and reduce poverty and support the transition from informal to formal employment. (See also briefs on social security and on maternity protection).

• Occupational Safety and Health (OSH). A very large number of ILS relate to occupational safety and health issues and they offer important policy guidance and advocacy tools for the informal economy. The Occupational Safety and Health Convention, 1981 (No. 155) requires States to adopt a coherent national OSH policy aiming at “prevent accidents and injury to health arising out of, linked with or occurring in the course of work” (Article 4) in “all branches of economic activity”. It is a promotional convention and implies a constant effort to improve workers protection. It contains several flexibility clauses – it allows a ratifying State, after consultation with the representative organisations of employers and workers concerned, to exclude from its application, in part or in whole, particular branches of economic activity and “limited categories of workers in respect of which there are particular difficulties” (Article 1(2) and 2(2)). According to the Committee of Experts, these exclusions are not intended to be permanent and States are expected to progress towards a full application of the Convention. Indeed, these flexibility clauses are enabling provisions that should not be used as a means of derogation from effective OSH protection for workers.\(^\text{30}\) As such, several countries have indicated that they are currently extending the scope of their national OSH legislation. Furthermore, while the Convention is silent with regard the self-employed, Occupational Safety and Health Recommendation, 1981 (No. 164) specifies that States should extend the protection afforded in the Convention and the Recommendation to such workers (Para. 1(2)).

A number of ILS deal directly with the self-employed, who may find themselves in a situation of informal work. The Safety and Health in Agriculture Recommendation (No. 192) adopted in 2001 with the Safety and Health in Agriculture Convention (No. 184) takes into account the situation of self-employed farmers and calls for the progressive extension of the protection afforded by the Convention. While exclusions regarding certain undertakings and certain workers are possible, States have to “make plans to cover progressively all undertakings and all categories of workers”. These instruments exclude from their scope however subsistence farming, industrial processes that use agricultural products as raw material, and the related services, and the industrial exploitation of forests.

The recent 2006 Promotional Framework for Occupational Safety and Health Convention (No. 187) importantly provides that Members are to establish a national system that should include support mechanisms for A very large number of ILS relate to occupational safety and health issues and they offer important policy guidance and advocacy tools for the informal economy

• Some standards have also been adopted dealing specifically with particular forms of employment that may not be covered, or completely covered, by some national legislations, and for which exclusions may be possible under existing ILS.

the progressive improvement of occupational safety and health “in micro-enterprises, in small and medium-sized enterprises and in the informal economy”.

Other relevant up-to-date conventions in this field are the:
- Radiation Protection Convention, 1960 (No. 115);
- Asbestos Convention, 1986 (No. 162);
- Chemicals Convention, 1990 (No. 170);

**ILS dealing directly with specific groups.** Some standards have been adopted dealing specifically with particular forms of employment that may not be covered, or completely covered by some national legislations and for which exclusions may be possible under existing ILS. They concern part-time work, home work, work on plantations, nursing personnel and hotel and restaurants workers; they ask ratifying states to afford specific rights and protection to workers, or else to grant conditions that are similar to those granted to other workers. Other very important ILS with regards to vulnerable groups are the Private Employment Agencies Convention, 1997 (No. 181), ILS concerned with migrant workers, the Convention No. 169 (on Indigenous and Tribal Peoples), and the Work in Fishing Convention, 2007 (No. 188). These are examined below. It should be noted however that some of these conventions have not been widely ratified: only 5 States have ratified the Home Work convention, 11 have ratified the Part-Time Work convention, and 21 have ratified the Private Employment Agencies Convention.

- **Workers and Private Employment Agencies.** The Private Employment Agencies Convention, 1997 (No. 181) mentioned above applies to all categories of worker in all sectors, but its scope may be reduced by a ratifying state after consultation. It provides that private employment agencies “shall not charge directly or indirectly, in whole or in part, any fees or costs to workers.” It asks of ratifying states to adopt measures to ensure adequate protection for the workers employed by private employment agencies regarding: freedom of association and collective bargaining, minimum wages, working time and other working conditions, statutory social security benefits, access to training, occupational safety and health, compensation in case of occupational accidents or diseases, compensation in case of insolvency and protection of workers claims, and maternity protection and benefits, and parental protection and benefits (Article 11). It further asks for the respective responsibilities of private employment agencies providing the services referred to on the one hand, and of user enterprises on the other, to be determined and allocated in a manner respecting rights to collective bargaining, minimum wages, working time and other working conditions, statutory social security benefits, access to training, protection in the field of occupational safety and health, compensation in case of occupational accidents or diseases, compensation in case of insolvency and protection of workers claims, maternity protection and benefits, and parental protection and benefits (Article 12).

- **Rural workers.** Rural workers comprise a large proportion of the informal workforce. Several ILS are specifically targeted to them. Adopted in 1921, the Right of Association (Agriculture) Convention (No. 11) states that agriculture workers have the same rights of association as industrial workers.

The *Rural Workers’ Organizations Convention, 1975 (No. 141)*, and accompanying Recommendation, 1975 (No. 149), encourage the establishment of rural organisations. Agricultural workers benefit however from the guarantees provided for in general freedom of association Conventions (Conventions Nos. 87 and 98).

**Home workers.** The *Home Work Convention, 1996 (No. 177)* defines home work as work carried out by a person, for remuneration, in his or her home or in other premises of his or her choice, other than the employer’s workplace, which results in a product or service as specified by the employer, irrespective of who provides the equipment, materials or other inputs used. The Convention calls for a national policy that aims at improving the situation of home workers by promoting equality between them and other workers (see also brief on Home work).

**Migrant workers.** Many migrant workers are the victims of exploitation and abuse, and work in a situation of informality. ILS insist on the obligation to give the same treatment to all workers – without mentioning nationality - the fundamental Convention No 111 on discrimination provides for equal opportunity on the basis of race, colour and religion which are often relevant features of migrant workers, for example. According to the *Migration for Employment (Revised) Convention, 1949 (No. 97)*, ratifying States have to apply the same treatment to all workers in certain areas such as conditions of employment, freedom of association and social security. The *Migrant Workers (Supplementary Provisions) Convention, 1975 (No. 143)* extended this scope. Migrant workers who find themselves in the worst situations are often in irregular situations. Convention No. 143 contains a number of provisions to combat clandestine and illegal migration, but also provides that all migrant workers, with legal or illegal status, should enjoy “cultural rights and of individual and collective freedoms”. See also brief on Migrant workers.

**Indigenous and Tribal Peoples.** The *Indigenous and Tribal People Convention No. 169* is the only international treaty dealing exclusively with indigenous and tribal people, and has been widely used to promote the rights of these people. It is of particular relevance to the topic of informality as indigenous and tribal people are often concentrated in the informal economy. Convention No. 169 indicates that indigenous and tribal people should be consulted and that they should participate at all the levels of decision-making that may affect them. It covers a number of issues, including customs and traditions, access to natural resources, employment, education and vocational training, handicrafts and rural industries, social security and health, and cross-border contacts and communication. Special mention should be made of the specific reference to land rights – *Convention No. 169* notably provides for the recognition of the rights of ownership and possession of the peoples concerned over the lands which they traditionally occupy. It further calls on Governments to take steps to identify such lands and to establish adequate procedures to resolve land claims (Article 14).

**Fishers.** About 27 million people work solely in capture fishing, and a majority of fishers belong to the informal sector working in the small-scale fishing sector. They may be excluded from legislation because of the particular arrangements in this sector (fishers are often paid on the

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32 For more information, see ILO, 2007.
33 For more information, see http://www.ilo.org/indigenous/lang--en/index.htm.
basis of the share of the catch, and left without protection. The Work in Fishing Convention, 2007 (No. 188) and Work in Fishing Recommendation, 2007 (No. 199) were adopted to tackle these issues.

- **Domestic workers.** The Decent Work for Domestic Workers Convention 2011 (No.189) and its accompanying Recommendation, 2011 (No.201) have been primarily designed to bring a large sub-sector of workers currently under-protected or unprotected by the national law, out of informality. For more details see the brief on domestic work.
4. The Regulatory Framework and the Informal Economy

4.a.2 Internationally Labour Standards (ILS): Bringing the Unprotected Under the Law

Street haircutter, Beijing, China.
This section provides a list of resources which can enable the reader to delve deeper into the issue. The section comprises international instruments, International Labour Conference conclusions, relevant publications and training tools. A bibliography of references in the text is further below. There may be some overlap between the two.

**ILO and UN Instruments and ILC Conference conclusions**

- **Conventions**

- **Recommendations**

**Fundamental Conventions**


- Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87)
- Right to Organise and Collective Bargaining Convention, 1949 (No. 98)
- Forced Labour Convention, 1930 (No. 29)
- Abolition of Forced Labour Convention, 1957 (No. 105)
- Minimum Age Convention, 1973 (No. 138)
- Worst Forms of Child Labour Convention, 1999 (No. 182)
- Equal Remuneration Convention, 1951 (No. 100)
- Discrimination (Employment and Occupation) Convention, 1958 (No. 111)

**Governance Conventions**

- Labour Inspection Convention, 1947 (No. 81)
- Labour Inspection (Agriculture) Convention, 1969 (No. 129)
- Employment Policy Convention, 1964 (No. 122)
- Tripartite Consultation (International Labour Standards) Convention, 1976 (No. 144)

**Other relevant Conventions**

- Medical Examination of Young Persons (Non-Industrial Occupations) Convention, 1946 (No. 78)
- Protection of Wages Convention, 1949 (No. 95)
- Migration for Employment Convention (Revised), 1949 (No. 97)
- Social Security (Minimum Standards) Convention, 1952 (No. 102)
- Radiation Protection Convention, 1960 (No. 115)
- Minimum Wage Fixing Convention, 1970 (No. 131)
- Rural Workers’ Organisations Convention, 1975 (No. 141)
- Human Resources Development Convention, 1975 (No. 142)
- Working Environment (Air Pollution, Noise and Vibration) Convention, 1977 (No. 148)
- Labour Administration Convention, 1978 (No. 150)
- Collective Bargaining Convention, 1981 (No. 154)
- Occupational Safety and Health Convention, 1981 (No. 155)
- Workers with Family Responsibilities Convention, 1981 (No. 156)
- Maintenance of Social Security Rights Convention, 1982 (No. 157)
- Vocational Rehabilitation and Employment (Disabled Persons) Convention, 1983 (No. 159)
- Asbestos Convention, 1986 (No. 162)
- Safety and Health in Construction Convention, 1988 (No. 167)
- Indigenous and Tribal Peoples Convention, 1989 (No. 169)
- Chemicals Convention, 1990 (No. 170)
- Home Work Convention, 1996 (No. 177)
Private Employment Agencies Convention, 1997 (No. 181)
Maternity Protection Convention, 2000 (No. 183)
Safety and Health in Agriculture Convention, 2001 (No. 184)
Promotional Framework for Occupational Safety and Health Convention, 2006 (No. 187)
Work in Fishing Convention, 2007 (No. 188)
Protocol of 1995 to the Labour Inspection Convention, 1947 (P81)
Decent Work for Domestic Workers Convention, 2011 (No. 189)

Relevant Recommendations

Protection of Wages Recommendation, 1949 (No. 85)
Rural Workers’ Organizations Recommendation, 1975 (No. 149)
Occupational Safety and Health Recommendation, 1981 (No. 164)
Family Responsibilities Recommendation, 1981 (No. 165)
Employment Policy Recommendation, 1984 (No. 169)
Job creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189)
Safety and Health in Agriculture Recommendation (No. 192)
Promotion of Cooperatives Recommendation, 2002 (No. 193)
Human Resources Development Recommendation, 2004 (No. 195)
Work in Fishing Recommendation, 2007 (No. 199)
Recommendation concerning Decent Work for Domestic Workers, 2011, (No. 201)
Recommendation concerning national floors for social protection, 2012, (No. 202)

Declaration on Fundamental Principles and Rights at Work, 1998

Declaration on Social Justice for a Fair Globalization, 2008

Human Rights instruments

Universal Declaration of Human Rights, 1948
International Covenant on Civil and Political Rights, 1966
International Covenant on Economic, Social and Cultural Rights, 1966

Databases

APPLIS - a database on the application of international labour standards

Database of Conditions of Work and Employment Laws: Maternity protection, minimum wages, and working time.

ILO departments’ websites

Bureau for gender equality

International Labour Standards (NORMES)

International Migration Programme

International Programme for the elimination of child labour (IPEC)

Job Creation and Enterprise Development Department

Labour administration and Labour Inspection Programme (Lab/Admin)
Relevant publications


Weblinks

Constitution

Conventions
http://www.ilo.org/ilolex/english/convdisp1.htm

International Labour Standards

ILO DECLARATION website

Up-to-date instruments

Recommendations
http://www.ilo.org/ilolex/english/recdisp1.htm

ILO Standards department

Tools

Amorim, A; S. Badrinath; S. Samouiller; Una Murray. 2004. Gender equality and child labour: a participatory tool for facilitators, IPEC (Geneva: ILO). Also available in Russian, French, Spanish and Arabic


ILO 2010 Extending the scope of application of labour laws to the informal economy: A digest of comments of ILO’s supervisory bodies related to the informal economy. ILO: Geneva


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CLEP, 2008, Making the Law Work for Everyone, Vol. II,


ILO, 2002a, Report VI, Decent work and the informal economy, ILC, 90th Session (Geneva).


A POLICY RESOURCE GUIDE SUPPORTING TRANSITIONS TO FORMALITY

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

PART I: Key concepts

1. Decent Work and the Informal Economy
   1.1 Key conceptual issues

2. Measurement of the Informal Economy
   2.1 Addressing statistical challenges

PART II: Policies to support transitions to formality

3. Growth Strategies and Quality Employment Generation
   3.1 Patterns of economic growth and the informal economy

4. The Regulatory Framework and the Informal Economy
   (A) International Labour Standards
      4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work
      4.a2 International Labour Standards (ILS): bringing the unprotected under the law
      4.a3 Understanding the employment relationship and its impact on informality
   (B) Specific Groups
      4.b1 Domestic Workers: strategies for overcoming poor regulation
      4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law
      4.b3 Street vendors: innovations in regulatory support
      4.b4 Micro and Small Enterprises (MSEs), informality and labour law: reducing gaps in protection
      4.b5 Strategies for transforming undeclared work into regulated work
   (C) Labour Administration
      4.c1 Labour administration: overcoming challenges in reaching the informal economy
      4.c2 Labour inspection and the informal economy: innovations in outreach

5. Organization, Representation and Dialogue
   5.1 Social dialogue: promoting good governance in policy making on the informal economy
   5.2 The role of Employers’ organizations and small business associations
   5.3 Trade unions: reaching the marginalized and excluded
   5.4 Cooperatives: a stepping stone out of informality

6. Promoting Equality and Addressing Discrimination
   6.1 Promoting women’s empowerment: a gendered pathway out of informality
   6.2 Migrant workers: policy frameworks for regulated and formal migration
   6.3 Disability: inclusive approaches for productive work

7. Entrepreneurship, Skills Development, Finance
   7.1 Informal enterprises: policy supports for encouraging formalization and upgrading
   7.2 Enhancing skills and employability: facilitating access to the formal economy
   7.3 Microfinance: targeted strategies to move out of informality

8. Extension of Social Protection
   8.1 Extending social security coverage to the informal economy
   8.2 HIV/AIDS: overcoming discrimination and economic exclusion
   8.3 Extending maternity protection to the informal economy
   8.4 Childcare: an essential support for better incomes

9. Local Development Strategies
   9.1 Local development: opportunities for integrated strategies for moving out of informality

The Regulatory Framework and the Informal Economy

International Labour Standards (ILS)

4.a3 UNDERSTANDING THE EMPLOYMENT RELATIONSHIP AND ITS IMPACT ON INFORMALITY

- This brief examines the employment relationship – the cornerstone of labour law – and its enforcement. Within the informal economy employment relationships may be blurred, ambiguous, obscured by webs of subcontracting or deliberately disguised, making protection under the law immensely difficult and complicated. Emerging responses from various countries have seen efforts to clarify the law, extend its scope and improve its enforcement.
The employment relationship and informality

Establishing an employment relationship has always been, in some cases, difficult. Indeed, it has been argued that work relations falling on the margins of the employment category has posed a problem as early as the eighteenth century. However, the employment relationship has lately become more difficult to discern – or this difficulty has become more widespread – because labour relations and types of contracts have been changing, often in order to make the labour market more flexible. For example, businesses have increasingly resorted to contracting services and functions that were previously part of the enterprise through independent contracts, employment agencies or cooperatives (this is referred to as vertical disintegration) and chains of production are more and more complex. Often, the rights and obligations of each party are not clear or, there has been an attempt to disguise the employment relationship or, there are inadequacies or gaps that exist in the legislation, its interpretation or its enforcement. This has major consequences for workers and for society as a whole. Indeed, because they are not recognised as employees, workers might lack labour protection and have less social security protection. They may also have difficulties securing the protection of labour inspections and have difficult access to courts.

As has been noted, “it is widely believed that labour law is currently undergoing a “crisis” of core concepts”. Although there are many attempts to rethink labour law - some suggesting that the concept of the employment contract and the established difference between an employee and a self-employed should be abandoned and that rights and benefits should be granted outside its context, most agree that it is here to stay. Legal systems throughout the world adhere to the concept of the employment relationship and it is therefore of primary importance to bring clarity to the concept.

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1 Deakin, 2006, p. 104 (referring to the situation in the UK).
2 This phenomenon dates from the 70s and has been widely studied (see for example, Collins 1990).
3 For more details see Resources section to access: Recommendation No. 198, preamble. See also ILO, 2002. Conclusions concerning decent work and the informal economy. Para. 16.
4 ILO, 2003, p.13. For an example of difficult access to court, see Sieng and Nuth, 2006 (in Cambodia, access to dispute resolution mechanisms for workers in a collective labour dispute is dependant on a clear employer-employee relationship).
5 Deakin, 2006, p.89.
7 See for example Benjamin, 2006, p.190; Deakin, 2006, p.104.

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What is an employment relationship?

An employment relationship exists when services are performed under certain conditions in return for remuneration. It is the legal link between an employer and an employee which triggers many of the reciprocal rights and obligations contained in labour law in numerous countries with different legal traditions - with, however, variations. This insistence of the law on the employment relationship is explained by the fact that labour law seeks precisely “to address what can be an unequal bargaining position between parties to an employment relationship.” Most of the time, the law therefore makes a difference between a dependant worker who works under an employment contract and an independent worker (or self-employed) who works under a civil or commercial contract. This necessary state of affairs, combined with changes in the labour landscape, creates possibilities for abuses and exclusions.
An ILO recommendation on the employment relationship was adopted in 2006 acknowledging “that situations exist where contractual arrangements can have the effect of depriving workers of the protection they are due”

**Regulation at the international level.** Discussions have been taking place within the ILO surrounding self-employed workers, home-workers, migrant workers, private employment agency, fishers, etc. All of these topics raised questions relating to the employment relationship. Moreover, discussions took place in 1997 and 1998, within the International Labour Conference, in view of adopting an instrument on the theme of contract labour (workers dependant on an employer but not defined as employees). However, no agreement was reached at that time. The disparities in the terminology used by States in the discussions – ‘contract labour’ is indeed understood differently in different countries - were highlighted but at the same time, it was noted that all delegates from all region repeatedly referred to the employment relationship. A recommendation was adopted in 2006 to tackle this important problem. The Employment Relationship Recommendation, 2006 (No.198) explicitly recognises the difficulties in some cases of establishing whether or not an employment relationship exists and notes “that situations exist where contractual arrangements can have the effect of depriving workers of the protection they are due”.

**Where problems arise:**

- The **legal nature** of the relationship is disguised – the employment relationship has the appearance of being of a different legal nature (civil, commercial, cooperative, family-related, etc). These contracts may give it the semblance of self-employment. An abuse of the use of training contracts, for example, falls into this category.

- The **form** of the relationship is disguised – the existence of the employment relationship is not in question but “its nature is intentionally misrepresented” in order to evade the protection afforded by the law, social security and taxes. A fixed-term contract that is repeatedly renewed is an example of this type of disguised relationship.

- The relationship is ambiguous – some situations are genuinely unclear with the main characteristics of an employment relationship not apparent. Some workers might have been clearly independent but the relationship with a client might have slowly changed; in other cases, workers might have never set foot in the enterprise.

- The relationship is triangular – it typically involves a worker, an intermediary (such as a temporary work agency) and a third party, “the user”. The status of the employee is normally clear but the question that arises is “who is the employer”. This situation can lead to a lack of protection for the worker. Relationships falling in this category can as well be qualified as disguised or ambiguous, and they may involve more than three parties. It should be noted that it is not the use as such of temporary work agencies that needs to be curbed, it’s its abuse – sometime, employment with the user is prolonged for long periods of time while the legal employer is considered to be the agency – see on this topic the Private Employment Agencies Convention, 1997 (No. 181).

10 There are many complications related to the terminology used. Indeed, the ambiguities arising from the proliferation of terms referring to various forms of employment were raised in the 2003 Report prepared by the ILO on the employment relationship (atypical, precarious, flexible, non-conventional, contracting out, externalisation, outsourcing, temporary workers recruited for a temporary employment agency). Making comparisons is therefore not straightforward.

11 See Casale, 2011.

12 These were identified in the 2006 ILC report (ILO, 2006, para.42-57). See also ILO, 2003.

The challenges faced are important. From a legal standpoint, they include clarifying the law in order to make its application more straightforward, extending its scope, and up-dating it to ensure its relevance to social changes, deterring attempts to disguise the employment relationship, improving labour inspection, improving access to courts, and providing training to the judiciary.

- **Clarifying the law.** Clarifying the law to make it more relevant is an important step forward. A workshop held by the ILO in Southern Africa in 2007 revealed that while most countries had a definition of “employer” and “employee” in their legislation, these definitions were deemed unclear and of not much use in practice. Moreover, none had a definition of the employment relationship.¹⁴

- **Access to courts.** Access to justice is particularly crucial in cases where the employment relationship is ambiguous, where disagreements or disputes are very likely to arise. However, in practice, access to courts is often limited for reasons that are not specific to labour issues – poverty, lack of education, lack of information about the law, uncertainty about the outcome, lack of infrastructures, etc. Some of the reasons are directly related to labour issues: the fear of losing one’s job, for example. Access to justice needs to be improved in order to implement the law, but also to deter the concealment of employment relationships.

- **Labour law enforcement.** It must be borne in mind, of course, that the problem is not a strictly legal one. As always, non-application of the law is part of a wider issue (see brief on International Labour Standards). Indeed, non-enforcement is often a result of financial constraints in most countries. Labour inspection suffers in particular: as stated in the ILO 2003 report on the employment relationship, “in some countries, the probability that an inspector will visit a particular enterprise, detect shortcomings, impose corrective measures and enforce them is very low or non-existent”¹⁵ (see brief on Labour Inspection).

Improving the enforcement of the law is essential. Measures aiming at providing for appropriate and adequate training in relevant international labour standards, comparative and case law for the judiciary, arbitrators, mediators, labour inspectors, and other persons responsible for dealing with the resolution of disputes and enforcement of national employment laws and standard is essential (see Recommendation no. 198). For example, improving training of inspectors, increasing their number and clearly empowering them to identify cases of disguised employment relationship and remedy them by encouraging their collaboration with the social security administration and the tax authorities is of particular importance. As well, training judges on the problematic of the employment relationship may be fruitful as there are cases where the law is too narrowly interpreted.

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¹⁵ See Resources section to access: ILO, 2003 The scope of the employment relationship.
ILO Employment Relationship Recommendation, 2006 (No. 198)

In 2006, the International Labour Conference adopted the Employment relationship Recommendation (No. 198). This non-binding instrument aims at providing guidance to States to extend the protection of labour legislation – therefore bringing workers back into the ambit of the law and out of informality. This detailed recommendation has three facets:

- It encourages States to formulate and apply a national policy for reviewing at regular intervals and, if necessary, clarifying the scope of laws and regulations in order to guarantee effective protection for workers who perform work in the context of an employment relationship. This policy should include guidance to the parties concerned, it should seek to combat disguised employment relationship, ensure standards applicable to all types of contracts, provide for adequate training of the judiciary, arbitrators, mediators, labour inspectors, etc.

- It suggests ways of facilitating the determination of the existence of an employment relationship - which should be guided primarily by facts relating to the performance of work and the remuneration of the worker - including providing for legal assumptions, deeming specific workers to be employees, and clearly defining the conditions applied for determining the existence of an employment relationship (such as subordination or dependence). It suggests as well a number of indicators that could be used to ascertain the existence of an employment relationship.

- It recommends that an appropriate mechanism for monitoring developments in the labour market and the organisation of work and for formulating advice on the adoption and implementation of measures concerning the employment relationship within the framework of the national policy.
A bricklayer on a construction site in Dar es Salaam, United Republic of Tanzania. The construction industry is another sector in which self-employment and freelance work has become more common.
EMERGING APPROACHES AND GOOD PRACTICES

- Defining specific indicators as to the existence of an employment relationship
- Applying a national policy
- Including particular groups of workers in the scope of the legislation
- Expanding the definition of an employer
- Establishing presumptions of employee status
- Removing incentives to disguise an employment relationship
- Regulating particular employment relationships
- Shifting the burden of proof

Legislation may provide for a definition of the employment relationship and for legal presumptions. It may also specify this relationship in specific cases and it may remove incentives to disguise the employment relationship. In most countries, the primacy of facts prevails on the form of the contract (the situation will be analysed looking at the facts and not at how the parties describe the relationship). The various initiatives put in place to facilitate the identification of an employer and an employee need to be evaluated in light of the local circumstances and cannot necessarily be reproduced in all contexts. These initiatives illustrate the various ways—through legislation, codes of practice, collective bargaining, handbooks, guides, judicial decisions—that the problem is tackled.16

Defining specific indicators as to the existence of an employment relationship. The law (whether legislation or judge made law) has developed many criteria, or tests, to determine the existence of an employment relationship. These vary of course from one country to the other. The most commonly factor used to determine whether work is performed under a contract of employment is subordination and/or dependency.17 However, they are not deemed sufficient. Other appropriate criteria include whether there are instructions, provision of tools, training, regular remuneration, financial risk, control of the work, integration of the worker in the enterprise, entitlements, work done mainly for another, work done within specific hours, a specific time or at a specific location, work carried out personally.18

Applying a national policy. Ireland’s Code of practice for determining employment or self-employment status of individuals is a good example of a tripartite initiative which aims at eliminating misconceptions and providing clarity by suggesting a number of criteria that should help in distinguishing an employee from a self-employed.19 (See box).

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16 In 2008, DIALOGUE published an annotated guide to the ILO Recommendation No. 198 which contains many examples of good practices concerning each issue raised in this recommendation. See Resources section to access this guide.
18 For example of legislation or case law which included some of these criteria, see ILO, 2008, pp.29-41.
19 See Resources section to access relevant Code of practice from Ireland. See also, ILO, 2008, p.34.
Ireland – Code of practice for determining employment or self-employment status of individuals

Employees
An individual would normally be an employee if he or she:
• is under the control of another person who directs as to how, when and where the work is to be carried out
• supplies labour only
• receives a fixed hourly/weekly/monthly wage
• cannot subcontract the work. If the work can be subcontracted and paid by the person subcontracting the work, the employer/employee relationship may simply be transferred on
• does not supply materials for the job
• does not provide equipment other than small tools of the trade. The provision of tools or equipment might not have a significant bearing on coming to a conclusion that employment status may be appropriate having regard to all the circumstances of the case
• is not exposed to personal financial risk in carrying out the work
• does not assume responsibility for investment and management in the business
• does not have the opportunity to profit from sound management in the scheduling and performance of tasks arising from the engagement
• works set hours or a given number of hours per week or month
• works for one person or for one business
• receives expenses payments to cover subsistence and/or travel
• is entitled to extra pay or time off for overtime

Self-employed
An individual would normally be self-employed if s/he:
• owns his or her own business
• is exposed to financial risk, by having to bear the cost of making good, faulty or substandard work carried out under the contract
• assumes responsibility for investment and management in the enterprise
• has the opportunity to profit from sound management in the scheduling and performance of engagements and tasks
• has control over what is done, when and where it is done and whether he or she does it personally
• is free to hire other people, on his or her terms, to do the work which has been agreed to be undertaken
• can provide the same services to more than one person or business at the same time
• provides materials for the job
• provides equipment and machinery necessary for the job, other than the small tools of the trade or equipment which in an overall context would not be an indicator of a person in business on their own account
• has a fixed place of business where materials, equipment, etc. can be stored
• costs and agrees a price for the job
• provides his or her own insurance cover
• controls the hours of work in fulfilling the job obligations


Including particular groups of workers in the scope of the legislation. A number of countries have made efforts to include specific workers within the law. In Morocco for example the 2004 Labour code has explicitly included in its scope workers that are often unprotected: salespersons and home workers. In the Australian state of Victoria, legislation contains “deeming provisions” – the Outworkers (Improves Protection) Act of 2003 states that for the purpose of specific laws, outworkers (home workers) are employees.

In Ontario, Canada, the Ontario Labour Relations Act deems “dependent contractors” to be “employees”. And in Panama the Labour Code considers the following groups to be “employees”: economically dependent sharecroppers and tenant farmers; agents, commercial vendors and similar workers, except where they do not do the work in person or only occasionally; performers, musicians and lecturers; transport drivers; teachers; ice-cream and other vendors; cooperative workers; and apprentices.

20 See Resources section to access the Labour Code from the Kingdom of Morocco
21 See Resources section to access the relevant Act from the State of Victoria, Australia
**Expanding the definition of an employer.** In its Labour Code, the Philippines defines the employer of a home worker as including "any person, natural or artificial who, for his account or benefit, or on behalf of any person residing outside the country, directly or indirectly, or through an employee, agent contractor, sub-contractor or any other person:

1. Delivers, or causes to be delivered, any goods, articles or materials to be processed or fabricated in or about a home and thereafter to be returned or to be disposed of or distributed in accordance with his directions; or

2. Sells any goods, articles or materials to be processed or fabricated in or about a home and then rebuys them after such processing or fabrication, either by himself or through some other person.23

**Establishing presumptions of employee status.** In South Africa in 2002, a rebuttable presumption of employment was introduced in the Basic Conditions of Employment Act. The law presumes that a person is an employee if one of the following factors is present:

- the manner in which the person works is subject to the control or direction of another person;
- the person’s hours of work are subject to the control or direction of another person;
- in the case of a person who works for an organization, the person is part of that organisation;
- the person has worked for that other person for an average of at least 40 hours per month over the last three months;
- the person is economically dependent on the other person for whom that person works or renders services;
- the person is provided with tools of trade or work equipment by the other person; or
- the person only works for or renders services to one person.24

The worker only has to prove that one or more of these factors are present and the burden of proof shifts to the employer to rebut (contest and prove otherwise) this presumption (this approach has influences other countries, including for example Tanzania).25

**Removing incentives to disguise an employment relationship.** In Slovenia, the Employment relations Act of 2003, makes provisions for a fine that can be imposed on the employer if the worker carries out the work on the basis of a civil law contract.26 Harsh penalties are also applicable in most states of the United States if an employee is misclassified as an independent contractor.27

In China a written employment contract has traditionally been very important in establishing an employment relationship. The recent Labour Contract law recognises however that an employment relationship may exist even when

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23 See Resources section to access: Labour Code of the Philippines, Article 155.
24 See Resources section to access: Article 83A of the Basic Conditions of Employment Act, 1997, as amended in 2002. The same amendment was made regarding the Labour Relations Act (for a discussion, see Fenwick, Kalula and Landau, 2007).
26 ILO, 2008, p.44
27 See Resources section to access for example: United States Treasury, Inland Revenue Service regulations on independent contractors http://www.irs.gov/businesses/small/article/0,,id=99921,00.html
there is no contract. Furthermore, the Labour Contract Law penalises firms for not signing written contracts with fixed term and project-based (but not casual) employees within one month of an engagement by an obligation to pay double remuneration.28

**Regulating particular employment relationships.** Employment relationships through the use of “temporary employment services” (TES) are regulated in South Africa through the Labour Relations Act. Section 198 provides that the TES is the employer. However, the TES and the user are jointly liable if the TES contravenes the terms and conditions of employment of a collective agreement, a binding award, provisions of the Basic Conditions of Employment Act29 and a wage determination flowing from the Wage Act. However, this protection is not sufficient as it does not extend to unfair dismissal protection.30

**Shifting the burden of proof.** Shifting the burden of proving in court the existence or non-existence of an employment relationship from the employee to the employer is a way to settle disputes more easily. In Singapore for example Section 131 of the Employment Act 1996 states:

Onus of proof. In all proceedings under Part XV, the onus of proving that he is not the employer or the person whose duty it is under this Act or under any regulations made thereunder to do or abstain from doing anything shall be on the person who alleges that he is not the employer or other person, as the case may be.31

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28 Cooney, 2009, p.11
29 See Resources section to access: Fenwick, Kalula and Landau, 2007 for a discussion. Note that the applicable ILS is Convention No. 181.
30 Benjamin, 2008.
31 ILO, 2008. See Resources section to access the relevant law.
Cloth cutter in the textile industry, working from home, Sri Lanka.
Seamstress working from home, Lao People's Democratic Republic. In some cases self employed persons may be in a dependent economic relationship with their contractor, thus making their employment relationship unclear.
This section provides a list of resources which can enable the reader to delve deeper into the issue. Details of the good practices cited above can be accessed here. The section comprises international instruments, International Labour Conference conclusions, relevant publications and training tools. A bibliography of references in the text is further below. There may be some overlap between the two.

ILO and UN Instruments and ILC Conference conclusions

- The Employment Relationship Recommendation, 2006 (No. 198)

- ILO, 2002, Resolution concerning decent work and the informal economy, Provisional Record 25, ILC, 90th Session, Geneva: ILO.


Relevant publications


Selected Government websites on relevant laws

- Australia: State of Victoria, Outworkers (Improves Protection) Act of 2003

- Republic of Eire: Code of practice for determining employment or self-employment status of individuals

- Kingdom of Morocco: Labour code
The People’s Republic of China: Labour Contract Law


http://www.mom.gov.sg/legislation/Pages/labour-relations.aspx


United States of America, Treasury, Inland Revenue Service regulations on independent contractors
http://www.irs.gov/businesses/small/article/0,,id=99921,00.html

Tools


For further information see the ILO’s Industrial and Employment Relations Department website
the International Labour Standards Department website

References


A POLICY RESOURCE GUIDE SUPPORTING TRANSITIONS TO FORMALITY

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

PART I: Key concepts

1. Decent Work and the Informal Economy
   1.1 Key conceptual issues

2. Measurement of the Informal Economy
   2.1 Addressing statistical challenges

PART II: Policies to support transitions to formality

3. Growth Strategies and Quality Employment Generation
   3.1 Patterns of economic growth and the informal economy

4. The Regulatory Framework and the Informal Economy
   (A) International Labour Standards
      4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work
      4.a2 International Labour Standards (ILS): bringing the unprotected under the law
      4.a3 Understanding the employment relationship and its impact on informality
   (B) Specific Groups
      4.b1 Domestic Workers: strategies for overcoming poor regulation
      4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law
      4.b3 Street vendors: innovations in regulatory support
      4.b4 Micro and Small Enterprises (MSEs), informality and labour law: reducing gaps in protection
      4.b5 Strategies for transforming undeclared work into regulated work
   (C) Labour Administration
      4.c1 Labour administration: overcoming challenges in reaching the informal economy
      4.c2 Labour inspection and the informal economy: innovations in outreach

5. Organization, Representation and Dialogue
   5.1 Social dialogue: promoting good governance in policy making on the informal economy
   5.2 The role of Employers’ organizations and small business associations
   5.3 Trade unions: reaching the marginalized and excluded
   5.4 Cooperatives: a stepping stone out of informality

6. Promoting Equality and Addressing Discrimination
   6.1 Promoting women’s empowerment: a gendered pathway out of informality
   6.2 Migrant workers: policy frameworks for regulated and formal migration
   6.3 Disability: inclusive approaches for productive work

7. Entrepreneurship, Skills Development, Finance
   7.1 Informal enterprises: policy supports for encouraging formalization and upgrading
   7.2 Enhancing skills and employability: facilitating access to the formal economy
   7.3 Microfinance: targeted strategies to move out of informality

8. Extension of Social Protection
   8.1 Extending social security coverage to the informal economy
   8.2 HIV/AIDS: overcoming discrimination and economic exclusion
   8.3 Extending maternity protection to the informal economy
   8.4 Childcare: an essential support for better incomes

9. Local Development Strategies
   9.1 Local development: opportunities for integrated strategies for moving out of informality
The Regulatory Framework and the Informal Economy

Specific Groups

4.b1 DOMESTIC WORKERS: STRATEGIES FOR OVERCOMING POOR REGULATION

This technical brief looks at a specific category of workers in the informal economy and the challenges associated with effective regulation of this sector. Targeted action, including legal one, need to be taken to respond to the challenge of preventing exploitation, improving the working conditions of domestic workers and the way that their work is perceived. Recent developments have seen the adoption of new International Labour Standards at the international level, and concerted efforts at national level, which are contributing to enabling domestic workers to move out of informality and towards decent work.
The specificities of domestic work. Domestic workers are a very large group of workers who are amongst the most vulnerable in the informal economy. While some domestic workers may be in the formal economy, the majority are unprotected. As a sector, domestic work is often not regulated, or regulated to a lesser extent, because of the difficulties in monitoring compliance with labour regulation in households – which is why it is often considered informal work – but also because it is traditionally not recognised as work. This leads to a deeper problem related to the lack of value attributed to this occupation, which is linked to the gendered nature of the work. In many countries, domestic workers are therefore not fully considered workers by society and policy, as well as not being regulated by the law.

Because domestic workers are often isolated (and do not necessarily have a legal consciousness or any contact with a trade union or other types of organisations), are invisible (allowing employers to breach labour conditions), can experience a language barrier and can be under financial pressure, they are more vulnerable to exploitation as well as psychological and physical abuse. They are, for example, particularly at risk of being the victims of forced labour, but also often work for long hours, in unsafe conditions, with low pay, no holidays, no maternity leave, no access to skills or education.

Domestic work and the law. The ILO raised awareness of the particular problems domestic work poses in 1948 and in 1965 when the International Labour Conference (ILC) adopted resolutions on the issue. In 2007, the ILO organised an inter-regional Tripartite Symposium on the Informal Economy in which participants highlighted the situation of domestic workers and called for an international instrument to support the better regulation of the sector. Catalysed by a burgeoning movement of alliances supporting domestic workers around the world, in the following year, the ILO Governing Body agreed to place an item regarding decent work for domestic workers on the agenda of the 2010-2011 ILCs. In the 100th session of the ILC in June 2011, a set of standards aimed at improving the working and living conditions of millions of domestic workers worldwide, was adopted. (see box on page 8).

In addition to these new instruments, other existing International Labour Standards (ILS) of a general application also apply to the situation of domestic workers. Unless explicitly excluded by ILS, or unless excluded by the use of legislation, domestic workers are entitled to the same fundamental rights as other workers. Domestic workers are also often migrants and from ethnic minorities. Issues of gender, class and race must therefore also be considered.

What is domestic work?
Domestic work has always existed, but supply and demand factors are fuelling its growth as a service sector. On the demand side, changing demographics of aging populations, reduced welfare provision and greater labour market participation of women in developed countries and urban areas has seen a surge in demand for domestic workers, while on the supply side, labour market discrimination and limited employment opportunities in developing countries and rural areas fuels a continuous supply of mainly women into the sector.

Domestic work involves the completion for a third party of tasks such as cleaning, washing, cooking, taking care of children, the elderly, the sick or disabled, driving, gardening, or acting as a guard. Although the latter tasks are usually completed by men and some tasks are done by children, domestic work is predominantly and traditionally occupied by women. Domestic workers are also often migrants and from ethnic minorities. Issues of gender, class and race must therefore also be considered.

While most legislation do not define domestic work, others specifically exclude some tasks from the definition of domestic work (see Report IV (1) Decent Work for Domestic Workers, p.31).

Child domestic labour is said to be indeed one of the most common and traditional forms of child labour (see Resources section to access: ILO Helping Hands or Shackled Lives? p.6).

See Resources section to access: ILO, Report IV (1) Decent Work for Domestic Workers, Table I.1 for a percentage of total employment by sex.

race dimensions are in fact embedded in domestic work, and where migration status is irregular, this adds further layers of vulnerability.

The tasks accomplished by domestic workers are quite diverse and so is their economic or social situation. Some live with their employer while others do not; amongst the latter, some have an independent status, some work for one employer, and others still for various employers. Domestic workers can be remunerated or not, they can be declared, undeclared or under-declared. They can be nationals or foreigners and, amongst the latter they can be legal or irregular migrants, or asylum seekers. They may have found work independently or through an employment agency. All these situations imply different legal situations – many of which are informal.

7 See Pasleau and Schopp, 2005.

of flexibility clauses, domestic workers benefit from the protection afforded by ILS (see the brief on International Labour Standards). The ILO’s Committee of Experts on the Application of Conventions and Recommendations has repeatedly confirmed that basic labour protection afforded by ratified conventions should be extended to domestic workers. It has insisted, for example, that legislative provisions on freedom of association or discrimination need to be extended to domestic workers, and even when this is the case in law, that they should enjoy the right in practice. Special attention should be given in this regard by States that have ratified a convention and are therefore under an international obligation to enforce it to domestic workers.

Basic national labour legislations increasingly cover domestic workers. However, the fact that in some countries, domestic workers are excluded from basic labour laws, or are granted inferior rights in others, certainly facilitates their exploitation, often without giving them the means to seek redress. Extending the scope of the law to include domestic workers is therefore a crucial first step.

Many of the challenges observed with regards to domestic workers are similar to the ones observed with regards to homeworkers, both types of workers working within a household. However, in the case of domestic workers, the household is not their own.

**Adopting an enabling regulatory framework.** The task of addressing the difficulties domestic work raises is certainly not only a legal one. But, as the 2009 ILO report on Decent Work for Domestic workers states, studies show that well-crafted regulatory mechanisms with efficient enforcement mechanisms contribute to changing the perception that domestic workers do not deserve rights and respect, and contribute in making a positive difference to the lives of domestic workers.

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As a minimum, domestic workers should have legal protection covering:

- clearly defined daily hours of work and rest periods;
- clear-cut standards on night work and on overtime, including adequate compensation and subsequent and appropriate rest time;
- clearly defined weekly rest and leave periods (annual leave, public holidays, sick leave and maternity leave);
- minimum wage and payment of wages;
- standards on termination of employment (notice period, grounds for termination, severance pay);

8 Some of the conventions allow certain categories of workers to be excluded when there are "special problems of a substantial nature" (see the Night Work Convention, 1990 (No. 171), the Private Employment Agencies Convention, 1997 (No. 181) and the Maternity Protection Convention, 2000 (No. 183). The Protection of Wages Convention, 1949 (No.95) allows the explicit exclusion of domestic workers. Such exclusions can only be made, however, after consultation with workers’ and employers’ organisations. Moreover, the government has to justify the exclusion in its reports to the ILO.
9 ILO, 2009 Report IV (1), Decent Work for domestic workers. This has been confirmed by the Office of the Legal Adviser’s legal opinion of 29 July 2002.
11 See ILO 2009, Report IV (1), Decent Work for domestic workers, paras. 60-63.
12 For a summary of the applicable legislation in Latin America, for example, see M.L. Veiga: L’administration du travail et l’inspection du travail dans le domaine du travail domestique : l’expérience de l’Amérique latine (Geneva, ILO, forthcoming).
13 Human Rights Watch, 2006, p.34.
14 ILO, 2009a, para. 325.
• social security protection; and
• action against child domestic work.

See Resources section to access: Ramirez-Machado, 2003, (p.69.)

Including domestic workers in national legislation is not sufficient however. Indeed, specific regulation that recognises the particularities of domestic work while reaffirming its compatibility with the employment relationship is desirable.\(^{15}\) It is not only the working conditions of domestic workers that need to be tackled, but also the social status of domestic work, in particular, the deeply-rooted gendered and racialised characterisation of domestic workers’ identity.\(^{16}\) Perceptions need to change and domestic work needs to be valued; public awareness campaigns are vital in this regard.

**The difficulties of labour inspection.** Increasing enforcement of legislation is as always a very important challenge, but particularly so here. While labour inspection is key to ensuring the enforcement of labour laws, authorising labour inspectors to enter households is problematic because of the conflict it creates with the right to privacy, often enshrined in national Constitutions (see the briefs on Labour Inspection and on Home-work). This conflict may however be avoided by obtaining the authorisation of the employer or a prior authorisation by a judicial authority, although this clearly limits the powers of inspectors. Inspectors can also disseminate information through the media without entering a workplace. Other means of reaching domestic workers may be encouraged, such as trade unions and NGOs with hotlines for domestic workers and helpdesks. Providing effective and accessible complaint mechanism and adequate sanctions are essential as well.

**The need for specific answers.** Domestic workers experience various realities which can range from a child working in exploitative conditions to an individual receiving above minimum wages and enjoying paid holidays, rest periods, health insurance, etc. Although these situations have common points, they also often call for different answers specifically geared towards child labour,\(^{17}\) migrant labour,\(^{18}\) forced labour,\(^{19}\) etc. Also, the regulation of migrant domestic work, which is predominant, not only involves labour and criminal laws but also immigration laws. Indeed, in some countries, migrant domestic workers’ permits to remain in the country are linked to their continued employment with one employer – therefore limiting their ability to leave this employer in case of abuse.\(^{20}\) Immigration policies may discourage domestic workers from filing complaints as they may need a special permit to stay in the country in order to pursue a civil or criminal complaint without being allowed to work (see brief on Migrant workers).\(^{21}\)

\(^{18}\) Bilateral agreements between the country of origin of domestic workers and receiving countries can flesh out more precise rights and obligations.
\(^{19}\) For ways to combat forced migrant domestic work see Resources section to access ILO, 2009b, p.71. These include forbidding possession of passports by the employer, requiring agencies to be accredited and banning the payment by workers of agency fees, forbidding the requirements for workers to live with the employer.
\(^{20}\) See for example, Varia, 2007.
\(^{21}\) Human Rights Watch, 2006, p.78. For more information on bilateral agreements and memoranda of understanding concerning migrant domestic workers, see Ghosheh, 2009.
Child domestic worker, Senegal.
4. The Regulatory Framework and the Informal Economy

4.b1 DOMESTIC WORKERS: STRATEGIES FOR OVERCOMING POOR REGULATION

Young woman worker, Cambodia.
EMERGING APPROACHES AND GOOD PRACTICES

- A multi-pronged approach
- Drafting smart laws
- Regulating payment in kind
- Enforcing the law through:
  - Improving inspection
  - Improving access to justice
  - Imposing dissuasive penalties
- Encouraging compliance:
  - Adoption of guidelines
  - Providing information to workers
- Establishing contracts of employment
- Simplifying payment procedures

Domestic workers are a diverse group including child labourers, migrant workers and internal migrants from rural areas. Policy responses need to take these differences into account.

A multi-pronged approach. Several general avenues may be taken to increase decent work for domestic workers, such as:

- Ensuring that domestic workers have the same rights as other workers and extending the scope of the law to include them.
- Adopting specific legislation emphasising the valorisation of domestic work.
- Adopting well-crafted legislation so as to ensure that it does not drive domestic work further underground.
- Training inspectors with regards to domestic work and increasing their powers to enter households.
- Providing effective sanctions against employers and agents’ abuses.
- Providing specific training of immigration officials and police.
- Creating accessible complaint mechanism.
- Providing information to employers and domestic workers on their respective rights and obligations.

There are a number of examples from around the world of good practices in the field of regulation concerning domestic workers, some of which have been adopted recently or are about to be adopted, demonstrating that there are currently on-going attempts to improve the lives of domestic workers. These good practices are identified in detail in the 2009 ILO report on Decent Work for Domestic workers, prepared for the ILC of 2010.
A new international standard – Decent work for domestic workers

Governments, employers and worker delegates at the historic 100th session of the International Labour Conference in June 2011 adopted a new set of instruments aimed at improving the work and lives of millions of domestic workers world-wide.

As ILO Director General Juan Somavia noted upon their adoption: ‘We are moving the standards system of the ILO into the informal economy for the first time, and this is a breakthrough of great significance. History is being made.’

The two standards are the 189th Convention and the 201st Recommendation adopted by the ILO. The instruments set out that domestic workers around the world who care for families and households, must have the same basic labour rights as those available to other workers: reasonable hours of work, weekly rest of at least 24 consecutive hours, a limit on in-kind payment, clear information on terms and conditions of employment, as well as respect for fundamental principles and rights at work including freedom of association and the right to collective bargaining.


Drafting smart laws. In some cases countries have extended the scope of the law. In Hong Kong (China) for example, domestic workers have been included in the main labour laws and have a legal right to organise. In other countries specific protective legislation has been developed. In Saudi Arabia for example a bill was passed in 2009 granting more rights to domestic workers who had previously been excluded from most labour laws. Both Bolivia and Peru have adopted specific laws on domestic work, though in Peru’s case the Household Worker Law does not grant domestic workers the same rights as other workers. In India the Unorganised Workers’ Social Security Act adopted in 2008 includes domestic workers in its scope. It provides for self-registration of workers with a view to receiving benefits.

Regulating payment in kind. Living in the employers’ house may sometimes be necessary but it increases the risks of exploitation. The implementation of working time, for example, is problematic as the worker is always available. Payment through accommodation and meals is very common. However, some States, such as Canada (Quebec) and Brazil have limited the possibility of paying a domestic worker in kind. Since 1997, an employer may not require an amount for room and board from a domestic worker in Quebec, and since 2006, Brazil has banned employers’ deductions for accommodation, food or personal hygiene products used by domestic workers in the household. This will discourage employers from asking the worker to reside in his or her house if not absolutely necessary.

22 Human Rights Watch 2006 http://www.hrw.org/fr/node/11278/section/3
23 See Resources section to access: ILO, 2009b p.30
25 See Resources section to access: ILO, 2009a, p.44.
A number of countries have developed innovative strategies for enforcing the law including special units in labour inspectorates and dissuasive penalties for employers.

Several countries have initiatives such as developing guidelines, information resources, codes of practice and orientation programs.

**Enforcing the law**

- **Improving inspection.** In Uruguay, inspectors have the power to enter households when there is a presumed violation of labour and social security norms. A special unit in charge of monitoring provisions on domestic work has been created and information campaigns have been initiated. 26

- **Improving access to justice.** In South Africa – The Basic Conditions of Employment Act of 1997 provides domestic workers with access to the Commission for Conciliation, Mediation and Arbitration.

- **Imposing dissuasive penalties.** In Singapore – Criminal penalties for certain abuses against foreign domestic workers (sexual assaults, sexual abuse and forced confinement) have increased by 1.5. Moreover, once convicted, a person and his/her spouse cannot employ a domestic worker. Between 2001 and 2004, twenty-six employers or household members were convicted and sentenced for these abuses. 27 However, police need to investigate cases brought to them and encourage domestic workers to press charges, which is not always the case. 28

**Encouraging compliance**

- **Adoption of Guidelines.** In Singapore domestic workers are excluded from the main labour law but a non-binding guide for their employers was recently adopted. This guide deals with all aspects of employment, from initial difficulties such as living in high building to fines and penalties in case of ill-treatment. Moreover, a compulsory orientation programmes for new migrants, new employers, and employers who have had five successive domestic workers in one year was also implemented. All new employment agencies and those seeking to renew their licences must obtain accreditation. 29

  In Ireland, the Labour Relations Commission has developed a Code of Practice for Protecting Persons Employed in Other People’s Homes which emphasises that domestic workers have the same entitlements to the employment rights and protections available to other employees, and stresses the obligation of the employer to inform these employees of their rights. 30

- **Providing information to workers.** In South Africa, the Basic Conditions of Employment Act of 1997 provides that the employer “must display at the workplace where it can be read by employees a statement in the prescribed form of the employee’s rights under this Act in the official languages which are spoken in the workplace”. 31

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30 For more details see http://www.citizensinformation.ie/categories/employment/types-of-employment/full-time-employment/domestic-workers-in-ireland
A guidebook was prepared in Thailand by the ILO to promote the rights and responsibilities of domestic workers. It explains the benefits and risks associated with domestic work and offers advice to workers on how to interact with their employer. This guidebook, “Domestic Work - Decent Work” is published in Burmese, English, Karen (Po and Sakaw), Laotian, Shan and Thai.  

Establishing contracts of employment. Some countries have concluded bilateral agreements in this regard. The Agreement between the Philippines and Qatar concerning the employment of Filipino manpower requires the contract of employment to be in both Arabic and English, to include certain basic employment conditions, and to indicate the employer’s obligations regarding accommodation. This contract needs to be authenticated by the embassy or consulate.

Several countries provide model contracts. These facilitate the establishment and formalization of an employment relationship, and inform the parties of their rights and obligations. Such model contracts are available in Peru, France, Canada (Quebec), Singapore, South Africa, for example.

Simplifying payment procedures. Several countries or jurisdictions have developed a system of service cheques (Austria, Canada, France, Belgium, Switzerland, for example). They typically facilitate the payment of wages and social contributions. In the Canton of Geneva, for example, the employer availing himself of this facility pays the domestic worker in cash and pays the social contributions in advance to “Chèque service”. Chèque service then pays the different insurances (pensions, health, accidents, etc) and gives back a receipt to the employer with a receipt for the domestic worker. (see also brief on Migrant Workers).

Advancing decent work for domestic workers

In 2011, the ILO published a series of Domestic Work Policy Briefs which aim to stimulate and inform policy debates on advancing decent work for domestic worker. They provide information on terms and conditions of employment in domestic work, policy issues, and different view on these issues, and diverse approaches to addressing them around the world. These briefs are:
- Remuneration in domestic work (Policy Brief 1)
- Working hours in domestic work (Policy Brief 2)
- Measuring the economic and social value of domestic work (Policy Brief 3)
- Global and regional estimates of domestic work (Policy Brief 4)
- Coverage of domestic workers by key working conditions laws (Policy Brief 5)

These can be found at http://www.ilo.org/travail/info/WCMS_155773/lang--en/index.htm

In 2013 the ILO launched new global data on domestic work and analyzed existing gaps in protection of domestic workers around the world in basic working conditions. See http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_173363.pdf

33 ILO, 2009a, Para. 130.
34 See ILO, 2009a, p.42.
35 For more details see http://www.chequeservice.ch/cs/ch/fr-ch/index.cfm
Domestic worker, Egypt.
RESOURCES

This section provides a list of resources which can enable the reader to delve deeper into the issue. Details of the good practices cited above can be accessed here. The section comprises international instruments, International Labour Conference conclusions, relevant publications and training tools. A bibliography of references in the text is further below. There may be some overlap between the two.

ILO and UN Instruments and ILC Conference conclusions

Domestic Workers Convention 2011 (No.189)
http://www.ilo.org/ilolex/cgi-lex/convde.pl?C189

Domestic Workers Recommendation, 2011 (No.201)
http://www.ilo.org/ilolex/cgi-lex/convde.pl?R201

Relevant Publications


--. 2006a. Emerging good practices on action to combat child domestic labour in Kenya, Tanzania, Uganda and Zambia, IPEC (Geneva).
--. 2006b. Child domestic labour in South-East and East Asia: Emerging good practices to combat it, (Geneva).


Tools


1. Remuneration in domestic work
2. Working hours in domestic work
3. Measuring the economic and social value of domestic work
4. Global and regional estimates of domestic work
5. Coverage of domestic workers by key working conditions laws

Some Government websites for more details on good practices


Switzerland (Geneva Canton) - See http://www.chequeservice.ch/cs/ch/fr-ch/index.cfm

For further information see the ILO’s Conditions of Work and Employment Department http://www.ilo.org/travail/lang--en/index.htm

References


http://www.hrw.org/fr/node/11278/section/3


--. 2006a. Emerging good practices on action to combat child domestic labour in Kenya, Tanzania, Uganda and Zambia, IPEC (Geneva).

--. 2006b. Child domestic labour in South-East and East Asia: Emerging good practices to combat it, (Geneva).

http://www.ilo.org/ipecinfo/product/viewProduct.do;?productId=4045


A POLICY RESOURCE GUIDE SUPPORTING TRANSITIONS TO FORMALITY

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

PART I: Key concepts

1. Decent Work and the Informal Economy
   1.1 Key conceptual issues

2. Measurement of the Informal Economy
   2.1 Addressing statistical challenges

PART II: Policies to support transitions to formality

3. Growth Strategies and Quality Employment Generation
   3.1 Patterns of economic growth and the informal economy

4. The Regulatory Framework and the Informal Economy
   (A) International Labour Standards
   4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work
   4.a2 International Labour Standards (ILS): bringing the unprotected under the law
   4.a3 Understanding the employment relationship and its impact on informality
   (B) Specific Groups
   4.b1 Domestic Workers: strategies for overcoming poor regulation
   4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law
   4.b3 Street vendors: innovations in regulatory support
   4.b4 Micro and Small Enterprises (MSEs), informality and labour law: reducing gaps in protection
   4.b5 Strategies for transforming undeclared work into regulated work
   (C) Labour Administration
   4.c1 Labour administration: overcoming challenges in reaching the informal economy
   4.c2 Labour inspection and the informal economy: innovations in outreach

5. Organization, Representation and Dialogue
   5.1 Social dialogue: promoting good governance in policy making on the informal economy
   5.2 The role of Employers’ organizations and small business associations
   5.3 Trade unions: reaching the marginalized and excluded
   5.4 Cooperatives: a stepping stone out of informality

6. Promoting Equality and Addressing Discrimination
   6.1 Promoting women’s empowerment: a gendered pathway out of informality
   6.2 Migrant workers: policy frameworks for regulated and formal migration
   6.3 Disability: inclusive approaches for productive work

7. Entrepreneurship, Skills Development, Finance
   7.1 Informal enterprises: policy supports for encouraging formalization and upgrading
   7.2 Enhancing skills and employability: facilitating access to the formal economy
   7.3 Microfinance: targeted strategies to move out of informality

8. Extension of Social Protection
   8.1 Extending social security coverage to the informal economy
   8.2 HIV/AIDS: overcoming discrimination and economic exclusion
   8.3 Extending maternity protection to the informal economy
   8.4 Childcare: an essential support for better incomes

9. Local Development Strategies
   9.1 Local development: opportunities for integrated strategies for moving out of informality
Specific Groups

4.b2 HOMEWORKERS: REDUCING VULNERABILITIES THROUGH EXTENDING AND APPLYING THE LAW

Like domestic workers, home workers are amongst the most marginalized categories of workers in the informal economy. Regulating home work is certainly challenging - the complications that may surround the identification of the employer, the fact that homeworking may be at the bottom of a complex supply chain; that it is not carried out on employers’ premises; that it is difficult to inspect; and that it is often carried out by vulnerable migrant workers, are part of the difficulties faced by policy makers. The good practices described here show how various countries are finding solutions, tailored to their context, to improve the situation work amongst home workers.
KEY CHALLENGES

- Home work and informality
- Poor regulation
- Identifying the employment relationship
- Understanding the particularities of home work
- Transposing ILO Convention on Homework, 1996 (No.177) into domestic law
- Adopting codes of practice

Home work and informality. Along with domestic work, home work is one of the most vulnerable and lowest paid types of work, with some of the poorest working conditions within the informal economy. The majority of these home workers are women1 – including female migrants2 – often helped by children3. They may sometimes be undeclared migrants and can be vulnerable to abuse (see brief on Undeclared Work). These home workers absorb many of the production costs and risks normally assumed by the employer. They are often paid a piecework rate and their work is irregular which means that they may not have any income stability. As home work takes place in the private domestic sphere, it is invisible and difficult to access. As a result, home workers have little access to unions – and/or no legal rights to form part of a union –, they may be the victims of fraud, of bad safety and health conditions, and labour inspection, when applicable, is difficult (see brief on Labour Inspection). The fact that homeworkers are confined to their homes, and because of their lack of access to resources (such as training, education, credit) and information, their situation is difficult to improve.4

Poor regulation. Home work is either explicitly or implicitly included in general national labour laws, although it may be excluded from certain provisions or covered by a specific law. Only a few countries do not regard homeworkers as employees and classify them as self-employed.5 In general, it has been noted that the problem is not that home work is unregulated or under-regulated – indeed, in some instances, it is highly regulated - but rather the fact that legislation is not applied in practice,6 which is what makes home work informal. Efforts to implement the law have been put in place and the problem has been tackled by new laws, information campaign and trade unions’ action, although their impact has been limited so far.7

Many of the challenges observed with regards to domestic workers, for example, are also observable in relation to homeworkers, as both types of workers work within the house: they are difficult to access, their working conditions are often considered poor, unionism is low and labour inspection is very difficult (See brief on Domestic Workers).

3 For more information see Resources section to access: ETI, Homeworker Guidelines
4 Doane, 2007, p.5 and 9.
6 Ibid. p.214.
7 Ibid.

What is Home Work?

Home work8 can take a number of forms. It can encompass highly-skilled and highly-paid professionals employed formally through to casual vulnerable informal workers who work in poor conditions, although it should be noted that there exist various degrees of homeworkers vulnerability.9 Home work generally distinguishes itself from other types of work by the fact that work is not carried out on employers’ premises but in a home, or a place that the worker chooses. It is not directly supervised but there is a relationship of paid employment between the worker and the employer, subcontractor, or intermediary.10 Although home work has always existed, it decreased

8 Also referred to as outwork or home-based work.
9 See Doane, 2007, pp.4-5. This stems from the fact that, for example, some are organised, others are not, some are able to change their products upon demand, others are not.
Identifying the employment relationship can be very difficult in home work, particularly since homeworkers may be part of a hierarchically organised industry and can find themselves at the very end of the supply chain.

**Identifying the employment relationship.** A particular difficulty associated with homeworking concerns identifying the employment relationship (see also the brief on the Employment Relationship). In many cases, homeworkers are part of a hierarchically organised industry and can find themselves at the very end of the supply chain. Small operators can disguise an employment relationship in order to designate home work as independent work, while enterprises at the top of the supply chain may do so in order to limit their responsibility.12

More generally:
- The employer is often not easy to identify as he or she may be hidden in a complex web of contracting and subcontracting, or there may very well be various employers.
- Many situations are ambiguous and home workers are not always easily distinguishable from other categories of workers: a homeworker who may hand out work to other homeworkers and is at the same time a homeworker and a subcontractor, for example, while an unpaid family member who helps the homeworker may not have any relationship with the employer.13
- Most of the time, homeworkers are not in a continuous employment relationship which may make the identification of the relationship more difficult.
- Homeworkers often find themselves in a disguised employment relationship – they are considered self-employed when in fact they are dependant workers, or their dependant status is not recorded. In order to bear minimum costs, the employer is sometimes purposely not identifiable, or the worker is “forced” into declaring him or herself as self-employed in order to obtain work. This adds a clear challenge when tackling legislation concerning home work.

Because home workers are numerous in certain industries and work is limited, they generally have very little bargaining power. The intermediary sets their working conditions, but as they suffer themselves from strong competition and their sole comparative advantage is often based on being able to offer the lowest price, these conditions tend to be inadequate.14 Many self-help or government led initiatives help attenuate the consequences of this state of affairs, and are thus necessary, but efforts need to be made to make employers at the top end of production chains responsible for the social protection and working conditions of the workers involved in the products or services that they are offering. **Homework Recommendation 1996 (No. 184)** incorporates this principle: it is not only the contractor but also the lead firm that is responsible for protecting the rights of homeworkers. Implementing this is obviously not an easy task, however, especially considering the particularities of home work.

**Understanding the particularities of home work.** It is important to consider and define homeworkers as workers but to recognise as well the particularities of their work. When countries do consider home workers just like any other employee, it can create legal vacuums which then need to be dealt with in courts.15 This is more often than not time consuming, expensive, intimidating, and uncertain. It is advisable to deal with some aspects of home work that may give rise to problem in practice in separate legislative provisions.

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12 See for example Rawling, 2006, p.523.
14 Rawling, 2006, p.525.
ILO Home Work Convention, 1996, (No. 177):

Many ILO conventions apply to all workers and are therefore applicable to home workers as well. Specific instruments were adopted in 1996, however, when the ILC adopted the Home work Convention (No. 177), and its accompanying recommendation (No. 184). This convention is particularly significant as it is seen by many as the first ILO Convention specifically targeting a group within the informal economy (see Box 1). Convention No. 177 was adopted with difficulty, however, and very few States have ratified it (only 6 in August 2009 – 5 European States and one Latin American State).

Convention No. 177 calls for a national policy to promote equality of treatment between homeworkers and other wage earners “taking into account the special characteristics of homework”. It defines home work as work carried out for remuneration by a person, the homeworker, in his or her home or in other premises of his or her choice, other than the workplace of the employer which results in a product or service as specified by the employer, irrespective of who provides the equipment, materials or other inputs used. The term employer means a person, natural or legal, who, either directly or through an intermediary, whether or not intermediaries are provided for in national legislation, gives out home work in pursuance of his or her business activity. When the use of an intermediary is allowed, the respective responsibilities of employers and intermediaries must be determined by laws and regulations or by court decisions.

For the full text of the convention see Home Work Convention, 1996 (No. 177) http://www.ilo.org/ilolex/english/convdisp2.htm

- Transposing ILO Convention on Home work, 1996 (No. 177) into domestic law. The prescriptions of Convention No. 177 are an attempt to suggest broad actions in order to regulate home work, and may serve as an example for non-ratifying States of action to take in this field. Evidently, it is difficult to implement rules concerning working hours to home work, as home work is by definition not supervised. Nevertheless, the Recommendation No. 184 that accompanies Convention 177 states that “a deadline to complete a work assignment should not deprive a homeworker of the possibility to have daily and weekly rest comparable to that enjoyed by other workers” (Paragraph 23). With regards to health and safety, the obligations of the employer are not the same as if workers worked in his or her enterprise as s/he does not have any direct control on the worker’s workplace. However, Convention No. 177 states that general legislation on safety and health at work applies to home work, taking account of its special characteristics, and has to establish conditions under which certain types of work and the use of certain substances are prohibited in home work for reasons of safety and health. Finally, as regard to remuneration, homeworkers often earn less than the minimum wage, partly because much of their work is piece work.

16 See Servais, 2008, Paras.731-732. See as well the brief on international labour standards and the informal economy.
17 Indeed, the Director-General pointed out that it was the first time in the history of the ILO that a group (the employers) had decided not to take part in the drafting of an instrument (ILO, 1996, Reply of the Director-General to the discussion of his Report, Record of Proceedings, ILC, p.221).
Codes of practice which can improve working conditions in the global supply chain are often unable to reach the most casualized workers further down the chain.

Adopting codes of practice. Along with legislation, there has been a growing reliance on Codes of practice to influence employers in affording better working conditions to homeworkers in global supply chains. Although an essential part of regulation, it should be pointed out, however, that the impact of Codes of practice is often only partial and while they have some influence with intermediaries and suppliers, it has been noted that they do not necessarily “reach the more casualised sections of the workforce located lower down the value chain”.18

Employment in private homes presents particular difficulties for labour inspection.

The difficulties of labour inspection. A final difficulty regarding the application of the law to homeworkers relates to labour inspection (see brief on labour inspection). Inspection is of course difficult when the private home is concerned. Recommendation No. 184 insists in this regard that labour inspectors should be allowed entry “in so far as it is compatible with national law and practice concerning respect for privacy”. To facilitate inspection, the Recommendation states that employers should keep a register of all homeworkers with details about their work and remuneration. The State cannot easily control home work, however, since it may involve undeclared activities to evade contributions and taxes, or disguised activities.19

18 See Kabeer, 2008, p.279.
Man making Beedi cigarettes at home, Mangalore, India.
Homework represents a particularly challenging set of problems for policymakers, because of its diversity, and “because it stands at the intersection of a complex network of social, economic and legal factors.” Any attempt to tackle one issue will have repercussions on the other.

It should be noted, however, that homework is certainly not an unregulated domain, and numerous legislative responses have emerged, or are continuing to emerge, in order to address some of the complexities and ambiguities characteristic of home work. These include:

- Establishing in legislation that homeworkers are employees
- Adopting specific legislation on homework
- Providing for situations where the employer is not identifiable
- Adopting codes of practice
- Establishing joint responsibility of the contractor and the principle employer

A number of countries such as Morocco, Chile, Belgium, Finland, France and New Zealand, have developed legislation to establish homeworkers as employees.

Belgium adopted an Act on Home Work in 1996 which extends the scope of application of the Act on Employment Contracts, 3 July 1978, to include homeworkers by establishing two criteria to distinguish the employment contract of homeworkers from a standard employment contract: (i) work is being performed from home or any other place chosen by the worker, and (ii) there is no direct control or supervision of the worker.

Through its Labour Code, France has also extended employee status to certain workers who might otherwise be regarded as independent workers because of the condition in which they work. These include homeworker, journalists and performers. In Morocco, the new labour code of 2004 extends its scope to homeworkers, precluding them from being classed as independent workers.

21 Vega Ruiz, 1996.
22 For more details see Resources section to access: The Employment Relationship: An annotated guide to ILO Recommendation No. 198 See generally, ILO, 2008.
23 Ibid., pp.6-7.
● **Adopting specific legislation on home workers.** Some countries have developed particular laws on homework. Austria, Czech Republic and Sweden, for example, have all adopted legislation regulating the working conditions of homeworkers, which include provisions for occupational safety and health protection.24

● **Providing for the situation where the employer is not identifiable.** India has made inroads in developing welfare funds for specific categories of informal economy workers. The majority of beedi workers in India work from home. The Beedi Workers Welfare Fund Act, 1976, provides for the imposition of a tax on the end product of homeworking manufacturing, which is then paid to a welfare fund providing health care, life insurance, maternity allowance, loans for housing, education, recreation and family welfare facilities for homeworking bidi workers and their families. The resources are raised by the Government and the delivery of welfare services is not linked to individual worker’s contribution. The welfare fund is administered by the Ministry of Labour. Although a good initiative, this Act suffers from lack of implementation partly because many companies have now closed and operate through contractors and worker are not informed of their rights.25

● **Adopting Codes of practice.** Codes of practice are another avenue for affording better regulation and recognition for homeworkers. In Australia, the Homeworkers’ Code of Practice Program aims at raising public awareness and improving the working conditions of the 330,000 homeworkers that are said to be employed in the textile, clothing and footwear industry. Many of these earn less than $4 an hour and work up to seven days a week, and the Code aims to ensure that minimum legal wages and standards are met for homeworkers. This system ensures that accredited business take responsibility for their own behaviour, but also stay informed of how its sub-contractors operate. According to the Australian Government, this Code provides a monitoring system that records and reports “what is being made, where it is being made, who is making it, and what rates and conditions the workers receive”.25

● **Establishing the joint responsibility of the contractor and the principle employer.** In some cases there have been attempts made to address the difficulties involved in penetrating complex layers of subcontracting which obscure employer responsibility. In India, for example, the Contract Labour Act, the Bidi and Cigar Workers Act and the Inter-State Migrants Act provide that both the principal employer and contractor who recruits workers or outsource production are “jointly and severally responsible” for complying with labour legislation.26

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24 For more details see Resources section to access: ILO, Report III(18), 2009, Para.40.
25 For more details see: http://www1.umn.edu/humanrts/links/homeworkers.html
4.b2 HOMEWORKERS: REDUCING VULNERABILITIES THROUGH EXTENDING AND APPLYING THE LAW
This section provides a list of resources which can enable the reader to delve deeper into the issue. Details of the good practices cited above can be accessed here. The section comprises international instruments, International Labour Conference conclusions, relevant publications and training tools. A bibliography of references in the text is further below. There may be some overlap between the two.

ILO and UN Instruments and ILC Conference conclusions

Home work Convention, 1996, No. 177
http://www.ilo.org/ilolex/english/convdisp1.htm

Home work Recommendation, 1996, No. 184
http://www.ilo.org/ilolex/english/recdisp1.htm


Relevant Publications


Tools

Ethical Trading Initiative (ETI). ETI homeworker guidelines: recommendations for working with homeworkers.
http://www.ethicaltrade.org/sites/default/files/resources/ETI%20Homeworker%20guidelines,%20ENG.pdf
For further information see the ILO’s International Labour Standards Department’s website http://www.ilo.org/global/standards/lang–en/index.htm

References


A POLICY RESOURCE GUIDE SUPPORTING TRANSITIONS TO FORMALITY

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

PART I: Key concepts

1. Decent Work and the Informal Economy
   1.1 Key conceptual issues

2. Measurement of the Informal Economy
   2.1 Addressing statistical challenges

PART II: Policies to support transitions to formality

3. Growth Strategies and Quality Employment Generation
   3.1 Patterns of economic growth and the informal economy

4. The Regulatory Framework and the Informal Economy
   (A) International Labour Standards
   4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work
   4.a2 International Labour Standards (ILS): bringing the unprotected under the law
   4.a3 Understanding the employment relationship and its impact on informality
   (B) Specific Groups
   4.b1 Domestic Workers: strategies for overcoming poor regulation
   4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law
   4.b3 Street vendors: innovations in regulatory support
   4.b4 Micro and Small Enterprises (MSEs), informality and labour law: reducing gaps in protection
   4.b5 Strategies for transforming undeclared work into regulated work
   (C) Labour Administration
   4.c1 Labour administration: overcoming challenges in reaching the informal economy
   4.c2 Labour inspection and the informal economy: innovations in outreach

5. Organization, Representation and Dialogue
   5.1 Social dialogue: promoting good governance in policy making on the informal economy
   5.2 The role of Employers’ organizations and small business associations
   5.3 Trade unions: reaching the marginalized and excluded
   5.4 Cooperatives: a stepping stone out of informality

6. Promoting Equality and Addressing Discrimination
   6.1 Promoting women’s empowerment: a gendered pathway out of informality
   6.2 Migrant workers: policy frameworks for regulated and formal migration
   6.3 Disability: inclusive approaches for productive work

7. Entrepreneurship, Skills Development, Finance
   7.1 Informal enterprises: policy supports for encouraging formalization and upgrading
   7.2 Enhancing skills and employability: facilitating access to the formal economy
   7.3 Microfinance: targeted strategies to move out of informality

8. Extension of Social Protection
   8.1 Extending social security coverage to the informal economy
   8.2 HIV/AIDS: overcoming discrimination and economic exclusion
   8.3 Extending maternity protection to the informal economy
   8.4 Childcare: an essential support for better incomes

9. Local Development Strategies
   9.1 Local development: opportunities for integrated strategies for moving out of informality
The Regulatory Framework and the Informal Economy

Specific Groups

4.b3 STREET VENDORS: INNOVATIONS IN REGULATORY SUPPORT

This brief looks at street vendors as a category of informal economy actors with specific issues and challenges. Improving the conditions of work of street vendors and their economic, social and legal status is a huge challenge. Street vending is often looked down as an undesirable activity undertaken by criminals which impinges on the use of public space. Street vendors are often persecuted, live in uncertainty, and work in poor conditions with little access to infrastructure. The brief highlights important developments in regulating street vending including the development of policies at municipal and national level. It should be read in conjunction with the brief on local development.
Street vendors and informality. Street vendors are part of an extremely visible category of workers that has always existed, despite frequent efforts to repress them. Some observers argue that the number of street vendors worldwide is increasing, both because of the generalised rural exodus of low skilled workers towards cities, as well as global economic crisis and the lack of employment opportunities. Others, however, point out that there is very little data on street vendors, and argue that it is consequently difficult to ascertain if their numbers are growing faster than would be accounted for naturally by urban population growth.

Street vendors face a complex coexistence of persecution, regulation, tolerance and promotion.

Difficulties that street vendors face. Street or market vending can be highly regulated, but most of the time, it is informal, operating outside the law, without permit or standardised facilities. Street vendors more often than not face significant difficulties in carrying out their livelihood activities. They suffer from poor access to services and infrastructures such as water, electricity and financial services. Shopkeepers may accuse street vendors of unfair competition, they are often treated as criminals, and are often seen as impeding the city’s development. They are concerned with confrontation with police or municipal authorities, and frequently need to pay bribes in order to be able to continue selling on the streets, as well as to escape evictions and the confiscation or destruction of their property.

What is street vending?
Street vending varies in term of scale, timing, location, remuneration, workforce and types of goods sold and services provided. It can be a full-time occupation, a part-time occupation, seasonal, or occasional. It can be carried out by one person but can also be a franchise of a larger street business. The incomes of street vendors consequently vary widely. At the same time, street vendors often sell home-based manufactured products and agriculture products that would otherwise be difficult to market and are as such an essential to the economy. Moreover, because they sell cheaper products, street vendors often cater for the urban poor.

There are no labour standards at the international level dealing directly with street vendors. The manner in which street vending is approached at the domestic level varies dramatically from one country to another. Many countries specifically regulate this activity, providing a clear legal framework and jurisdictional mandates, while others have overlapping jurisdictional mandates, which creates confusion and conflict, and in others still, street vending is simply considered illegal.

1 Also referred to as “street traders” of “hawkers”.
2 Cross, 2000, p.41.
3 See Bhowmik, 2005, p.2256. Bhowmik points out that there was a sharp increase in the number of street vendors in Thailand, Singapore, Malaysia, the Philippines and Korea after the 1998 monetary crisis. See also, Cross, 2000, p.29.
4 Bromley argues this, based on over 25 years of research in the field (2000, p.10).
5 Bromley listed the frequent arguments for and against street vending (2000, pp.4-10).
6 Ibid. p.22.
Street vendors suffer from clear decent work deficits.\(^9\) They often endure poor working conditions such as irregular income and long hours, lack of social security, and poor health and safety standards, amongst others. Gender balance varies greatly from one country to the other, but in many countries a majority of street vendors are women. It has been pointed out, moreover, that men are often in a better position, being more likely, in some countries, to sell non-perishable goods from push-carts or bicycles, while women are more likely to sell perishable goods from baskets or a cloth spread on the ground.\(^10\) Street vendors often originate from a particular region or foreign country, which may add a xenophobic dimension to their treatment.

-- Specific problems to address. --

Street vending is very difficult to regulate because of its mobile nature: street vendors may move depending on events in a city, the weather, customers' location, the time of day, etc.\(^11\) Solutions that involve the creation of off-street markets, for example, may not work because customers do not necessarily follow the vendors, who are then rapidly replaced by new vendors in their previous location.\(^12\) Another difficulty is the fact that street vending is often regulated at the local level: changes in local governments can mean a rapid change of regulation and/or policy, which adds to the uncertainty faced by street vendors. A broad-based national policy to be enacted and implemented at the local level may be a useful step to reduce this uncertainty.

-- Regulating public spaces. --

The use of public space needs to be legally secured in order to facilitate street vendors stability and reduce their uncertainty. Support interventions, such as access to credit and training may become irrelevant if the street vendor's right to sell in the streets or at a particular public location has not been secured.\(^13\) Often, regulation concerning the use of public space is unclear or contradictory. This is accentuated by the fact that municipal governments may experiment with various ways of implementing the conflicting national and metropolitan level laws.\(^14\) Sometimes, there may even be competing claims regarding which authority regulates public spaces (e.g. municipal authority vs. local authority).\(^15\)

9 For the example of street vendors in Mumbai, see Saha, 2009.
10 Chen, 2006, p.79.
11 Bromley, 2000, p.18.
12 Bromley, 2000, pp.18-19.
13 Bhowmik, unpublished, p.50
15 This is the case in Caracas, Venezuela where there exists overlapping jurisdiction concerning urban planning (Bhowmik, unpublished, p.58).
- **Clarification of the law.** There may be uncertainty as to the legal status of street vending; it might be considered illegal in one statute while another might specifically ask street vendors to pay taxes. The law must therefore have clearly defined terms, and all outdated regulations need to be repealed. Laws should not seek to exclude street vendors or make their activities illegal or criminal, but ought to rather establish procedures through which they may obtain licences. Training should also be given to the police on the content of the law.

- **The need to disseminate information on regulatory changes.** New legislation or regulations need to be publicised in a way that brings them to the attention of street vendors. This can be done by publishing them promptly in newspapers, or in an information sheet that is then distributed to street vendors, communicating via radio stations, or bringing them to the attention of NGOs or trade unions working with street vendors.

- **The need for the organisation of street vendors.** Finally, efforts need to be made to promote the organisation of street vendors. As street vending employers are rare, strong street vendor organisations are needed in order to engage in negotiations with municipalities. This is the first step for the elaboration of good regulation adapted to the needs of street vendors. In some instances, area-based management may also be advisable in order to facilitate communication between street vendors and the local authorities.

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16 Kusakabe, K., 2006, p.17.a
17 In Bogotá, the fragmentation of unions, combined with declining membership and a lack of external support facilitated, in part, the removal of thousands of street vendors to enclosed markets. This resulted in lower wages for street vendors which in turn meant that they found it difficult to pay the rent for their stall, even if some benefitted from better working conditions (Donovan, 2008, p.38, and pp.41-42). Ultimately, the drop in income resulted in vendors deserting the stalls (Hunt, 2009, p.342).
18 See, Skinner, 2008, p.239.
Newspaper seller, Havana, Cuba.
Street vendor selling watches. Khan El-Khalili District. Cairo, Egypt.
EMERGING APPROACHES AND GOOD PRACTICES

- Integrated approaches to support street vendors
- Licensing and infrastructural support
- Addressing the expulsion of street vendors
- Development of National Policies

It should be kept in mind that a change in government or local power structure can transform a good practice into a failure. However, examples of good practices show that a situation can be improved through the collective efforts of street vendors. Many countries or cities have taken steps in view of regulating street trading and protecting street vendors.

**Integrated approaches to support street vendors.** Durban municipality in South Africa is often portrayed as an example of good practice but is more an example, according to some, of the ongoing struggle that street vendors face. The Self-employed Women’s Union (SEWU), launched in 1994, and the Informal Trade Management Board, established in 1995, lobbied and negotiated with the Durban local authorities to obtain infrastructures for street vendors. Their activities ensured the incorporation of vendors in city planning. In 2001, an acclaimed policy on Durban’s informal economy, inspired by several pilot projects, was adopted. It made a number of suggestions for improving street vending with regards to, for example, registration (simplification of the registration process and reduction of its cost), site allocation (criteria for allocation should be negotiated with stakeholders and the allocation of sites should then be done by officials), and operating charges (different transparent fees should be set according to location, size and services provided; payment should be simplified). It established as well framework principles for by-laws.

**Durban’s 2001 informal economy policy - Bylaws**

Guiding principles in the future formulation for bylaws for all workers should be:

- As far as possible, they should be applicable to the whole local government area, and not just the central city area;
- They should be translated into Zulu (as the present ones are);
- They should be written in gender-sensitive language;
- They should be widely disseminated, in an easy-to-read format;
- They should be presented in both popular radio and print media.


19 Bhowmik, unpublished p.4.
The 2001 policy was only partially implemented, however. Moreover, Durban’s approach shifted and in 2004, the police started removing street vendors’ merchandise at several locations in the city and the Council approved a plan to stop “illegal, unlicensed street trading”. Since it had only issued 872 permits, most of street vendors were considered illegal.21

**Licensing and infrastructural support.** In Dar es Salaam, Tanzania street vendors have been issued licenses and are allowed to operate since the early 1990s. Shelves and tables have been standardised and guidelines have been adopted setting up a framework for managing street vending. The city council has been persuaded to adopt a consultative approach which greatly helped in the implementation of the plan and resolved many issues such as crime and street cleanliness.22

**Addressing the expulsion of street vendors.** In Bogotà, Colombia the Constitutional Court stated that it was necessary to reconcile the two conflicting constitutional rights to public space and to work when dealing with the expulsion of street vendors. Expulsions are therefore permitted only when they have been ordered through a proper judicial process, and when there are guarantees that the evicted traders will not be neglected. According to the Court, training for vendors and improved access to credit are permissible alternatives to relocation.23

**Development of National Policies.** In India the Supreme Court confirmed in 1989 that street vendors had the right to vend and that streets were not only “meant exclusively for passing and re-passing and no other use”.24 In 2004, a National Policy on Urban Street Vendors was adopted, reflecting a change from prohibition to regulation of street vending. It seeks to legalise street vending by providing for legal vending zones, establishing fee-based regulation rather than limited number of licenses, promoting the organisation of street vendors and implementing participatory mechanisms, amongst other initiatives.25 Implementation of the policy at state level has proved challenging, however, with only a few draft State-level laws based on this policy currently under discussion. A new National Policy was adopted in 2009, revising the 2004 Policy. The revised policy insists on the need for a legislative framework and includes a Model Street Vendors (Protection of Livelihood and Regulation of Street Vending) Bill.

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21 Ibid. pp.236-237.
22 Bhowmik, unpublished, p.41 and 44.
23 Ibid. pp.55-56.
Good practices in Thailand

One of the key to success is dialogue between the managers and street vendors. Managers need to accommodate street vendors, as these two examples of good practices shows:

- In the first case, an individual won a concession from the ministry who owned the area to manage a private market. The market is well-organized and managed, resulting in a win-win situation for all parties involved. The owner goes around the market everyday and is responsive to the vendors’ problems.

- In the second case, the market is in a private company’s housing estate. The private company organised and managed the market. A high rent is charged and high standards of hygiene, orderliness, and security are maintained. At first, the vendors were not happy to relocate, but gradually, as business at the market picked up and the managers tried to persuade the vendors, relocation was completed and the market flourished. Through renovation by the company, the market has good infrastructure, including restrooms and a car park, and this has contributed to the increase in customers and consequently, an increase in income for vendors. Hence, vendors are also willing to pay higher rent.

This section provides a list of resources which can enable the reader to delve deeper into the issue. Details of the good practices cited above can be accessed here. The section comprises relevant publications and training tools. A bibliography of references in the text is further below. There may be some overlap between the two.

**Relevant publications**


**Tools**

Durban’s Informal Economy Policy, December 2001

http://wiego.org/law
References


Durban’s Informal Economy Policy, December 2001


http://wiego.org/law


**A POLICY RESOURCE GUIDE SUPPORTING TRANSITIONS TO FORMALITY**

**Contents:**
- Acknowledgments / Foreword / Preface / How to use the Guide / Acronyms

**PART I: Key concepts**

1. Decent Work and the Informal Economy
   - 1.1 Key conceptual issues

2. Measurement of the Informal Economy
   - 2.1 Addressing statistical challenges

**PART II: Policies to support transitions to formality**

3. Growth Strategies and Quality Employment Generation
   - 3.1 Patterns of economic growth and the informal economy

4. The Regulatory Framework and the Informal Economy
   - (A) International Labour Standards
     - 4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work
     - 4.a2 International Labour Standards (ILS): bringing the unprotected under the law
     - 4.a3 Understanding the employment relationship and its impact on informality
   - (B) Specific Groups
     - 4.b1 Domestic Workers: strategies for overcoming poor regulation
     - 4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law
   - 4.b3 Street vendors: innovations in regulatory support
     - 4.b4 Micro and Small Enterprises (MSEs), informality and labour law: reducing gaps in protection
     - 4.b5 Strategies for transforming undeclared work into regulated work
   - (C) Labour Administration
     - 4.c1 Labour administration: overcoming challenges in reaching the informal economy
     - 4.c2 Labour inspection and the informal economy: innovations in outreach

5. Organization, Representation and Dialogue
   - 5.1 Social dialogue: promoting good governance in policy making on the informal economy
   - 5.2 The role of Employers’ organizations and small business associations
   - 5.3 Trade unions: reaching the marginalized and excluded
   - 5.4 Cooperatives: a stepping stone out of informality

6. Promoting Equality and Addressing Discrimination
   - 6.1 Promoting women’s empowerment: a gendered pathway out of informality
   - 6.2 Migrant workers: policy frameworks for regulated and formal migration
   - 6.3 Disability: inclusive approaches for productive work

7. Entrepreneurship, Skills Development, Finance
   - 7.1 Informal enterprises: policy supports for encouraging formalization and upgrading
   - 7.2 Enhancing skills and employability: facilitating access to the formal economy
   - 7.3 Microfinance: targeted strategies to move out of informality

8. Extension of Social Protection
   - 8.1 Extending social security coverage to the informal economy
   - 8.2 HIV/AIDS: overcoming discrimination and economic exclusion
   - 8.3 Extending maternity protection to the informal economy
   - 8.4 Childcare: an essential support for better incomes

9. Local Development Strategies
   - 9.1 Local development: opportunities for integrated strategies for moving out of informality

The Regulatory Framework and the Informal Economy

Specific Groups

4.b4 MICRO AND SMALL ENTERPRISES (MSES), INFORMALITY AND LABOUR LAW: REDUCING GAPS IN PROTECTION

- Micro and small enterprises are a strong force for job creation around the world, nonetheless they tend to be in the informal economy for a variety of reasons. Innovative measures need to be put in place to ensure better compliance and regulation. This can not only improve working conditions within MSEs but also result in more efficient business practices and higher productivity. This brief should be read in conjunction with the brief on ‘Informal Enterprises: policy supports for encouraging formalization and upgrading’.
Enterprises and informality. Micro and small enterprises (MSEs) are increasingly responsible for job creation across the globe. They therefore constitute a dynamic asset for development and economic growth. At the same time however, much of this growth takes place in the informal economy. The sheer numbers of economic units involved and the limited capacities of states contribute to the problems of weak compliance and enforcement of labour laws where they exist for MSEs. Labour conditions – or job quality – are, in general, quite unsatisfactory in this sector.

MSEs and the law. The ILO’s international labour standards (ILS) generally do not contain exceptions or special standards for MSEs so when relevant, they apply to MSEs (see brief on International Labour Standards). The preamble of the Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189) for example, mentions as particularly relevant ILS concerning freedom of association, forced labour, child labour, discrimination in employment, employment policy, co-operatives, human resources, occupational safety and health. This Recommendation covers “all branches of economic activity and all types of small and medium-sized enterprises, irrespective of the form of ownership (for example, private and public companies, cooperatives, partnerships, family enterprises, and sole proprietorships)” (Para.4). It clearly states that Members should ensure the non-discriminatory application of labour legislation.

The ILS that do contain specific exceptions concern termination of employment, workers’ representatives, occupational health and safety, paid educational leave, social security and employment and the rural sector. Some ILS, such as the Termination of Employment Convention, 1982 (No. 158) specifically provide that exclusions may be made, after consultation, with regards to “limited categories of employed persons in respect of which special problems of a substantial nature arise in the light of the particular conditions of employment of the workers concerned or the size or nature of the undertaking that employs them”. The Minimum Age Convention, 1973 (No. 138), for example, authorises the exclusion of family and small-scale holdings producing for local consumption and not regularly employing hired workers (Article 5, Paragraph 3). Similarly, the Convention concerning Minimum Standards of Social Security, 1952 (No. 102) provides developing countries with the possibility of excluding, on a temporary basis, MSEs of less than 20 workers (Article 3). Many of the Conventions allowing for exclusions concern family enterprises, however, and are no longer considered up-to-date.

1 For more details see Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998, No. 189, Preamble.
4 ILO, 2004, Paras.322-324
At the level of domestic law, States generally adopt one of four different approaches regarding the extension of labour law to MSEs:

- Some states formally include MSEs within the coverage of all labour laws;
- Some states exclude completely MSEs below a certain threshold (often less than 5 or 10 employees);
- Some states establish a parallel labour law regime (this is a tendency that has been particularly noted in Latin America);
- Some states exclude MSEs from a range of particular requirements of the law.

The latter option is the most common and typically concerns, for example, occupational health and safety (lower standards apply), collective dismissals, the right to enterprise-level trade union representation (a minimum number of workers is often necessary to form an organisation), mandatory social security contributions and employee consultation mechanisms. The reasons behind excluding MSEs could be, for example the desire not to impose excessive costs on MSEs, the very nature of MSEs which would not benefit from certain forms of regulation geared towards larger enterprises (such as regulation concerning consultation), and the fact that it would be impossible for a state to ensure the application in practice of all regulations to MSEs.

Although partially excluding MSEs from labour legislation may seem to be the only viable solution, it should be noted that MSEs can fall into “growth traps” as a result, insofar as this limited enforcement of labour regulations means that they do not have any incentive to grow beyond an established “threshold”. Doing so would force them to deal with labour regulation, and cases have been noted where MSEs stop hiring altogether or start hiring undeclared workers in order to avoid this, for example. Alternatively, MSEs that find themselves going above the threshold established by the law may split into two or more enterprises, defeating the purpose of the legislation. Exemptions from labour provisions may be necessary in some domains, but some are clearly not acceptable; others may be acceptable only if they are temporary.

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7 According to Daza, only 10% of the 178 member States of the ILO at the time completely excluded MSEs from their labour codes (Daza, 2005, p.23). The ILO’s Committee of Experts on the application of Conventions and Recommendations has noted, for example, that the Factories Act, 1948, of India, and the Factories Act, 1987, of Nigeria, are applicable only to enterprises with at least ten employees while the Factories and Works Act, 1996, of Zimbabwe is applicable to enterprises with at least five employees (ILO, 2006, Para. 23).
8 Chacaltana, 2009, p.2.
10 Snodgrass and Biggs, 1996, p.203.
12 Daza, 2005, p. 40
13 IOE, 2008, p.15.
direct costs associated with minimum wage, severance pay, maternity leave, health and safety, holidays, etc. But these are not the only reasons for non-compliance with labour legislation. Other reasons include, for example:

- Inspection – if applicable – is difficult in this sector because of practical reasons: the high number of enterprises and their geographical dispersion;
- The legislation may be difficult to apply or even not formally applicable (freedom of association);
- Entrepreneurs may not be well informed of the content of the law;
- Entrepreneurs may in many cases, make a strategic decision as to the benefits and costs of complying with the law;14
- There might exist an unfavourable legal climate and distrust of the law and of public authority;15
- States might overlook or ignore enforcement.16

A multifaceted problem. There are a number of general challenges – such as those that apply to the employment relationship, for example – which can be associated with MSEs. There are also a number of more specific challenges, however. General measures geared at increasing compliance with the law are essential – and this could take the form of informing employers and workers of their respective obligations and rights, providing easy access to justice, etc. – but what is fundamentally needed with regards to MSEs is innovative labour regulation to apply and enforce labour law. This includes promoting trade unions, improving knowledge of legal requirements and of ways to comply with them, ensuring that workers who make a complaint to the authorities are protected and drawing on the various corporate social responsibility initiatives.17 At the same time, however, while MSEs hold great promise for economic growth and employment creation, the jobs created in MSEs are also often of very low quality.18 Improving compliance with labour legislation will only lead to better job quality if put in a wider context of measures aimed at upgrading MSEs, including for example facilitating their registration, improving their access to credit and to property, submitting them to fair taxation, giving them easy access to dispute settlement, giving them a voice, etc. Application of the law should be promoted but as long as such other conditions are not in place, these measures will likely not be completely successful.

14 Reinecke and White, p.53.
17 Fenwick, Howe, Marshall and Landau, 2007, p.46
18 ibid, p.15.
Hearing impaired entrepreneur in her workshop, Ethiopia.

4.b4 MICRO AND SMALL ENTERPRISES (MSES), INFORMALITY AND LABOUR LAW: REDUCING GAPS IN PROTECTION
EMERGING APPROACHES AND GOOD PRACTICES

4. The Regulatory Framework and the Informal Economy

Surgical instrument manufacturing workshop, Pakistan.
EMERGING APPROACHES AND GOOD PRACTICES

- Guidance in international instruments
- Clarifying and simplifying the law
- Improving labour inspection
- Improving enforcement
- Promoting freedom of association
- Encouraging compliance
- Extending the scope of the law
- Organizing
- Technical advice instead of fines
- Facilitating registration of MSEs

Guidance in international instruments. Several ways to promote MSEs and help their development and growth are suggested in the *Job creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189)* mentioned above: Members should adopt and pursue appropriate fiscal, monetary and employment policies, establish and apply appropriate legal provisions as regards, in particular, property rights, including intellectual property, location of establishments, enforcement of contracts, fair competition as well as adequate social and labour legislation, and improve the attractiveness of entrepreneurship.\(^\text{19}\) Several policies are suggested to promote efficient and competitive MSEs capable of providing productive and sustainable employment under adequate and equitable social conditions, amongst which, a policy that includes “specific measures and incentives aimed at assisting and upgrading the informal sector to become part of the organised sector” (Para.3.3). It is clear that the problem is multifaceted and certainly cannot be tackled by law alone.

The law needs to be clear, easily understandable and accessible, with well defined terminology, rights and obligations.

Clarifying and simplifying the law. There is no doubt as well that the law needs to be clear, easily understandable and accessible, with well defined terminology, rights and obligations. Simplifying the content of the law by identifying unnecessary provisions and obligations which could be replaced by some involving less bureaucracy is also essential.\(^\text{20}\) For example, this can be achieved through replacing the need for a formal authorisation to start an enterprise with just a declaration to that effect. A country that is often cited as needing reforms in regard to clarifying and simplifying the law is India, where, because each piece of legislation has been drafted independently of others, the labour legislation has proliferated and offers multiple definitions of the same basic terms, such as employer and employee, for example. As stated by the Indian National Commission for Enterprises in the Unorganized Sector, employers and workers of big or small enterprises find it difficult and costly to “find their way through the maze of labour legislation”.\(^\text{21}\) Several attempts have been made to clarify labour law. However, clarifying the form and simplifying the content of the law alone is clearly not enough and does not necessarily lead to increased compliance.

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\(^\text{19}\) For more details see Resources section to access: Recommendation No. 189, Para.5.
\(^\text{20}\) ILO, 1986, p.76.
\(^\text{21}\) National Commission for Enterprises in the Unorganized Sector, 2009, p. 174. This is also the case in Bangladesh; a consolidation took place in Nepal (see Sankaran, 2007, p.6).
Some principles to guide the regulation of MSEs

States clearly face a many dilemmas when designing legislation for MSEs and are often torn between affording rights to workers and reducing the obligations of the employer. Improving the working conditions of workers in MSEs is an essential challenge however and States need to find innovative ways to regulate this field. The three following principles should guide States in this respect: 22

1. Labour regulation should pursue three inter-related and mutually reinforcing objectives: promoting human capabilities, improving job quality, and encouraging formalisation of MSEs.

2. Labour regulation should be underpinned by the basic values of the Decent Work agenda: it should recognise that all those who work have rights at work.

3. Labour regulation should be responsive: it should take into account the various options at hand to apply and enforce it (providing information, education and incentives to comply with regulations, monitoring compliance, giving warnings, imposing tailored sanctions and punitive sanctions); its design, enforcement, and review should be done through a participatory processes; its design and implementation should be targeted specifically at MSEs.

- **Improving labour inspection.** If an MSE is exempted from the application of labour law, an inspector cannot demand that regulations be complied with, and the only recourse for workers is to turn to civil and criminal courts to redress wrongs. Another strategy is to enlarge the scope of the law in such a way as to allow labour inspection of MSEs. Inspectors can provide advice and promote best practices to non-compliant enterprises, and are as such a valuable tool to encourage compliance with the law. 23 However, this strategy cannot be taken alone as even when MSEs are subject to inspection, there are usually problems locating enterprises and their owner, identifying workers, as well as characterising the employment relationships 24 (see briefs on Labour inspection and on the Employment Relationship).

- **Improving enforcement.** Having too strict regulations and too high penalties will not promote changes in behaviour. A more flexible approach which offers several options to enforce the law is needed. These options can include providing information, education and incentives to comply with regulations, monitoring compliance, giving warnings, imposing tailored sanctions and punitive sanctions. 25

- **Promoting freedom of association.** Another well known aspect of MSEs are the very low unionisation levels. Again, this may be because MSEs are excluded from the law - in some countries, unionisation and collective bargaining are only possible in firms that are above a certain size, or else trade unions need to have a minimum number of members in order to be formally recognised – or perhaps because they (and their workers) are not registered, are isolated and difficult to access, or because workers fear losing their jobs if they join a trade union, or else are not in stable jobs. Strong

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22 For more details see Resources section to access: Fenwick, Howe, Marshall and Landau, 2007, p.114.
23 Schrank, p.41.
A flexible approach which offers several options to enforce the law including education, incentives for compliance, is needed. Trade unions and good social dialogue are key elements to securing the best solutions to many of the problems that MSEs face, but information and the involvement of workers is key to ensuring this, as it is often lack of knowledge that protective legislation exists that leads workers to accepting the imposition of poor labour conditions.

**Encouraging compliance.** Several avenues can be taken to increase labour law compliance in MSEs, such as:

- Ensuring that workers in MSEs have the same basic rights as other workers, and extending the scope of the law to include them;
- Taking steps to encourage the formalisation of MSEs (see brief on informal enterprises);
- Helping MSEs improve their ability to comply with legislation through education and financial incentives;
- Simplifying the law to make it easily understandable to entrepreneurs and workers;
- Providing advice to MSEs on cheaper ways to comply with the law (with regard to health and safety for example);
- Creating accessible complaint mechanisms and improving enforcement mechanisms;
- Providing information to entrepreneurs and workers on their respective rights and obligations;
- Taking steps to promote freedom of association and collective bargaining in MSEs and ensuring that the legislation is enabling in this regard;
- Strengthening social dialogue at the national level.

At the country level there exist a number of examples of successful attempts to tackle the particularities of MSEs. It should be noted that solutions vary depending on whether MSEs are excluded from the law or not, and whether workers are informal within a formal or informal MSE, because they are undeclared or because of the employment relationship with their employer. It should be noted that some examples of initiatives described here have also been covered in the briefs dealing with the employment relationship and labour inspection.

**Extending the scope of the law.** In Thailand the social insurance scheme of 1990, which initially covered workers in enterprises with 20 or more employees only, has been progressively extended to cover all enterprises of one or more workers.\(^{26}\)

**Organising workers in MSEs trade unions’ initiatives.** Organising is a key strategy to improve regulation in MSEs. In Kenya the Bakery, Confectionary, Manufacturing and Allied Workers’ Union (BCMAU) has been at the forefront of campaigns to protect workers in MSEs, including informal ones. It has lobbied with the Government to reform the labour code and enforce it in the informal economy. It has also been involved in educating MSEs workers on their rights and building strategic alliances with NGOs.\(^{27}\)

\(^{26}\) For more details see Resources section to access: Daza, 2005, Informal economy, undeclared work and labour administration, p.47.

\(^{27}\) For more details see Resources section to access: Bekko and Muchai, 2002, pp. 26-27.
**Technical advice instead of fines.** Actions that build capacity are often more appropriate than sanctions and penalties. In the Philippines MSEs with less than five workers which are found to have breached labour regulations by a labour inspector are given technical advice and one year to comply with labour standards.28

**Facilitating registration of MSEs.** Streamlining and simplifying procedures and reducing transaction costs can result in reducing barriers to move out of informality. In Colombia for example the legislation demands less paperwork for MSEs, provides more credit facilities, and implemented a softer taxation regime from regional authorities. Moreover, it has increased training schemes for MSEs.29

Simplified taxation- the case of Brazil

Brazil’s Constitution authorises differential treatment regarding MSEs. It has facilitated formalisation of MSEs through the introduction of a simplified tax regime in 1996 (SIMPLES Law, Lei no 9.317 de 05/12/1996, relative to small entrepreneurship), which was supplemented by a Complementary Law no. 123/2006, entitled “General Law for Micro and Small Enterprises”. This regime has encouraged MSEs to pay taxes. It consolidated several federal taxes into a flat tax, subdivided enterprises and established a progressive tax rate system with simplified administration procedures. Instead of paying 20% of the payroll bill in federal taxes and social security, firms, depending on their size, spend now between 1.80 and 7.56% of their annual gross revenue. This has encouraged the formal hiring of employees as this has ceased to be a tax cost.


Similarly many countries have adopted laws that require governments to simplify all administrative and other procedures to establish a business (for example, Australia, Austria, Canada, Chile, Estonia, Finland, Honduras, Lithuania, New Zealand, Spain and the United Kingdom).30

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28 For more details see Resources section to access: Fenwick, Howe, Marshall and Landau, 2007, p.41. Other examples are cited – drawing from other secondary sources.
29 For more details see Resources section to access: IOE, 2006, p.1.
Aixin Handicraft Knitting Center of Hedong District. Beneficiary of ILO’s SIYB (Start and Improve Your Business) project, China.
This section provides a list of resources which can enable the reader to delve deeper into the issue. Details of the good practices cited above can be accessed here. The section comprises international instruments, International Labour Conference conclusions, relevant publications and training tools. A bibliography of references in the text is further below. There may be some overlap between the two.

**ILO and UN Instruments and ILC Conference conclusions**

- Labour Inspection Convention, 1947 (No. 81)
- Labour inspection (Agriculture) Convention, 1969 (No. 129)
- Labour Inspection Recommendation, 1947 (No. 81)
- Labour Inspection (Mining and Transport) Recommendation, 1947 (No. 82).


ILO, 2004, Report III (Part 1B), General Survey concerning the Employment Policy Convention, 1964 (No. 122), and the Employment Policy (Supplementary Provisions) Recommendation, 1984 (No. 169), and aspects relating to the promotion of full, productive and freely chosen employment of the Human Resources Development Convention, 1975 (No. 142), and of the Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189), ILC, 92nd Session, Geneva: ILO.

**Relevant publications**


Daza, J.L., 2005, Informal economy, undeclared work and labour administration, Geneva: ILO.


Tools


References

Ayres, I., and J. Braithwaite, 2002, Responsive Regulation: Transcending the Deregulation Debate, Oxford: OUP.


ILO, 2004, Report III (Part 1B), General Survey concerning the Employment Policy Convention, 1964 (No. 122), and the Employment Policy (Supplementary Provisions) Recommendation, 1984 (No. 169), and aspects relating to the promotion of full, productive and freely chosen employment of the Human Resources Development Convention, 1975 (No. 142), and of the Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189), ILC, 92nd Session, Geneva: ILO.  


http://dcmsme.gov.in/The_Challenge_of_Employment_in_India.pdf


Clay pottery workshop, Cambodia.
A POLICY RESOURCE GUIDE SUPPORTING TRANSITIONS TO FORMALITY

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

PART I: Key concepts

1. Decent Work and the Informal Economy
   1.1 Key conceptual issues

2. Measurement of the Informal Economy
   2.1 Addressing statistical challenges

PART II: Policies to support transitions to formality

3. Growth Strategies and Quality Employment Generation
   3.1 Patterns of economic growth and the informal economy

4. The Regulatory Framework and the Informal Economy
   (A) International Labour Standards
      4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work
      4.a2 International Labour Standards (ILS): bringing the unprotected under the law
      4.a3 Understanding the employment relationship and its impact on informality
   (B) Specific Groups
      4.b1 Domestic Workers: strategies for overcoming poor regulation
      4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law
      4.b3 Street vendors: innovations in regulatory support
   4.b4 Micro and Small Enterprises (MSEs), informality and labour law: reducing gaps in protection
   (C) Labour Administration
      4.c1 Labour administration: overcoming challenges in reaching the informal economy
      4.c2 Labour inspection and the informal economy: innovations in outreach

5. Organization, Representation and Dialogue
   5.1 Social dialogue: promoting good governance in policy making on the informal economy
   5.2 The role of Employers’ organizations and small business associations
   5.3 Trade unions: reaching the marginalized and excluded
   5.4 Cooperatives: a stepping stone out of informality

6. Promoting Equality and Addressing Discrimination
   6.1 Promoting women’s empowerment: a gendered pathway out of informality
   6.2 Migrant workers: policy frameworks for regulated and formal migration
   6.3 Disability: inclusive approaches for productive work

7. Entrepreneurship, Skills Development, Finance
   7.1 Informal enterprises: policy supports for encouraging formalization and upgrading
   7.2 Enhancing skills and employability: facilitating access to the formal economy
   7.3 Microfinance: targeted strategies to move out of informality

8. Extension of Social Protection
   8.1 Extending social security coverage to the informal economy
   8.2 HIV/AIDS: overcoming discrimination and economic exclusion
   8.3 Extending maternity protection to the informal economy
   8.4 Childcare: an essential support for better incomes

9. Local Development Strategies
   9.1 Local development: opportunities for integrated strategies for moving out of informality
The Regulatory Framework and the Informal Economy

Specific Groups

4.b5 STRATEGIES FOR TRANSFORMING UNDECLARED WORK INTO REGULATED WORK

This brief looks at how countries within the European Union have been addressing undeclared work – a type of informal work which is diverse in nature but explicitly hidden to avoid tax and social security responsibilities.
KEY CHALLENGES

- Undeclared work and informality
- The diversity of undeclared work
- The European Union approach

Undeclared work and informality. Undeclared work is a predominant form of informal work which is diverse in nature but explicitly hidden type. The resort to such work has been explained by the growing demand for domestic services, the trend towards more flexible working relationships, the growth of self-employment, disguised self-employment, sub-contracting, and the ease of setting-up group of enterprises that operate across borders. It is furthermore made possible by inefficient labour inspection. The presence of undeclared work is problematic for all workers and society in general: not only is undeclared work generally associated with poor working conditions and little social protection, undeclared workers are often also vulnerable and lacking representation. It furthermore encourages inefficiency as businesses that hire undeclared workers will often avoid asking for credit, and will have more difficulty growing. Moreover, resorting to undeclared work is said to distort competition among firms.

The diversity of undeclared work. The heterogeneity of undeclared work is certainly a challenge for policy makers. A combination of methods is clearly needed to curb undeclared work as effectiveness will depend on the type of work that measures are aimed at. For example, there is a huge difference between low paid exploitative employment that can be eradicated by preventative and deterrent measures, on the one hand, and self-employment that would need to be legitimised by enabling measures, on the other.

The European Union approach. The European Union has been tackling undeclared work directly since 2001, and in 2003, issued an Employment Guideline no. 9 entitled Transform Undeclared Work into Regular Employment, which has significantly shaped policy, in particular encouraging preventative and curative measures rather than simple deterrence. This Guideline states that "Member States should develop and implement broad actions and measures to eliminate undeclared work, which combine simplification of the business environment, removing disincentives and providing appropriate incentives in the tax and benefits system, improved law enforcement and the application of sanctions." Although the guideline does not cover measures facilitating greater commitment to tax morality, there were later included in the European Commission’s second Communication on undeclared work: ‘Stepping up the fight against undeclared work’, 2007.

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1 Also referred to as the informal, hidden, cash, twilight, dual, subterranean, parallel, underground, second, unofficial, or shadow economy, as well as moonlighting (see Renooy et al., 2004, p.93). It is also referred to as "illegal work".
3 Ibid.

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What is undeclared work?

Undeclared work is generally understood as a legal remunerated activity that is hidden from the state for tax and social security purposes, although legal definitions, if they exist, vary from one country to the next. It is encompassed in the broader definition of the ILO’s definition of the informal economy, which is not limited to undeclared work but includes also work which falls outside the scope of the law: "all economic activities by workers and economic units that are – in law or in practice – not covered, or insufficiently covered, by formal arrangements." Many initiatives have been adopted by the EU itself, and by EU countries.

“Undeclared work” applies to many situations, and can designate work done by a worker - whether national, migrant, or illegal migrant - who wants to avoid paying taxes, work offered by an employer who wants to avoid social expenses, and work done for reasons other than financial gain, amongst others. The worker may be self-employed or dependant, while the employer may be a firm or a private household (see the chapters on domestic work and MSEs). Undeclared work can thus be punctual employment or full-time employment, low-paid and exploitative, but also well-paid with harmonious relationship between the employer and the employee. There are also considerable differences between countries as to the number of hours worked and the nature of the work performed.

6 See Williams, 2009, pp.148-152; Pfau-Effinger, 2009, p. 80-82.
Migrant populations are amongst the groups affected by undeclared work in the European Union. A chef in a restaurant, London, UK.
4. The Regulatory Framework and the Informal Economy

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EMERGING APPROACHES AND GOOD PRACTICES

- The need for a multi-pronged approach
- Measures to address the issue
  - Improving labour inspection
  - Increasing penalties
  - Registration of transactions for tax purposes
  - Expanding the categories of workers
  - Coordinating activities at national level
  - Coordinating activities at EU level
  - Cross border inspections
  - Establishing incentives to declare irregular migrants

- A clear strategy, elaborated in consultation with social partners, concerning the planning and the evaluation of inspection activities is needed

- The need for a multi-pronged approach. Addressing undeclared work clearly mixes social considerations with legal and economic ones, and also concerns tax and migration policy. Finding the right balance between these various considerations is not an easy task, however.

In general, a clear strategy, elaborated in consultation with the social partners, concerning the planning and the evaluation of inspection activities is needed, as is the setting up of registries and systems of data collection at the national and international levels. Improved collaboration between national bodies, improved training of labour inspectors, targeted labour inspection visits to sectors where undeclared work is known or suspected are key. Furthermore, effective and dissuasive sanctions proportional to the infraction should be put in place; sanctions should be complemented by sensitisation training on undeclared work.

- Measures to address the issue. The range of measures available to States are described in the box below. In all cases, however, labour inspection plays a key role (see brief on labour inspection Guide), as do information campaigns on the benefits of paying taxes and social security contributions, and reducing the paperwork for registration (see in this regard briefs on MSEs and on domestic work).

7 For more details see Resources section to access: ILO, 2010, pp.32-35, Guidelines for improving the ability of labour inspectorates to address undeclared work in Europe.
8 For more details see Resources section to access: Renooy, et al. 2004, Undeclared work in an enlarged Union. An analysis of undeclared work: An in-depth study of specific items, p.95.
Approaches to tackling undeclared work

<table>
<thead>
<tr>
<th>Approach</th>
<th>Method</th>
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<tr>
<td>Deterrence</td>
<td>Improve detection</td>
<td>Data matching and sharing</td>
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<td>Penalties</td>
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<td>Increase penalties for evasion</td>
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<td>Enabling compliance</td>
<td>Preventative</td>
<td>Simplification of compliance</td>
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<td>Direct &amp; indirect tax incentives</td>
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<td>Smooth transition into self-employment</td>
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<td>Introducing new categories of work</td>
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<td>Micro-enterprise development</td>
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<td>Curative</td>
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<td>Purchaser incentives: service vouchers; targeted direct taxes; targeted indirect taxes</td>
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<td>Supplier incentives: society-wide amnesties; voluntary disclosure; business advisory and support services</td>
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<td>Fostering commitment</td>
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<td>Promoting benefits of declared work</td>
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There are numerous examples of legislative measures that have been put in place throughout the EU to fight undeclared work, with different measures put in place in different regions to respond to different types of undeclared work. These measures include:

- **Improving labour inspection.** Many EU countries provide specific training to inspectors regarding undeclared work. This includes training on how to carry out inspections in the field of undeclared work, how to detect persons without employment contracts, special behavioural training, etc.9

Labour inspection needs to be geared towards sectors where undeclared work is particularly prevalent. In Romania, inspections have therefore focused on the construction, clothing and textile industries, while in Latvia and Portugal, inspections have targeted the hotels and restaurants sector. In Sweden, it is the taxi, hairdressing and restaurant industries that have been most inspected, while in Slovenia, it is driving schools, and in Norway, the cleaning sector.11

In order to avoid situations where the employer would claim to the inspector that an unregistered worker has just started work, systems of identity cards and compulsory registration have also been put in place in some EU member state. There is an obligation to register new employees in Austria, Bulgaria,

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11 For more details see Resources section to access: Williams and Piet, 2008, Measures to tackle undeclared work in the European Union, p.21.
Italy, and Slovakia, for example, and an obligation to hold identity cards in the Czech Republic, Finland, Italy, Norway, and Sweden.\(^\text{12}\)

- **Increasing penalties.** Sanctions have been strengthened in several countries including Austria, the Czech Republic, Denmark, France, the Netherlands, Slovakia, and the UK. Fines for employers who fail to register their employees increased in Austria in 2007, for example, with an individual now facing a penalty of two years’ imprisonment in case of organised recruitment, placement, and hiring out of workers without registering them.\(^\text{13}\)

The obligation to impose sanctions on employers resorting to undeclared workers through the hiring of illegal migrants is promoted through a recent EU Directive.\(^\text{14}\) These sanctions should include an obligation to pay any outstanding remuneration to workers as well as an amount equal to any taxes and social security contributions that the employer would have paid had the third-country national been legally employed. The employer may be excluded from public tenders, public aid or subsidies and from participation in public contracts for up to five years; the licence to conduct the business may be temporarily or permanently withdrawn. In addition, compliance should, in certain instances, be strengthened by the application of criminal penalties. This Directive must be transposed into national law by 20 July 2011.

- **Registration of transactions for tax purposes.** According to legislation recently adopted in Sweden, anybody selling goods and services in return for cash payments must be able to provide a certified cash register from 1 January 2010.\(^\text{15}\) This machine will register all transactions for tax purposes, and make it more difficult to withhold revenue in order to finance undeclared work, for example. The aim of this legislation is to protect businesses from unfair competition.

- **Expanding the categories of workers.** Faced by a steep increase in the number of small jobs exempted from social security, Germany decided, in 2002, to introduce three new job categories - 400 Euros jobs, mini jobs and midi jobs - that introduced varying levels of social security contributions.\(^\text{16}\) This has led to an initial reduction in undeclared work.

- **Coordinating activities at the national level.** Several European countries, such as Bulgaria, France, Germany, Poland or Spain, have introduced data sharing and access to registries managed by tax authorities or social security institutions or have established new coordinating institutions. This has helped to detect undeclared work.\(^\text{17}\)

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\(^{12}\) Ibid p.21.

\(^{13}\) Ibid., p.24.


\(^{15}\) For more details see: http://www.skatteverket.se/fordigsomar/foretagare/kassaregister/newcashregisterlegislationbecomeseffective1january2010.4.69ef368911e13046258000272.html and Williams and Piet, 2008, p.28.

\(^{16}\) For more details see Resources section to access: Renooy, et al., 2004, Undeclared work in an enlarged Union. An analysis of undeclared work. An in-depth study of specific items p.35.

In Belgium, a law passed on 3 May 2003 instituted a Federal Council for the prevention of illegal work and social fraud, which included setting up a Federal Coordinating Committee and district offices. The Council coordinates actions of the Departments concerned, raises awareness among all governmental institutions, provides guidance on prevention and submits proposals for amending the legislation. The district offices, set up in each judicial district, organise and coordinate checks on compliance with legislation. The law envisages the conclusion of partnership agreements between the responsible ministries and professional organisations, which ought to lead to information and awareness campaigns aimed at professionals and consumers, and the detection of clandestine work. One of these agreements was signed in 2003 with the Federation of Passenger Transport Employers (FEAA) in order to collaborate in combating unfair competition from “black” labour, all forms of unfair employment and non-compliance with regulations. To this end, the administration undertakes to increase checks, together with other information and preventive measures which will also be evaluated by the parties.  

18 For more details see Resources section to access Daza, 2005, p.49. See also http://www.emploi.belgique.be/defaultTab.aspx?id=377, available in French only.

19 For more details see Resources section to access ILO, 2010, Labour Inspection in Europe: Undeclared Work, Migration, Trafficking, Labour Administration and Inspection Programme, p.22.

20 ibid p.28.

21 For more details see Resources section to access: Daza, 2005, Informal economy, undeclared work and labour administration p.21.

22 For more details see Resources section to access ILO, 2010, Labour Inspection in Europe: Undeclared Work, Migration, Trafficking, Labour Administration and Inspection Programme, p.8
The construction sector is one of the industries affected by undeclared work in the European Union.
This section provides a list of resources which can enable the reader to delve deeper into the issue. Details of the good practices cited above can be accessed here. The section comprises international instruments, International Labour Conference conclusions, relevant publications and training tools. A bibliography of references in the text is further below. There may be some overlap between the two.

**Relevant Publications**

Daza, J.L., 2005, Informal economy, undeclared work and labour administration, Geneva: ILO.  


**Tools**


Voss, E., 2009, Cooperation between SMEs and trade unions in Europe on common economic and social concerns, joint ETUC-UEAPME project, Brussels: ETUC.  

For further information see the ILO’s Labour Administration Department website  
References


Daza, J.L., 2005, Informal economy, undeclared work and labour administration, Geneva: ILO.


Voss, E., 2009, Cooperation between SMEs and trade unions in Europe on common economic and social concerns, joint ETUC-UEAPME project, Brussels: ETUC.
A POLICY RESOURCE GUIDE SUPPORTING TRANSITIONS TO FORMALITY

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

**PART I: Key concepts**

1. Decent Work and the Informal Economy
   1.1 Key conceptual issues

2. Measurement of the Informal Economy
   2.1 Addressing statistical challenges

**PART II: Policies to support transitions to formality**

3. Growth Strategies and Quality Employment Generation
   3.1 Patterns of economic growth and the informal economy

4. The Regulatory Framework and the Informal Economy
   (A) International Labour Standards
   4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work
   4.a2 International Labour Standards (ILS): bringing the unprotected under the law
   4.a3 Understanding the employment relationship and its impact on informality
   (B) Specific Groups
   4.b1 Domestic Workers: strategies for overcoming poor regulation
   4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law
   4.b3 Street vendors: innovations in regulatory support
   4.b4 Micro and Small Enterprises (MSEs), informality and labour law: reducing gaps in protection
   (C) Labour Administration
   4.c1 Labour administration: overcoming challenges in reaching the informal economy
   4.c2 Labour inspection and the informal economy: innovations in outreach

5. Organization, Representation and Dialogue
   5.1 Social dialogue: promoting good governance in policy making on the informal economy
   5.2 The role of Employers’ organizations and small business associations
   5.3 Trade unions: reaching the marginalized and excluded
   5.4 Cooperatives: a stepping stone out of informality

6. Promoting Equality and Addressing Discrimination
   6.1 Promoting women’s empowerment: a gendered pathway out of informality
   6.2 Migrant workers: policy frameworks for regulated and formal migration
   6.3 Disability: inclusive approaches for productive work

7. Entrepreneurship, Skills Development, Finance
   7.1 Informal enterprises: policy supports for encouraging formalization and upgrading
   7.2 Enhancing skills and employability: facilitating access to the formal economy
   7.3 Microfinance: targeted strategies to move out of informality

8. Extension of Social Protection
   8.1 Extending social security coverage to the informal economy
   8.2 HIV/AIDS: overcoming discrimination and economic exclusion
   8.3 Extending maternity protection to the informal economy
   8.4 Childcare: an essential support for better incomes

9. Local Development Strategies
   9.1 Local development: opportunities for integrated strategies for moving out of informality
Since the topic of labour administration is very broad and covers all aspects of national public administration of the labour environment, this brief acts as a chapeau to several other briefs. It provides a discussion of the challenges facing labour administration in reaching the multitude of workers and entrepreneurs in the informal economy. Good practices and emerging approaches are discussed in specific areas of labour administration throughout the Policy Resource Guide.
4. The Regulatory Framework and the Informal Economy

New pressures on labour markets
Orientation towards the formal economy

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

What is labour administration and what does it do?

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

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

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

Several international labour standards (ILS) deal with labour administration. The main instruments are the Labour Administration Convention, 1978 (No. 150), and the accompanying Recommendation No. 158. Several other ILS also deal with the topic: ILS concerning labour inspection, employment services, employment policy, human resources development, labour statistics, freedom of association and the protection of the right to organise and collective bargaining, tripartite consultation and minimum wage fixing.
Labour administration is not only a complex activity but a very demanding one. It needs to be flexible and requires well-trained individuals, significant financing and political will to be effective. Most importantly of all, labour administration systems should reach every worker. There is no "one size fits all" solution to the question of how the labour administration system can effectively reach the informal economy, however, as it covers so many different types of employment and core rights and as it manifests itself differently within a country, or a region. It involves a broad range of interconnected concerns ranging from issues on the user's end - willingness and capacity to comply - to those on the providers' end - functions and mechanisms provided by the state and private sector. Discussions within the ILO Governing body and the International Labour Conferences have all pointed to the need to rethink the traditional functions and methods of work of labour administration. Multi-pronged approaches combining information and awareness raising campaigns, empowerment strategies and new culture and modalities of outreach and tripartite partnerships are needed.1

1 Daza, 2005, p.34.
3 For more details see Resources section to Access The informal economy: enabling transition to formalization, ILO, 2007.
EMERGING APPROACHES AND GOOD PRACTICES

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

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

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

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

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

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

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

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

- Encouraging tripartism and social dialogue. Tripartism is a key element of successful labour administration. The 2008 ILO Declaration states that the Organisation and its Member States should promote social dialogue and tripartism as the most appropriate methods for “making labour law and
institutions effective, including in respect of the recognition of the employment relationship, the promotion of good industrial relations and the building of effective labour inspection systems”.

Census of the informal economy: an example from Sri Lanka

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

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

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

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

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

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

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

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

To be able to better serve the needs of the informal economy, PES will need to improve their visibility and outreach services, as well as their internal capacity through training. Their activities will require considerable reorientation since they are generally targeted to the formal economy. In many cases a broad analysis of labour market requirements will be needed in order to develop the appropriate services including job search assistance and skills access.
This section provides a list of resources which can enable the reader to delve deeper into the issue. Details of the good practices cited above can be accessed here. The section comprises international instruments, International Labour Conference conclusions, relevant publications and training tools. A bibliography of references in the text is further below. There may be some overlap between the two.

ILO and UN Instruments and ILC Conference conclusions

- Labour Inspection Convention, 1947 (No. 81)
- Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87)
- Right to Organise and Collective Bargaining Convention, 1949 (No. 98)
- Employment Policy Convention, 1964 (No. 122)
- Labour Inspection (Agriculture) Convention, 1969 (No. 129),
- Human Resources Development Convention, 1975 (No. 142)
- Labour Administration Convention, 1978 (No. 150)
- Labour Administration Recommendation, 1978 (No. 158)
- Labour Statistics Convention, 1985 (No. 169)

Declaration on Social Justice for a Fair Globalization, 2008

Relevant Publications


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


Traveling salesman of medicines in the streets of Niamey, Niger.
A POLICY RESOURCE GUIDE SUPPORTING TRANSITIONS TO FORMALITY

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

PART I: Key concepts

1. Decent Work and the Informal Economy
   1.1 Key conceptual issues

2. Measurement of the Informal Economy
   2.1 Addressing statistical challenges

PART II: Policies to support transitions to formality

3. Growth Strategies and Quality Employment Generation
   3.1 Patterns of economic growth and the informal economy

4. The Regulatory Framework and the Informal Economy
   (A) International Labour Standards
   4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work
   4.a2 International Labour Standards (ILS): bringing the unprotected under the law
   4.a3 Understanding the employment relationship and its impact on informality
   (B) Specific Groups
   4.b1 Domestic Workers: strategies for overcoming poor regulation
   4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law
   4.b3 Street vendors: innovations in regulatory support
   4.b4 Micro and Small Enterprises (MSEs), informality and labour law: reducing gaps in protection
   4.b5 Strategies for transforming undeclared work into regulated work
   (C) Labour Administration
   4.c1 Labour administration: overcoming challenges in reaching the informal economy
   4.c2 Labour inspection and the informal economy: innovations in outreach

5. Organization, Representation and Dialogue
   5.1 Social dialogue: promoting good governance in policy making on the informal economy
   5.2 The role of Employers’ organizations and small business associations
   5.3 Trade unions: reaching the marginalized and excluded
   5.4 Cooperatives: a stepping stone out of informality

6. Promoting Equality and Addressing Discrimination
   6.1 Promoting women’s empowerment: a gendered pathway out of informality
   6.2 Migrant workers: policy frameworks for regulated and formal migration
   6.3 Disability: inclusive approaches for productive work

7. Entrepreneurship, Skills Development, Finance
   7.1 Informal enterprises: policy supports for encouraging formalization and upgrading
   7.2 Enhancing skills and employability: facilitating access to the formal economy
   7.3 Microfinance: targeted strategies to move out of informality

8. Extension of Social Protection
   8.1 Extending social security coverage to the informal economy
   8.2 HIV/AIDS: overcoming discrimination and economic exclusion
   8.3 Extending maternity protection to the informal economy
   8.4 Childcare: an essential support for better incomes

9. Local Development Strategies
   9.1 Local development: opportunities for integrated strategies for moving out of informality

Labour inspectorates have a key role to play in enabling those in the informal economy to be effectively protected by labour law where laws exist. Labour inspectorates confront huge challenges in reaching the informal economy. The myriad of micro and small enterprises; the complex layers of subcontracting characteristic of many global value chains; an increasing variety of employment contracts and relationships; the sheer geographical scale of rural work, the clandestine nature of forced labour and child labour; and the ‘invisible’ forms of work in female dominated sectors such as domestic work and homework that take place in private homes, are just some of the difficulties faced by labour inspectorates. They may also be plagued by internal problems including limited numbers of inspectors, poorly paid staff, lack of training and capacity, lack of resources and vulnerability to corruption. Despite these challenges countries have been exploring ways in which labour inspectorates can reach the informal economy. Education and advisory services, participatory approaches and partnerships have been amongst the measures which have been particularly effective.
A major contributing factor to the rights deficit in the informal economy is the constraints on labour inspection. In many countries labour inspectorates are not adequately staffed, trained or equipped to enforce standards in the informal economy. Moreover, the dispersed, hidden and diverse nature of work in the informal economy poses enormous challenges for labour inspectorates.

The work of labour inspectors and their responsibilities have become even more complex with changes in the labour landscape entailing the coexistence of different types of enterprises, complex production systems, subcontracting, and an increasing variety of contracts and employment relationships. These factors have of course also brought about increased informality.

Labour inspection: What does it involve?

A well functioning labour inspectorate is required to ensure effective compliance with the law and is thus an essential part of labour regulation. Labour inspection is certainly as complex an activity as labour standards are broad, often incorporated in numerous legal instruments, and their application is spread out throughout the state’s territory and concern numerous issues. It is also labour intensive and, without being expensive, does need resources as it requires many well trained inspectors in order to function optimally. Inspection doesn’t only involve the application of the law but its interpretation.

Labour inspection contributes unquestionably to the effective application of the law, and is as such a fundamental and essential part of labour regulation. As former ILO Director General Francis Blanchard stated, “labour legislation without inspection is an exercise in ethics, but not a binding social discipline.” This has been verified by empirical studies concluding that inspections have a positive influence on compliance. For many, labour inspection is the pillar of social reform.

Labour inspection has always had three core aspects:

- it seeks to provide education and information on the requirements of the legislation,
- it seeks to prevent violations of labour standards by providing advice, technical information, training and warnings, and
- it seeks to punish these violations.

The balance between these aspects varies from one country to the other, but greater emphasis is now placed on encouraging compliance rather than sanctioning non-compliance. This being said, labour inspection alone cannot be successful at tackling the root causes of non-compliance with the law, but it plays, or has the potential to play, an important role.

2 For more details see Resources section to access: Chacaltana, 2003, pp.40-43.
3 Casale and Sivananthiran, 2010, p.45.
Labour inspection is of great importance to the informal economy when rights that should be applied to a certain situation are not – for example, when an employment relationship is disguised or a worker in a formal enterprise is unregistered or under-registered.

**Labour inspection and informal work.** A particularity of labour inspection is that it is limited by the law and does not extend to all those who work but only to the workers and enterprises covered by the law – there needs to be a legal obligation for inspectors to intervene. Labour inspection is therefore of huge importance in relation to the informal economy when rights that should be applied to a certain situation are not – for example, when an employment relationship is disguised or a worker in a formal enterprise is unregistered or under-registered. Non-application of the law may sometimes be explained by the ignorance of the law and/or of its content, or by an unwillingness to comply because of the perceived costs of compliance. Because labour inspectors disseminate the content of the law and provide guidance to employers as to the different ways to comply, they may reach informal workers. Informal workers’ ignorance of their rights, or else that of employers about their legal obligations, can be widespread, and labour inspectors have a key role in raising awareness on such issues as how to obtain a work permit, how to avoid abuse in the recruitment process, how to make a complaint, how to treat migrant workers fairly, or how to avoid forced labour in the supply chain.

**Labour inspection and the law**

The ILO Declaration on Social Justice for a Fair Globalization, adopted by the International Labour Conference (ILC) in 2008, recognises the need for “the building of effective labour inspection systems”.

Labour inspection has in fact been a concern for the ILO and its constituents since its inception. Indeed, labour inspection is mentioned in the 1919 Treaty of Versailles, a recommendation on the topic was adopted at the first ILC, and another followed in 1923. In 1947, the Labour Inspection Convention (No. 81) was adopted with two accompanying recommendations, and most of the following labour standards on working conditions and workers’ protection mention the necessity of labour inspection as a means of enforcement. The Labour inspection (Agriculture) Convention 1969 (No. 129) completes Convention No. 81 and both conventions are considered priority conventions by the ILO’s Governing Body and the ILC (see the 2008 Declaration on Social Justice). Neither convention excludes workers from its scope on the basis of irregular employment and, as Convention No. 129 specifically states regarding agriculture, labour inspection in agriculture applies to “work employees or apprentices, however they may be remunerated and whatever the type, form or duration of their contract” (Article 4). Convention No. 81 does permit exclusions concerning mining and transport undertakings.

Inspection in the informal economy is particularly difficult as workers are often invisible or unorganised. Moreover, informal workers are often not covered by the law and are therefore excluded from the mandate of inspectors since they often visit only registered businesses. At the same time, however, it is not enough to promulgate better and more inclusive legislation if more funds are not allocated to inspection – the result is de facto deregulation.

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4 The Committee of Experts has noted for example, that, “in India, under section 2 of the Factories Act, 1948, labour legislation applies only to enterprises with at least ten employees; in Zimbabwe, the threshold under section 3 of the Factories and Works Act, 1996, is five employees; in Nigeria, under section 87 of the Factories Act, 1987, ten employees” (ILO, 2006a, Para. 23).

5 For more details see Resources section to access: Andrees, 2008, p.33.

6 These are: Labour Inspection Recommendation, 1947 (No. 81) and the Labour Inspection (Mining and Transport) Recommendation, 1947 (No. 82).
Basic challenges. Labour inspection faces important basic challenges. These are not confined to informal work but certainly impede its ability to operate in the informal economy. In many countries, the labour inspection system is critically underfinanced and understaffed, resulting in an impossible task for inspectors. Some developing countries allocate less than 1% of their budget to labour administration, a fraction of which goes to labour inspection. While there is no universal definition of sufficient numbers of inspectors (this depends, inter alia, on the total size of the workforce), the ILO has specified, as a reasonable indicative benchmark, that the number of inspectors in relation to workers should reach $1/10,000$ in industrial market economies; $1/15,000$ in industrializing economies; $1/20,000$ in transition economies; and $1/40,000$ in less developed countries; most countries do not reach those numbers. Moreover, labour inspectors are often underpaid - which puts their independence at risk - and undertrained - labour inspectors need training in order to be aware of the different types of enterprises and workers, and to be able to identify employers.

These are not the only obstacles to efficient labour inspection. Labour inspection also has to deal with high levels of corruption and deliberate action by employers to avoid or undermine the authority of labour inspectors, which may be exacerbated if the informality arises from the employer’s will.

The scope of labour inspection

The mandate of labour inspectors is broadly defined under Convention No. 81 and covers conditions of work and the protection of workers. At the national level, the scope of the mandate of labour inspectors is usually established in several legislative texts. In many countries, the powers of labour inspectors extend to all areas covered by labour legislation, in others they are restricted to some areas of the legislation or to some sectors. Some countries for example exclude, completely or partially, agricultural workers. Others limit the scope of labour law to enterprises of a certain size or turnover.

Labour inspectors’ main concerns are with hygiene, welfare and health, and safety at work, but also with non-discrimination in the workplace, freedom of association or social security. They are increasingly concerned with issues such as migration and child labour. Inspectors are however often granted authority in a large variety of domains: dealing with individual and collective disputes, advising on health and safety measures, registration of employers’ and workers’ organisations, training, calculating severance pay, issuing work permits, or controlling the legality of employment – often working in this regard with other administrative bodies – for example. It has been noted by the Committee of experts that all duties not directly related to working conditions should not interfere with the latter. In particular, the Committee of experts has stressed that no duties related to combating illegal immigration should be imposed on labour inspectors as these duties may not be compatible with the duty to control working conditions.

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8 For further details see Resources section to Access: ILO, 2006 Strategies and practice for labour inspection, Para.13.
10 ILO, 2006a, pp.16 and 18.
A fundamental challenge concerns clarifying the law - when the law is incomplete, inconsistent, too vague, out-of-date, or when there are no definitions.

Clarifying the law. A fundamental challenge for governments concerns clarifying the law. Labour inspectors need to be able to understand the law in order to explain it and enforce it, and this may be difficult, even impossible, when the law is incomplete, inconsistent, too vague, out-of-date, or when there are no definitions. Inspectors also need to have clear instructions from the government and social partners as to where to focus inspections, and what action should be taken in case of violations, insofar as a balance needs to be found between deterrence and not putting workers at greater risk. While it is well accepted that inspectors need to favour dialogue and the exchange of information rather than sanctions, effective and dissuasive sanctions are essential to give credibility to the labour inspection system. Most countries provide for fines and imprisonment for violations of legislation enforceable by inspectors and these should be sufficient to act as deterrence. In many countries, however, these penalties are not enforced.

Responding to specific difficulties. It is often said that non-compliance with labour regulation, and the consequent presence of informal work, is particularly acute in domestic work, home work, rural work and in MSEs. At the same time, these are domains that suffer from the fact that labour inspection within them is quite challenging. Labour inspection is particularly difficult when the workplace is private – which is the case for domestic work or home work - because it conflicts with the right to privacy, for example. In the case of agriculture work, inspection can become very expensive and time consuming if workers are spread out, and there can also be difficulties when workers are seasonal or temporary. Some countries have stated that ratification of Convention No. 129 was not appropriate because agriculture activity mainly takes place in the informal economy. Labour inspection is also difficult in MSEs, as such enterprises are often unregistered and are not easy to detect (see briefs on MSEs and labour law and on informal enterprises). It is also difficult with regards to forced labour and child labour, in particular in its worst forms, which take place clandestinely. Trafficking, prostitution, and pornography that all call for inspection in places such as streets, airports, and borders, are difficult and dangerous to monitor, solely by labour inspectors.

Tackling Child Labour through labour inspection

International labour law gives labour inspectors a clear mandate to inspect and enforce labour laws with respect to children. For example, Article 3(a) of Convention No. 81 includes among the primary functions of the system of labour inspection “to secure the enforcement of the legal provisions relating to conditions of work and the protection of workers while engaged in their work, such as provisions relating to (…) the employment of children and young persons.” IPEC has published material concerning inspection and child labour, including a handbook for labour inspectors on combating child labour (2002), a training guide for labour inspectors (2005), and a set of technical sheets (2005). Moreover, conscious of the difficulties faced by inspectors in the informal economy, IPEC has developed “child labour monitoring systems” (CLM) which “extend the eyes and ears” of inspectors through local teams of monitors who can better identify incidence of child labour (see ILO, 2005).

15 Casale, Sivananthiran, Daza, and Mar (eds.), 2006, p.11.
17 See for example, Casale, Sivananthiran, Daza and Mar, 2006, p. 3.
18 See ILO, 2006a, Para. 357 – the case of Indonesia is cited.
19 For more details see Resources section to access: ILO’s handbook for labour inspection concerning forced labour and trafficking (Andrees, 2008).
Cooperation between labour ministries and the civil society, employers, and trade unions is necessary, especially when inspection by governmental bodies is not sufficient. Moreover, collaboration at the regional and international levels is also desirable in order to offer a coherent and collective response to an increasingly vulnerable transnational workforce that often finds itself in employment relationships that are not covered by the legal systems.  

A good system of labour inspection is undoubtedly dependent, however, on political will to finance it and improve it, and the basic steps to take included in Convention No. 81 remain very much applicable (see box below).

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**ILO Labour Inspection Convention, 1947 (No. 81)**

**Benchmarks for effective labour inspection**

- Labour inspection should be organized as a system (Article 1) applying to all workplaces in respect of which legal provisions relating to conditions of work and the protection of workers are enforceable (Article 2).
- It should cover a basic set of functions, such as hours of work, wages, safety, health and welfare, the employment of children and young persons, and other connected matters (Article 3.1).
- Inspectors should supply information and advice to employers and workers on how to comply with the law, and alert the competent authorities on any defects or abuses not covered by existing legal provisions (Article 3.1).
- Labour inspection should be placed under the supervision and control of a central authority (Article 4.1).
- Effective cooperation with other government services and private institutions (NGOs) engaged in labour protection, as well as with employers and workers and their organizations must be promoted (Article 5).
- Inspectors must be public officials assured of stability of employment and independent of changes of government and improper external influences (Article 6).
- They must be recruited with sole regard to their qualifications and adequately trained for the performance of their duties (Article 7).
- Their number must be sufficient to secure the effective discharge of these duties in regard to inter alia the number, nature, size and situation of workplaces, the number of workers employed, and the number and complexity of the legal provisions to be enforced (Article 10).
- They must be properly equipped with local offices and transport facilities (Article 11).
- They must be provided with proper credentials and properly empowered (Articles 12 and 13).
- Workplaces must be inspected as often and as thoroughly as is necessary to ensure the effective application of relevant legal provisions (Article 16).
- Adequate penalties for violations of legal provisions enforceable by labour inspectors and for obstructing labour inspectors in the performance of their duties must be provided for by national laws and regulations and effectively enforced (Article 18).

Construction workers, Cairo, Egypt.
EMERGING APPROACHES AND GOOD PRACTICES

- Increasing the size of inspectorates
- Developing partnerships
- New outreach mechanisms
- Tripartite teams
- Varying criteria for fines
- Harnessing technologies
- Targeted campaigns
- Capacity building and education

Bringing the large numbers of workers and economic units in the informal economy within the scope and protection of labour inspection presents enormous challenges, yet countries have been responding to this in many ways.

- **Increasing the size inspectorates.** Some countries have been able to respond by increasing their inspectorates. Several Latin American countries including Guatemala and El Salvador have doubled or tripled in the case of Dominican Republic and Honduras the size of their inspectorates over a decade and a half.21

In Europe, France, for example, has announced an increase of the numbers and a reinforcement of the qualifications of inspection officials with an additional 240 inspectors, 420 controllers and 40 engineers and physicians planned between 2006 and 2010.22

In South Africa, a major drive, involving the recruitment of over 100 new inspectors, was recently launched to reduce multiple inspections, each of limited scope with a more consolidated and less time-consuming approach. This strategy eliminates the need for several officers visiting the same enterprise, one after the other, often unaware of each other’s activities, sometimes even giving conflicting advice. Its implementation requires close collaboration with employers and trade unions.23

- **Developing partnerships.** In other case many countries have been exploring innovative approaches of reaching the informal economy. Developing partnerships with a wide range of stakeholders is a key strategy to extend coverage. These include partnerships with health, agricultural and other government ministries with strong community outreach; mobilising communities as monitoring partners; working through voluntary codes of conduct and establishing tripartite partnerships for monitoring.

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21 For more details see Resources section to access: Schrank and Piore, 2007, p.21.
23 Challenges Facing Labour Inspection In Asia and Middle East Sivananthiram
Special outreach mechanisms may be needed to address child labour

**New outreach mechanisms.** Addressing child labour through new outreach has been successful in a number of countries. In Turkey for example, a new inspection system was introduced, with support from IPEC, aimed at improving cooperation between inspectors on the one hand, and working children, managers and employers, on the other. In an effort to ensure safer workplaces 108 inspectors were trained and worked full time on child labour issues, reaching some 10,000 children. Labour inspectors collected information providing a detailed picture of risks and hazards faced by children. While in Tanzania, in coordination with IPEC, labour inspectors received training in persuading commercial agriculture employers to remove children from plantations and provide educational facilities for them. Together with union representatives and employers representatives, the labour inspectors worked for a successful outcome.

Forced labour is another area where, despite its clandestine nature, countries are making inroads. In Brazil for example a Special Mobile Inspection Unit was introduced in 1995, consisting of a flying squad of labour inspectors and federal police officers who investigate allegations of forced labour on rural farm estates. Although facing funding problems, this initiative has proven successful, freeing more than 32,000 enslaved workers. In several countries including Mexico labour inspectorates have developed awareness raising materials targeted to communities vulnerable to forced labour, with information provided on rights, laws and where to seek help.

In Italy the Carabinieri Command for the Protection of Labour, operating under the Ministry of Labour, is in charge of monitoring the application of labour law and social security regulations. Its role is to fight against illegal and disguised employment, exploitation of workers in “sweatshops”, trafficking, and the elimination of inhuman working conditions. It also detects fraud and the illegal deduction of social contributions. Its personnel are qualified as labour inspectors and police officers. In 2005, the Command carried out more than 24,500 inspections covering 128,000 workers, and denounced more than 10,000 persons to the judicial authorities, of which 188 were arrested.

**Tripartite teams.** In some cases labour inspectorates have teamed up with trade unions and employers to form tripartite teams to reach remote workplaces. 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.

In Poland the labour inspectorate has partnered with the Polish Border Guards in cases of cases of undeclared work carried out by foreigners. The district labour inspectors informs the head of the local administration of the province about cases of undeclared or under-declared work. Similarly, collaboration agreements have been concluded by the labour inspectorate with other authorities. As a result, in 2008, 662 inspections were conducted.

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24 For more details see Resources section to access: ILO, 2006a, p.16.
25 For more details see Resources section to access: ILO 2002b Report VI Decent Work and the Informal Economy.
27 ibid, p.30.
28 For more details see Resources section to access: ILO, The informal economy : enabling transition to formalization, Tripartite interregional Symposium on the Informal Economy.
based on requests from, for example, county employment offices (180), the police (99), province employment offices (87) and tax authorities (76).  

- **Varying criteria for fines.** Some countries have established varying criteria for penalties. In Chile, for example, the Chilean Labour Code has different fines according to the size of the enterprise – the higher the number of workers affected, the higher the fine.

- **Harnessing technology.** An initiative in the Indian State of Maharashtra, which is about to enter its pilot phase in Thane district, aims at extending coverage of the labour protection to the unorganised sector, comprising nearly 93 percent of the labour force in the state. The main innovation centres around a computerised labour management system, which will create an interface between businesses, employees, banks and the Labour Department. This system benefits employers since it enables them to access online all the forms necessary to obtain and renew licences, thus eliminating several bureaucratic hurdles while also promoting respect of the law. For workers, the system creates financial inclusion since they are issued with bank cards and accounts for the payment of their wages. Moreover, information on wages paid and earned can be tracked and monitored by the Labour Department. This system will provide information to labour inspectors, through a generation of automatic alerts, on possible non-compliant businesses which may be targeted with warnings, inspections, and prosecution. It is hoped that this system will extend to workers not covered by the Factories Act.

- **Targeted campaigns.** Targeted campaigns are very effective. In Argentina a 2003 national plan for the regularisation of workers was launched which combined data collected by inspectors with available data on social contributions. If workers in irregular situations are regularised, the fine imposed on the enterprise is reduced. This resulted in 24% of the workers visited being regularised. Enterprises that are inspected are selected according to their capacity to pay social contributions however, in order not to penalise formal enterprises in financial difficulty. This is nevertheless step in the right direction.

- **Capacity building and education.** The role of labour inspectors is often believed to be only concerned with sanctioning. While sanctions are important because they send a clear message that certain conducts are not tolerated, the role of labour inspectors extends to supplying information and giving advice to employers and workers on how to respect the legislation, as stated in the 1947 Convention No. 81. A graduated approach is needed and well trained labour inspectors as well as a clear legal framework are therefore essential. Labour inspectors need to be able to judge, in each situation that arises, the best way to ensure compliance with the objectives of the legislation.

30 ibid, p. 15.
32 For more details see, Vega Ruiz, 2009, p. 30.
33 For more details see: http://www.trabajo.gov.ar/
Approaches that are educational, persuasive, transparent and participatory are often particularly successful in reaching the informal economy. In Finland, France and the Netherlands for example labour inspection campaigns include education and awareness-raising activities for farmers, their employees and their families, focusing on the most serious occupational hazards. The regulatory framework and the informal economy: innovations in outreach.

In 2001, Chile introduced the possibility for enterprises of less than 9 workers to substitute fines with free training. The employer, who cannot exercise this option more than once a year, must request the substitution of the fine and correct the situation which gave rise to it. If the employer fails to attend the course, s/he is liable to pay the fine with a 100 percent surcharge. While in Peru, Section 5 of Legislative Decree No. 910 of 16 March 2001 to promulgate the general Act on labour inspection and the defence of the worker, provides that inspectors must give preventive technical guidance to employers and workers in the informal sector.

For more details see Resources section to access: ILO, 2006a, Para. 260.

For more details see: http://www.dt.gob.cl/1601/article-60629.html

For more details see Resources section to access: ILO, 2006a, Para. 87.
This section provides a list of resources which can enable the reader to delve deeper into the issue. Details of the good practices cited above can be accessed here. The section comprises international instruments, International Labour Conference conclusions, relevant publications and training tools. A bibliography of references in the text is further below. There may be some overlap between the two.

**ILO instruments**

Labour Inspection Convention, 1947 (No. 81)

Labour inspection (Agriculture) Convention, 1969 (No. 129)
http://www.ilo.org/ilolex/english/convdisp1.htm

Labour Inspection Recommendation, 1947 (No. 81)

Labour Inspection (Mining and Transport) Recommendation, 1947 (No. 82).
http://www.ilo.org/ilolex/english/recdisp1.htm

Declaration on Social Justice for a Fair Globalization, 2008

**Relevant Publications**


Tools


For further information see the ILO's Labour Administration and Labour Inspection Department website http://www.ilo.org/labadmin/lang--en/index.htm
The Regulatory Framework and the Informal Economy

4.c2 LABOUR INSPECTION AND THE INFORMAL ECONOMY: INNOVATIONS IN OUTREACH

References


ILO 2002b Report VI Decent Work and the Informal Economy, ILC, 90th Session, (Geneva)


Sivananthiram, A, Challenges Facing Labour Inspection In Asia and Middle East


Making footballs, Sialkot, Pakistan.

4.c2 LABOUR INSPECTION AND THE INFORMAL ECONOMY: INNOVATIONS IN OUTREACH
A POLICY RESOURCE GUIDE SUPPORTING TRANSITIONS TO FORMALITY

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

PART I: Key concepts

1. Decent Work and the Informal Economy
   1.1 Key conceptual issues

2. Measurement of the Informal Economy
   2.1 Addressing statistical challenges

PART II: Policies to support transitions to formality

3. Growth Strategies and Quality Employment Generation
   3.1 Patterns of economic growth and the informal economy

4. The Regulatory Framework and the Informal Economy
   (A) International Labour Standards
      4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work
      4.a2 International Labour Standards (ILS): bringing the unprotected under the law
      4.a3 Understanding the employment relationship and its impact on informality
   (B) Specific Groups
      4.b1 Domestic Workers: strategies for overcoming poor regulation
      4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law
      4.b3 Street vendors: innovations in regulatory support
      4.b4 Micro and Small Enterprises (MSEs), informality and labour law: reducing gaps in protection
      4.b5 Strategies for transforming undeclared work into regulated work
   (C) Labour Administration
      4.c1 Labour administration: overcoming challenges in reaching the informal economy
      4.c2 Labour inspection and the informal economy: innovations in outreach

5. Organization, Representation and Dialogue
   5.1 Social dialogue: promoting good governance in policy making on the informal economy
   5.2 The role of Employers’ organizations and small business associations
   5.3 Trade unions: reaching the marginalized and excluded
   5.4 Cooperatives: a stepping stone out of informality

6. Promoting Equality and Addressing Discrimination
   6.1 Promoting women’s empowerment: a gendered pathway out of informality
   6.2 Migrant workers: policy frameworks for regulated and formal migration
   6.3 Disability: inclusive approaches for productive work

7. Entrepreneurship, Skills Development, Finance
   7.1 Informal enterprises: policy supports for encouraging formalization and upgrading
   7.2 Enhancing skills and employability: facilitating access to the formal economy
   7.3 Microfinance: targeted strategies to move out of informality

8. Extension of Social Protection
   8.1 Extending social security coverage to the informal economy
   8.2 HIV/AIDS: overcoming discrimination and economic exclusion
   8.3 Extending maternity protection to the informal economy
   8.4 Childcare: an essential support for better incomes

9. Local Development Strategies
   9.1 Local development: opportunities for integrated strategies for moving out of informality
5.1 SOCIAL DIALOGUE: PROMOTING GOOD GOVERNANCE IN POLICY MAKING ON THE INFORMAL ECONOMY

This brief introduces the following briefs on Trade Unions, Employers organisations and Cooperatives, and therefore does not have the same structure as other technical briefs. It highlights the key role that social dialogue plays in democratic governance and the formulation and implementation of effective policies to support the transition to formality.
5. Organization, Representation and Dialogue

5.1 SOCIAL DIALOGUE: PROMOTING GOOD GOVERNANCE IN POLICY MAKING ON THE INFORMAL ECONOMY

What is social dialogue?

Social dialogue plays a key role in achieving the ILO’s objective of promoting opportunities for women and men to obtain decent and productive work in conditions of freedom, equality, security and human dignity. Social dialogue is defined by the ILO to include all types of negotiation, consultation or simply exchange of information between, or among, representatives of governments, employers and workers, on issues of common interest relating to economic and social policy. It can exist as a tripartite process, with the government as an official party to the dialogue or it may consist of bipartite relations only between labour and management (or trade unions and employers’ organisations), with or without indirect government involvement. Concertation can be informal or institutionalised, and often it is a combination of the two. It can take place at the national, regional or at enterprise level. It can be inter-professional, sectoral or a combination of all of these.

The main goal of social dialogue itself is to promote consensus building and democratic involvement among the main stakeholders in the world of work. Successful social dialogue structures and processes have the potential to resolve important economic and social issues, encourage good governance, advance social and industrial peace and stability and boost economic progress.


Weak organization and representation. The organisation and representation of informal economy actors remains a major challenge. At present, informal economy workers and entrepreneurs are either excluded or under-represented in both employers’ and workers’ organisations, in some cases this is because they are considered neither as employers nor employees. Vulnerable groups such as youth, poor women and disabled persons are amongst those with the lowest levels of organisation. Among the many challenges are legal restrictions: democratic, independent, membership-based organisations of actors in the informal economy may sometimes not even be allowed to operate under local or national legislation. This serious representation gap reinforces the lack of other legal and social protections, in turn compounded by multiple discriminations based on gender, ethnicity, migrant status and other factors. As the 2002 International Labour Conference Resolution concerning decent work and the informal economy makes clear:

‘Without organization and representation, those in the informal economy generally do not have access to a range of other rights at work. They are not able to pursue their employment interests through collective bargaining or to lobby policymakers on issues such as access to infrastructure, property rights, taxation and social security.’

As discussed in previous briefs the informal economy refers to a wide variety of disparate activities and relationships that give rise to a wide variety of problems. Generally informal economic activity is related to governance deficits. Laws and institutions which have been developed for the whole population, for one reason or another, have not reached those in the informal economy. Addressing these situations and resolving problems requires the strong and effective use of governmental action. There will be other situations in which other forms of cooperation and self-help are more effective and preferred. All strategies benefit from the organization of the actors concerned – whether they are workers, self-employed or micro entrepreneurs. Indeed the experience is that organization is indispensable to the defence and advancement of interests, and often the first step in the resolution of problems.

The importance of social dialogue. Social dialogue, one of the key mechanisms of good governance and democratic decision making, cannot take place without building solid worker’s and employers’ organisations with...
Social dialogue requires political will and commitment and respect for fundamental rights of freedom of association and the right to collective bargaining.

Technical capacity and access to relevant information. Social dialogue requires political will and commitment and a respect for the fundamental rights of freedom of association and collective bargaining. Every area of policy making on the informal economy, whether it be skills policies or social security policies, requires that informal economy actors are able to organize, articulate their needs and have the opportunity to decide their own future while arriving at a consensus that meets social and economic goals.

The technical briefs that follow (see briefs on Trade Unions, Employers’ organisations and Cooperatives) provide examples of the wide-range of new initiatives on the part of informal economy actors to organise and have representational capacity. Strengthening organisation and bargaining power, can be seen as both as an end in itself and as a key means of achieving decent work for those currently in the informal economy. Representation and its attendant organization are essential for many of the institutions required to address the governance deficits related to informal economic activities. Strong and secure organizations can be the negotiating partners that, with Government, can develop the policies needed to address decent work deficits and effect a transition to the mainstream.

Initiatives are summarised below, with the full text available in the technical briefs referred to above.

- **Autonomous membership-based organizations.** Over the last two decades, there has been a significant growth in autonomous membership based organizations of informal economy actors, very often women workers, including those experiencing multiple disadvantages such as those based on ethnicity or migrant status. Organizations of home-based workers, domestic workers, street and market vendors and other sections of the urban poor, such as waste-pickers have been established and have received financial support from development assistance programmes and the women's movement. They have sought fundamental changes in economic and social policy, including urban planning and development, with a strong emphasis on gender equality and empowerment. These organizations have created structures at regional and international level, increasingly important in a global economy. According to their objectives and needs some have opted to register as trade unions, others as cooperatives, while others remain as associations or loose networks. In some cases they have been successful in bringing their situation to international attention and have developed partnerships to lobby for international instruments to support their progress to decent work. The adoption of the *ILO Homework Convention, 1996 (No.177)* and its accompanying *Recommendation (No.184)* was a landmark in giving visibility and legal protection to some of these workers, while the newly adopted international instruments for domestic work: the *Domestic Workers Convention, 2011 (No.189)* and its accompanying Recommendation (No.201) offers much hope that another large segment of the informal economy can be brought progressively into formality. (see briefs on Domestic work and Homework).
Trade unions. Historically trade unions have always sought to protect the marginalised. New pressures of globalisation, liberalisation and outsourcing which have eroded employment and income security in the formal economy in both developed and developing countries, have renewed this mandate for organization and representation. Trade unions have been responding to these new challenges to reach workers pushed into the informal economy. There are considerable obstacles however. Work is often performed in small dispersed units. Significant legal obstacles often need to be overcome to achieve objectives. In addition to work performed on an informal basis, an increasing amount of work is performed in relationships within a legal framework but where workers do not have adequate protection. Trade unions are challenging patterns of employment which depend increasingly on outsourcing and sub-contacting and the use of casual or precarious labour throughout global supply chains. Equality of treatment and non-discrimination for workers supplied by agencies and other workers performing work on a short term basis, are amongst the areas that trade unions are working on. They campaign against precarious forms of work, which disproportionately affects women, highlighting as well the vulnerability of migrant workers, in the context of the global economic crisis. An important policy debate on the employment relationship has begun at the ILO. (see brief on the Employment Relationship). At the same time, trade unions have also developed a wide range of initiatives to organize workers who perform work informally, either through recruiting them to existing unions, or by establishing new union structures or through cooperation with other organizations.

Successful strategies have included a combination of providing services to informal economy workers in parallel with organising and recruitment. Trade unions have found that their skills and expertise, in technical areas such as occupational health and safety, have been strong entry points for engaging unorganized workers. In addition, they have developed innovative strategies to extend basic social security to groups of informal economy workers. They have contributed with their legitimacy and influence to negotiations with national and local authorities, and in particular, municipal and local government.

Employers’ Organizations. In their representative role, employers’ organizations have primarily covered larger formal economy enterprises. Most employers’ organizations do not generally represent the owners of economic units in the informal economy not least because employers’ organizations provide fee-based services. But employers’ organizations have recognised that they have an important role to play in advocacy and policy development which can ensure a level playing field for businesses to operate. A conducive private sector environment, for example, including streamlined registration procedures and appropriate regulations, can encourage firms to enter and stay in the formal economy while also ensuring more equitable distribution of tax and social security responsibilities. Employers’ organizations have recognized that the lack of visibility and organization acts as a major barrier for informal economy entrepreneurs to access the kinds of policy changes and technical support they require. They have therefore also supported capacity building and technical services to micro and small enterprises and promoted inter-firm linkages within supply chains in order to improve incomes and technical capacity. Employers’ organizations have also played a strong role in tripartite dialogue which has led to practical outcomes to assist small and micro-businesses. Increasingly, some multinational companies are also undertaking measures, through framework agreements with global unions, corporate social responsibility initiatives or through partnerships with ethical or fair trade initiatives, to ensure transparency and decent work in their supply chains.

Trade unions have developed a wide range of initiatives to organize workers who perform work informally

Employers’ organizations are increasingly recognizing the important role they can play in advocacy, policy development, technical support and capacity building on the informal economy
Cooperatives are an important entry point into formality since registration means they become legal entities.

Cooperatives. Another effective, membership-based and democratically managed form of organization is that of cooperatives. They are jointly owned and carry out productive activities that support their members. They have also proven to be an important step in the path towards formality, since their members may start out as informal units, which, if they are able to navigate the various obstacles, can grow to become business entities which often become registered. As legal entities they become part of the formal economy. Cooperatives have been formed not only as savings and credit schemes which are part of their tradition and history, but as other initiatives designed to increase income opportunities and productivity and to assist informal economy actors to regulate their situation and benefit from protection.

There is an increasing consensus, on the part of governments, employers and trade unions that cooperatives are a key feature of any development strategy because of their member-centred approach and the opportunities for sustainable incomes. The ILO cooperative programme together with the International Cooperative Alliance has launched a new campaign “Cooperating out of Poverty” which seeks to build on initiatives focusing on assisting small-scale informal economy actors to form cooperatives. While globalization has posed new challenges, small scale actors have continued to form cooperatives, and thus to benefit from access to markets, improved incomes and security.

More detailed discussions of the initiatives for better representation of informal economy actors are provided in the relevant briefs. It is worth emphasising once again that these initiatives to build strong, independent organisations in the informal economy, is the bedrock on which policy development on the informal economy should take place. Through participation in social dialogue, particularly at the national level, democratic decision making on strategies aimed at increasing regulated employment can take place. It also makes possible the review of both national law and practice in order to create an inclusive and enabling environment to allow for the integration of informal work into formal systems of protection and support.

The role of Governments in social dialogue. Governments have a key role to play in creating an enabling environment for social dialogue. A supportive legal environment which establishes the rights of freedom of association and collective bargaining of all workers and employers, (see brief on International Labour Standards), irrespective of where they work, which can operate freely without fear of reprisal, is a cornerstone of this enabling environment. Beyond ensuring these rights, the state must also provide avenues and mechanisms for dialogue including at the national policy level. It is through these democratic mechanisms that effective and sustainable solutions can be found to support the objective of moving out informality.
RESOURCES

This section provides a list of resources which can enable the reader to delve deeper into the issue. The section comprises international instruments, International Labour Conference conclusions, relevant publications and training tools.

ILO and UN Instruments and ILC Conference conclusions

http://www.ilo.org/ilolex/english/convdisp1.htm

Fundamental Conventions


Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87)
Right to Organise and Collective Bargaining Convention, 1949 (No. 98)
Forced Labour Convention, 1930 (No. 29)
Abolition of Forced Labour Convention, 1957 (No. 105)
Minimum Age Convention, 1973 (No. 138)
Worst Forms of Child Labour Convention, 1999 (No. 182)
Equal Remuneration Convention, 1951 (No. 100)
Discrimination (Employment and Occupation) Convention, 1958 (No. 111)

Governance Conventions

Labour Inspection Convention, 1947 (No. 81)
Labour Inspection (Agriculture) Convention, 1969 (No. 129)
Employment Policy Convention, 1964 (No. 122)
Tripartite Consultation (International Labour Standards) Convention, 1976 (No. 144)

Other relevant Conventions:

Right of Association (Agriculture) Convention, 1921 (No.11)
Right of Association (Non-Metropolitan Territories) Convention, 1947 (No.84)
Workers’ Representatives Convention, 1971 (No.135)
Rural Workers’ Organisations Convention, 1975 (No. 141)
Labour Relations (Public Service) Convention, 1978 (No. 151)
Collective Bargaining Convention, 1981 (No.154)

Recommendations:

Collective Agreements Recommendation, 1951 (No.91)
Voluntary Conciliation and Arbitration Recommendation, 1951 (No.92)
Cooperation at the Level of the Undertaking Recommendation, 1952 (No.94)
Consultation (Industrial and National Levels) Recommendation, 1960 (No.113)
Communications within the Undertaking Recommendation, 1967 (No. 129)
Examination of Grievances Recommendation, 1967 (No. 130)
Workers’ Representatives Recommendation, 1971 (No.143)
Rural Workers’ Organisations Recommendation, 1975 (No.149)
Labour Relations (Public Service) Recommendation, 1978 (No.159)
Collective Bargaining Recommendation, 1981 (No.163)
For further information see the ILO’s Social Dialogue sector website http://www.ilo.org/public/english/dialogue/

Declaration on Fundamental Principles and Rights at Work, 1998

Declaration on Social Justice for a Fair Globalization, 2008


Relevant Publications


-- 2011. The Global Crisis, Causes, Responses, Challenges. ILO Geneva

Tools


-- 2004 Positive Action, Reducing Poverty through Social Dialogue: A Guidebook for Trade Unions and Employer’s Organizations, Sub Regional Office for East Asia and Bangkok, ILO Bangkok

-- 2010 Global Job Crisis Observatory, Social Dialogue in Times of Crisis
Contents:
Acknowledgments / Foreword / Preface / How to use the Guide / Acronyms

PART I: Key concepts

1. Decent Work and the Informal Economy
   1.1 Key conceptual issues

2. Measurement of the Informal Economy
   2.1 Addressing statistical challenges

PART II: Policies to support transitions to formality

3. Growth Strategies and Quality Employment Generation
   3.1 Patterns of economic growth and the informal economy

4. The Regulatory Framework and the Informal Economy
   (A) International Labour Standards
   4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work
   4.a2 International Labour Standards (ILS): bringing the unprotected under the law
   4.a3 Understanding the employment relationship and its impact on informality
   (B) Specific Groups
   4.b1 Domestic Workers: strategies for overcoming poor regulation
   4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law
   4.b3 Street vendors: innovations in regulatory support
   4.b4 Micro and Small Enterprises (MSEs), informality and labour law: reducing gaps in protection
   4.b5 Strategies for transforming undeclared work into regulated work
   (C) Labour Administration
   4.c1 Labour administration: overcoming challenges in reaching the informal economy
   4.c2 Labour inspection and the informal economy: innovations in outreach

5. Organization, Representation and Dialogue
   5.1 Social dialogue: promoting good governance in policy making on the informal economy
   5.2 The role of Employers’ organizations and small business associations
   5.3 Trade unions: reaching the marginalized and excluded
   5.4 Cooperatives: a stepping stone out of informality

6. Promoting Equality and Addressing Discrimination
   6.1 Promoting women’s empowerment: a gendered pathway out of informality
   6.2 Migrant workers: policy frameworks for regulated and formal migration
   6.3 Disability: inclusive approaches for productive work

7. Entrepreneurship, Skills Development, Finance
   7.1 Informal enterprises: policy supports for encouraging formalization and upgrading
   7.2 Enhancing skills and employability: facilitating access to the formal economy
   7.3 Microfinance: targeted strategies to move out of informality

8. Extension of Social Protection
   8.1 Extending social security coverage to the informal economy
   8.2 HIV/AIDS: overcoming discrimination and economic exclusion
   8.3 Extending maternity protection to the informal economy
   8.4 Childcare: an essential support for better incomes

9. Local Development Strategies
   9.1 Local development: opportunities for integrated strategies for moving out of informality
5.2 THE ROLE OF EMPLOYERS’ ORGANIZATIONS AND SMALL BUSINESS ASSOCIATIONS

This brief looks at the important role that employers’ organisations can play in policy reform which can support the transition to formality. While employers’ organisations are usually oriented to larger formal enterprises they are increasingly playing a strong advocacy, research and policy advisory role in relation to the informal economy, and assisting informal economy entrepreneurs in areas such as compliance with legal, labour and occupational health and safety standards. In this way they are strategic actors in the move out of informality.
5.2 THE ROLE OF EMPLOYERS’ ORGANIZATIONS AND SMALL BUSINESS ASSOCIATIONS

Employers’ organizations are usually comprised of large enterprises. Thus their policies on industrial relations, such as national wage setting and collective agreements, are most relevant to bigger firms in the formal economy. Their membership is based on subscription in return for services. They provide representational and direct services to their members and promote the general interests of the business community, through advocacy and social dialogue with governments and workers’ organisations. Direct services, such as information, training or advice to their members help enterprises to become more productive and reduce costs. One of their key functions is to lobby for policies that ensure the behaviours of third parties (Governments, trade unions and the general public) allow enterprises to operate efficiently and competitively. As such, while employers organisations may not directly represent informal economy operators, in part because of their fee structure, they are strategically well placed to offer policy guidance on how to address the informal economy and how to reach out to informal economy entrepreneurs.

Micro, small and medium enterprises

There is increasing awareness on the part of employers’ organizations of the economic contribution of the informal economy. Moreover there is recognition that if they only represent the interests of large enterprises they may be limiting themselves to small portion of the economy. In terms of numbers, micro, small and medium enterprises, while individually small, constitute a large proportion of all enterprises: around 65-70 percent across low, middle and high income countries. Further, as a consequence of globalization, the linkages between the informal and formal economy have grown. (see box below)
Links between informal enterprises and formal firms

To understand the linkages between informal enterprises and formal firms it is important to consider the nature of the production system through which they are linked. This is because the nature of the linkage—specifically, the allocation of authority (over the work situation and the outcome of work done) and economic risk between the informal and formal firm—varies according to the nature of the production system. For instance, a garment maker might produce for the open market (with some authority and all of the risk) or for a supply firm linked to a multinational company (with little authority but much of the risk in the form of non-wage costs, rejected goods, and delayed payments). Types of production systems include:

- **individual transactions:** some informal enterprises or own account operators exchange goods and services with formal firms in what might be characterized as open or pure market exchange (in the sense of independent units transacting with each other). In such cases, the more competitive firm in terms of market knowledge and power—as well as the ability to adjust if the transaction does not proceed—controls the exchange or transaction.

- **sub-sectors:** many informal enterprises or own account operators produce and exchange goods and services with formal firms in what are called sub-sectors, networks of independent units involved in the production and distribution of a product or commodity. In such networks, individual units are involved in transactions with suppliers and customers. The terms and conditions of these transactions are governed largely by the more competitive firm in specific transactions (as above) but also by the ‘rules of the game’ for the sub-sector as a whole, which typically are determined by dominant firms in the sub-sector.

- **value chains:** some informal enterprises and own account operators and, by definition, all industrial outworkers produce goods within a value chain. The terms and conditions of production in value chains are determined largely by the lead firm: a large national firm in most domestic chains and a large transnational corporation in most global value chains. However, the major suppliers to whom the lead firm sub-contracts work—also often formal firms—also help determine the terms and conditions of work that they sub-contract to informal firms and workers down the chain.


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**Non-compliance and unfair competition.** It is clearly in the interests of employers’ organisations to bring the employment growth and wealth creation potential of economic activities that are currently marginalized in the informal economy into the mainstream. Not least because this can contribute to a more level playing field which can also ensure the more equitable distribution of tax and social protection responsibilities. For larger firms operating in the informal economy, non-compliance with regulations and avoidance of costs represents unfair competition for formal firms. The loss of revenue for the state also acts as a major barrier to the extension of social protection and other systems vital to national development and economic growth such as health and education systems.

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Moreover there is a frequent overlap in policy considerations that will support the transition to formality and those that support an enabling environment for private sector growth. This can be seen for example in that measures to simplify registration processes, reduce transaction costs and streamline administrative procedures, have the dual benefits of supporting entry into the formal economy and enabling existing enterprises to grow.

**The diversity of economic activities.** Nonetheless the challenges of reaching the informal economy are immense. The diversity of economic activities, the large numbers of small enterprises and self employed operators makes reaching the informal economy very complex. Policy responses need to be adapted to the specific national contexts and recognise the different levels of sophistication of enterprises within the informal economy – from survivalist activities through to organised small traders and on to small manufacturers and service providers, sometimes linked to global value chains.

Some employers’ organisations have recently broadened their mandate to include small and medium enterprises (SMEs) and have adopted pro-active policies to promote formality. However, their structures and services are often designed without taking into account the specific needs of smaller enterprises and the diversity of informal economy entrepreneurs. When employers’ organisations support small enterprises, they tend to focus on the upper range of the small or microenterprise band. Often the poorer and more disadvantaged groups, including women, ethnic minorities, migrant workers, are overlooked by general policies and measures to support SMEs.

**Nuances of informality in enterprises.** Another aspect of informality is that some firms may be largely formal but avoid fiscal and social responsibilities, often due to lack of legal enforcement. Firms may also sometimes have a proportion of their workforce as formal employees with the attendant rights and benefits and a large group of casualised and temporary workers without job security and other benefits. Informality for enterprises is therefore often not clear cut and there are significant grey areas. (See also brief on Informal enterprises)

**Changing production structures.** Large enterprises must also deal with the impacts of changing production structures. Over recent decades there has been a surge in outsourcing, particularly into developing countries which may be competing to attract foreign direct investment on the basis of lowered production costs and low wages. Where the lower end of global value chains ends in child labour and/ or the poor working conditions and piece rates of dependent homeworkers, exposure by media and consumer groups can significantly harm the image and consumer confidence of large firms at the head of the chain. For many firms the challenges of cleaning up supply chains that penetrate deep into the informal economy are immense. While corporate social responsibility initiatives and ethical trading measures have had some impact they are rarely able to penetrate deeper than the first few layers of subcontracting and outsourcing.

3 Ibid.
Shoe repair workshop, Cairo, Egypt.
5.2 THE ROLE OF EMPLOYERS' ORGANIZATIONS AND SMALL BUSINESS ASSOCIATIONS

In recent years, the International Organisation of Employers (IOE), in collaboration with the ILO, has developed position papers and technical tools to support employers’ organisations in reaching out to SME’s as well as to the informal economy. Employer’s organisations have been making inroads to assist small enterprises and informal economy entrepreneurs. The experiences described below illustrate different approaches to the informal economy, some of which relate specifically to small enterprises, but which are equally relevant to the informal economy.

Among the strategies undertaken by employers’ organisations are the following:

- advocating improvements to the regulatory environment, in particular through simplifying business registration
- developing service centres to assist in business and employment administration
- providing information and advice on a range of issues, including occupational health and safety
- linking informal economy and small businesses with larger enterprises while improving work conditions within employment or contract relationships
- assisting in developing a lobby agenda for small and micro enterprises
- extending services for productivity improvement to informal economy associations and facilitating access to markets, finance, insurance, technology and public authorities
- increasing representation of small enterprises and informal economy entrepreneurs in decision-making structures of employers’ organisations.
- Participating in tripartite bodies to promote poverty reduction
- Corporate social responsibility throughout the supply chain
Policy advocacy is a key lever to catalyse the process of moving out of informality.

> **Advocacy to improve regulatory environment.** Employer’s organisations have carried out policy research and advocacy for small and informal enterprises. Policy advocacy is a key lever to catalyse the process of moving out of informality. Employers’ organisations have a role in lobbying to ensure that regulations and what they provide, namely: protection, legality, access to resources, are easily understood and accessible to self-employed and micro enterprises.

Enterprises often remain informal due to onerous requirements for business registration; fiscal obligations and costly social security premiums. The growth prospects of informal enterprises can be hindered by regressive tax regimes, by trade policies that discriminate against their products, by investment policies that favour large enterprises and by financial policies that discourage banks from supporting small business development needs. Infrastructure and communication facilities are often inadequate, institutions for defending property or pursuing contract obligations insufficient, and training policies and institutions geared towards technologies used in larger companies.

In Singapore, the National Employers’ Federation (SNEF) sits on government committees where it also represents the needs of small enterprises. In these committees, SNEF and small enterprise representatives review legislation which affects small enterprises, such as registration and licensing procedures. SNEF maintains a standing committee to study policy impact and to provide recommendations based on feedback from its members. Several thousands of recommendations have been submitted by SMEs over time.

> **Service centres for payroll and social security administration for micro enterprises.** Service centres can play an important role in enabling micro and informal enterprises, otherwise forced to remain informal, to learn about the law, get registered and provide both the owners and workers social protection. However, these services cannot be a substitute for improved regulations. In Bulgaria, as a result of EU accession considerations and resources, a new regulation was introduced in 2003 making it compulsory for employers in the evolving market economy to register all labour contracts.

Realising that small enterprises and self-employed workers would find it difficult to comply with labour and social security laws given the amount of recording and administrative tasks involved, the Bulgarian Industrial Association (BIA) – the biggest employers’ organisations in Bulgaria – established a service to assist members in complying with their legal and fiscal obligations. This service includes payroll administration, wage calculation, payment of social security contributions, and advice on labour legislation. It helps ensure that each employer, regardless of the size of the firm, is able to conform to labour legislation, collective agreements (where they exist), social insurance, and tax requirements. The idea was to find simple and manageable ways to help enterprises and self-employed workers to comply with social and labour legislation while at the same time lobbying with government for appropriate policies and regulations.

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5 For more details see Resources section to access: Dyce, 2004. Employers’ organisations and promotion of small and medium-sized enterprises. Practical experiences from seven countries. Geneva, ILO.

6 For more details see Resources section to access: ILO and BIA, 2005. How to move from informality to formality. A solution for members of Employers’ Organisations: The Payroll Administration Services.
Information and Advisory Services. In Ireland, the Small Firms Association (SFA) is an affiliate of the Irish Business and Employers’ Confederation (IBEC). The SFA is a “high quality, low-subscription service” built around helping entrepreneurs learn more about the laws governing employer-employee relations and also good management practices. SFA provides information on good management practices. It has produced the following guides with the assistance of government offices, a collaboration that has helped bring down the costs for their members:

- “How to get paid on time,” an important concern among small enterprises providing goods and services to other businesses and
- “The A-Z pocket guide to health and safety.”

It also provides other information services including a web site, briefing sessions throughout the country, and other publications on employee-management issues, as well as directories of financial schemes for small businesses and a directory of discount schemes for members.7

Employers’ organisations can also provide information and guidance to small enterprises on current procedures to register their business or in applying for membership in the social security system or in accessing credit and other incentives. The Jamaica Employers Federation (JEF) carried out a study in the informal economy and among the main findings was that most respondents were not aware of the business registration process. In view of this, the study recommended that JEF:

- provide modular courses on business registration, including preparation of business plans
- distribute application forms required for the registration of a business
- identify further strategies and measures to assist the registration process such as a moratorium on tax payments upon registration
- organise promotional campaigns on the registration process and the benefits to be gained by businesses from registration.

Networking and business linkages. Employers’ organisations also are strategically positioned to facilitate business linkages between large and small enterprises. In Kenya, the Federation of Kenyan Employers (FKE) began extending membership to informal small-scale enterprises in 1989 as it was apparent that that formal sector employment was shrinking. In 1991, FKE launched its Small Enterprise Strategy which focused on developing linkages and subcontracting arrangements between small-scale producers (known as jua kali) and large private enterprises, members of FKE. Engineering students were attached to small enterprises to help analyse production processes and suggest improvements.

The scheme covered a wide range of activities, including timber processing, bakeries, cereal stores, pharmacy, stationery, retail, laundry, transport services, poultry farming, soap, and coffin making. Many of the operations were using rudimentary tools and methods. The engineering students and jua kalis were asked to draw up projects requiring moderate investment, which could demonstrate forward and backward linkages, and have potential for creating employment. One such successful case is that of General

7 For more details see Resources section to access: Employers’ organisations and promotion of small and medium-sized enterprises. Practical experiences from seven countries. Op.cit
Motors which now contracts small local companies to supply parts which the company previously imported.

**[Developing a lobbying agenda.]** Employers’ organisations have advanced policy issues affecting small and micro enterprises by:

- producing information sheets and position papers for the legislature as well as for the media on the implications of specific legislation and policies on small enterprises
- organising high profile media events to generate support for small enterprises and gain publicity for appropriate policies.

The Irish Small Firms Association lobbies government bodies to support the needs of small enterprises. Three or four times a year, it produces a two-page information flyer summarising key issues related to small enterprises. It is distributed among all members of the national assembly. The newsletter keeps legislators up to date with small enterprise concerns so that they can better support them in preparing laws and in serving their constituencies. One issue for instance, timed to coincide with budget deliberations, was the need to strengthen public services rather than the easier option of lowering taxes. Another issue was skills bottlenecks in certain trades.

The SFA also operates high profile media campaigns to generate support for small enterprises. It organises “business road shows” which visit towns and these have high impact on local radios and newspapers.

**[Incentives to encourage formality.]** In Egypt, the Alexandria Business Association (ABA) is affiliated to the Egyptian Employer Organisation. Its microfinance department initiated a progressive scheme where the size of the loans offered can increase on the condition that the client produces at each level different and additional documents attesting his or her identity, ownership of assets, fiscal and social security status. The scheme has reached several hundred clients after four years.

**[Training and advice on productivity and markets.]** Employers’ organisations can play a role in improving the productivity of small enterprises and enhancing market opportunities.

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9 For more information see Resources section to access: ILO and IOE, (n.d.) ‘Advocating for SMEs: Case Study Ireland, Informing ‘backbenchers’ about small enterprises.’ Reaching out to SMEs: An electronic toolkit for employers’ organisations.


11 ILO Governing Body GB 298/ESP4 2007 p.14
Increasing representation of small enterprises within employers’ organisations. Some employers’ organisations have used their constitution and membership policies to ensure inclusion, equity and effectiveness as they expand their reach to small enterprises. Governing councils, fee structures, and voting privileges, have been revised accordingly.

Employers’ organisations are structured either as an association whose members are enterprise owners or as federations whose members are associations. ILO has identified different variations of basic arrangements for including small enterprises as follows:12

Employers’ organisations as associations of enterprises:
- In Singapore small enterprises are allowed membership on par with all other members provided they pay the same membership fees for the same sets of services.
- In the Philippines small enterprises are allowed membership on par with all other members but special services are provided to SME members.

Employers’ organisations as a federation of associations:
- Small enterprises form or join associations which affiliate themselves with employers’ organisations’ that are structured as confederations. These associations have different degrees of engagement with the informal economy. Ghana provides an interesting example of how the general assembly is designed to represent a wider range of interests. (See Box below)
- In Ireland small enterprises may become members of an association that is structured within the employers’ organisations, owned and paid for by the employers’ association but with a separate membership staff and profile. The membership fee is one third but the services are fewer.

Participation of small enterprises in Ghana Employers’ Association

The Ghana Employers’ Association was established to represent private business on matters of industrial relations. This has meant that they represented by large employers. However, since most workers in Ghana are not covered by collective agreements and a significant portion of business activity takes place in the informal economy, GEA had to face the challenge of expanding its representation to smaller enterprises while also maintaining its core mandate of industrial relations.

Since associations of small enterprises exist in Ghana and are included under an umbrella organisation called Associations of Small-Scale Industries, the GEA opted to work through these existing organisations while emphasising formalisation, labour standards and health and safety – elements of its core mandate.

Representation on the Governing Council

The GEA strengthened the representation of small enterprises in its governing council by assigning a seat to the Associations of Small-Scale Industries. GEA has a 40-seat governing council in which sectoral interest groups are represented, such as mining, banking, shipping. Each group has one or two seats on the Council except for manufacturing which has seven and commerce, four. Small enterprises were represented by their respective sectors and by a specific SME Interest Group which had one seat. The GEA however felt that this was not enough. In November 2002, the Council granted an additional discretionary seat to the Associations of Small-Scale Industries. This required a constitutional amendment which was passed by the General Assembly that year. The small enterprise representatives are expected to analyse the needs of their constituency and to make proposals on how to assist informal enterprises to formalise.

**SME Desk and support services**

In terms of services, the GEA created an SME Desk to serve as a direct point of contact within the association on small enterprises. The GEA works through existing service providers that have the appropriate expertise, rather than creating new services altogether.

**Working with the informal economy**

The GEA recognises that the informal economy accounts for 70 per cent of the total labour force. The GEA sees its role as encouraging the formalisation of informal activities and promoting respect for labour standards and occupational safety and health. As an example, it has cooperated with two informal sector associations for specific activities; namely, the Ghana National Association of Garages and the Ghana National Association of Small-Scale Gold Miners.13

- **Participating in tripartite bodies to promote poverty reduction.** Employers’ organisations have participated in processes to draw up national development strategies, in particular poverty reduction strategies (PRSPs), which include policy discussions on how to improve the business environment and strengthen small and medium enterprises. A number of initiatives to create new employment opportunities have been identified through tripartite workshops on PRSPs.

In Tanzania for example the Association of Tanzanian Employers (ATE), with the support of the ILO ACTEMP developed a proposal to reform the government procurement system to give new opportunities to small and medium enterprises. ATE identified some of the obstacles that limit opportunities for SMEs to obtain state contracts. The proposal was officially presented to government officials and other stakeholders in a PRSP workshop where it was agreed to reform the procurement system as suggested by the ATE.14

- **Corporate social responsibility throughout the supply chain.** Employers’ organisations and multinational enterprises (MNEs) are increasingly concerned to ensure that their supply chains are transparent and production is carried out in decent working conditions. Various monitoring mechanisms have been developed to ensure that suppliers respect workers’ rights; and their obligations under labour law and social security are not avoided through the extensive use of sub-contracting. MNEs have signed specific framework agreements with global unions, joined coalitions such as the Ethical Trading Initiative or developed their own codes of conduct.

For example, the Spanish company, Inditex, which is the owner of the clothes store, Zara, has signed a framework agreement with the International Textile, Garment and Leather Workers’ Federation (ITGWLF) in order to cooperate in the protection of workers’ rights throughout the supply chain. The Inditex audit methodology has been revised to improve transparency in the company’s supply chain and new training materials for auditors developed. In the future it is planned to review purchasing practices, to identify the effects of different buying practices on the incidence of over-time, sub-contracting and the use of casual labour.15

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14 For more information see Resources section to access: Rynhart, Gary ILO/ACTEMP No 49 Poverty Reduction Strategy Papers: A guide for Employers’ Organizations, Geneva 2006

15 For more details see www.ethicaltrade.org “Inditex’s alliance with the global garment union”, 2009
Other companies are working to improve the livelihoods of primary producers and their local communities, such as cacao, coffee and tea. For example, in March 2009, Cadbury announced that it would convert its Cadbury Dairy Milk chocolate bars in the UK and Ireland to Fairtrade products within a short period of time. This will triple the sales of cacao under Fairtrade terms for the Ghana Fairtrade cooperative, “Kuapa Kokoo”. Set up in 1993, it is the only farmer-owned organisation among the private companies granted a government licence to trade cacao. It represents about 50,000 small-scale producers. All the farmers get a minimum fair-trade price and a premium which is spent on business improvements and social projects such as healthcare and clean drinking water. The Cadbury decision will substantially increase cacao sales for “Kuapa Kokoo” and in the longer term, Cadbury is committed to working with Fairtrade and local organisations to help more groups of farmers form cooperatives and to achieve Fairtrade certification.  

16 For more details see www.fairtrade.org.uk/producers/cacao/kuapa_kokoo
5.2 THE ROLE OF EMPLOYERS’ ORGANIZATIONS AND SMALL BUSINESS ASSOCIATIONS

Women entrepreneurs, Russian Federation.
This section provides a list of resources which can enable the reader to delve deeper into the issue. Detailed information about good practices cited above can be accessed here. The section comprises international instruments, International Labour Conference conclusions, relevant publications and training tools. A bibliography of references in the text is further below. There may be some overlap between the two.

**ILO and UN Instruments and ILC Conference conclusions**

- Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87)
- Right to Organise and Collective Bargaining Convention, 1949 (No. 98)
- Forced Labour Convention, 1930 (No. 29)
- Abolition of Forced Labour Convention, 1957 (No. 105)
- Minimum Age Convention, 1973 (No. 138)
- Worst Forms of Child Labour Convention, 1999 (No. 182)
- Equal Remuneration Convention, 1951 (No. 100)
- Discrimination (Employment and Occupation) Convention, 1958 (No. 111)

  - [http://www.ilo.org/ilolex/english/convdisp1.htm](http://www.ilo.org/ilolex/english/convdisp1.htm)
  - [http://www.ilo.org/ilolex/english/recdisp1.htm](http://www.ilo.org/ilolex/english/recdisp1.htm)


**Relevant Publications**


Training Tools


For further information see the website of the ILO Bureau for Employer’s Activities http://www.ilo.org/public/english/dialogue/actemp/

References


A POLICY RESOURCE GUIDE SUPPORTING TRANSITIONS TO FORMALITY

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

PART I: Key concepts

1. Decent Work and the Informal Economy
   1.1 Key conceptual issues

2. Measurement of the Informal Economy
   2.1 Addressing statistical challenges

PART II: Policies to support transitions to formality

3. Growth Strategies and Quality Employment Generation
   3.1 Patterns of economic growth and the informal economy

4. The Regulatory Framework and the Informal Economy
   (A) International Labour Standards
   4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work
   4.a2 International Labour Standards (ILS): bringing the unprotected under the law
   4.a3 Understanding the employment relationship and its impact on informality
   (B) Specific Groups
   4.b1 Domestic Workers: strategies for overcoming poor regulation
   4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law
   4.b3 Street vendors: innovations in regulatory support
   4.b4 Micro and Small Enterprises (MSEs), informality and labour law: reducing gaps in protection
   4.b5 Strategies for transforming undeclared work into regulated work
   (C) Labour Administration
   4.c1 Labour administration: overcoming challenges in reaching the informal economy
   4.c2 Labour inspection and the informal economy: innovations in outreach

5. Organization, Representation and Dialogue
   5.1 Social dialogue: promoting good governance in policy making on the informal economy
   5.2 The role of Employers’ organizations and small business associations
   5.3 Trade unions: reaching the marginalized and excluded
   5.4 Cooperatives: a stepping stone out of informality

6. Promoting Equality and Addressing Discrimination
   6.1 Promoting women’s empowerment: a gendered pathway out of informality
   6.2 Migrant workers: policy frameworks for regulated and formal migration
   6.3 Disability: inclusive approaches for productive work

7. Entrepreneurship, Skills Development, Finance
   7.1 Informal enterprises: policy supports for encouraging formalization and upgrading
   7.2 Enhancing skills and employability: facilitating access to the formal economy
   7.3 Microfinance: targeted strategies to move out of informality

8. Extension of Social Protection
   8.1 Extending social security coverage to the informal economy
   8.2 HIV/AIDS: overcoming discrimination and economic exclusion
   8.3 Extending maternity protection to the informal economy
   8.4 Childcare: an essential support for better incomes

9. Local Development Strategies
   9.1 Local development: opportunities for integrated strategies for moving out of informality
5.3 TRADE UNIONS: REACHING THE MARGINALISED AND EXCLUDED

The organization of informal economy actors is recognised as an essential element in addressing the many problems of workers performing work on an informal basis. Such organizations include workers’ and employers’ organizations and cooperatives. There is no blue print or single model for organising in the informal economy. Instead, there are a wide range of diverse initiatives. Some organizations are established for the purposes of representation or advocacy. Other organizations provide services such as savings and credit unions or skills training. Addressing the multiplicity of problems associated with the informal economy will require diverse approaches adapted to the situations of different groups of informal economy workers. This brief looks at the innovative strategies that trade unions have been developing, building on traditional strengths and extending support and services to workers in the informal economy.
KEY CHALLENGES

- The diversity of the informal economy
- Legal obstacles
- Contract and agency labour
- Social exclusion

The diversity of the informal economy. The growth of informal economic activity is part of a growing governance crisis found at both national and international levels. These developments pose challenges for trade unions’ historical mandate to organize the unorganized. During the past two decades, trade unions have sought to reach out workers in the informal economy and to workers performing work in new and often precarious relationships. It is widely accepted by the international trade union movement that organizing workers in the informal economy is a necessity. Many national trade union centres have revised their constitutions so that informal economy workers or their associations can become members. Many have developed innovative strategies to extend services to these workers. Unions are in the process of reviewing their analysis of what is considered the informal economy in their respective spheres and in particular the linkages between the informal and formal economic activity.

Much of what is considered ‘informal economy’ consists of individuals performing work on an ‘own-account’ basis, for households or for very small or ‘micro’ enterprises. Such workers are not likely to be concentrated in large workplaces and may be quite scattered and hard to locate. This increases the difficulty and cost of organizing. Often the same workers will perform work under different employment relationships – at times working for what might be considered an employer and at other times performing work that is similar to services provided by someone considered to be self-employed. These relationships greatly influence both the purpose for organizing and the nature of organization.

Legal obstacles. Legal obstacles to organizing can include outright prohibition which can exist in economic sectors such as domestic or agricultural work. Many legal obstacles are created because the status is not recognised. Such individuals are not able to assert their rights and make claims that will be backed up by authorities or courts. This absence of recognition is not just for the individual worker concerned but also the employer. The lack of status of the self-employed and the enterprise or the legal recognition of the employers is one of the greatest obstacles to organizing.

Contract and agency labour. Within the formal economy trade unions are also challenged by the rapid growth in the use of contract and agency labour which substitutes or limits permanent direct employment, both in developed and developing countries. Sub-contracting agencies employ workers on a temporary basis with inferior conditions, little or no work security or other forms of social protection. There may be legal or practical impediments to organizing contract and agency workers and the overall bargaining strength of the workforce is consequently undermined.¹

Among the obstacles to organizing are legal ones, as well as the dispersed, diverse and sometimes hidden nature of work in the informal economy.

¹ For more information see Resources section to access: ICEM Guide to contract and agency labour, Geneva, September 2008, p.16a
Social exclusion In addition to the above obstacles trade unions must address the other challenges including those related to exclusion. These obstacles, some of which must be addressed internally, can inhibit their ability or willingness to organize. Much of the work performed on an informal basis is performed by women and by groups that are considered disadvantaged or vulnerable such as ethnic minorities or migrant workers. Such groups are under-represented in union membership and governance structures.

Despite their vulnerability to hazardous work, discrimination and physical harassment, women's participation in trade unions tends to be low for a range of reasons including their ‘invisibility’ in certain sectors, their fear of reprisals from employers and contractors, the extent of their unpaid work responsibilities and in some cases the male oriented culture within unions. Women's presence in the leadership positions in unions is not surprisingly also rare. Nonetheless trade unions have been working to strengthen their gender and equality structures as a means of reaching the very many unorganized women in the informal economy.

Trade unions are responding to all these challenges. They are in the process of reviewing their own governance structures to give representation to informal economy workers and set aside human and financial resources for organising work and collaborative programmes. They are seeking to identify the key categories of informal economy workers to organize, how best to establish an entry point and what services would be relevant. And, using their institutional strength they are also developing collaborative alliances with existing organizations of informal workers at national and global level.
EMERGING APPROACHES AND GOOD PRACTICES

- Using traditional strengths
- Addressing the diversity in the informal economy
- Strategies for organizing
  • Establishing and recruiting into new trade union organizations
  • Establishing and recruiting into other organizations:
  • Establishing and recruiting into multifaceted organizations
  • From national organizing to international organizing
- Entry points to reach informal economy workers
  • Occupational safety and health training
  • Tripartite partnerships for occupational safety and health
  • Setting up training and social centres
- Extending social protection
- Policy advocacy and common negotiating platforms
- Alliances and partnerships with informal economy workers associations
- Tripartism and social dialogue

Using traditional strengths. While the sheer diversity and enormous scale of the informal economy requires new and innovative strategies on the part of trade unions, trade unions are also able to use their traditional strengths as entry points for organising workers. These include:

- their experience with organizing workers;
- their knowledge of rights and labour standards including occupational health and safety which can be applied to different employment situations;
- their skills in collective bargaining equip them to advise and train workers in the informal economy on collective negotiations;
- their presence in areas with concentration of workers who may be organizationally dispersed (for example, industrial zones with both formal and informal workers) allows trade unions to set up union centres that can support both formal and informal workers;
- their understanding and influence in their respective sectors of economic activity that can be used to reach unorganized workers in the same sector including those workers performing work on an informal basis;
- their participation in tripartite boards such as social security systems gives them the opportunity of advocating policies to extend social protection to workers who are not protected;
- their legal status to represent workers and their national and international affiliation and networks.

2 See Nathan, Christine, presentation on organising in the informal economy, ITUC –ILO/ACTRAV Training Course, Bangkok, 21-25 November 2005
Addressing the diversity of the informal economy. The heterogeneity of the informal economy calls for a multiplicity of strategies to reach informal economy workers. The following part of the brief explores some of the pioneering ways that trade unions have been using to organize informal economy workers or develop alliances with organizations of informal workers to strengthen their organization and representation and to establish platforms for social dialogue.

While not mutually exclusive, nor exhaustive, these are some approaches that have proven successful:

- Extending the scope of collective bargaining to include workers performing work in the same industry or economic sector including work performed on an informal basis;
- Recruiting workers into trade unions representing workers in the same industry or economic sector including workers performing work in this sector on an informal basis;
- Establishing new trade unions for the purpose of representing specific groups of workers who are not represented;
- Supporting other organizations of specific groups of workers, such as homeworkers, domestic workers or street vendors;
- Providing services, such as skills training programmes, or occupational health and safety training as a first step to organizing these workers;
- Working politically to extend social protection such as social security and health insurance to workers and their families;
- Working for the respect of the rights of workers in global supply chains to join or form trade unions and to bargain collectively;
- Developing alliances and partnerships between trade unions and organizations of informal economy workers including the development of common negotiating platforms with local authorities or governments;
- Using social dialogue as a means of addressing the decent work deficits created where work is performed on an informal basis.

Strategies for organizing. As already noted, the informal economy consists of a wide variety of disparate activities and situations that give rise to a wide variety of disparate problems for workers. No single model of organizing can be proposed, rather different approaches adapted to different contexts are required, often in a combination of strategies.

While the following are not specific models as such, they nonetheless illustrate the multiplicity of strategies which are being developed to organize the unorganized.

Establishing and recruiting into new trade union organizations. In Peru, since the 1980s several initiatives have aimed at gaining street vendors’ legal recognition, enhancing their representation with municipal authorities and access to the Vendor’s Assistance Fund, a social insurance fund for licenced street vendors. A 1992 decree introduced the possibility for independent workers to form organizations. The Latin American Central of Workers (CLAT) created a new federation of informal workers in Peru in September 2006, FENTRIAAP, which groups eight national unions of national workers.

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3 Social protection and inclusion: Convening efforts from a global perspective, summary of PROPLI Programme on the promotion of local development, presented to the International Conference on Social Protection, Lisbon 2006
In Spain, the Catalan regional organisation of the Trade Union Confederation of Workers’ Commission set up an association of self-employed persons, including vendors, construction workers among others. Union statutes were changed so that the association could be incorporated into the decision-making structures and have full voting rights. The national trade union centre provides education on collective bargaining. It also gives advice on tax and contract issues and negotiations with business and public authorities.

In the Netherlands, the FNV construction workers’ trade union has organized 3,000 out of 30,000 self-employed workers in the building sector in an affiliated organisation with its own policies and employees. This initiative turned out to be successful, despite initial scepticism, since self-employed workers were found to have the same needs for security, regular wages and safe working environment.

- Establishing and recruiting into other organizations. Over the last two decades, there has been a significant growth in autonomous membership-based organizations of informal economy workers, predominantly women workers, often with multiple disadvantages, based on ethnicity or migrant status. While some have preferred associative structures, and have formed networks or partnerships with trade unions, or joint policy forums, others have opted to register as trade unions, or have developed a multi-faceted strategy.

The Bangladesh Home-based Women Workers Association for example was established in 1995 and is now present in 64 districts with 18,000 home-based workers. It is affiliated to the International Textile, Garment and Leather Workers’ Federation and HomeNet.

In India, the All India Federation of Anganwadi workers and Helpers (AIFAWH) has been organising anganwadi (childcare) workers across a number of states. Leaders of the union went from village to village visiting childcare centres to understand the problems of the workers and find solutions in a collective manner. Their campaigns have paid off with around 250,000 anganwadi workers in 22 states unionised as a result.

- Establishing and recruiting into multifaceted organizations. In India, the Self-Employed Women’s Association, (SEWA) in India is one of the most well-known examples of a successful initiative to organize and empower poor women, who work in the informal economy. The SEWA model has inspired other initiatives, across the world, particularly in Asia but also in South Africa and Turkey.

Established in 1972, SEWA’s strength lies in that it has adopted a multi-faceted approach, and acts as a union, cooperative and women’s movement at the same time. It is based on a concept of the need for full employment, work security as well as income, food and social security. Its emphasis is on self-reliance, that the poor can build their own organizations, and the need to provide training to strengthen women’s leadership, confidence and bargaining power, both within and outside the home. SEWA provides a wide-range of services, including mobilisation and negotiations along sectoral lines, formation of production and service cooperatives, financial services, insurance and social security associations.

5 For more details see http://aifawh.org/index.php

In Spain an association of self-employed persons across a number of sectors has been set up, with full voting rights in the trade union confederation

SEWA in India acts as a union, a cooperative and a women’s movement at the same time
Today, SEWA has over one million self-employed women members and it is affiliated to the international trade union movement both at a sectoral and central level and to development research institutes. Within India, SEWA is part of a larger national network of unorganized sector organizations such as the National Centre for Labour (NCL). The NCL was established to obtain visibility and recognition for unorganized sector workers and to organize for their rights. It includes construction workers' unions, contract workers' and domestic workers' unions, agricultural labourers' and forest workers' unions.

With support from SEWA, the National Association of Street Vendors of India (NASVI) was created in 1998, to obtain greater recognition of street vendors' contribution to the urban economy and to bring about changes in the regulatory environment in order to improve their livelihoods and work security. In 2003, 276 organizations representing 168,000 street vendors from 20 states of India had taken formal membership.

- From national organising to international organising. In Costa Rica, the Domestic Workers’ Association (ASTRADOMES) was established in 1991. It is affiliated to the Latin American and Caribbean Confederation of Household Workers (CONLACTRAHO). Membership is open to all domestic workers, although its members are mainly Nicaraguan migrant women, reflecting the large number of Nicaraguan migrants employed in Costa Rica. ASTRADOMES provides a range of services, including counselling and legal guidance for domestic workers, a temporary shelter for dismissed workers, training workshops on subjects such as labour rights and reproductive health; and social events to support workers’ cultural identity. It formed a partnership (1994-98) with the National Centre for Family and Women’s Development (a government agency) to hold a series of training days, which were conducted in a public park, frequented by Nicaraguan migrants. The events were publicised through posters in the streets, and publicity on local radio stations.

ASTRADOMES filed a motion of unconstitutionality in 2005 in the Constitutional Court to challenge discriminatory treatment of domestic workers in the Costa Rican Labour Law, in terms of minimum hours worked, vacation, and rights to health services and a pension. The Court has established the right of domestic workers to one full day off per week and the right to enjoy public holidays, although reform to the labour law is still pending.

CONLACTRAHO brings together domestic workers associations and trade unions from 13 countries in Latin America and the Caribbean. While highlighting the vulnerability of many domestic workers, it lobbies for reforms to labour codes and extension of social protection to domestic workers and for the recognition of domestic work on the basis of equality and non-discrimination.

At the international level, trade union federations have played an important role in campaigning for domestic workers’ rights. The International Union of Food, Agricultural, Hotel Restaurant, Catering, Tobacco and Allied Workers Associations (IUF), working with other global unions, has established an international domestic workers’ network of trade unions and other organizations. Its objectives include mapping and liaising with domestic workers’
organizations, in order promote domestic workers’ rights. This network successfully campaigned for the ILO to develop an international instrument on domestic work at the 2010-2011 International Labour Conferences, which was subsequently adopted in 2011. (see brief on domestic workers).

■ Entry points to reach informal economy workers.

- **Occupational safety and health training.** Occupational safety and health (OSH) training and awareness raising programmes can act as a successful entry point to develop contacts and organize informal economy workers. Occupational health and safety interventions are well received by both workers and employers as hazards impact on their capacity to earn incomes and overall productivity. Trade unions can also provide ongoing occupational health and safety advisory services, either unilaterally or in collaboration with the labour inspectorate.

In India the Hind Mazdoor Sabha union (HMS) has been successful in organizing ship breakers, one of the most hazardous and least protected industries. The industry is highly controlled by business organizations and most workers are migrants, without identity papers, making the task of organizing particularly challenging. Ship breaking is the process of dismantling an obsolete vessel for sale as scrap or for disposal. Its operations expose workers to a wide range of hazards, including exposure to asbestos, lead, excessive noise and fire. It involves also hazardous work activities such as metal cutting, paint removal, oil and tank cleaning, entry into confined atmospheres. HMS started organizing ship breaking workers a few years ago, through the Mumbai Port Trust, Dock and General Employees’ Union. Officials monitored the work sites and noted that workers were frequently injured, and that many were young workers or children. Workers did not have access to drinking water, or a first aid facility, and there was no transport to the hospital in case of accidents. HMS began by providing drinking water and first aid training. They negotiated with the St John’s Ambulance service and Red Cross to station an ambulance permanently on the site. Through this process, workers gained confidence in HMS and began approaching them for other types of complaints. As most workers had no identity papers, they were often vulnerable. Union member cards were distributed, so that the carrier could produce an identity document in case of police controls. At the same time, the authorities were assured by the emphasis on occupational health and safety. With rising confidence in the union, the workers became interested in becoming members of the union. Today, ship breaking workers in Mumbai and other ports are better organized and represented and are part of an international initiative to call for mandatory legislative standards.9

- **Tripartite partnerships.** Most labour inspectorate systems are overstretched, so covering informal enterprises requires partnerships among a wide variety of organizations that have networks in the informal economy. The most effective initiatives combine statutory mandate, legislation and tripartite backing.

The construction unions in the Philippines agreed to partner with the labour department and with employers to implement a new Departmental Order 13 which called for compliance with occupational health and safety standards. The order covered “all operations and undertakings in the construction

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9 For more details see http://www.imfmetal.org/index.cfm?n=644&l=2
industry and sub-divisions” thus covering both permanent and contract workers. A tripartite team composed of representatives from labour, government and business was established. The team organized a programme of worksite visits and awareness seminars and campaigns in construction sites. Apart from the training, daily meetings were convened between workers and supervisors regarding possible safety and health problems related to each task as well as their solutions. This initiative both empowered the project workers and led to the organisation of the first industry-based union in the Philippines which includes workers performing work on an informal basis. The presence of trade unions in companies which outsource put them in a strategic position to influence health and safety and working conditions generally, throughout the supply chain10.

- Setting up training and social centres. The Hong Kong Domestic Workers’ General Union was started in government retraining centres. The Hong Kong Confederation of Trade Unions (HKCTU) ran programmes at the centres. Women workers took domestic worker skills training courses there. At three of the centres, with the assistance of organizers, the women formed groups, and over an 18 month period, they built the foundations of the union11. The union organizes around the issues of compensation for work-related injuries, minimum wages, pensions, insurance, and revision of labour laws to revise work hours and determine employee status.

- Extending social protection. Trade unions can play an important political role by seeking to extend social protection. For instance, the tripartite composition of the national social security systems has enabled trade unions in the Philippines and in Thailand to call for the expansion of the system to workers in the informal economy12 In Brazil, the Central Única dos Trabalhadores (CUT) has lobbied the municipal administration in Sao Paulo and the federal government to develop legislative that is both sensitive to the needs of family and individual micro-enterprises and which include mechanisms that include both appropriate taxation and social security protection13.

Another example of a union seeking to extend social protection can be found on the Island of Madeira in Portugal, known for its embroidery since the mid-1800s. The Union of Madeira Embroiders successfully negotiated with the regional government for a law in 1974 that guaranteed embroiderers basic social security benefits for old age and disability and, later, in 1979, sick leave and maternity leave was included as well14.

Some national trade union confederations have established their own health insurance schemes, either directly managed or else as a group scheme with a private insurance agency. These services can also be offered to informal economy workers who join the union.

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11 See Resources section to access: Inclusive Cities - Recruiting Informal Workers into Democratic Workers’ organizations : Organizing in the Informal Economy : Resource Book for Organizers Sec.2. p.104
13 For more details see http://www.streetnet.org.za/
■ **Policy advocacy and common negotiating platforms.** Statutory backing is important to make protective and organizational initiatives effective. Trade unions, like employers’ organizations, have advocated for reforms to regulatory frameworks in order to simplify business registration. In addition, they have lobbied for the extension of the labour law to the informal economy in different ways:

- by reducing the minimum number of employees in an enterprise for the labour law to be applicable
- by extending the definition of the terms “employee” and “employment relationship” protected by the labour law to include those who are hired on contract under specific circumstances; (see brief on the Employment relationship)
- by establishing policies that explicitly extend the scope of the labour law to specific sectors in the informal economy such as home workers, domestic workers, construction and agricultural workers

Municipal workers trade unions, in particular, have a key role as advocates with local authorities and councils. In Latin America, ULATMUN, the Latina American Union of Municipal Workers Unions, has adopted a platform of action designed to assist in the transition to formality of street vendors, calling for registration, inclusive public policies and urban planning, including the provision of necessary infrastructure and services. They view their role as facilitating the creation of membership based organizations, which in the context of Latin America, should take into account the particular needs of women and indigenous vendors. (see also brief on Street vendors)

■ **Alliances and partnerships with informal economy workers associations.** In some cases, national union centres build alliances and partnership with associations without necessarily incorporating them into their structures. For instance, the British Trade Unions Congress, Oxfam and the National Group on Homeworking came together to mount a campaign to put demands on government and retailers to enforce the law which guarantees minimum wages, ceiling on work hours, paid leaves, and protection against discrimination to home-based workers in the UK.

The Alliance for Zambian Informal Economy Associations (AZIEA) is an affiliate of the Zambian national centre, the ZCTU and a member of StreetNet International. It organizes street vendors and calls for recognition of their role in the national economy, and protection and representation. AZIEA has sought to negotiate both with the Ministry of Local Government and Housing for reforms to the Market Act, including changes to the composition of the market board to allow for representation of informal vendors, and with the local governments, on issues related to levies, garbage collection, child care and security. In order to improve their negotiating power, AZIEA has conducted membership education programmes on the role of the association and the need for reforms to the market regulations and bye-laws and increased investment in infrastructure and services. It has lobbied MPs and councillors, consumers and residents, calling for greater transparency and accountability in local government budgeting and expenditure. An alliance building workshop was conducted in March 2005, which brought together the Zambian National Markets Association, the Zambian United Local Authorities Workers Union, the ZCTU and AZIEA. The workshop identified common problems and challenges and agreed a common bargaining platform and

15 Castillo G, Orsatti A (comp) Trabajo Informal y sindicalismo Montevideo, ILO/CINTERFOR 2005
joint lobbying and advocacy campaign with vis-à-vis the local Zambian authorities.

**Tripartism and social dialogue.** Where it has been possible to establish tripartite forum or negotiations, there have been significant agreements which have improved income security and social protection.

In Senegal for example the transport workers’ trade unions (CNTS and CNTS FC) are actively involved in the design and implementation of a social health insurance scheme that aims to cover all transport workers and their families (some 400,000 people). In addition, the National Commission on Social Dialogue has actively engaged in developing a strategy to address the extension of social security to informal economy workers.

In India, the Unorganized Workers Social Security Act was passed by Parliament in December 2008. The Act will provide identity cards, life insurance, basic health coverage, maternity and old age support to the self-employed. This has been a long-standing demand of SEWA, which first raised the need some 20 years ago and has been achieved through sustained representation, pressure and dialogue.

In Ghana, the revised Poverty Reduction Strategy Paper 2006-7 specifically addresses employment creation in the context of the need to upgrade the informal economy through the concept of Decent Work. Two pilot schemes in local districts established mechanisms for social dialogue bringing together local government, elected assembly representatives, small enterprises, trade unions and civil society, to draw up a local economic development plan and small scale projects designed to assist small businesses to upgrade. Women account for two-thirds of the beneficiaries. A sub-committee of the local assembly has created a full inventory of SME’s and encouraged those not yet affiliated to associations to organize. They have also been able to extend national health insurance to SME’s and have set up decent work savings and credit unions to strengthen economic stability and mobilise capital for investment. The active engagement of the government, the employers’ organisation, and the trade unions has played a major part in bringing about this important policy initiative.

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16 www.streetnet.org/english/PSIreportzambia.htm PSI/Streetnet Alliance Building Workshop, Zambia March 2005
17 For more details see Resources section to access: ILO Governing Body Committee on Employment and Social Policy 298/ESP/4 The Informal Economy p.12
19 For more details see Resources section to access: ILO Governing Body Committee on Employment and Social Policy 298/ESP/4 The Informal Economy
Meeting of women workers, Tajikistan.
This section provides a list of resources which can enable the reader to delve deeper into the issue. Details of the good practices cited above can be accessed here. The section comprises international instruments, International Labour Conference conclusions, relevant publications and training tools. A bibliography of references in the text is further below. There may be some overlap between the two.

**ILO and UN Instruments and ILC Conference conclusions**


Freedom of Association and Protection of the Right to Organize Convention, 1948 (No. 87)
Right to Organize and Collective Bargaining Convention, 1949 (No. 98)
Forced Labour Convention, 1930 (No. 29)
Abolition of Forced Labour Convention, 1957 (No. 105)
Minimum Age Convention, 1973 (No. 138)
Worst Forms of Child Labour Convention, 1999 (No. 182)
Equal Remuneration Convention, 1951 (No. 100)
Discrimination (Employment and Occupation) Convention, 1958 (No. 111)

ILO Resolution Concerning Decent Work and the Informal Economy 2002

**Relevant Publications**

Ahn, Pong-Sul (Ed.) 2007 Organizing for Decent Work in the Informal Economy: Strategies, Methods and Practices International Labour Office Subregional office for South Asia, Bureau for Workers Activities, New Delhi


--- 2011, Symposium on Precarious Work October 2011, Geneva

Tools

IFWEA 2008 Recruiting Informal Workers into Democratic Workers’ organisations : Organising in the Informal Economy: Resource Book for Organizers IFWEA Cape Town


--- 2008 Trade Union Manual for Organizing Informal Economy Workers, Subregional office for East Asia, ILO Bangkok

For further information see the ILO’s Bureau for Workers’ Activities (ACTRAV) website http://www.ilo.org/actrav/lang--en/index.htm
References


ILO 2007 Governing Body Committee on Employment and Social Policy 298/ESP/4 The Informal Economy, Geneva ILO


Pineda, O.R. “Bridging the Gender Formal/Informal Divide in Labor Movements within a Globalizing ASEAN Paper presented to 8th Asean Inter-University Conference on Social Development May 28-31 2008


TUCA/CSA


# A Policy Resource Guide Supporting Transitions to Formality

## Contents

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

### PART I: Key Concepts

1. Decent Work and the Informal Economy
   1.1 Key conceptual issues

2. Measurement of the Informal Economy
   2.1 Addressing statistical challenges

### PART II: Policies to Support Transitions to Formality

3. Growth Strategies and Quality Employment Generation
   3.1 Patterns of economic growth and the informal economy

4. The Regulatory Framework and the Informal Economy
   - (A) International Labour Standards
     4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work
     4.a2 International Labour Standards (ILS): bringing the unprotected under the law
     4.a3 Understanding the employment relationship and its impact on informality
   - (B) Specific Groups
     4.b1 Domestic Workers: strategies for overcoming poor regulation
     4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law
     4.b3 Street vendors: innovations in regulatory support
     4.b4 Micro and Small Enterprises (MSEs), informality and labour law: reducing gaps in protection
     4.b5 Strategies for transforming undeclared work into regulated work
   - (C) Labour Administration
     4.c1 Labour administration: overcoming challenges in reaching the informal economy
     4.c2 Labour inspection and the informal economy: innovations in outreach

5. Organization, Representation and Dialogue
   5.1 Social dialogue: promoting good governance in policy making on the informal economy
   5.2 The role of Employers’ organizations and small business associations
   5.3 Trade unions: reaching the marginalized and excluded
   5.4 Cooperatives: a stepping stone out of informality

6. Promoting Equality and Addressing Discrimination
   6.1 Promoting women’s empowerment: a gendered pathway out of informality
   6.2 Migrant workers: policy frameworks for regulated and formal migration
   6.3 Disability: inclusive approaches for productive work

7. Entrepreneurship, Skills Development, Finance
   7.1 Informal enterprises: policy supports for encouraging formalization and upgrading
   7.2 Enhancing skills and employability: facilitating access to the formal economy
   7.3 Microfinance: targeted strategies to move out of informality

8. Extension of Social Protection
   8.1 Extending social security coverage to the informal economy
   8.2 HIV/AIDs: overcoming discrimination and economic exclusion
   8.3 Extending maternity protection to the informal economy
   8.4 Childcare: an essential support for better incomes

9. Local Development Strategies
   9.1 Local development: opportunities for integrated strategies for moving out of informality

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5.4 COOPERATIVES: A STEPPING STONE OUT OF INFORMALITY

Cooperatives have been empowering informal economy actors through the pursuit of economic activities combined with social goals. Cooperatives have the potential to advance the concept of moving out informality because they are not only an effective mechanism to provide economic and social security for rural and urban informal economy actors, but because they have a record of transforming marginal activities into legally protected work. Social economy enterprises and organizations, including cooperatives, mutual benefit societies, associations, social enterprises and some foundations constitute a bridge between the informal and the formal, the rural and the urban, the local and the global and the economic and the social.
Legal and policy barriers to the operation of cooperatives. Over the last ten years, there has been a marked increase in the number of social economy enterprises and organisations, such as cooperatives, community based organisations, mutual help organisations and member-owned microfinance and micro-insurance schemes. While some of these may not be formally registered, they are member controlled, often rooted in the local community and give voice to local producers and entrepreneurs. In Africa, the appearance of new forms of cooperatives has been referred to as the renaissance of the African cooperative movement. Indeed cooperatives are gaining new attention as a democratically-based means of addressing the social and economic exclusion of informal economy actors, as well as an important pathway towards formality. While globalization and the recent financial crisis have created new challenges, cooperatives continue to be vehicles for sustainable incomes and for social and economic development. Where informal economy actors have been able to overcome legal and policy barriers that may exist, they are often able to become registered as legal entities and hence become part of the mainstream economy.

Nevertheless cooperatives still face significant barriers in different countries. Thus, their potential to support the transition to formality is under-utilised. Legal frameworks governing cooperatives can sometimes be an impediment to organization and representation. In some countries, for example, legal entities cannot form cooperatives, rather the law only allows for individuals to form cooperatives. This is to the great disadvantage of these entities, particularly small and medium size enterprises.

Problems of exclusion Other barriers include high membership requirements, or provisions that implicitly exclude women. For example, laws that admit only one person per household result in women’s exclusion, since males may therefore dominate cooperative membership; other laws in which married women are considered minors or where women are prevented from inheriting deceased husband’s investments in the cooperative are clearly exclusionary provisions.

The profound changes in the system of production and the deregulation of the markets have created both new opportunities and new challenges for cooperatives to participate in world markets. Ethical trade initiatives have favoured the formation of cooperatives by small producers and have had positive impacts. There is an increasing consensus on the part of governments, employers and trade unions that cooperatives are a relevant mechanism to create sustainable and formal employment and income opportunities.

What are cooperatives?

Cooperatives are a means by which economic actors can pool their needs and resources in order to achieve economies of scale and obtain better prices for inputs, bigger markets, common services, better consumer goods and greater legal protection. Under paragraph 2 of The Promotion of Cooperatives Recommendation 2002 (No.193) a cooperative is defined as an ‘autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise’. Cooperatives are present in virtually all sectors, including agricultural, credit and savings, consumer, housing, workers’ and entrepreneurs’ cooperatives. Informal economy actors are mainly present in agriculture, vending, services, construction, transport and money lending, and these are the sectors where the bulk of cooperatives are to be found. They range in size from large-scale undertakings in the formal economy to small and micro-enterprises of a very diverse nature.

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1 For more information see Resources section to access: Develtere, Patrick, Pollet, Ignace & Wanyama, Fredrick (eds) ‘Cooperating out of poverty: the renaissance of the African cooperative movement’, ILO and World Bank Institute, 2008

2 Cf Henry, Hagen, Retos y oportunidades de la globalizacion para las cooperativas y el marco legal cooperativo, in: CIRIEC 18/2007, 124ff
5.4 COOPERATIVES: A STEPPING STONE OUT OF INFORMALITY

Woman leader of a rural cooperative, Madras, India.
Cooperatives and the transition to formality

Cooperatives have an important role to play in the transition from informality to formality. While informal economy actors are either operating outside the formal reach of the law, or are not covered in practice, cooperatives can be an accessible method to gain legal recognition, thereby enhancing their economic efficiency and security, and thus providing incentives for risk-taking, accessing credit and other services.

Cooperatives are an easily accessible type of enterprise because capital requirements for registration are minimal, and skills deficits can be addressed by information, training and education programmes. Registration means legal recognition that permits cooperatives to access appropriate tax and accounting regimes and, thus, benefit from social security coverage. Through pooling resources, negotiating power can be increased. The cooperative system of democratic member control (one-member/one vote regardless of the amount of equity held) and the equitable sharing of cost, risk and benefit, can empower and give voice to members as well as encourage social dialogue. The promotion of Cooperatives Recommendation 2002 (No. 193) makes reference to the role that cooperatives can play in promoting transition to formality. See box below.

Promotion of Cooperatives Recommendation, 2002 (No.193)

In 2002 the International Labour Conference adopted a Recommendation which provides a renewed framework for the growth of cooperatives into the 21st century. It represents the only international governmental legal instrument on cooperatives and provides guidance for member states to develop new legal and policy frameworks. It recognises that not only can cooperatives provide a means to address the challenges and pressures of globalisation and ensure a more equitable distribution of its benefits, but also that they can play a critical role in the transition to formality. Under paragraph 9 it states:

“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 of economic life.”

Cooperatives are based on values including self-help, self-responsibility, democracy, equality, equity and solidarity; as well as ethical values of honesty, openness, social responsibility and caring for others. The text integrates the definition, values and principles of the Statement of Co-operative Identity 1995 of the International Co-operative Alliance. It also encourages governments to provide an enabling environment for the promotion of cooperatives including equal treatment with other types of enterprises. Roles and responsibilities for the ILO social partners and cooperative organizations are also outlined.

Since the adoption of the Recommendation many countries or country regions have revised their cooperative laws or developed new policies, using Recommendation 193 as a basis. These countries include Colombia, Croatia, Ethiopia, Kyrgyzstan, Lesotho, Mozambique, South Africa, Swaziland, Turkey and Uganda. The European Council Regulation (EC) No 1435/2003 on the Statute for a European Cooperative Society (SCE) takes into account ILO Recommendation 193, and in Latin America a Framework model law for the region has been adopted by ICA Americas in accordance with the Recommendation (Ley marco para las cooperativas de América Latina). Uruguay has been one of the first countries to develop a new law based on this model law. L’Organisation pour l’Harmonisation en Afrique du Droit des Affaires (OHADA) has also adopted a Uniform Act on Cooperatives (Acte uniforme relatif aux sociétés coopératives).

Source: Promoting Cooperatives: A Guide to ILO Recommendation 193 ILO, ICA, the Cooperative College, Manchester, 2004

The ILO’s work supporting cooperative development. The ILO Cooperative Branch contributes to integrating informal economy actors into the formal economy mainly by providing advice on cooperative policies and laws to facilitate the recognition of cooperatives as legal persons with equal rights and obligations. This includes guidance on participatory policy and law making. It advocates for an understanding of cooperative law in its broadest sense, including for example taxation of cooperatives, labour law in cooperatives, accounting standards and competition law. Given the progress made in changing legal frameworks, the emphasis is shifting towards enhancing implementation strategies.

The ILO works with governments to assist them, in collaboration with the social partners and cooperative organisations, to create an enabling environment for informal economy actors to establish cooperatives. Examples of technical assistance include:

- Ensuring that the cooperative law exists in local languages;
- Drawing up simple guides concerning cooperative law;
- Drafting cooperative laws and by-laws and regulations designed to simplify cooperative structures;
- Providing policy support to introduce the cooperative approach to socio-economic inclusion of informal economy actors in Roadmap Global Jobs Pact, PRSPs, Decent Work Country Programmes.
Cooperatives, in line with the self-help principle, can provide social services coverage for members, either by setting aside money for access to health care and pensions, or by taking out a group insurance, benefiting from their greater negotiating power and assets. For example, the ILO Cooperative Branch collaborated for several years with the Regional Office of the International Co-operative Alliance of the Americas on the revision of the 1988 Framework model law on cooperatives for Central and South America. The 2008 revision of the text provides, inter alia, for rules concerning the setting aside of parts of the surplus/profits for special funds to be used for social services.4

The Framework model law on cooperatives will be an important guide to governments in Latin America.

The UN International Year of Cooperatives 2012

On December 18, 2009 the General Assembly of the United Nations proclaimed 2012 as the International Year of Cooperatives (GA Res. A/RES/64/136). The main objectives of the International Year of Cooperatives (IYC) are (1) the promotion of cooperatives and (2) raising awareness on cooperatives.

UN GA Resolution A/RES/64/136, Operative Paragraph 3

“Encourages all Member States, as well as the United Nations and all other relevant stakeholders, to take advantage of the International Year of Cooperatives as a way of promoting cooperatives and raising awareness of their contribution to social and economic development;”

Member States are called upon to set up National Committees which are to bring together all interested stakeholders, including ILO constituents and cooperative organizations. They have also been requested to designate focal points for the IYC for national activities.

For more information access: http://social.un.org/coopsyear/

ILO technical cooperation projects also encourage informal economy workers to formalise through the establishment of cooperatives5. One example is the SYNDICOOP project, a joint initiative between the International Cooperative Alliance, the ITUC and the ILO to strengthen organising strategies among informal economy workers and to improve employment opportunities, income and working conditions, covering Kenya, Rwanda, the United Republic of Tanzania, South Africa and Uganda. The programme, funded by the Netherlands Partnership Programme, was implemented over the period 2004-2006. It recognised the many linkages between cooperatives and trade unions. It has adopted a collaborative approach based on mutual support. The project reinforced partnerships between trade unions and informal economy actors and increased awareness of the role of trade unions and the benefits of collective representation. National governments are committed to continuing to support these initiatives. A user-friendly handbook for trade unions and cooperatives about organising workers in the informal economy was produced.6

4 Cf Article 42 of the 2008 Model framework law (Ley Marco para las cooperativas de America Latina)
5 Projects such as ACOPAM, COOPNET, COOPREFORM, INDISCO, SYNDICOOP, COOPAFRICA, SYNDICOOP are a direct follow-up to the 2002 International Labour Conference. Cf Resolution and Conclusions concerning decent work and the informal economy, International Labour Conference 2002, Geneva, ILO 2002
6 For more details see Resources section to access: Smith, Stirling, Let’s organize! A SYNDICOOP handbook for trade unions and cooperatives about organizing workers in the informal economy; Joint publication of the ILO, ICA and the ICFTU
**Diverse forms of cooperatives.** Cooperatives can take many forms. They exist to provide the best possible service at the lowest possible cost to their members and also provide employment and income opportunities. While agricultural cooperatives for marketing and input supplies are the most well-known, below are a few examples of other successful cooperatives which assist informal economy actors:

- Savings and credit cooperatives and other financial cooperative organizations provide access to finance, often catering specifically to the needs of the informal economy actors, in particular women;
- Workers’ cooperatives providing job creation, including worker take-overs of enterprises in the form of cooperatives;
- Health cooperatives providing health care and other social services;

- **Agricultural cooperatives for input supplies and marketing** Agricultural cooperatives enable small scale farmers to increase their incomes and improve their livelihoods. One example is in Rwanda, where the post-genocide government has made a concerted attempt to encourage cooperative formation. The cooperatives laws provide for regulation, registration and monitoring, as well as conflict settlement. In 2004, the rice-growers’ cooperative had 40,148 members and produced 20,800 tonnes of white rice, approximately 35% of national demand. Each cooperative member pays an initial amount and contributes with an annual levy depending on the size of the land-holding. The cooperative provides technical support, maintenance of common infrastructures, such as water channels, maintains a plant nursery, and provides input loans and marketing support. The cooperative also provides a mutual health fund.

In Kenya, cooperatives are one of the pillars supporting economic growth. Sixty three percent of Kenyans derive their livelihoods directly/indirectly from cooperative based activities. In 2007 cooperatives mobilized 31 percent of the national savings. As an integral part of the Government strategy of wealth creation and poverty reduction, cooperatives activity cut across all the sectors of the national economy that include agriculture, finance, housing, transport, building and construction, manufacturing and distribution trade. Cooperative activities concern mainly the financial sector (44 percent) and the agricultural sector (38 percent).

The cooperative movement is well structured with more than 11,000 registered Cooperative Societies in 2007. The Kenya National Federation of Co-operatives is the national apex cooperative organization and 8 other National cooperative organizations/institutions are bringing together cooperatives per main activity such as bank, insurance, college, etc. Cooperatives in Kenya accounts for at least 7 million members.7

- **Financial services cooperatives** Informal economy actors and marginalised groups who cannot access financial services through the commercial banking system can use savings and credit cooperatives and other financial cooperative organizations. There is renewed interest in savings and credit cooperatives and other financial cooperative organizations, particularly as a result of the global banking crisis. The World Bank has recently noted that “financial cooperatives and their networks are re-emerging as promising institutions in rural finance in many countries”.8

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8 For more information see Resources section to access World Bank, World Development Report 2008
• **A vehicle for women producers.** Cooperatives are proving to be an important way for women producers to organize themselves, as well as to increase their bargaining power and incomes. In India, the Self-Employed Women’s Association (SEWA) is one of the most successful examples of a multifaceted organisation which has specifically addressed the needs of women working within the informal economy. Swashrayi Mahila Sewa Sahakari Bank is SEWA members’ largest cooperative, the first of its kind in India. The SEWA bank is owned by self-employed women. Policies are formulated by their own elected Board of women workers. The bank is run by qualified managers accountable to the Board. SEWA bank was established in 1974 with 4000 members each of whom contributed Rs.10. Today there are 93,000 active depositors. Members initially raised the issue of the need for credit in order to decrease their dependence on money-lenders and traders, to enhance their businesses, build up assets in their own name, for children’s education, and for family emergencies. The bank now has Reserve Bank of India clearance.

SEWA has also assisted in establishing a wide range of other types of cooperatives, including artisans’ cooperatives, dairy cooperatives, service and labour cooperatives and trading and vending cooperatives. Women provide the share capital for the cooperatives and obtain employment from them. The service cooperatives provide primary health care and child care to self-employed women in the informal economy and their families. Another initiative includes village-based savings and credit groups which are less formal structures allowing women to learn to manage their own capital. They allow for assets to be built up for the first time. The village groups have formed their own district-level association for mutual support and advice.9

• **Enhancing marketing.** The ILO COOPAFRICA programme supports an innovative project to assist fishermen cooperatives in the Lake Victoria region in Kenya and enhance employment opportunities. While the area is well served by mobile phone networks, the fishermen’s cooperatives have not used this technology to their advantage. As a result fish pricing is not transparent, marketing costs are high and there are heavy post-harvest losses. With the support of the Kenya Marine and Fisheries Research Institute, cooperative members in 150 designated sites have been provided with mobile phones and relevant training so that prices, fish quantities, storage facilities, and other data can be communicated. The project is expected to result in significantly increased incomes and employment possibilities for the fishing communities.10

• **Worker’s cooperatives.** Workers’ cooperatives are enterprises owned and controlled by their members who are often either unemployed or threatened with redundancy and wish to create jobs for themselves. For example, during the earlier economic crisis in Argentina, there were a number of initiatives to take over companies which had become economically unviable, in order to continue production and maintain employment. "Fábrica recuperada", a “National Movement of Recovered Factories” was formed. The “recovered factories” were re-organised as cooperatives, with statutes and licences to operate.11

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9 For more information see Http://www.sewa.org
11 For more details see Resources section to access: Specialised Meeting of Mercosur Cooperatives, Montevideo, August 2005
Health care provision through cooperative clinics. Cooperatives can significantly increase access of communities to healthcare and other forms of social services. In Nepal, GEFONT, a confederation of 15 national trade union federations representing some 350,000 members, organizes workers in sectors such as agriculture, textiles, tourism, rickshaw pulling, transport and construction. In 2000, GEFONT founded a health cooperative which aims to provide affordable health care and clinical services to its members in both the formal and informal economy. Members pay a monthly premium to the Health Cooperative Fund which gives them access to primary health care and the Kathmandu Model Hospital, which is also founded and operated as a cooperative by the Public Health Concerned Trust. GEFONT aims to extend health protection to all its workers within the next five years and, towards this end, is now forming workers’ health cooperatives across the country with the support of the ILO.\textsuperscript{12}

Ethical and fair trade initiatives. Ethical and fair trade initiatives are becoming increasingly wide-spread and from a relatively small base are now part of mainstream commercial trade. Networks of alliances between companies or not-for-profit organisations in industrial countries and producers in developing countries seek to improve trading and production conditions and access to international markets, often through the formalisation of cooperatives and licensing or certification agreements. The Ethical Trade Initiative has a base code, negotiated and agreed by the founding trade unions, NGOs and corporate members, which refer to the most relevant ILO conventions.

\textsuperscript{12} For more information see www.gefont.org
This section provides a list of resources which can enable the reader to delve deeper into the issue. Details of the good practices cited above can be accessed here. The section comprises international instruments, International Labour Conference conclusions, relevant publications and training tools. A bibliography of references in the text is further below. There may be some overlap between the two.

**ILO instruments and ILC Conference Conclusions**

ILO Promotion of Cooperatives Recommendation, 2002 (No.193)
http://www.ilo.org/ilolex/cgi-lex/convde.pl?R193

**Other instruments**

General Assembly. A/64/132. Sixty-fourth session. Item 62 (b) of the preliminary list*
Cooperatives in social development. 13 July 2009.
http://www.copacgva.org/publications/un/a64132e.pdf

**Relevant Publications**

Specialized Meeting of Mercosur Cooperatives (RCEM) 2005, Declaration on Cooperatives, Employment and Decent Work, X Plenary Session, Montevideo


Henry, Hagen, Cooperatives, Transition to Formality, Law – the Role of the Cooperative Programme of the ILO, (Forthcoming)

ILO COOPAfrica Working Paper series (1-16)

Smith; Stirling: Let’s organize: A handbook for trade unions and cooperatives about organizing workers in the informal economy. Joint publication between the ILO, ICFTU and ICA 2006.

Smith, S.Ross,C. Organizing out of poverty: stories from the grassroots: How the SYNDICOOP approach has worked in East Africa. Joint publication of ILO, ICA; and ICFTU 2006

http://siteresources.worldbank.org/INTWDR2008/Resources/2795087-1192112387976/WDR08_00_FM.pdf

**Tools**


For further information see the website of the ILO Cooperatives unit [http://www.ilo.org/empent/units/cooperatives/lang--en/index.htm](http://www.ilo.org/empent/units/cooperatives/lang--en/index.htm)

References


Henry, Hagen, Cooperatives, Transition to Formality, Law – the Role of the Cooperative Programme of the ILO, (Forthcoming)


Smith, S, Ross, C. Organizing out of poverty: stories from the grassroots: How the SYNDICOOP approach has worked in East Africa. Joint publication of ILO, ICA; and ICFTU 2006

# A POLICY RESOURCE GUIDE SUPPORTING TRANSITIONS TO FORMALITY

## Contents:

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

### PART I: Key concepts

#### 1. Decent Work and the Informal Economy

- 1.1 Key conceptual issues

#### 2. Measurement of the Informal Economy

- 2.1 Addressing statistical challenges

### PART II: Policies to support transitions to formality

#### 3. Growth Strategies and Quality Employment Generation

- 3.1 Patterns of economic growth and the informal economy

#### 4. The Regulatory Framework and the Informal Economy

- (A) International Labour Standards
  - 4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work
  - 4.a2 International Labour Standards (ILS): bringing the unprotected under the law
  - 4.a3 Understanding the employment relationship and its impact on informality
- (B) Specific Groups
  - 4.b1 Domestic Workers: strategies for overcoming poor regulation
  - 4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law
  - 4.b3 Street vendors: innovations in regulatory support
  - 4.b4 Micro and Small Enterprises (MSEs), informality and labour law: reducing gaps in protection
  - 4.b5 Strategies for transforming undeclared work into regulated work
- (C) Labour Administration
  - 4.c1 Labour administration: overcoming challenges in reaching the informal economy
  - 4.c2 Labour inspection and the informal economy: innovations in outreach

#### 5. Organization, Representation and Dialogue

- 5.1 Social dialogue: promoting good governance in policy making on the informal economy
- 5.2 The role of Employers’ organizations and small business associations
- 5.3 Trade unions: reaching the marginalized and excluded
- 5.4 Cooperatives: a stepping stone out of informality

#### 6. Promoting Equality and Addressing Discrimination

- 6.1 Promoting women’s empowerment: a gendered pathway out of informality
- 6.2 Migrant workers: policy frameworks for regulated and formal migration
- 6.3 Disability: inclusive approaches for productive work

#### 7. Entrepreneurship, Skills Development, Finance

- 7.1 Informal enterprises: policy supports for encouraging formalization and upgrading
- 7.2 Enhancing skills and employability: facilitating access to the formal economy
- 7.3 Microfinance: targeted strategies to move out of informality

#### 8. Extension of Social Protection

- 8.1 Extending social security coverage to the informal economy
- 8.2 HIV/AIDS: overcoming discrimination and economic exclusion
- 8.3 Extending maternity protection to the informal economy
- 8.4 Childcare: an essential support for better incomes

#### 9. Local Development Strategies

- 9.1 Local development: opportunities for integrated strategies for moving out of informality
Promoting Equality and Addressing Discrimination

6.1 Promoting Women’s Empowerment: A Gendered Pathway out of Informality

This brief examines the differing situations of women and men in the informal economy. Although clearly not a homogenous group, women tend to experience greater discrimination in the labour market and have greater exposure to shocks and risks than men. The same problems that are entrenched in the formal economy: occupational segregation, gender wage gaps, limited access to resources and the burdens of unpaid work, are mirrored in the informal economy, and are often even more problematic. Strategies for a gender mainstreaming approach to policy formulation in all areas related to the informal economy are proposed, as well as gender specific interventions to overcome embedded disadvantages.
Gender and informality

While the informal economy is made up of both men and women, closer examination reveals important differences between them. Women - in both urban and rural settings - are often clustered in the most vulnerable segments of the informal economy. They are likely to have fewer economic assets than men and have less access to productive resources such as land, technology, finance, networks and market information. Low rates of literacy and limited skills - often confined to traditional ‘female-oriented’ skills - usually mean that their economic activities are plagued by market saturation, low productivity and low incomes. Combined with insufficient knowledge of labour rights and the absence of organization and representation, women in the informal economy often have even weaker bargaining power than men. At the survivalist end of the informal economy their enterprises are invariably fragile and prone to failure as they struggle to balance the demands of earning an income with their household responsibilities.

The recent global economic and financial crisis has impacted on women in particular ways including for example compounding their paid and unpaid informal work burdens. Evidence suggests that income and employment trends during the crisis - decreasing demand and wages aggravated by rising competition - were strongest in the low paid sub-sectors where women are concentrated. As a result, the relative socio-economic position of poor working women and their families has deteriorated.1

Yet, it is women’s work - whether the poorly paid work in the informal economy or the unpaid work in the household - which holds families and communities together. Moreover, where opportunities have opened up for women they have seized them and have become dynamic economic actors contributing to the economic re-generation of whole communities. The literature is replete with evidence that women can be key to breaking poverty cycles from one generation to the next, in a manner that is less evident for men. Evidence shows that when women have been able to increase their incomes and have increased control over resources, the impacts can be seen on the multiple dimensions of poverty: from reduced fertility, lower infant mortality and maternal deaths, less child labour, more children in school, etc.

1 For more details see Resources section to access: UNIFEM 2005 Progress of the World’s Women 2005: Women work and poverty

What does gender equality mean?

Gender equality refers to the enjoyment of equal rights, opportunities and treatment by men and women, girls and boys in all spheres of life. It asserts that people’s rights, responsibilities, social status, and access to resources should not depend on whether they are born male or female. It does not however mean that men and women are the same or must become the same or that all labour market measures must arrive at the same results.

Gender equality implies that all men and women are free to develop their personal abilities and make life choices without limitations set by stereotypes or prejudices about gender roles or the characteristics of men and women.

better health, educational and nutritional status of families, through to better human capital formation for the future labour market.¹

It is therefore not only for a matter of rights that policy makers need to address discrimination and gender inequality for women in poor communities in the informal economy, it is also a matter of sound economic sense. Women’s work represents an enormous untapped productive potential for societies and economies. The challenge remains to reach women in the many ‘invisible’ and marginalised segments of the informal economy including in domestic work, homework, unpaid market work for family members, casual wage work, and own account work. Additionally, irrespective of the type of productive work women are engaged it is equally important to address the limitations placed upon them by their household responsibilities.

Women, Decent Work deficits and the Informal Economy

In all the different dimensions of Decent Work, women in the informal economy experience disadvantage and marginalization.

Employment: women’s income activities tend to be poorly remunerated with low productivity; their access to skills which could open up new income opportunities is limited; where they are entrepreneurs and own account workers, barriers in access to productive assets including finance impede the growth of their enterprises. Occupational segregation is a deeply entrenched problem with women often clustered in female-dominated sectors including in services, domestic work, homework, as well as own account activities linked to their gender roles (for example food-vending, tailoring).

Social Protection: Though often most in need, given their care-giving role in societies, women have fewer means to care for themselves and their families despite their heavier burdens. They may be involved in hazardous work in unhealthy and unsafe workplaces. Lack of maternity protection in the informal economy make them physically vulnerable to unsafe childbirth and even maternal death. Childcare facilities are rare within the informal economy, increasing the care burdens of many women and limiting their employment and income choices. There is also evidence that women are even more susceptible to HIV and AIDs than men.

Social dialogue: Women are often unorganised and unrepresented in the informal economy. Their voices are often even less heard than men’s in community and national affairs. In some segments of the informal economy such as domestic work and industrial outwork, they are largely invisible when working in private homes. This makes their organization even more difficult, while their isolation further weakens their bargaining power.

Rights: For various reasons women in the informal economy may be unable to articulate their needs and access their rights at work. Additionally, gender differentiated earnings in the informal economy mirror and even surpass that of the formal economy; and women are likely to experience numerous forms of discrimination in the labour market.

**Unpaid work – a critical barrier to decent work.** Unpaid work can be understood to comprise all productive activities outside the official labour market done by individuals for their own households. In analytical terms it is often called ‘reproductive work’ in that it is work that is primarily done in households to continue to reproduce the labour force on a daily basis. Hence it includes cooking, cleaning, shopping, gathering fuel and water, sanitation, childcare, elderly care, caring for the sick and infirm, and the whole range of activities required to maintain a household. Though variation is apparent based on different cultural, religious, historical contexts of a given society, in every society in the world the majority of this work is done by women. Sometimes also termed the gender division of labour in the home, this phenomenon has tremendous impact on women’s ability to earn a remunerative income, upgrade their skills and join in social dialogue. For women in the informal economy their ability to seek viable paid work is entirely contingent on the extent of their daily family responsibilities. In poor communities weak infrastructure and scarce services impact negatively on all members on the community. But for women involved in informal activities lack of utilities, sanitation, water supplies, roads can intensify their care burdens and reduce the time they have available to earn an income. Though efforts are increasing to make visible unpaid work, give it value and include it in Systems of National Accounts as a key economic resource, policy makers rarely take unpaid work into account in policy formulation, often considering it a private responsibility and an unlimited resource.

**Discrimination – an important determinant of economic outcomes for women in the informal economy.** Inequalities accumulate throughout life and through generations. Socio-cultural attitudes can limit opportunities for girl children and young women to gain the skills and assets needed to escape poverty and enter decent employment in adulthood. The high numbers of young women in the informal economy can be attributed to a variety of factors – from parent’s decision to favour the education of sons, social norms hindering girls schooling, child labour, early pregnancy, the burden of household chores, lack of training for skills in demand in the formal economy, to discrimination in recruitment by employers and occupational segregation. These factors accumulate to constrain the choices and visions of many young women who in turn produce a new generation unable to escape poverty and enter the formal labour market.

**Women’s work in the informal economy.** Informal employment is generally a larger source of employment for women than for men in the developing world. ILO estimates from 2002 reveal that, other than in North Africa where 43 percent of women workers are in informal employment, 60 percent of women in developing countries are in non-agricultural informal employment. In sub-Saharan Africa 84 percent of women non-agricultural workers are informally employed compared to 63 percent of male non-agricultural workers; in Latin America 58 percent of women in comparison to 48 percent for men. In Asia, the proportion of men and women non agricultural employment is roughly equivalent. Average earnings are lower in the informal economy than in the formal economy. However, it is difficult to generalize: some formal wage workers may be poorer than, for example, informal employers. Men tend to be over-represented in the top segment of earnings and women in the lower segment.

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4 For more details see Resources section to access: ILO 2002 Women and Men in the informal economy: A statistical picture
• **Data.** Not only are women more likely to be in the informal economy than men, they tend to be in the more precarious segments of it. Data reveals that:

- Women tend to be concentrated in certain segments of the informal economy, making up 80 percent or more of homeworkers (industrial outworkers) and 30-90 percent of street vendors (except in societies that restrict women’s mobility).  
- The link between working in the informal economy and being poor is stronger for women than men, not only because of their concentration in the survivalist end of the informal economy but because of significant wage gaps even where they do the same type of work. In the higher-income segments of the informal economy, women tend to be engaged in smaller-scale operations with less growth potential compared to those performed by men.  
- Women are more likely than men to be in those informal activities that are undercounted, such as production for own consumption, paid domestic work in private households and homework.  
- Women are also more likely than men to be in small-scale economic units where their economic contributions are invisible and therefore not counted.  

• **Vulnerable Employment.** The less developed the region, the greater the likelihood that women are among the ranks of the contributing family workers or own-account workers who together make up the recently defined ‘vulnerable employment’ groups which are often closely linked with understanding informality. Female contributing family workers, in particular, are not likely to be economically independent. As revealed by the diagram below at the global level, the share of vulnerable employment in total female employment was 52.7 percent in 2007, compared to 49.1 percent for men. Female own-account workers registered a strong increase between 1997 and 2007, representing an important source of employment for women in the informal economy, though it has lower earnings than other informal activities such as informal wage work and employer. (See also brief on Measurement of the Informal Economy.)

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6 Ibid.  
8 Ibid  
9 Ibid  
10 The international classification of status in employment defines four statuses: (1) wage and salaried workers; (2) employers; (3) own-account workers; and (4) contributing family workers. Vulnerable employment refers to persons who are employed under relatively precarious circumstances as indicated by their status in employment. Because contributing family workers and own-account workers are less likely to have formal work arrangements, access to benefits or social protection programmes and are more “at risk” with regard to economic cycles, these are the statuses categorized as “vulnerable”. The vulnerable employment rate is thus calculated as the sum of own-account workers and contributing family workers as a percentage of total employment. The indicator is highly gender sensitive since, historically, contributing family work is a status that is dominated by women. See also ILO: Key Indicators of the Labour Market, fifth edition (Geneva, 2007), Chapter 1.  
11 For more details see Resources section to access: ILO 2009 Report VI Gender Equality at the Heart of Decent Work Report
More recently, the current estimate of the number of workers in vulnerable employment in 2009 is 1.53 billion, an increase of more than 146 million since 1999. The highest shares of vulnerable employment are in South Asia (78.5 per cent of total employment in 2009), Sub-Saharan Africa (75.8 per cent) and South-East Asia and the Pacific (61.8 per cent). In all regions except the Developed Economies and European Union and Central and South-Eastern Europe (non-EU) and CIS, the vulnerable employment rate among women exceeds that of men, with the largest gender gaps observed in North Africa (over 21 percentage points difference between the sexes), Sub-Saharan Africa and the Middle East (both with a gap of more than 14 percentage points).

- **Homework.** Homework, is often a survivalist strategy in the informal economy. Women tend to be over-represented in this sector, particularly as industrial outworkers who have to absorb all of the non-wage costs of production while enjoying very little of the value added. In some cases it is unclear whether the homeworker is a dependent worker or an independent own-account worker. (see brief on the Employment relationship) Homework is often at the lowest end of some global value chains with complex layers of subcontracting making it difficult to establish clear employment relationships and responsibilities. Homework is often characterised by long hours, poor pay, little social protection, safety and health hazards, high dependence on the subcontractor, as well as extreme isolation making it difficult to organize or bargain effectively. Enforcing compliance with regulation through labour inspections is considerably hampered given that work takes place in a private home. (see also briefs on Homework and the Employment Relationship).
Domestic Work. Domestic work as a service sector continues to increase globally, fuelled by supply and demand factors. On the demand side demographic changes such as aging populations, decline in welfare provision, increasing labour force participation of women in urban areas and developed countries increase the need for domestic work. On the supply side, rural poverty and gender discrimination in the labour market ensure a continuous supply of workers, mainly women, into the sector. Like homework, paid domestic work is difficult to regulate and monitor. In some cases it is embedded within socio-cultural structures which make it difficult for employers to see themselves as such. The isolation and vulnerability of domestic workers is made more complex by their invisibility in private homes and their high dependence on the good will of their employers. Moreover, issues of gender, class, ethnicity and caste also come into play heightening the weak bargaining power of domestic workers. Where domestic work is the result of migration, irregular migration status can add further layers of vulnerability. (see also briefs on Domestic workers and Migrant workers).
6. Promoting Equality and Addressing Discrimination

6.1 PROMOTING WOMEN’S EMPOWERMENT: A GENDERED PATHWAY OUT OF INFORMALITY

Picking cotton, Uzbekistan.

*Picking cotton, Uzbekistan.*
Gender mainstreaming is required in all areas of policy formulation for the informal economy. Gender specific policy approaches may also be appropriate.

- **Applying a gender lens in policy formulation.** In the same way that the transition to formality will take a comprehensive and integrated approach and should be seen in progressive terms, addressing gender inequality in the informal economy requires action across every policy area covered in this Policy Resource guide. The policy and diagnostic tool which structures this Resource identifies seven policy areas (as discussed in the Key Conceptual Issues brief). Action on gender equality needs to be taken within each of the seven policy areas (horizontal deepening) as well as across all the policy areas (vertical integration) to ensure policy coherence and widest possible impact. It is also essential that solutions targeting women’s empowerment in these policies be expressed clearly and simply, so as to make them accessible to the non-gender specialists ultimately responsible for their implementation.

All policy making requires a gender lens to understand and take into account the differing experiences and activities of men and women in the informal economy and their differing choices and constraints. Anticipating different impacts of policies on both women and men and promoting strategies which are more likely to result in equitable outcomes will go a long way in supporting the transition to formality in the informal economy.

ILO constituents at the International Labour Conference 2009 discussion on *Gender Equality at the Heart of Decent Work*, endorsed both a gender mainstreaming and a gender specific approach towards decent work. Gender mainstreaming means that all interventions must take into account the different situations of men and women. Gender specific action is often necessary to overcome entrenched disadvantage of one or the other sex. The two approaches are entirely complementary. An either/or approach risks that gender mainstreaming alone cannot address specific vulnerability, while a gender specific approach alone risks marginalisation from core budgets and policies. To illustrate what this may mean in practice – a policy on

- **Gender mainstreaming in policy formulation:** Extending Social Protection, Democratising national budget processes, Pro-poor growth strategies, Balancing productive and reproductive work

- **Gender specific action:** Skills development and girls’ education, Regularizing Domestic Work, Improving access to resources, Strengthening organisation of women in the informal economy, Making unpaid visible and giving it value

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6.1 PROMOTING WOMEN’S EMPOWERMENT: A GENDERED PATHWAY OUT OF INFORMALITY
upgrading enterprises would need take into account the situation of both men and women, including understanding structural constraints on women such as their more limited access to resources and the constraints imposed by their unpaid work responsibilities. Resources would need to be devoted to enterprises owned not just by men but also those owned by women (mainstreaming); and where relevant, specific targeted programmes could be put in place to support women’s entrepreneurship (gender specific action). The latter would enable women to move from marginal activities to growth oriented enterprises.

- **Gender specific action.** The ILO’s WEDGE programme (Women’s Entrepreneurship Development and Gender Equality programme) is a very good illustration of gender specific action which seeks to overcome the disadvantage of a particular sex. Programmes like WEDGE acknowledge the constraints on female micro-entrepreneurs including barriers to access to property, income, credit, skills technology, information, networks and markets. WEDGE has been working in different regions of the world, but primarily in Africa where several thousand women have undergone training and capacity building to enable their businesses to grow. WEDGE has developed a wealth of tools and resources to support women entrepreneurs at many levels – from the individual entrepreneur, to building networks and strengthening the capacities of relevant ministries to encourage women’s entrepreneurship. (See brief on Informal Enterprises).

The following are also examples of gender specific action in the informal economy. Mainstreaming examples will follow thereafter.

- **Skills development and girls’ education.** International policy discussions and national commitments under the Millennium Development Goals have endorsed educating girls as a key way to break poverty cycles. It can also open up opportunities for girls to enter formal labour markets as adults. Many countries, including Bangladesh have been providing incentives to parents ranging from food products to cash transfers and scholarships to ensure girls continue in schooling. Given that child labour reproduces the informal economy through the generations and that, conversely, there is strong evidence that educated girls are able to move out of poverty, these efforts promise in the longer term to have a significant impact on informality at least in its most marginalized segments.13

- **Regularizing Domestic Work.** Efforts are being made in numerous countries to bring domestic work, a sector infamous for its poor working conditions and limited regulation, under the ambit of the law. Progress in different countries will be catalysed by the new international labour standards adopted by the ILO on domestic work (see brief Domestic work). While changing or enforcing legal frameworks is critical, helping this large and unprotected sector move out of informality will require action at many levels. Other strategies undertaken by ILO social partners include organising and mobilising the sector and encouraging their participation in wider social dialogue mechanisms. Innovative strategies include efforts

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13 One study estimates that if the countries in South Asia, Sub Saharan Africa and the Middle East and North Africa had started with the gender gap in average years of schooling that East Asia had in 1960 and had closed that gender gap at the rate achieved by East Asia from 1960-1992, their per capita income could have grown by 0.5-0.9 percentage points higher per year – substantial increases over actual growth figures. Another study estimates that even for middle and high income countries with higher initial education levels, an increase of 1 percentage point in the share of women with secondary education is associated with an increase in per capita income of 0.3 percentage point. Both studies control for other variables commonly found in growth literature. Source: ILO 2009 Guidelines on gender in employment, ILO, Geneva. Original example from World Bank, 2001, Engendering Development Through Gender Equality in Rights, Resources and Voice, Oxford University Press, Oxford.
6. Promoting Equality and Addressing Discrimination

6.1 Promoting Women’s Empowerment: A Gendered Pathway Out of Informality

Overcoming discrimination in access to productive resources can significantly open up new income and employment opportunities for women.

- **Improving access to resources.** Discrimination in access to productive resources curtails the economic activities of many women, and conversely enhancing access to resources can significantly increase income and productivity. For example, projections from Burkina Faso, Cameroon, and Kenya have estimated that more equal control of inputs and farm income by women and men could raise farm yields by as much as 20 per cent of current output. Increasing women’s productivity by improving the circumstances of women farmers could substantially increase food production in Sub-Saharan Africa, and at the same time reduce the level of food insecurity in the region. If the results from the above countries were to hold true in other parts of Sub-Saharan Africa as a whole, simply raising the productivity of women to the same level as men could increase total production by 10 to 15 per cent.

Microfinance is often highlighted as an example of a resource which has opened up gateways for women to enter new income and income opportunities around the world. Lessons learned from the past decades include the importance of ensuring women are able retain control over the finance rather than other family members. Micro-financial services – which by the end of 2006 had reached over 79 million of the poorest women in the world – have enabled female clients to develop their businesses, registering higher repayment rates. Research shows a positive side-effect, in that the income generated by female borrowers was invested in their households, for children’s education and better health and nutrition practices than in other households. Female children of women microfinance clients also reap the benefits, as there is an increased likelihood of full-time school enrolment and lower drop-out rates for girls. (See brief on Microfinance). Again, while changing legal frameworks to enable women to own and access assets and resources is critical, an integrated strategy ensures the greatest impact. For example the enhancement of skills is often most effective when accompanied by access to finance and market information. Similarly changes in laws regarding land ownership which benefit women have a wider impact when productive supports are put in place such as access to technology and finance.

- **Strengthening organization of women in the informal economy.** Social partners around the world have been stepping up their efforts to reach the great majority of informal economy workers and entrepreneurs. Women are still poorly represented in social dialogue institutions and this representational gap is one of the key barriers impeding women’s access to a range of services as well as the enjoyment of their rights at work. In some countries women in some of the most marginalised sectors such as domestic work, homework and own account work have successfully organised, not only at local level but national level and beyond. Prominent examples include SEWA, alliances of domestic workers, and Homenet, which have mobilised international attention to their working conditions and working needs. In some cases women have formed their own associations, in others they have joined trade unions or cooperatives.

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15 ILO 2009, Guidelines on gender in employment policies op.cit The original research is from Bladen, M. Canagarajah, S. Klasen, S., Lawson, D. Gender and Growth in Sub-Saharan Africa UNU-WIDER Research Paper 2006/37, p 13
EMERGING APPROACHES AND GOOD PRACTICES

6. Promoting Equality and Addressing Discrimination

6.1 PROMOTING WOMEN’S EMPOWERMENT: A GENDERED PATHWAY OUT OF INFORMALITY

to strengthen their voice and bargaining power. (See the briefs within the section on Organization, Representation and Social Dialogue).

- **Making unpaid visible and giving it value.** The unpaid work that women do in the household is often treated as a free and unlimited resource by policymakers, yet the costs to women are high in terms of loss of opportunities to earn better incomes, upgrade skills, as well as participate in social dialogue and have their voices heard. Countries are making greater effort to collect information on unpaid work through Time-Use surveys. Intra-household surveys could also be used to move beyond the traditional male-headed household model to capture the different types of households, decisions and gender divisions of labour. These instruments can help gather the data, give it economic value and include it in Systems of National Accounts. In South Korea for example three valuation surveys were used to measure housework. Calculations based on the results estimated that women's unpaid work amounted to between 13-23 percent of GDP in 1999. Policy formulation developed on the basis of this information included insurance for fulltime housewives, childcare and after-school programmes and sharing of conjugal assets in the event of divorce.

- **Mainstreaming gender in policy formulation on informality.** The examples above show gender specific action whereby efforts are made to overcome entrenched disadvantage of one sex. Gender specific action however should be accompanied by mainstreaming support in policy formulation. The following are examples which can support mainstreaming in different policy areas.

- **Extending Social Protection.** Overcoming social protection gaps is particularly important given the role that women have as care givers and income earners and their greater vulnerability to risks and shocks. ILO research has assessed various strategies for extending social security benefits to those who are not covered by any existing scheme. Among these, the ILO has paid special attention to “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 programmes combining cash transfer and access to education and health, and employment guarantee schemes.” Based on recent analysis and evidence of social protection issues in Africa, Asia and Latin America, the ILO is promoting basic universal social security benefits as one of the central themes of its global campaign for the extension of social security for all. Extending social protection to vulnerable groups is critical. Interesting and positive results have been experienced in a number of countries that have targeted women in particular. Important gains in family nutritional, educational and health status have been seen in many countries. (see brief on Social security) In Ivory Coast and Ghana for example, research has revealed that when women’s income increased, they spent the extra on more food for the family, whereas increases in men’s income did not make a significant difference. In South

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18 For more details see Resources section to access: United Nations, Integrating Unpaid Work into National Policies.
19 For more information see Resources section to access: Chant,S. Pedwell,C. 2008. Women, Gender and the Informal Economy. An Assessment of ILO Research and Suggested Ways Forward
20 ibid
Africa, a study on pensions revealed that when grandmothers received pensions, the nutritional status of grandchildren living with them improved in ways that were not evident for grandfathers. Similarly in Brazil, children experienced improved health outcomes when women controlled increased income in households.

Evidence is accumulating on the significant impact that the integration of gender perspectives into social security instruments and tools, has on poverty reduction. Indeed while extending social protection can considerably enhance the wellbeing of poor communities and combat their social exclusion, it is often women and their families that can benefit in particular. Some countries have been experimenting with providing cash transfer targeted to women in particular with notable results. Bolsa Familia, for example, has been an important plank in Brazil’s poverty alleviation efforts and has primarily been targeted toward women in poor and rural communities, to increase household incomes in ways that will directly combat poverty.

- **Democratising national budget processes.** Gender responsive budgeting (GRB) is a tool that can transform traditional budgeting processes by analysing their impacts on gender equality. Pioneered in the 1980s, the process has inspired others to explore the potential of GRB, notably in the Commonwealth. Over 40 countries are using GRB initiatives at different levels of their economies. To illustrate, it can be used for example, to examine the linkages between unpaid work and paid work, or the expenditures on infrastructural development which relieve the household work burdens on a particular sex. When applied to policies and resource allocation for the informal economy, it can help reveal the differing impacts of policies on both sexes. Gender Responsive Budgeting can be an important means of integrating gender issues into macro-economic policymaking and public expenditure. Pioneering efforts in gender responsive budgeting are taking place in a number of countries. Since 2006, in Morocco for example, efforts are being made to evaluate the impact of national budgets on gender equality. As part of an integrated approach Ministries of Finance, Education, Health, and Agriculture and Rural Development are to report on results achieved in accordance with gender equality objectives.

- **Pro-poor growth strategies.** The brief on **Patterns of Economic Growth and Informality** emphasised the critical importance of placing employment at the heart of economic and social policies. It positions employment as the key nexus between growth and poverty reduction and a key dimension of the enabling environment for formalisation. Within that framework it has become increasingly recognised that employment strategies need to be gender sensitive. Indeed experience from many newly industrialised countries shows that one of the paths towards formal employment creation - manufacturing in export sectors - is often highly reliant on female labour. Many East Asian economies for example have been able to compete in the world market by relying heavily on the female labour force in export industries. This accounted for a significant share of their high growth rates.

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23 Ibid.
24 Destremau, 2007; Destremau with Abi Yaghi, 2007; ILO, 2007 c, d.
27 For more details see Resources section to access: Youtube – Gender Responsive budgeting, Morocco.
Pro-poor growth is not possible unless efforts are made to build the capacities of women to both participate in and benefit from economic growth. Case studies from the World Bank’s Operationalizing Pro Poor Growth research has shown for example that in India\textsuperscript{29}, those states that had high investments in education managed to reduce gender gaps which in turn resulted in higher poverty elasticity. The short term costs of education were paid off in terms of reduced poverty. Building capacities and pro-poor growth strategies can feed into processes of formalisation. The case studies from different income level countries show that reducing education and employment gaps for women result in higher rates of pro poor growth. Key factors include education and skills development for girls and women as well as increased access to productive resources. The impacts can be seen in reduced fertility, export-oriented employment and access to formal employment for women.\textsuperscript{30}

- **Balancing productive and reproductive work.** Gender mainstreaming strategies in every policy area will need to address one of the most difficult barriers to women progressing towards decent work – unpaid work. For example a skills development and human resource development policy would need to develop strategies and targets to ensure women are able to access training in spite of family responsibilities. This may be through childcare provision, training subsidies, transport allowances, flexible delivery schedules etc. A number of countries involved in Community Based Training (CBT Tree) have developed mobile training units and flexible delivery schedules to take into account women’s paid and unpaid work burdens in poor and rural communities. (See brief on Skills and Employability) Similarly an employment guarantee scheme would need to take similar measures to ensure women are able to equally participate with men. India’s National Rural Employment Guarantee programme for example has explicitly targeted women as well as men, and provided the sorts of childcare, transport allowances and other supports that are likely to facilitate women’s participation.

Governments and the enterprises have an important role in alleviating some unpaid work burdens through provision of childcare, ensuring flexibility for working parents as well as prioritising infrastructural development to relieve women’s household responsibilities. In the longer term, a more equitable division of labour between the sexes within a household will enable women to better balance paid and unpaid work demands.

**ILO work’s work on gender equality.** The ILO has long recognised the importance of gender equality in the world of work and has made a sustained commitment to support equitable outcomes through the four pillars of decent work. The 2009 International Labour Conference’s Resolution on Gender Equality at the Heart of Decent Work, firmly endorsed an immediate and long term strategy to overcome entrenched inequality in the world of work. The ILO’s tripartite partners resoundingly supported gender equality not only from a rights based perspective but also because of its profound economic benefits. Supporting the progression of the many millions of women and men in the informal economy towards formality and decent work is an essential part of that strategy.

\textsuperscript{29} ibid.
\textsuperscript{30} ibid.
The ILO’s technical cooperation work continues to reflect the importance of promoting gender equality for those in the informal economy. For example the Gender Poverty and Employment (GPE) programme has been implemented in a number of Latin American countries over several years. It has worked with national commissions for equal opportunities and Ministries of Labour and Social Welfare to build their capacities in gender mainstreaming, particularly in employment policies. The Tripartite commissions established as an institutional framework continue to function as active and energetic networks including research on gender equality. Similarly a regional initiative on Gender Equality and Workers’ Rights in the Informal Economies of Arab States has been highly effective. Labour rights and other human rights standards are used to identify the problems facing informal economy workers as well as the economic, cultural, political and social causes of informality. Three main strategies are used: the extension of social protection as a means to reverse informalization, workers’ agency and voice in order to prioritize the rights of workers through organisation strategies; and generating gender responsive statistics to influence policy making.
RESOURCES

6. Promoting Equality and Addressing Discrimination

Woman cutting hay for cattle, Indonesia.
ILO and UN Instruments and ILC Conference conclusions

(NB Most ILO Conventions and Recommendations are relevant for promoting gender equality, a few key ones are noted here)
Equal Remuneration Convention, 1951 (No. 100)
Discrimination (Employment and Occupation) Convention, 1958 (No. 111)
Workers with Family Responsibilities Convention, 1981 (No. 156)
Maternity Protection Convention, 2000 (No. 183)
Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87)
Right to Organise and Collective Bargaining Convention, 1949 (No. 98)
Homework Convention, 1996, (No.177)
R198 Employment Relationship Recommendation, 2006


ILO 2008 Resolution and Conclusions concerning the Promotion of Rural Employment for Poverty Alleviation International Labour Conference 97th session Geneva 2008

ILO 2008 Resolution and Conclusions on skills development improved productivity, employment growth and development International Labour Conference 97th session, Geneva 2008

ILO 2009 Resolution and Conclusions concerning Gender Equality at the Heart of Decent Work International Labour Conference 98th session Geneva 2009

Relevant Publications


http://www.tandfonline.com/doi/abs/10.1080/13552074.2010.491339


ILO 2002 Women and Men in the informal economy: A statistical picture (ILO, Geneva)


ILO 2009 The informal economy in Africa: Promoting Transition to formality: Challenges and Strategies (ILO, Geneva)


Tools

Chen, M, Vanek, M, Carr, M. Mains 2004 Mainstreaming informal employment and gender in poverty reduction: A handbook for policy makers and other stakeholders (Commonwealth Secretariat, IDRC)

ILO 2000 Modular Package on Gender Poverty and Employment (ILO Geneva)

ILO 2009 Guidelines on Gender in Employment Policies (ILO Geneva)

ILO 2009, ILO Tools for Women’s Entrepreneurship Development

http://www.unescap.org/stat/meet/wipuw/1.unpaid_cover&back.pdf

UNIFEM, Youtube, Gender Responsive Budgeting Morocco
http://www.youtube.com/watch?v=oEUEngk8MdE

WIEGO global research Network (Women in Informal Employment: Globalizing and Organizing)
http://www.wiego.org/

For further information see the ILO’s Bureau for Gender Equality website
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Hofbauer Balmori, 2003 Gender and budgets: Overview report (Brighton, University of Sussex, BRIDGE development-gender,

Horn, Zoe Elena 2010 ‘The effects of the global economic crisis on women in the informal economy: research findings from WIEGO and the Inclusive Cities partners’, Gender & Development, 18: 2, 263 — 276

ILO 2002 Women and Men in the informal economy: A statistical picture (ILO, Geneva)

ILO 2007 ABC of Women Workers’ Rights and gender equality. (ILO, Geneva)

ILO 2007 Key Indicators of the Labour Market, fifth edition (Geneva, 2007)


ILO 2008 Social Care Needs and Service Provisions in Arab States: Bringing Care Work into Focus in Lebanon, Policy Brief 1, (ILO Beirut).

ILO 2009 Report VI Gender Equality at the Heart of Decent Work Report submitted to the International Labour Conference 98th session. (Geneva ILO)

ILO 2009 Guidelines on Gender in Employment Policies (ILO Geneva)


Klasen, S. (undated) Pro Poor growth and gender : What can we learn from the literature and the OPPG Case Studies ? Discussion paper to the OPPG Working Group of AFD, DFID, BMZ and the World Bank


A POLICY RESOURCE GUIDE SUPPORTING TRANSITIONS TO FORMALITY

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

PART I: Key concepts

1. Decent Work and the Informal Economy
   1.1 Key conceptual issues

2. Measurement of the Informal Economy
   2.1 Addressing statistical challenges

PART II: Policies to support transitions to formality

3. Growth Strategies and Quality Employment Generation
   3.1 Patterns of economic growth and the informal economy

4. The Regulatory Framework and the Informal Economy
   (A) International Labour Standards
      4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work
      4.a2 International Labour Standards (ILS): bringing the unprotected under the law
      4.a3 Understanding the employment relationship and its impact on informality
   (B) Specific Groups
      4.b1 Domestic Workers: strategies for overcoming poor regulation
      4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law
      4.b3 Street vendors: innovations in regulatory support
      4.b4 Micro and Small Enterprises (MSEs), informality and labour law: reducing gaps in protection
      4.b5 Strategies for transforming undeclared work into regulated work
   (C) Labour Administration
      4.c1 Labour administration: overcoming challenges in reaching the informal economy
      4.c2 Labour inspection and the informal economy: innovations in outreach

5. Organization, Representation and Dialogue
   5.1 Social dialogue: promoting good governance in policy making on the informal economy
   5.2 The role of Employers’ organizations and small business associations
   5.3 Trade unions: reaching the marginalized and excluded
   5.4 Cooperatives: a stepping stone out of informality

6. Promoting Equality and Addressing Discrimination
   6.1 Promoting women’s empowerment: a gendered pathway out of informality
   6.2 Migrant workers: policy frameworks for regulated and formal migration
   6.3 Disability: inclusive approaches for productive work

7. Entrepreneurship, Skills Development, Finance
   7.1 Informal enterprises: policy supports for encouraging formalization and upgrading
   7.2 Enhancing skills and employability: facilitating access to the formal economy
   7.3 Microfinance: targeted strategies to move out of informality

8. Extension of Social Protection
   8.1 Extending social security coverage to the informal economy
   8.2 HIV/AIDs: overcoming discrimination and economic exclusion
   8.3 Extending maternity protection to the informal economy
   8.4 Childcare: an essential support for better incomes

9. Local Development Strategies
   9.1 Local development: opportunities for integrated strategies for moving out of informality
Promoting Equality and Addressing Discrimination

6.2 MIGRANT WORKERS: POLICY FRAMEWORKS FOR REGULATED AND FORMAL MIGRATION

Migrant workers are often subject to a series of barriers which trap them in situations of informality. Even where migrants have been able to access regulated and formal employment in receiving countries they may still fall into situations of informality at a later point. Normative frameworks have been established by the ILO and the UN to provide guidance on rights-based principles to regulate labour migration, for the benefit of both sending and receiving countries, as well as employers and migrant workers themselves. The application of these instruments can ensure better governance of migration and enable migrant workers to enter and remain in the formal economy. Similarly grounding migration policy in accurate forecasting of labour market demand, particularly in low skilled sectors, is likely to reduce irregular migration and thus informality.
Labour migration is increasingly recognized as having a positive impact on the development of both countries of origin and of destination, as well as migrant workers themselves. Migrant workers contribute to their home countries by alleviating labour market pressures, sending remittances, and transferring technology, skills and investments. In countries of destination, migrants rejuvenate ageing populations, meet demand for workers of all skill levels, promote entrepreneurship, and support social security and welfare schemes. Yet many of these gains are undercut by inadequate policy frameworks for regulated and formal employment of migrants. A multitude of factors discussed below have seen large proportions of the migrant worker population concentrated in the informal economy, often in conditions of vulnerability, exclusion and insecurity, thereby significantly reducing the potential benefits of migration.

The drive to go abroad in search of better working conditions is not a new phenomenon, nor is the recruitment of foreign workers to fill jobs left vacant by local workers. But in recent years, globalization and the changing labour market dynamics associated with it have affected the ‘push and pull’ factors driving migration. Widening economic and social disparities between countries and the weakened capacity to create decent working opportunities in countries of origin reinforce the push to migrate. At the same time, increased demand for low-skilled labour in industrialized countries pulls migrant workers in. Part of this demand is generated by the move towards deregulation and ‘flexible’ labour, particularly in labour-intensive sectors not easily relocated abroad, such as agriculture, food processing, manufacturing, and construction. In parallel, demographic changes in the form of ageing populations and increased entry of women into the workforce have raised demand for services such as domestic work and home care. The result of these trends is the expansion of jobs characterized by low wages, low status, poor working conditions, and little or no social protection. In

1 ILO, Rights, Labour Migration and Development International Migration Brief, International Migration Programme, Geneva.
Migrant workers are disproportionately concentrated in low-skilled, informal economy jobs. The sectors where migrant workers are concentrated, such as agriculture, small manufacturing and home services are often characterized by atypical employment arrangements which hide informal and unprotected work.

Concentration of migrants in precarious employment arrangements. While accurate data is difficult to obtain, it is clear that migrant workers are disproportionately concentrated in low-skilled, informal economy jobs. The sectors where migrant workers are concentrated, such as agriculture, small manufacturing and home services are characterized by precarious employment arrangements, including seasonal and casualized work and subcontracting. Such atypical employment arrangements can be used to hide informal, exploitative work as they are often insufficiently covered by labour regulations and difficult to monitor through labour inspection.

Working conditions of migrant workers. In comparison to workers in the formal economy (both national and migrant), migrant workers in the informal economy generally have poorer working conditions, greater employment insecurity, poorer wages, limited or no access to social protection, and are more likely to be exposed to hazards and risks. They are also less likely to be organized and they have little recourse to justice where their rights are violated. To illustrate these points, evidence from a number of recent research reports shows that migrants in irregular status in the informal economy reported substandard working conditions and occupational safety and health situations, while among those in regular status, some of them reported working conditions and safety and health comparable to legally employed workers but with no social and health protection. On the issue of employment practices, migrants in irregular status registered substandard hiring and firing practices (without a contract); employment below actual qualifications or competencies; on a temporary basis; no or lax collective agreements; and underemployment. In the case of documented migrant workers, employers would issue contracts for fewer hours than working time carried out, or would provide lower salaries than agreed for the work actually performed. The same reports showed evidence that the wages of migrant workers in the informal economy are often significantly lower than formal workers. In Kazakhstan for example, in one survey, migrant workers in the informal economy earned 28 percent less than the average wage in the country, and approximately a third of the workers in the survey had encountered difficulties of not receiving pay for the work performed, while in Spain the difference between migrant workers in the informal economy and Spanish workers can reach 30 percent. The research also indicates that the employment of migrant workers in the informal economy is “more common in small and medium-size enterprises than in large ones.”

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2 For more details see Resources section to access: Taran, P. and Geronimi, E., 2003. Globalization, labour and migration: Protection is paramount
5 Aparicio, R et.al. op.cit
6 Irregular Employment of Migrant Workers in Germany _Legal Situation and Approaches to Tackling the Phenomenon op.cit.
Vulnerability in economic crises. The vulnerability of migrants’ situation as informal economy workers becomes all the more plain in times of crisis. Insecure working arrangements, combined with a lack of access to social safety nets, and concentration in sectors most sensitive to business-cycle fluctuations, such as construction, wholesale, hotels and restaurants, all make migrant workers particularly susceptible. The current financial and economic crisis has led, by some accounts, to a "normalization of informality," as many migrant workers find themselves with little choice but to accept lower wages and poorer working conditions to avoid unemployment. A number of destination countries have responded to the crisis by implementing tighter restrictions on the admission of migrant workers and on the renewal of temporary work permits, which can close the door to formal employment for migrant workers.

The crisis has also affected internal rural-urban migration. In China, the manufacturing sector, which employs large numbers of internal migrants from rural areas, was hit hard by the decrease in demand for Chinese exports. An estimated 10 million internal migrants returned home after losing their employment in urban factories in 2008-2009, with some reports of protests among laid off workers for failure to pay back wages and severance pay.

Application of international instruments has been lagging. Since the 1930s, the International Labour Organization has pioneered international instruments for the protection of migrant workers. The two migrant-specific ILO Conventions: Migration for Employment Convention (Revised), 1949 (No.97), and the Migrant Workers (Supplementary Provisions) Convention, 1975 (No.143) and their associated Recommendations constitute key elements of the international protection framework for migrant workers. The need for "a rights-based approach, in accordance with existing international labour standards and ILO principles" was affirmed at 92nd Session of the International labour Conference in 2004 through the adoption of the Resolution for a fair deal for migrant workers (see box on Protections for Migrant workers).

Despite the existence of an internationally recognized normative framework and a growing global interest in maximizing the positive effects of migration, a great proportion of migrant workers find themselves in the informal economy. Against this background, a number of specific challenges to extending decent work to migrant workers in the informal economy can be identified.

Policy orientation to high skilled workers. In many destination countries, migration policy is geared towards attracting highly skilled workers while keeping low-skilled migrant workers out. To justify such a bias against low-skilled workers, policymakers typically cite high rates of unemployment among native workers. Yet on closer inspection, high unemployment is not incompatible with persistent demand for low-skilled workers. Native workers may have the option to rely on unemployment insurance or informal social networks rather than accept what are deemed undesirable positions in low-skilled jobs. The unmet demand acts as a 'magnet' for foreign workers, who,

The current financial crisis is 'normalising informality', lowering standards and wages for many migrants. It is also resulting in large scale movements back to rural areas for those who have lost their jobs.

Protections for migrant workers and their families in international law

The protections provided to migrant workers and their families under international law can be summarized in three fundamental notions:

- Universal human rights and core labour rights apply to all migrants, regardless of their status;
- The principles of equality of treatment and non-discrimination between migrant workers in regular status and native workers in employment and occupation should be applied;
- International labour standards providing protection in treatment and conditions at work, such as employment, labour inspection, occupational safety and health, maximum hours of work, minimum wages, social security, freedom of association and maternity leave, apply to regular migrant workers.

Source: International Labour Migration: A rights based approach.ILO, 2010

For more information see Resources section to access: OECD, 2009. International Migration and the Economic Crisis: understanding the links and shaping policy responses
For more details see Resources section to access: CLANDESTINO, 2009. Workshop on Irregular Migration and Informal Economy.
For more details see Resources section to access Martin, P., 2009.The recession and migration: Alternative scenarios

4
Unemployment in receiving countries is still compatible with the persistent demand for low skilled workers, which in turn acts as magnet for migrant workers.

The lack of clear, transparent policies and procedures for employing migrant workers has seen a growth in informality.

Migrants entering legally are also vulnerable to falling into irregularity and being trapped in the informal economy.

Labour trafficking can flourish in the absence of legal channels to enter into countries where there is demand for labour, as well as where there is a lack of access to information on existing legal migration channels.

Unemployment in receiving countries is still compatible with the persistent demand for low skilled workers, which in turn acts as magnet for migrant workers. The link between labour market demand, restrictive migration policy, and increased irregular migration is strong. Barred from entry to the formal labour market by virtue of their illegal status, irregular migrant workers often have little option but to turn to the informal economy where valid work permits are not checked.

**Administrative barriers.** The often complex and bureaucratic procedures for hiring foreign workers also acts as a barrier to regulated and formal work in many countries. Where there are unclear policies and procedures for employing migrant workers, and with few punitive sanctions for hiring irregular migrant workers, the growth of informality will continue. Too often in fact, the brunt of the punishment falls on the workers themselves. In a worrying trend, destination countries are increasingly criminalizing irregular migrant workers. The undue focus on 'cracking down' on irregular migration and strengthening border controls has not only failed to stem the flow of irregular migrants, it has further stigmatized migrants, embedding them more deeply into the informal economy and reinforcing negative and even aggressive attitudes towards them. Populist discourses associating migrants with increased criminality as well as policies of arbitrary detention and denial of due process may also expose migrants to ill-treatment and hostility.

Furthermore, in focusing on blocking the entry of new migrants, these policies fail to recognize that many irregular migrant workers enter their country of destination legally, subsequently falling into irregular status and joining the informal economy. Such cases tend to proliferate when migrant workers are unable to meet the conditions to renew their work or residency permits and the cost of returning home is high. In recent years, developed countries have tended to favour temporary migration programmes which often tie workers to a specific employer, occupation, or geographic location. These restrictions do not always reflect the realities of demand for workers which may in fact be long-term, nor do they provide workers with alternatives in the case of exploitative working conditions. As a result, regularly admitted migrant workers can slip into a situation of irregularity and informality by overstaying their visa or by running away from their designated employers.

Sectors employing irregular migrant workers are often those where minimum labour standards are not respected or enforced, or may not even exist. Irregular migrants may sometimes be denied their wages, abused, or have restrictions imposed on their freedom of movement. In extreme cases they can find themselves victims of trafficking, trapped in situations of forced labour, and subject to a host of other serious human rights abuses. Labour trafficking can flourish in the absence of legal channels to enter into countries where there is demand for labour, as well as where there is a lack of access to information on existing legal migration channels. Victims of trafficking are often found in illegal or underground employment, such as in sweatshops, agricultural work, construction or the sex industry, with little or no regulation of the conditions of work.

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10 For more information see Resources section to access: Reyneri, 2003. Illegal immigration and the underground economy.


Irregular migration. In addition to exposing workers to a vast array of human rights abuses, irregular migration and informality have negative economic implications for both countries of origin and destination. For destination countries, it represents a loss in social security and tax contributions and creates unfair competition among employers. For countries of origin, it hampers migrant workers’ capacity to remit money home, a major source of capital for many developing countries. Migrant workers in informal work situations face barriers to receiving regular wages as well as to accessing formal channels to transfer their earnings home. Remittance transfer costs through informal channels are often high and less reliable than formal mechanisms, such as banks, which may not be accessible to migrants in irregular status.

From formal to informal. Irregular status is not the only barrier to formal employment for migrant workers - migrants in regular status can also find themselves trapped in the informal economy. A study on the labour insertion of migrant workers in Greece, Italy and Spain found both regular and irregular migrant were concentrated in low-skilled, informal employment. The following list of groups of documented migrants can be found working in the informal economy, but does not exclude others:

- asylum-seekers with a residence, but no work permit;
- young migrant students with a part-time work permit;
- dependents of principal applicants with a residence permit, but no work permit;
- documented migrants with a residence and work permit that cannot find a job in the formal economy for discrimination practices (can include second generation migrants) or language barriers;
- documented migrants that do not want themselves, or their employers do not want, to pay social security contributions and/or taxes;
- self-employed migrants; and,
- In the case of the EU, nationals of new EU Member States facing transition periods to access the labour market.

Discrimination and social exclusion. Migrant workers accumulate ‘multiple layers of discrimination,’ based not only on migration status, but also nationality, ethnicity, and gender, which contribute to their marginalization and exclusion from the formal economy. Migrant workers are regularly subjected to various forms of discrimination, including in access to employment and unequal treatment in the workplace, practices which are inconsistent with the ILO Declaration on the Fundamental Principles and Rights at Work and international instruments on migrant workers. In times of crisis, the perception that migrants are competing with native workers increases, which can reinforce xenophobia and lead to a rise in discriminatory employment measures, mass deportations, and violence against migrants. Migrants also regularly face unequal access to opportunities such as education and training, as well as discrimination in access to public services, housing and education. For many migrants, the result is that they are confined to the margins of the informal economy.

13 For more information see Resources section to access: Reyneri, E. 2001. Migrants’ involvement in irregular employment in the Mediterranean countries of the European Union
Specific vulnerabilities of women migrant workers. Nearly half of all international migrants are women. Women are increasingly migrating independently for employment. Labour migration can be an empowering experience for women, but the dynamics of today’s migration can also entrench traditional gender roles and expose women to a number of specific risks and vulnerabilities.

In countries of origin, labour market discrimination, poverty, and unequal access to resources can push women to migrate out of necessity rather than choice. With no access to decent jobs at home, they are obliged to go abroad. For example, in Indonesia and the Philippines, countries which send large numbers of women migrant workers abroad, unemployment rates are high among young women. As migration opportunities for women in Asia are often temporary and reintegration into home country labour markets can be difficult, women can find themselves trapped in a cycle of temporary migration, whereby they must continually re-migrate for work. The absence of women from households in home countries can also have adverse effects on the family and social structure.

In destination countries, globalization has generated increased demand for women migrant workers, particularly in the manufacturing and service sectors. While both men and women migrants are disproportionately concentrated in low skilled work, women in particular see their opportunities for migrating for employment limited largely to low-skilled jobs in unregulated sectors. Women are often concentrated in repetitive, low-skilled assembly line work in export processing zones and sub-contracted or piece-rate production. Demand is also high for domestic and home care workers as more women in industrialized countries enter the workforce and populations are ageing. Jobs in these sectors are often poorly covered or even totally excluded from labour legislation, leaving workers unprotected by formal regulations and enforcement. (see also brief on Gender Equality).

Compared to men, women also have less access to information on opportunities to migrate for work. They are less informed of legal job opportunities abroad, their labour rights, as well as the conditions of work and life abroad, making them less prepared to cope with the consequences of migration once in the destination countries.

Absence of social protection. Migrant workers in the informal economy face a number of barriers to accessing social protection. As informal economy workers, they are usually not covered by formal social security schemes. Restrictions to social security coverage based on nationality as well as residence exist in a number of countries. Migrants can also face disqualification from benefits if they are in irregular status. Recently arrived migrants are especially vulnerable, as they may not have access to family and social networks that can act as an informal safety net. At the same time, by going abroad, migrants risk losing benefits accrued in their country of origin.

In developed countries with ageing populations, the entry of migrants into the workforce can be a valuable source of income for the State to alleviate the burden on social security schemes. Yet if migrant workers are obligated

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14 For more details see Resources section to access: ILO, 2007. International Labour Standards on Migrant Workers’ Rights: Guide for Policymakers and Practitioners in Asia and the Pacific

15 Council of Europe, 2008

to contribute to social security while being denied the right to withdraw benefits, they may turn to informal employment to avoid losing income to social security. This absence of social protection is particularly serious since migrants in the informal economy may be in occupations with high levels of job and income insecurity and dangerous working conditions. The Trade Union Conference reports that occupational accident rates are about twice as high for migrant workers as for nationals in Europe17. Migrants predominate in industries with high rates of fatal accidents and injuries such as agriculture, construction, and meat processing. In addition, long working hours, poor housing conditions and little access to information on occupational and safety regulation can make migrants more susceptible to poor health, accidents, and occupational diseases.

**Lack of freedom of association.** The ILO upholds the right of all migrant workers to form or join trade unions, regardless of their migration status. Nonetheless, in many countries, migrant workers are routinely denied their right to freedom of association. Restrictions on joining and participating in trade unions on an equal basis as national workers are sometimes enshrined in national legislation. In a few countries, migrant workers are barred completely from joining unions, in breach of the ILO standard: *Freedom of Association and the Right to Organize Convention, 1948* (No. 87). Several countries, including in Europe, restrict migrant workers’ rights to hold office in unions. Often too, temporary migrant workers and irregular migrant workers are denied their right to freedom of association.

Beyond legislative and regulatory restrictions, there are a number of additional barriers to organizing migrant workers, such as migrants workers’ fear of reprisals from employers, cultural barriers, unclear employment relationships, work in private homes among others. These are discussed in more detail in the brief on Trade Unions.

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17 For more details see Resources section to access: ILO, 2008. In search of Decent Work–Migrant workers’ rights: A manual for trade unionists
Female construction worker, Thailand.
Internal migrant worker, Beijing, China.
A rights-based approach. The ILO advocates for a rights-based approach to labour migration. A rights-based approach is one that draws on international instruments to develop coherent and comprehensive migration policies which take into account the specific needs and vulnerabilities of certain groups of migrant workers. Such an approach is not only necessary with respect to human rights and ethical treatment of all workers, but also makes economic sense, as it enables migrants to make a fuller contribution to their host societies, their countries of origin, and their own development. Importantly it opens up opportunities for migrant workers to enter and/or remain in the formal economy. The ILO Multilateral Framework on Labour Migration, developed through tripartite consultation with experts from around the world and approved by the ILO Governing Body in 2006, is a comprehensive guide for a rights-based approach to labour migration. It contains principles and guidelines for developing and implementing migration policies and practices for improving the governance, promotion and protection of migrant rights and strengthening linkages between migration and development.

Within the framework of a rights-based approach, there are a number of emerging strategies and good practices for enabling migrant workers to move out informality: (i) promoting effective governance of migration; (ii) establishing protection frameworks to address the specific vulnerabilities of migrants based on international instruments (iii) promoting social inclusion and extending social protection to migrants.

Promoting effective governance of migration. For many migrant workers in the informal economy, the impossibility or near impossibility of obtaining and maintaining a valid work permit constitutes a major barrier to
entering the formal economy, even in countries where there is demand for foreign workers. Adjusting the rules for entry and delivery of work permits and ensuring responsiveness to actual labour market demand is also an important first step in providing migrants with access to decent working conditions. The persistent need for migrant workers in sectors such as construction, domestic care, and manufacturing, suggests a structural demand for low skilled workers, rather than a temporary gap that needs filling. Better governance of labour migration can be achieved by expanding avenues for migration in accordance with demand, and developing transparent and coherent policies for the admission, employment and residency of migrants. Social partners have a key role to play in identifying demand and developing long-term strategies for meeting it. Building consensus around migration and employment policies through social dialogue is also more likely to lead to compliance by employers, as such policies are for the most part implemented in the workplace.

- Destination country initiatives.

- Regularisation programmes. Spain, which has become a major country of destination for migrant workers in recent decades, carried out its largest regularization program of migrant workers to date in February 2005. Over 700,000 migrant workers from Ecuador, Romania, Morocco and other countries employed in domestic work, construction, agriculture, and hotels benefitted from the regularization. During the development phase of the regularization programme, extensive consultations with social partners as well as migrant associations were undertaken, which contributed to building broad-based support for it. The regularization was based on clear and narrowly defined criteria designed to bring large sections of the informal economy into the formal sphere. Approximately 81% of the regularized migrant workers registered for social security. In comparison to past regularizations conducted by Spain, this program took on a broad, comprehensive approach to addressing irregular migration which included parallel initiatives for opening avenues to legal avenues for migration. These included creating a register of hard-to-fill jobs by province with a “fast track” mechanism for employing foreigners, and granting a limited number of three-month visas to allow migrants to seek jobs in the occupations in demand, such as domestic workers, transport workers, and restaurant staff.

- The reduction of administrative barriers to registering foreign workers can remove strong incentive for undeclared work. A number of European Union Member States have recently introduced measures to simplify procedures for registering migrant workers, leading to significant formal sector job creation. One such measure is the use of service vouchers to facilitate formal contracting of domestic service providers. This system offer simplified procedures for calculating mandatory contributions and declaring workers rendering services occasionally or regularly for several different employers, such as cleaning, gardening, or child care. In France, the Cheque emploi service universel or Universal employment service check (CESU) was introduced in 2006. The scheme allows employers to pay and declare their employees by means of a service cheque for a wide range of domestic services. Employers can register for the scheme online. The

19 For more details see Resources section to access: ILO, 2010. Good practices database - Labour migration policies and programmes.
20 For more details see: http://www.migrationinformation.org/Feature/display.cfm?ID=331
social contributions are calculated by the national social security fund and
deducted directly from the employers’ bank account on a monthly basis. For
employees working less than eight hours per week, the CESU replaces the
need for the employer to establish a work contract. The employer is free to
negotiate wages with the employee, provided it is not below the minimum
wage. Similar service voucher schemes have been implemented in Austria,
Belgium, and Spain as well as Geneva (Switzerland), and Canada.

- **Bilateral and multilateral initiatives.** Bilateral or multilateral agree-
ments between sending and receiving countries can also be an effective
method for providing access to legal migration and formal employment
opportunities. Bilateral agreements, which were originally developed in
the 1940s but fell out of favour during the global economic crisis of the
1970s, have experienced renewed popularity since the 1990s. Though
they can take a variety of forms, the most effective agreements are those
that are based on ILO and other international standards. The *ILO Migra-
tion for Employment Recommendation (Revised), 1949, (No. 86)* contains
an Annex with a model agreement on temporary or permanent migrant
workers, which sets out provisions for working and living conditions and
social security. The Annex has been used widely as a model by States.

There are several examples of bilateral and multilateral agreements as
well as less binding Memoranda of Understanding (MOUs) being used to
meet demand in the agricultural sector. In New Zealand, the Recognized
Seasonal Employer (RSE) Policy was developed in 2006 with neighbouring
Pacific states to address demand for low-skilled workers in horticulture
and viticulture. The scheme allows employers to hire foreign workers from
the region to work for up to seven months per year. There are up to 8,000
places for overseas workers each year, though the cap can be modified
according to industry labour needs. For employers to qualify, they must
meet a series of conditions, which includes demonstrating the promotion
of the welfare of workers and not having violated relevant employment
or migration policy in the past. Employers must also provide adequate
accommodation, healthcare and pay market rate wages. Workers must
agree to return home after the employment period, after which they may
be eligible for recruitment the following year. An Evaluation Advisory
Group with representation by government of New Zealand and of origin
countries as well as social partners and migrant organization regulates
the process.

While such programs succeed in opening opportunities for formal employ-
ment to migrant workers in a sector notorious for informal employment,
they do not close the door to abuse and exploitation. Seasonal agricul-
tural programmes typically do not allow migrants to change employers,
locations, or type of work for the duration of their stay in the country.
Furthermore, the loss of employment generally means that they must
return to their country of origin or risk falling into irregular status. This is
in contravention of ILO Migrant Workers Convention No. 143, which states
that migrant workers in a regular situation should not be regarded as
in an illegal or irregular situation simply because they have lost their
employment, and should not lose their work permit or residence permit
because of it.

- **Regional integration schemes.** As the bulk of migratory movements
occur within the same regions, regional integration schemes that allow for
labour mobility or free movement have great potential for reducing irregular
migration and opening a door to formal employment for migrant workers.
The last two decades have seen an increase in regional integration schemes

- **Bilateral agreements** are most effective in curbing informality when they are based on international norms on migration.

New Zealand has a Seasonal worker scheme which responds to labour market demands while protecting the rights of workers.
around the world, including the East African Community (EAC), the South African Development Community (SADC), the Carribean Community (CARICOM), and South America’s Southern Common Market (MERCO-SUR). These regional agreements typically focus on economic integration through the promotion of free trade, and include provisions to facilitate movement of people for work or residence, involving harmonization of labour legislation and adherence to the principle of equal treatment.

The members of MERCOSUR, Argentina, Brazil, Paraguay and Uruguay, together with Bolivia and Chile, signed the “Residence Agreement for Nationals of Member States of the MERCOSUR” in December 2002. The agreement allows nationals of the signatory states to obtain residence in any other signatory state. Applicants need only be nationals of one of the signatory states to be eligible. Subject to presentation of their national identity documents, they and their legal dependents can obtain temporary residence valid for two years, which can subsequently become permanent. As the Agreement applies both to those wishing to enter a second signatory State and those already residing in one, regardless of the migration status under which they entered, it also serves to regularize migrant workers from the region. Furthermore, the temporary residence permit is not linked to a specific employer, giving migrant workers the freedom to change employers on an equal basis as nationals. The Agreement establishes the right to freedom of movement in the receiving country and equal civil, social cultural and economic rights, as well as equality of treatment under labour legislation, particularly in relation to conditions of employment and social security. Finally, it includes measures to prevent the illegal employment of migrants, with sanctions targeting employers rather than the workers themselves.

Such agreements have an immediate effect on the decent working conditions of migrant workers, as they provide access to legal channels for migration as well as a normative framework for addressing the rights of migrants. Regional economic integration can also lead to an evening out of disparate levels of development between members of a regional space, reducing the pressure to migrate as workers find more decent working opportunities at home.

- **Protecting migrant workers.** Ensuring that national legislative and regulatory frameworks cover sectors and occupations where migrant workers are concentrated is a key step in providing migrants with protection from abuse and access to decent working conditions. This can involve enlarging the scope of legislation to sectors previously excluded or adopting legislation targeting specific sectors or types of workers.

- **Effective legislation and enforcement.** One approach is to facilitate the establishment of written employment contracts by developing standard contracts or model contracts which are legally enforceable. In Jordan, where domestic work is excluded from national labour legislation and reports of abuses of domestic workers are frequent, the ‘Special Working Contract for Non-Jordanian Domestic Workers’ was developed to provide substantive rights to migrants employed as domestic workers. The Contract, endorsed in 2003 by the Jordanian Ministry of Labour, was developed under the guidance of UNIFEM, ILO, relevant ministries of Jordan and the Embassies of Sri Lanka, the Philippines, and Indonesia.

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22 For more details see the text of the Agreement (in Spanish) at http://www.parlamento.gub.uy/htmlstat/pl/acuerdos/acue17927-1.htm

It contains provisions for wages, insurance, adequate living standards, rest days, and repatriation, clearly outlining the responsibilities of the employer and the rights of the worker. The contract also contains provisions for a minimum wage, eliminating discriminatory payment of wages on the basis of the workers’ nationality. Although the contract is regulated under civil law where sanctions are lighter, it is a first step in creating an enforceable protection framework for women domestic workers.

- **Labour inspection and enforcement.** In order to be effective, regulations aimed at protecting migrant workers in the informal economy must be accompanied by effective labour inspection and other enforcement measures. Government bodies responsible for labour inspection should seek to target sectors where migrant workers are concentrated and be sensitive to language and communication difficulties. Although it is important for labour inspectors to work closely with migration authorities to ensure the respect of migrant workers’ rights, responsibilities for labour inspection should be kept separate from the enforcement of migration laws. Furthermore, sanctions for the illegal employment of migrants should focus on punishing employers, not on migrant workers who are often victims of exploitation. One approach is to create a unit specialized in inspection of the labour conditions of migrant workers, which can consult with migration authorities on how to guarantee the protection of their rights. In Mauritius, the Special Migrant Workers’ Unit of the Ministry of Labour is responsible for reviewing the employment conditions of migrants. The Unit ensures compliance of employment contracts, informs migrant workers of their rights, and conducts daytime and night-time inspections of workers’ working and living conditions. A tripartite dispute resolution mechanism exists within the Ministry, which can apply legally enforceable sanctions to employers.

Special legislation can also be developed to extend protection to sectors and types of employment where migrant workers are concentrated. In the United Kingdom, the Gangmaster Licensing Act24 of 2004 was passed after the death of 23 migrant cockle pickers working informally in Morecambe Bay brought to the public’s attention the tragic consequences of turning a blind eye to the exploitation of migrants. The Act established the legal framework for the Gangmaster Licensing Authority (GLA), created in 2005 to protect workers in agriculture, shellfish gathering, horticulture, food processing and packaging, sectors where large numbers of migrant workers are employed, often temporarily and in exploitative conditions. Under the Act, gangmasters, defined as persons who supply, employ, or supervise workers in any of the occupations covered, including subcontractors, can only operate with a license granted by the GLA. Enforcement and compliance officers of the GLA are empowered to carry out inspections, including unannounced ones, and to arrest violators of the Act. To date, 125 licenses have been revoked and 10 criminal prosecutions have been obtained. In addition to eliminating abusive working conditions, the licensing scheme also seeks to draw gangmasters into the formal economy, thereby increasing tax revenues and promoting fair competition among labour providers. The Board of the GLA is comprised of representatives from trade unions, employers’ organizations, and relevant government bodies.25

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The role of countries of origin

- Making migration a genuine choice. Countries of origin also have a responsibility to protect their citizens abroad as well as to create decent working opportunities at home so that migration for employment is a choice and not a necessity. Sri Lanka, a country with an annual outflow of approximately 200,000 migrant workers per year, has in recent years positioned itself to take a more proactive stance on protecting its migrant workers. Almost half of Sri Lankan migrant workers are women, employed mainly for domestic work and other low-skilled occupations. Faced with increasing reports of abuse and exploitation of workers abroad as well as a dependency on remittances, in 2008, the Sri Lankan Ministry of Foreign Employment Promotion and Welfare developed a National Labour Migration Policy with support from the ILO to promote labour migration within a framework of good governance and decent employment. The policy was developed through a broad-based consultative process including social partners and NGOs. It takes into account gender considerations, recognising the specific vulnerabilities of women. The policy document commits the government to a range of interventions, including improving pre-departure trainings and reintegration programmes, fighting illegal recruitment and fraud, protecting the children of migrant workers, and promoting skilled migration.

- The right to organise. Allowing migrant workers to exercise their rights to join a trade union is an effective way to prevent exploitation, and opens the door to integration in the host society, a process which often starts in the workplace. Once wary of migrant workers in creating unfair competition, the majority of trade unions now take a position of solidarity with migrant workers, regardless of their migration status. Trade unions have increasingly begun to address migrant workers issues, targeting them in organizing drives, campaigning for their rights, and providing them with direct support. National labour confederations in Argentina, Belgium, Canada, France, Germany, Ireland, Republic of Korea, South Africa, the United Kingdom and the United States, among others, have full time national staff dedicated to migrant worker issues and anti-discrimination. In all of these countries, the confederations actively advocate for the protection of rights and decent working conditions of migrants.

Trade unions have also become involved in policy debates on migration and international cooperation to secure migrant workers’ rights. The International Trade Union Confederation (ITUC), has launched a plan of action on migrant workers. The plan is based on promoting solidarity with migrant workers, protection of their rights, awareness raising, and campaigning for the ratification and implementation of international labour standards. Protection is sought through the framework of collective negotiations, as well as by building partnerships with NGOs and civil society.

The establishment of unions specific to migrant workers, or sections of unions run by migrant workers linked to a well-established national union can also be effective in addressing the specific needs of migrants and getting around discriminatory legislation. In Hong Kong, migrants’ unions are officially recognized, granting legal protection of migrants’ right to unionize. Employers found guilty of terminating an employee’s contract...
due to union membership or activities can be fined by a court of law. There are a number of registered migrant unions in the country. The Indonesian Migrant Workers’ Union (IMWU), established in Hong Kong in 2000 has 2,5000 migrant domestic workers members, and is affiliated to the Hong Kong Congress of Trade Unions (HKCTU) 29 (see brief on trade unions).

At the bilateral level, trade unions in countries of origin and destination can collaborate to strengthen the protection of migrant workers both at home and abroad. In 2009, Sri Lankan trade unions signed three bilateral cooperation agreements with unions in Bahrain, Jordan and Kuwait, to protect and promote the rights of Sri Lankan workers in these countries. The agreements recognize the principles laid out in the ILO Multilateral Framework on Labour Migration and commit the signatories to undertaking actions to secure Sri Lankan migrant workers all labour rights included in international instruments. This includes the development of model employment contracts for migrant workers and joint measures to denounced abuse, and to address specific needs of vulnerable categories of workers, including temporary, agricultural and domestic workers.

• **Social inclusion and social protection.** Social partners can also provide information and support services to migrant workers to facilitate their integration. In Spain, Pagesos Solidaris (Farmers Solidarity Foundation) founded in 2001 by the largest agricultural employers organization in Catalonia in the north east of Spain to recruit seasonal migrant workers 30. The programme offers additional support to migrant workers, mainly from Colombia, Romania and Morocco, to provide training and integration measures such as information on the Spanish health system, and supports migrants in developing projects in their home countries to provide them and their families with a sustainable source of income.

Bilateral or multilateral agreements on social security between countries of origin and destination are usually considered the best option for providing migrant workers with social protection. However, such agreements typically do not extend to workers in the informal economy. A number of countries of origin have opted to set up welfare funds to provide their workers abroad with insurance in the case of death, disability, or emergency repatriation, regardless of their employment or migration status. The Philippines’ legislation also offers its nationals abroad the right to join the national social security program on a voluntary basis by registering as ‘self-employed.’ This provides migrant workers access to old-age and invalidity pensions, medical care, and sickness and maternity benefits. 31

Mexico also provides voluntary insurance to its nationals abroad. The *Salud Migrante programme* established by the Mexican Institute of Public Health (INSP) is a pilot health insurance scheme for migrants that offers coverage in both the US and Mexico. The programme is based on collaboration between US and Mexican health providers, authorities and academics. The innovation lies in the integration of private non-profit health providers and insurance agencies in the US with the public health system in Mexico. The scheme is being piloted in two US and two Mexican states. Under the scheme, migrants are given universal access to a package of essential primary care services in the US, mainly through community health centres and insured through non-profit health plans. Migrants have

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29 See ITUC website Interview with Sartiwen Binti Sanbardi http://www.ituc-csi.org/spotlight-on-sartiwen-binti.html
30 For more details see Annual Report (in Spanish) http://www.pagesossolidaris.org/application/cms/documentos/doc1_1962009020038.pdf
31 Tamagno, 2008
access to secondary health care in Mexico through the national public health system. (see also brief on Social security).

Informal meeting place in Moscow for daily workers (mainly from Tajikistan) looking for work in the building sector.

RESOURCES

This section provides a list of resources which can enable the reader to delve deeper into the issue. Details of the good practices cited above can be accessed here. The section comprises international instruments, International Labour Conference conclusions, relevant publications and training tools. A bibliography of references in the text is further below. There may be some overlap between the two.

ILO and UN Instruments and ILC Conference conclusions

http://www.ilo.org/ilolex/english/convdisp1.htm
Migration for Employment Convention (Revised), 1949 (No. 97)
Migration for Employment Recommendation (Revised), 1949 (No. 86)
Migrant Workers (Supplementary Provisions) Convention, 1975 (No. 143)
Migrant Workers Recommendation, 1975 (No. 151)

ILO 2006 Multilateral Framework on Labour Migration, Non-binding principles and guidelines for a rights-based approach to labour migration

UN Instruments
International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families, 1990
http://www2.ohchr.org/english/law/cmw.htm

Relevant Publications

CLANDESTINO, 2009. Workshop on Irregular Migration and Informal Economy. project coordinated by the Hellenic Foundation for European and Foreign Policy (EL IAMEP).
http://clandestino.eliamep.gr/clandestino-research-project-workshop-on-irregular-migration-and-informal-economy/


http://www.oecd.org/dataoecd/30/13/41275373.pdf


Online tools

ILO Good practices database - Labour migration policies and programmes: ILO International Migration Programme
http://www.ilo.org/dyn/migpractice

ILO web portal on Promoting equality in diversity,

Training tools


For further information see the ILO’s International Migration Branch website
http://www.ilo.org/public/english/protect/migrant/
References


http://www.ilo.org/dyn/migpractice


ILO, EU, 2009 Employment of Migrant Workers in the Informal Economy in Kazakhstan; IOM, EC, ILO 2008 Addressing the Irregular Employment of Immigrants in the European Union (Budapest)


Domestic worker in Egypt.
# A POLICY RESOURCE GUIDE SUPPORTING TRANSITIONS TO FORMALITY

**Contents:**
- Acknowledgments / Foreword / Preface / How to use the Guide / Acronyms

## PART I: Key concepts

### 1. Decent Work and the Informal Economy
- 1.1 Key conceptual issues

### 2. Measurement of the Informal Economy
- 2.1 Addressing statistical challenges

## PART II: Policies to support transitions to formality

### 3. Growth Strategies and Quality Employment Generation
- 3.1 Patterns of economic growth and the informal economy

### 4. The Regulatory Framework and the Informal Economy
- **(A) International Labour Standards**
  - 4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work
  - 4.a2 International Labour Standards (ILS): bringing the unprotected under the law
  - 4.a3 Understanding the employment relationship and its impact on informality
- **(B) Specific Groups**
  - 4.b1 Domestic Workers: strategies for overcoming poor regulation
  - 4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law
  - 4.b3 Street vendors: innovations in regulatory support
  - 4.b4 Micro and Small Enterprises (MSEs), informality and labour law: reducing gaps in protection
  - 4.b5 Strategies for transforming undeclared work into regulated work
- **(C) Labour Administration**
  - 4.c1 Labour administration: overcoming challenges in reaching the informal economy
  - 4.c2 Labour inspection and the informal economy: innovations in outreach

### 5. Organization, Representation and Dialogue
- 5.1 Social dialogue: promoting good governance in policy making on the informal economy
- 5.2 The role of Employers’ organizations and small business associations
- 5.3 Trade unions: reaching the marginalized and excluded
- 5.4 Cooperatives: a stepping stone out of informality

### 6. Promoting Equality and Addressing Discrimination
- 6.1 Promoting women’s empowerment: a gendered pathway out of informality
- 6.2 Migrant workers: policy frameworks for regulated and formal migration
- 6.3 Disability: inclusive approaches for productive work

### 7. Entrepreneurship, Skills Development, Finance
- 7.1 Informal enterprises: policy supports for encouraging formalization and upgrading
- 7.2 Enhancing skills and employability: facilitating access to the formal economy
- 7.3 Microfinance: targeted strategies to move out of informality

### 8. Extension of Social Protection
- 8.1 Extending social security coverage to the informal economy
- 8.2 HIV/AIDS: overcoming discrimination and economic exclusion
- 8.3 Extending maternity protection to the informal economy
- 8.4 Childcare: an essential support for better incomes

### 9. Local Development Strategies
- 9.1 Local development: opportunities for integrated strategies for moving out of informality
Promoting Equality and Addressing Discrimination

As a result of labour market discrimination and social exclusion disabled people are most often found in the survivalist end of the informal economy, particularly in developing countries. There is a significant economic cost of not having disabled people productively engaged in the economy. In both developed and developing countries, under-utilization of disabled people in the workforce has a significant negative effect on the productivity of national economies. Inclusive approaches within policies to support the transition to formality in areas such as education, training, entrepreneurship, access to productive resources and work opportunities can help transform the cycles of poverty and marginalization which characterize the lives of many disabled people.

6.3 DISABILITY: INCLUSIVE APPROACHES FOR PRODUCTIVE WORK

With microcredit, training and other supports, this disabled man started his own business on Zanzibar Island.
KEY CHALLENGES

- Marginalization from the mainstream economy
- Weak data to support policy development
- Attitudinal barriers and social exclusion
- Low educational levels
- Skills gaps
- Labour market discrimination
- Weak policy and legal environment

Marginalization from the mainstream economy. For centuries, many people with disabilities have been excluded from the mainstream of society. Disabled persons are amongst those most likely to face labour market discrimination, and are also at very high risk of poverty. In developing countries in particular they are therefore most often found in the informal economy since support services and work opportunities for disabled persons in the formal economy are not available.

This exclusion has been at great cost to societies particularly in terms of the lost contributions that disabled persons could make to their communities and to society at all levels. Not least is the high economic costs of not utilizing the productive potential that disabled people represent. A recent ILO study of ten developing countries in Asia and Africa found that economic losses related to disability are large and measurable – amounting to some 3 to 5 percent of GDP.

Of the 650 million people with disabilities (approximately one tenth of the world’s population) 470 million are of working age. In all parts of the world disabled people are rarely given the types of supports and opportunities to make a major contribution to the economy and society. The UN estimates that 80 percent of disabled persons in developing countries live below the poverty line and they comprise about 20 percent of the world’s poor. A very large proportion of disabled persons in developing countries live in rural areas where poor infrastructure and lack of support services compound their disadvantages. In all parts of the world:

- people with disabilities are less likely to be in employment than non-disabled persons;
- where they are employed, they are more likely to be in low-paid jobs with poor promotional prospects and working conditions;
- disabled women are less likely to have a decent job than either non-disabled women or men with disabilities;

What is disability?

The ILO defines a disabled person as an individual whose prospects of securing, retaining and advancing in suitable employment are substantially reduced as a result of a duly recognized physical or mental impairment.

According to the United Nations Convention on the Rights of Persons with Disabilities, disabled people include those who have long-term physical, mental, intellectual or sensory impairments which in interaction with various barriers may hinder their full and effective participation in society on an equal basis with others.

Each country tends to have its own definition of disability in laws and policies, and more likely have many definitions, depending on the context or purpose of the definition.

Disabled people are not a homogeneous group. Like all people, their identities, personal situations and needs are shaped by a multiplicity of factors including their...
many people with disabilities are not registered either as employed or as unemployed, and are thus invisible in the labour market, surviving either through the support of their families or through social security payments;

• people with disabilities and their families are more likely to be among the poor in society.

The overall result of this situation is that many disabled people are confined to the informal economy in developing countries where they do not have the opportunity to earn a decent living or to contribute to the income of their families. The potential of very many disabled persons remains unrecognized, leaving a majority of women and men with disabilities living in poverty, dependence and social exclusion. Attitudes towards women also have an effect. In some countries, where women are generally denied the opportunity to develop vocational skills, disabled women face additional barriers. They are often found in the most marginalized end of the informal economy as a result, and may experience high levels of dependence on family members. Similarly, other factors – such as the disabled person’s race, ethnicity or age – can create additional barriers in different societies.

- **Weak data to support policy development.** Policy development to support disabled persons in the informal economy is hampered by weak data and analysis. Significant variation in the definitions of disability adopted by different countries and differences in data collection methods have led to a wide variance in estimates of disability prevalence making it very difficult to make meaningful international comparisons.

- **Attitudinal barriers and social exclusion.** One of the most serious barriers which hinders a disabled person is the misconceptions and negative attitudes regarding disability. These socially induced barriers are often a far greater challenge than the person’s impairment. Those with certain types of disabilities such as intellectual, psycho-social/mental health disabilities are often the most affected. The success of a disabled person’s ability to engage in the world of work largely depends education, training, reasonable accommodation of their needs and opportunity rather than their impairment. Reasonable accommodation to the needs of disabled persons is very rarely put in place. See box below.

What is ‘reasonable accommodation’?

Under Article 2 of the UN Convention on the Rights of Persons with Disabilities, reasonable accommodation is defined as the ‘… necessary and appropriate modification and adjustments not imposing a disproportionate or undue burden, where needed in a particular case, to ensure to persons with disabilities the enjoyment or exercise on an equal basis with others of all human rights and fundamental freedoms.’


9 ILO 2009 Think Piece – Inclusions of Persons with Disabilities, op.cit


11 ILO 2009 Think Piece – Inclusions of Persons with Disabilities, op.cit


6.3 DISABILITY: INCLUSIVE APPROACH
**Low educational levels.** The social exclusion of disabled people often starts early with one symptom being marginalization from basic education. In some countries, people with disabilities do not generally attend school – either because they are cloistered away by their families or because educational institutions refuse to accept them – and are therefore denied the opportunity to develop important employability skills such as basic literacy and numeracy. Current estimates place the numbers of children with disabilities at around 150 million, with four fifths of them in developing countries. Millions more live with parents or relatives with disabilities. While global commitments to ensure universal primary education under the Millennium Development Goals have resulted in intensified efforts in many countries to ensure greater access and inclusion of children affected by disabilities, marginalization still remains a persistent problem.

**Skills gaps.** Given the low educational participation rates of disabled people in many developing countries and the lower literacy rates resulting from this, their access to vocational training is often also significantly limited. Even where they have been able to access training, it may often be supply-driven and not linked to market demand. As a consequence, in many cases micro enterprises that they may set up suffer from by market saturation and intense competition.

People with disabilities and other socially excluded groups are also more likely to lack core work skills developed throughout a person’s life of regular social interaction and work, skills such as communication, team building, decision-making, time-management and others. They typically cannot be taught in a short-term training course, but are important to both formal and informal workplaces.

**Labour market discrimination.** While disabled people in developing countries face many of the same barriers as those in more developed countries – such as lack of access to transport, education, training, and essential services, low self-esteem and low expectations arising from their marginalized position and social condition – formal sector jobs in developing countries are often more scarce and subject to intense competition. Employer misconceptions about lower productivity levels of disabled persons – frequently mistaken – restrict the work opportunities for disabled people. Similarly such attitudes may be prevalent in microfinance institutions, training service providers, local authorities and local communities thus hampering access to productive resources and income opportunities.

**Weak policy and legal environment.** A further barrier is the lack of supportive policies and laws and their inadequate implementation. While this is a factor for all who work in the informal economy, inadequate protection under the law is particularly problematic for people with disabilities since they already experience a number of disadvantages. Even where countries have made efforts to reach the informal economy and support its transition to formality, disabled people are often still invisible in policy formulation, despite their capacities, in many cases, to contribute to income generation for their families and communities.

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Trader with leprosy, with her children.
Hairdresser with disability, at work, Ethiopia.
A rights based approach recognizes that barriers to economic participation must be removed to enable disabled persons to participate in the mainstream economy.

A rights based approach. In recent years there has been a major shift in approach dealing with disabled people, as the understanding of disability has been transformed. Rather than being seen as a personal problem or tragedy, which is often accompanied by a purely medical or social welfare approach, there is now a recognition that many barriers to the participation of disabled persons in the world of work arise from negative assumptions and attitudes and from social and physical environmental factors. This has led to a greater recognition of the rights of disabled people. The rights-based approach is based on a social model of disability. The social model suggests that the disadvantages faced by disabled people are largely the result of socially-constructed barriers, rather than arising solely from the person’s impairment. Barriers to participation must be removed and reasonable accommodation instituted so that disabled people can fully enjoy their rights and participate in society and contribute to the development of their countries.

International instruments to support access to productive work for disabled persons

All ILO International Labour Standards apply to women and men with disabilities although some particularly single out their needs and rights. The concept of providing vocational rehabilitation services (career guidance, training and job placement assistance) and promoting inclusion was advanced with the Vocational Rehabilitation (Disabled) Recommendation 1955, (No. 99). It was followed by Vocational Rehabilitation and Employment (Disabled Persons) Convention 1983, (No. 159) and its accompanying Recommendation (No. 169), which promote the principles of equal treatment and equal opportunity between disabled workers and workers generally, as well as equal opportunities between disabled women and men. Further, ILO Recommendation concerning Human Resource Development, (No. 195) recognizes the need to promote access to skills training for people with disabilities.

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14 ILO 2009 Think Piece - Inclusions of Persons with Disabilities, op.cit
15 See Resources section for ILO 2009 Rural Skills Training: A Generic Manual on rural Economic Empowerment (TREE) op.cit
with disabilities as well as others with special needs, including youth, low-skilled people and ethnic minorities.14

The ILO also has a Code of Practice on Managing Disability in the Workplace (2001) which offers practical guidance on managing disabilities in the workplace, including ensuring equal opportunities and improving the employment prospects of persons with disabilities15.

The ILO mandate of including disabled people has been given renewed strength and promotional opportunities with the coming into force of the UN Convention of the Rights of Persons with Disabilities. It requires that State parties ensure that people with disabilities can access vocational and other forms of training on an equal basis with others and that reasonable accommodation is provided. Similarly, it states that disabled persons should be accepted in the labour market and able to work in an environment that is open, inclusive and accessible.

For more details see Resources section to access these instruments

An Inclusive strategy. Disability inclusion refers to promoting and ensuring the participation of people with disabilities in all aspects of society including education, training and employment and providing the necessary support and reasonable accommodation so that they can fully participate16.

Because of the diverse nature of disabilities, people with disabilities have similarly diverse employment capabilities. For each of type of disability, there is a range of associated, specific needs that might be required to ensure that the productivity of individuals is maximized. For example, people who are deaf or hard of hearing might require their supervisors and coworkers to use alternative communication methods, such as sign language, writing or text messaging. People with mobility impairments might need additional attention given to the physical layout and accessibility of the workplace. People with intellectual disabilities might need job tasks analyzed and broken down into a sequence of more easily understood steps. People with psychosocial disabilities might need to take more frequent breaks if their concentration is impaired.

An individual’s entry into the world of work and their ability to be productive is also affected by they have had a disability from birth or early childhood, or acquired later in life. In the latter case, the individual might have had relatively fewer problems in accessing skills development opportunities and might already be established in the workforce; but in the former case, the individual might have faced a far more challenging pathway and been denied educational, training and work opportunities. Similarly, the different cultural and societal circumstances of people with disabilities can greatly influence their skills development and ability to engage in productive economic activity.

Addressing the data challenges. The problem of paucity of data for policy development is not confined to information about persons with disabilities, but is prevalent throughout the informal economy in general

18 ILO 2009 Think Piece – Inclusions of Persons with Disabilities, op.cit
Entrepreneurship is an important strategy which can open up opportunities for disabled persons and enable them to overcome poverty traps and economic exclusion.

Expanding labour market opportunities. Many countries have put in place measures to overcome labour market discrimination against persons with disabilities. A two pronged approach is often the most effective: on the one side - ensuring an inclusive framework in general labour market policies which can open up opportunities for disabled people in the formal labour market; and on the other side: an affirmative action strategy to overcome persistent and entrenched disadvantage in the labour market. The latter measures are usually temporary in nature and are intended to reinforce equitable outcomes until the embedded disadvantages have been overcome. Examples of affirmative action policies include Bolivia, where four percent of employees in companies that do business with the government must be persons with disabilities. Egypt and Jamaica have a five percent quota of Government positions for persons with disabilities. Moreover both Egypt and Jamaica have established special measures to assist persons with disabilities to start enterprises. Similarly Argentina gives economic support to micro entrepreneurs with disabilities. Mexico has developed an Open Spaces programme aimed at supporting disabled persons to find work, while the Ministries of Labour in Argentina, Panama and Uruguay have training support and selective placement programmes for people with disabilities.

Entrepreneurship is another key area of which can open up opportunities for disabled persons and enable them to overcome poverty traps and social and economic exclusion. Experience from ILO technical cooperation activities has shown that disabled persons, including women in particular, have tremendous productive potential and despite common misconceptions can operate viable growth oriented enterprises. Five sub-Saharan countries (Ethiopia, Kenya, United Republic of Tanzania, Uganda and Zambia) have been supporting the mainstreaming of women with disabilities into entrepreneurship activities through enhanced access to vocational skills training as well as access to credit and business development services (See Box below).

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Nor is it a problem that is easily resolvable not least because of issues of different understandings and definitions of disability, and the fact that it is an evolving concept. While existing avenues of data collection such as census, household and labour force surveys are underutilized to gather information on persons with disabilities, nonetheless there is increasing recognition that better data and better data collection methodologies are needed to develop inclusive policies that take into account the needs of disabled persons and enable them to enjoy their rights. Article 31 of the UN Convention on the Rights of Disabled Persons for example both obliges States Parties to collect relevant information and provides guidance on the appropriate ways of collecting data. Similarly the World Health Organization (WHO) and the UN Economic and Social Commission for Asia and the Pacific (ESCAP) have jointly developed a training manual on data collection for disability.

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19 See http://www.unescap.org/stat/disability/manual/Chapter3-Disability-Statistics.pdf for more details
20 For more details see the Resources section to access UN General Assembly 2009 Report of the Secretary General Realizing the Millennium Development Goals for Persons with Disabilities through Implementing the World Programme of Action Concerning Disabled Persons and the Conventions on the Rights of Persons with Disabilities Sixty Fourth Session, Item 62 of the Provisional Agenda Social Development Including question related to world social situation and to youth, ageing, disabled persons and family A/64/180
Developing Entrepreneurship Among Women with Disabilities (DEWD)

The DEWD project strategy was tested in Ethiopia 2001–2004, with support from Irish Aid. The strategy represents an innovative and flexible approach to technical cooperation by the ILO in the field of disability. The approach is based on partnerships with local nongovernmental organizations of DPOs and designed and implemented in close consultation with DPOs, training providers, micro-finance institutions, and national and local government authorities. The core elements were:

- Strengthening existing enterprises of women with disabilities and encouraging potential entrepreneurs to start up businesses.
- Building capacity of national DPOs to:
  - Facilitate access of potential women entrepreneurs with disabilities to business training, vocational skills training and credit.
  - Take increasing responsibility for project implementation, in cooperation with local and national government, under contract to the ILO.
  - Mobilize and diversify their funding sources (e.g. to enable them to sustain project activities in the longer term).
- Ensuring effective involvement of women with disabilities in managing project activities through the creation of a Project Management Committee mainly composed of women representatives from participating DPOs.
- Making use of existing in-country sources of technical expertise, skills training, and micro-finance.
- Seeking ways of “scaling up” the project to reach more women with disabilities.
- Documenting the impact of project activities through case studies, surveys and photo and video records.22

Arising from experience in the DEWD project, guidelines have been developed to support the mainstreaming of women with disabilities into Women's Entrepreneurship Development (WED) activities. These guidelines: Count Us In! provide technical advice to mainstream and specialized service providers, including women's enterprise associations (WEAs), disabled persons' organizations (DPOs) and others who want to ensure the full participation of disabled women in WED.

INCLUDE, a further ILO project supported by the Irish Aid Partnership Programme, evolved out of two previous projects supporting women with disabilities: DEWD and “Women's Entrepreneurship and Gender Equality” (WEDGE). With INCLUDE, the focus is to promote the inclusion of persons with disabilities in employment-related programmes and services more broadly – including vocational training, enterprise development, employment services and microfinance23. The INCLUDE Project strategy focuses primarily on building the capacity of regional and national disability inclusion support agencies to provide advocacy, sensitization, technical advisory services, and other support services, thus building national capacity to support disability inclusion, including the inclusion of disabled persons living with HIV/AIDS.24

22 For more details see Resources section to access: ILO Developing Entrepreneurship Among Women with Disabilities (DEWD) Skills and Employability Fact Sheet
23 For more details see Resources section to access: Promoting Decent Work for People with Disabilities through a Disability Inclusion Support Service (INCLUDE). Fact Sheet. July 2009.
24 Collaboration is a key to achieving maximum efficiency and intended end results. The Project pulls together the efforts of the Women’s entrepreneurship Development and Gender Equality (WEDGE); the ILO International Training Centre in Turin; the ILO Small Enterprise Development Programme (SEED); the ILO Social Finance Unit; the ILO Bureau for GENDER Equality; and, ILO Programme on HIV/AIDS and the World of Work (ILO/AIDS).
Inclusive education policies to address low educational participation rates and literacy rates. As noted in the challenges section above, disabled people are amongst those most likely not to attend school and to be among the non-literate or semi-literate sections of the population because of inequitable access to education from an early age. This has enormous consequences for their opportunities to access training and to obtain jobs whether in the formal or informal economy. However, as the productive potential of people with disabilities has been increasingly recognized, countries have been making efforts to achieve equal opportunities in education for children and adults with disabilities. Several governments have endorsed the principles of inclusive education and are implementing active policies for access. Argentina for example has passed a national education law which guarantees inclusive education through universal policies, and provides higher education scholarships for persons with disabilities. Ecuador is establishing a National Project of Inclusive Education, while Jamaica is seeking to make education more accessible and inclusive through its National Policy on Special Education. The Kyrgyz Republic is promoting inclusive education and has increased access of regular schools to children with disabilities. Montenegro is taking measures to ensure inclusion and accessibility of all children and youth with disabilities. And the Philippines is in the process of improving accessibility of the educational structures in general.

Overcoming skills gaps. Along with supporting higher educational participation and strengthening literacy, building the skills of disabled persons is an essential strategy to enable them to earn better incomes and potentially access formal economy jobs, thus overcoming the cycle of poverty and disadvantage which confines many disabled people to the informal economy. Disability inclusive polices with regard to skills training refers to promoting and ensuring the participation of people with disabilities in education, training and employment, AND providing the necessary support and reasonable accommodation so that they can participate. Disability inclusion is more than ‘just inviting disabled persons to the table’; it is assuring that they can get to the table and that the barriers to participation are removed and support provided. These barriers may be physical, related to information and communication, policy and legal, institutional, attitudinal and also gender based. Some countries have put in place effective non-discrimination policies which apply to education. India for example uses quotas to ensure people with disabilities are included in TVET. Similarly Australia has a special policy initiative to promote inclusion in TVET.

While in many cases a mainstreaming approach can enable some disabled persons to participate in training in other cases reasonable accommodation (see box on page 3) may need to be put in place within an overall training system because of literacy, transport, accessibility or the nature of the person’s disability. This does not however imply a segregated system, which ultimately risks reinforcing social exclusion. A disability inclusive framework for training involves:

25 For more details see Resources section to access: UN General Assembly 2009 Report of the Secretary General Realizing the Millennium Development Goals for Persons with Disabilities through Implementing the World Programme of Action Concerning Disabled Persons and the Conventions on the Rights of Persons with Disabilities op.cit
26 For more details see Resources section to access: ILO 2009 Rural Skills Training: A Generic Manual on rural Economic Empowerment (TREE) op.cit
27 ibid
28 ibid
6.3 DISABILITY: INCLUSIVE APPROACH

- Integration within one overall system
- Involvement of disabled persons in all aspects of the system
- A barrier free environment
- Adaptive teaching methods and assistive devices
- Career guidance
- A market driven approach to maximize employment outcomes
- Cultivating positive attitudes
- Capacity building of trainers
- Adequate resources
- Adequate preparation

In addition to classroom based training approaches methodologies such as training in self-help groups, on-the-job training, job coaching, peer training and informal apprenticeships have proven to be effective techniques for building skills of disabled persons. In Cambodia for example, the ILO field tested peer training for groups of people who may experience barriers that make other kinds of training very difficult. The method involves locating successful village based entrepreneurs who are willing to train others in income generating activities or micro enterprises. It is important to make sure that the entrepreneurs business is profitable and that the market can accommodate another similar business. The training is usually short term and is supervised by a trained staff member. This type of training was found to be most useful for non-literate and semi literate groups, those with impairments such as deafness or those with limited mobility who were unable to access other forms of training29. Job Coaching is form of on-the-job training where a training job coach provides training to individuals or a group with disabilities in a work setting. The coach gradually withdraws from the work setting gradually, once the trainee(s) masters tasks, gains job confidence and adjusts to the work situation. The job coach is usually available for follow up with the trainee or the employer if needed. This has been successful in formal work settings with people with intellectual or psychosocial disabilities, and increasingly for people with physical disabilities30.

- Making training accessible. Making training more accessible to all types of individuals, including those with disabilities will often require a variety of changes. It may involve for example, changes in the physical infrastructure, but also importantly, attitudinal shifts concerning the perceived productive potential of disabled persons. Flexible training approaches may also be required. For example, for individuals who lack literacy skills, which is often the case for those who have been denied access to basic education, practical hands-on approaches or training methods not based on literacy can be used, such as demonstration or learning by doing. At the same time, once someone is working, literacy skills can be developed along with other work skills31. Attention needs to be paid to assessing the level of core work skills and to addressing their development. Role play, assignments, use of mentors and coaches during and after training, providing work trials and on-the-job training or work experiences will assist in developing such skills along with technical skills. Some disabled persons can have very well developed problem solving skills based on years or a lifetime of figuring out how to overcome challenges and barriers. Such skills can transfer to the training and work situation.32

29 For more details see Resources section to access: ILO 2009 Rural Skills Training: A Generic Manual on rural Economic Empowerment op.cit
30 Ibid
31 Ibid
32 Ibid
Countries are increasingly recognizing the need to change legal frameworks to better reflect the non-discrimination and equality principles of a rights-based approach to disability.

Changing policy and legal frameworks. In many cases, regulatory and policy frameworks addressing disabled persons may reflect out-dated and discriminatory measures which need to be reformed. Countries are increasingly recognizing the need to change legal frameworks to better reflect the non-discrimination and equality principles of a rights-based approach to disability. Legal frameworks need to actively promote equal treatment and equal opportunities for persons with disabilities, particularly in relation to employment. Such legislation should use broadly inclusive language aimed at protection from discrimination on the grounds of disability. It needs to take consideration of reasonable accommodation (of the needs of disabled persons), gender issues and affirmative action where appropriate. Legislation may be located in constitutional law, criminal law or civil or labour law, with the latter having the greatest practical impact on expanding opportunities for job seekers and workers. While it is true that the informal economy often remains unprotected by legal frameworks even where they exist, (because of poor implementation or lack of enforcement), it is still essential that legal frameworks expand their scope to protect the human rights of disabled persons. The challenge then becomes one of ensuring effective enforcement and implementation.

The ILO Project “Promoting the Employability and Employment of People with Disabilities through Effective Legislation” furthers the review and reform of disability-related training and employment laws and policies, and their effective implementation in selected countries of East and Southern Africa and Asia. It involves governments, social partners and organizations of persons with disabilities in activities and events linked to the review or development of disability-related legislation and policies. In addition, the Project seeks to collaborate with national training agencies, employment services and university law faculties to ensure a commitment to including a disability perspective in their programmes and services and curricula.

Community-based Rehabilitation. Community-Based Rehabilitation (CBR) is another effective strategy for meeting the training needs of various disabled groups. Broadly defined, it is a strategy within community development for rehabilitation, equalization of opportunities, and the social integration of all people with disabilities. CBR is implemented through the combined efforts of disabled people themselves, their families and communities, and the appropriate health, education, vocational and social services. Many countries around the world have developed CBR-based programmes including communities in Ghana, Afghanistan, Vietnam, Nepal among others. There is no single model for CBR since different communities are characterized by different cultural, socio-political contexts. Nonetheless, the general approach is one of an integrated and participatory community development programme. It has evolved considerably from its early emergence as a medical rehabilitation strategy towards a more comprehensive multi-sector approach encompassing access to health care, education, training, income generation and community inclusion.

Ghana, Afghanistan, Vietnam and Nepal are amongst the countries which have developed community-based training in an integrated, participatory and multi-sectoral manner, which engages local communities in building the skills of disabled persons.

33 For more details see Resources section to access: Joint position paper of ILO, UNESCO and WHO on Community Based Rehabilitation, 1994
34 For more details see Resources section to access: ILO 2007 Achieving Equal Opportunities for People with Disabilities through Legislation: Guidelines ILO Geneva
35 PEPDEL is implemented in three countries of Asia (China, Thailand and Vietnam) and four countries of East and Southern Africa (Ethiopia, United Republic of Tanzania, Uganda and Zambia)
36 For more details see Resources section to access: Promoting the Employability and Employment of People with Disabilities through Effective Legislation (PEPDEL), Op.cit
Awareness raising and Knowledge Sharing. Awareness raising campaigns by social partners and Governments are critical to changing negative attitudes and misconceptions about disability. As noted earlier attitudinal barriers are amongst the most serious obstacles to disabled persons accessing training and work opportunities, and enjoying their rights as citizens. As a result many disabled persons are confined to the informal economy and are placed in a position of high dependence on relatives who are already often amongst the working poor. Such awareness raising campaigns can be targeted at microfinance institutions, training institutions, employers or the general public.

In 2010 Jordan launched a ‘Different Abilities’ campaign with the support of UNESCO which is touring schools and is supported by Public Service Announcements on TV, photo exhibitions, brochures and posters. The aim is to sensitize youth about the capabilities, rights and needs of persons with disabilities. Montenegro has launched a similar campaign with the support of UNICEF. The ‘It’s about ability’ campaign’ is being followed up by a survey of the public to assess its impact. In Bangladesh, the National Forum for Organizations Working with the Disabled has been sensitizing the general public while also advocating for the implementation of laws and policies to support inclusion of persons with disabilities.

In Africa, a major plank of the Lusaka Declaration of 2010, emanating from the ILO regional conference ‘People with Intellectual Disabilities – Opening Pathways to Training and Employment in the African Region’ concerns awareness raising, and details the roles and responsibilities of social partners and government to ensure equitable access to training and employment opportunities for people with intellectual disabilities in the region.

Knowledge sharing is an important aspect of awareness-raising since a great deal is being done, and the lessons learned from activities can support advocacy efforts. Good practices need to be shared in order that they can be adapted or replicated in other contexts. The ILO is working towards increasing knowledge sharing among its constituents about disability. It has, for example, produced a video called From Rights to Reality to highlight efforts of trade unions to address decent work needs of disabled persons around the world, including those who are faced with informal work situations.

The ILO Global Business and Disability Network has been formed among multinational companies and employers’ organization. While the focus is not on the informal economy per se, it seeks to share knowledge among companies and employers about disability as it related to hiring and retention, products and services and corporate social responsibility (CSR). The CSR aspects in particular are the types of initiatives which can reach down the value chain into the informal economy. Examples of company efforts include setting aside funds for rural development and microfinance, opening access to education and job search for disabled persons in developing countries, and importantly, recognizing the role of new technologies in overcoming disability obstacles in the workplace, by setting up IT based education in developing countries for disabled persons.

37 For more details see Resources section to access: UN General Assembly 2009 Report of the Secretary General Realizing the Millennium Development Goals for Persons with Disabilities through Implementing the World Programme of Action Concerning Disabled Persons and the Conventions on the Rights of Persons with Disabilities op cit
38 See http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---ifp_skills/documents/meetingdocu ment/wcms_141158.pdf for more details
39 The video can be obtained by writing to: disability@ilo.org.
40 Details of the CSR good practices mentioned here are available in the recent publication - ILO 2010 Disability in the workplace: Company practices, Working paper 3 (ILO, Geneva)
Candles being crafted by a disabled worker in Lebanon.
Disabled musician, Angkor, Province of Siem Reap.
This section provides a list of resources which can enable the reader to delve deeper into the issue. Details of the good practices cited above can be accessed here. The section comprises international instruments, International Labour Conference conclusions, relevant publications and training tools. A bibliography of references in the text is further below. There may be some overlap between the two.

### ILO and UN Instruments and ILC Conference conclusions


### Relevant Publications

- Buckup, S. *The price of exclusion: The economic consequences of excluding people with disabilities from the world of work* Employment Sector working paper 43, 2009 (Geneva ILO)
- ILO 2007 *Strategies for skills acquisition and work for persons with disabilities in Southern Africa* (ILO Geneva)

UN General Assembly 2009 Report of the Secretary General Realizing the Millennium Development Goals for persons with disabilities through implementing the Programme of Action Concerning Disabled Persons and the Conventions on the Rights of Persons with Disabilities. Sixty Fourth session, item 62 or the Provisional Agenda Social Development including questions related to the world situation to youth, ageing, disabled persons and family A/64/180 http://www.un.org/disabilities/default.asp?id=1463

Tools


ILO 2007 Link and learn : progress assessment of the approach adopted to promoting the inclusion of women entrepreneurs with disabilities into the WEDGE programme in four African countries. ILO, Geneva http://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=1164&context=gladnetcollect


For further information see the ILO’s Inclusion of Persons with Disabilities unit website http://www.ilo.org/skills/areas/inclusion-of-persons-with-disabilities/lang-en/index.htm

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Buckup, S. *The price of exclusion: The economic consequences of excluding people with disabilities from the world of work* Employment Sector working paper 43, 2009 (Geneva ILO)

ILO 2009 Think Piece – Inclusions of Persons with Disabilities, (internal document), August 2009, ILO Department of Skills and Employability


ILO Developing Entrepreneurship Among Women with Disabilities (DEWD) Skills and Employability Fact Sheet

ILO 2007 *Achieving Equal Opportunities for People with Disabilities through Legislation: Guidelines* ILO Geneva


ILO 1983 *Convention on Vocational Rehabilitation and Employment (Disabled Persons),* (No. 159), 1983.

ILO Cinterfor, Training and the Informal Economy
http://www.oitcinterfor.org/en/general/about-ilocinterfor

ILO, UNESCO, WHO, 1994 *Joint Position Paper on Community Based Rehabilitation*
http://www.who.int/disabilities/030507_CBR_guideline_3rd_meeting_report.pdf


UNESCO 2010 *Reaching the Marginalized: Education for All; Global Monitoring Report,* UNESCO Paris 2010

UN General Assembly 2009 Report of the Secretary General *Realizing the Millennium Development Goals for Persons with Disabilities through implementing the World Programme of Action Concerning Disabled Persons and the Conventions on the Rights of Persons with Disabilities* Sixty Fourth Session, Item 62 of the Provisional Agenda Social Development Including question related to world social situation and to youth, ageing, disabled persons and family A/64/180

A POLICY RESOURCE GUIDE SUPPORTING TRANSITIONS TO FORMALITY

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

PART I: Key concepts
1. Decent Work and the Informal Economy
   1.1 Key conceptual issues
2. Measurement of the Informal Economy
   2.1 Addressing statistical challenges

PART II: Policies to support transitions to formality
3. Growth Strategies and Quality Employment Generation
   3.1 Patterns of economic growth and the informal economy
4. The Regulatory Framework and the Informal Economy
   (A) International Labour Standards
      4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work
      4.a2 International Labour Standards (ILS): bringing the unprotected under the law
      4.a3 Understanding the employment relationship and its impact on informality
   (B) Specific Groups
      4.b1 Domestic Workers: strategies for overcoming poor regulation
      4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law
      4.b3 Street vendors: innovations in regulatory support
      4.b4 Micro and Small Enterprises (MSEs), informality and labour law: reducing gaps in protection
      4.b5 Strategies for transforming undeclared work into regulated work
   (C) Labour Administration
      4.c1 Labour administration: overcoming challenges in reaching the informal economy
      4.c2 Labour inspection and the informal economy: innovations in outreach
5. Organization, Representation and Dialogue
   5.1 Social dialogue: promoting good governance in policy making on the informal economy
   5.2 The role of Employers’ organizations and small business associations
   5.3 Trade unions: reaching the marginalized and excluded
   5.4 Cooperatives: a stepping stone out of informality
6. Promoting Equality and Addressing Discrimination
   6.1 Promoting women’s empowerment: a gendered pathway out of informality
   6.2 Migrant workers: policy frameworks for regulated and formal migration
   6.3 Disability: inclusive approaches for productive work
7. Entrepreneurship, Skills Development, Finance
   7.1 Informal enterprises: policy supports for encouraging formalization and upgrading
   7.2 Enhancing skills and employability: facilitating access to the formal economy
   7.3 Microfinance: targeted strategies to move out of informality
8. Extension of Social Protection
   8.1 Extending social security coverage to the informal economy
   8.2 HIV/AIDS: overcoming discrimination and economic exclusion
   8.3 Extending maternity protection to the informal economy
   8.4 Childcare: an essential support for better incomes
9. Local Development Strategies
   9.1 Local development: opportunities for integrated strategies for moving out of informality

7.1 INFORMAL ENTERPRISES: POLICY SUPPORTS FOR ENCOURAGING FORMALIZATION AND UPGRADING

Enabling the transition to formality of informal enterprises requires an understanding of the multiple causes and dimensions of informality in the private sector. Integrated approaches are essential — ranging from a conducive business environment, the adaptation of outreach mechanisms to reach diverse segments of the informal economy and providing incentives to move out of informality including market and financial access, improving working conditions and streamlining costs and procedures of registration. Policy formulation also requires regular, structured dialogue with representatives of informal enterprises in order to be effective, understand the diverse constraints facing informal entrepreneurs and gain the trust of marginalized businesswomen and men. This brief should be read in conjunction with the briefs on Micro and Small Enterprises and Labour Law and on Local Development Strategies.
Enterprise development and informality. One of the largest sources of employment for men and women in developing countries is in informal enterprises. Indeed one of the measures of the size of the informal economy is the numbers of unregistered enterprises. (See also brief Statistical Measurement) Their lack of compliance with legal and regulatory frameworks means they are often unable to access the support and services they require. This affects their profitability and sustainability, as well as the quality of employment provided to their workers. This lack of compliance may be because their activities are not included in the law which means they are operating outside the formal reach of the law; or they are not covered in practice, which means that even where laws exist they are not applied or enforced, or the compliance is discouraged by inappropriate, burdensome procedures and excessive costs.

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

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

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

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

The challenges of moving towards formality and upgrading informal enterprises are separate, but related issues. While formalization refers to the extent to which an enterprise complies with the legal and regulatory framework, upgrading refers to the access informal enterprises have to the services and markets they require to become more profitable and
Factors leading to informality. Informality in the enterprise sector is not an isolated event. It is driven by a wide range of economic, social and cultural contexts, which effect the size and nature of the informal economy in different countries and regions. Policy responses to the challenges faced by informal enterprises should be based on a careful analysis of the systems that create and maintain the informal economy and the presence of informal enterprises in each country.

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

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

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

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

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

4 For more details see Resources section to access: ILO 2007 The informal economy: enabling transition to formalization, Background Document
5 The High Level Commission on Legal Empowerment of the Poor (2006) highlights the role of regulation and burdensome legal codes in promoting informality. Informal enterprises thrive "when entry to, and participation in, the formal sector is complex and expensive". See Resources section to access the report
The diversity of informal enterprises means uniform policy responses are not appropriate.

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

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

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

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

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

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

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

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

10 Bosma et al., 2009, p. 38
Problems faced by informal enterprises and workers. High levels of informality are a cause for concern for many developing economies. Informality can take different forms. It is possible to find informal enterprises that are unregistered, unlicensed, unprotected (for example, uninsured), uncollateralised, unorganised and unrepresented. These are specific experiences of an informal enterprise, which create opportunities for policy reform and programmes that contribute to the process of formalising and upgrading the enterprise.

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

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

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

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

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

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

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

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

12 Mitullah (2003)
Market stall holder, Peru.
Home-made bakery in the souk of Saida.
EMERGING APPROACHES AND GOOD PRACTICES

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

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

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

**The roles of Employers’ and Workers’ organizations.** Complementing the role of government, Employers’ and Workers’ Organizations should draw attention to the underlying causes of informality, galvanize action on the part of all tripartite partners to address them, and publicize and share the innovative and effective strategies and good practices that Employers’...
and Workers’ Organizations in different parts of the world have used to reach out to informal enterprises. In addition, Employers’ Organizations can help informal enterprises access information, finance, insurance, technology and business development services and formulate an advocacy agenda. Employers’ Organizations can also act as a conduit for the establishment of links between informal and formal enterprises. (see brief on Employers’ organizations). Workers’ Organizations can sensitise workers in informal enterprises to the importance of collective representation and can include them in collective agreements and provide special services, including legal advice and information. (see brief on Trade Unions).

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

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

- **Supporting upgrading and enabling the transition to formality.** When developing policy responses to the problems of informal enterprises and their workers it is important to:

  - Understand the needs, constrains and opportunities of informal enterprises—careful diagnosis of the issues faced by informal enterprises is essential. This is likely to involve consultations with informal enterprises, their representative organisations, government officials and other business and worker representatives.

14 ILO Informal Economy Poverty and Employment Project 2006 See Resources section to access Final Report, 2006
15 An important tool to support this process is the Assessing the influence of the business environment on small enterprise employment – An assessment guide. To access this guide see Resources section: White, S. 2005
• Prioritise reform and programme requirements based on the most feasible and strategic options. The assessment mentioned above can provide a starting point for reform and to sequence reforms. Analysts have noted that identifying the right package and sequence of reforms can be a daunting task. The challenge is to identify the key reforms that will stimulate a quick, strong supply response while laying the groundwork for the next round of essential reforms\textsuperscript{16}.

• Create a platform for dialogue between informal enterprises, government and other representative organisations, such as Employers’ and Workers’ Organizations\textsuperscript{17}. This is of paramount importance to improve the business environment through social dialogue and proper consultation with informal economy associations. The High Level Commission on Legal Empowerment of the Poor (2006) encourages reformers to build consensus: “reformers must establish a broad-based consensus for initiatives that address the informal sector, built on empirical evidence, a common understanding of real impacts and risks, a deep knowledge of local contexts and environments, consultations with key stakeholders, and a shared platform among the key institutions promoting migration to the formal sector”.

• Policy responses need to be designed based on the points above and ensuring ownership over the processes by all the key stakeholders. Potential outcomes of policies, whether desired or not – need to be analysed, including social outcomes as they affect female-owned enterprises and workers, as well as environmental outcomes as they affect the use of natural resources\textsuperscript{18}. The High Level Commission on Legal Empowerment of the Poor (2006) advises policymakers to see the big picture and not to become bogged down in the discussion of individual rights at the expense of macro-effects.

• Create a high-level social dialogue mechanism for managing policy reforms and programme responses. This requires a consortium of representatives from the government, the private sector, workers organisations and representatives of informal enterprises, to meet regularly and oversee progress.

• Ensure progress and impact is regularly monitored and discussed\textsuperscript{19}. In general, many reform programmes have failed to adequately monitor progress and measure the impact of their reforms\textsuperscript{20}. However, this is an essential element in the process of policy development.

Encouraging the transition to formality of informal enterprises. The relationship between law, regulations and their impact on informality is a key policy issue. Priority should be placed on simplifying, harmonizing and reducing the cost and procedures for business registration and promoting ‘one-stop’ business registration mechanisms for increased recognition and integration of informal economy units\textsuperscript{21}. (See also brief on MSEs and labour law).

\textsuperscript{17} For more details see Resources section to access See ILO 2007a The Informal Economy
\textsuperscript{18} Donor Committee for Enterprise Development, 2008 http://www.enterprise-development.org/page/measuring-and-reporting-results
\textsuperscript{19} Various tools are available to supporting monitoring and evaluation, including for example the GTZ-IFC 2008 Monitoring and evaluation for business environment reform: a handbook for practitioners http://www.ifc.org/ifcext/sme.nsf/Content/BEE-toolkits
\textsuperscript{20} Kikeri et al 2006
\textsuperscript{21} For more details see Resources section to access : ILO 2007 paragraph 22
While there are many variations based on country and region, there are a number of common policy domains where policy, legal and regulatory reform are found to impact on the move out of informality for informal firms. These are briefly described below.

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

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

- **Taxation policy and administration.** Inappropriate taxation systems can be an important aspect of encouraging informality. Simplifying tax administration is often required and countries have been experimenting with single taxes for micro, small and medium-sized enterprises as a way of reducing the number of payments, and offer different payment options, one-off or by instalment. Furthermore, it is important to share information on what taxes are used for, and how businesses will benefit from enhanced services. Evidence suggests that compliance rates go up when businesses know what they are getting in return for their payments.

- **Land ownership and titling.** Land ownership and the capacity to raise capital through land-based collateral is a key concern for many informal enterprises. Many reforms in this domain focus on redressing incomplete cadastres, onerous or costly land registration systems, and enabling female ownership of land and assets. The impact of these reforms has been to increase the value of entering the official statistical count, a first step in becoming formal. It can also change the characteristics of informality, since these reforms have a greater impact on informal firms in sectors or business lines that are relatively land intensive.

- **Labour and labour related issues.** Appropriate and effective regulation is necessary for reducing the burden and cost for enterprises in complying with the regulatory requirements while maintaining workers’ protection. The challenge of balancing the needs for enterprise growth while maintaining workers’ protection requires an active role of the State, particularly in providing and effectively implementing a legal framework for the labour market. International Labour Standards are an important benchmark of labour and labour-related reforms. Governments have a direct and important role to play in promoting social protection and ensuring labour markets operate effectively. (See brief on MSEs and labour law).

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• **Judicial reform.** This often involves four areas of reform: (1) reducing the transaction costs and improving access to formal dispute resolution channels; (2) strengthening and improving the quality of customary and traditional governance methods; (3) improving linkages between and greater awareness of formal and informal systems of justice; and (4) improving access to justice in bureaucratic administration, such as improving public participation in administrative decision-making, introducing freedom of information procedures and appeal mechanisms.

• **Financial services.** While informal finance mechanisms and microfinance institutions have been supported to help informal enterprises gain access to finance, the process of encouraging the transition to formality involves reforms that increase the access of poor women and men to the full range of financial services (see brief on Microfinance).

• **Creating a business-friendly environment.** Part of this process involves improving service provision. This may include the establishment of one-stop shops in accessible locations to help firms understand and comply with their obligations and play an intermediary role between enterprises and government services, pressing the latter to improve service delivery when necessary.

• **Creating incentives for reform and communicating these to informal enterprises.** Despite their many disadvantages, there are obvious benefits for informal enterprises in avoiding costly and burdensome government regulations as well as high and complex taxes. As one analyst has noted however, if there are any advantages of being informal, then these are only a function of the seriousness of the problems of the surrounding environment.

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

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

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26 Zinnes (2009)
27 The ILO’s support of Social Finance uses financial instruments to promote Decent Work. It is about credit, savings and other products that help the poor to cope better with risk, take advantage of income-generating opportunities, organize and have a voice. Social Finance is also about promoting and encouraging those institutions that cater to the financial needs of the working poor, including women groups and small and medium enterprises that create jobs.
28 Becker (2004, p. 46)
29 Kenyon (2007)
30 Zinnes (2009)
31 Also see McKenzie and Sakho (2007)
32 Anderson and Eliot (2007)
Ghana has introduced mechanisms to ensure social security coverage for the informal economy.

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

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

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

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

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

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

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

Upgrading working conditions in enterprises: practical tools

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

**Work Improvement for Safe Home (WISH) Action Manual**

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


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34 Ghana Broadcasting Corporation 2009
35 ILO 2004 pp39-42
36 See ILO 2007
Work Improvement in Small Enterprises (WISE)
The ILO’s Work Improvement in Small Enterprises (WISE) programme is designed to promote practical, voluntary action to improve working conditions by owners and managers of SMEs. The programme is based on six basic training principles: (1) Build on local practice; (2) Focus on achievements; (3) Link working conditions with other management goals; (4) Use learning-by-doing; (5) Encourage exchange of experience; and (6) Promote workers’ involvement. It makes use of action-oriented checklists that small business owners and managers can use themselves to identify opportunities for cost-effective improvements and to plan their implementation. A companion book is available on Work Organization and Ergonomics, providing action-oriented ideas for more advanced enterprises.

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

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

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

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

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

37 ILO (2007a) para 22
The organization of enterprises and their workers is an essential aspect of upgrading and their move out of informality.

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

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

In Madhya Pradesh and Tamil Nadu, India, rural women workers have been trained as extension workers and have successfully worked with several trade union organizations to organize rural workers into trade unions, establish

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40 Bekefi (2006)
41 Hussain (2000)
42 The ILO’s Start and Improve your Business (SIYB) training packages integrate decent work dimensions and highlight the productivity gains made by improving worker protection, occupational health and safety, improving working conditions and ensuring social dialogue. SIYB has proved to be an entry point for policy formulation, for example in Vietnam.
43 VIBINDO is an umbrella, membership-based organisation for the informal sector operators in Dar Es Salaam Region, engaged in small-scale business and production. In June 2003 it had 295 groups consisting of 39,955 individual members, among these 65% are youth in both sexes aged from 15 year 35 years.
44 SYNDICOOP was developed by the ILO’s Bureau for Workers’ Activities (ACTRAV) and its Cooperative Branch in Geneva as a joint effort of the International Cooperative Alliance (ICA), the International Confederation of Free Trade Unions (ICFTU) and the ILO. Begun in 2002, the effort focused first on workers in the informal economy in Rwanda, Tanzania and Uganda, with Kenya joining more recently. See brief on Cooperatives.
range of income-generating self-help initiatives and secure greater welfare support and assistance. Also in India, the Self-Employed Women’s Association (SEWA) has been organizing low-income workingwomen in the informal economy since 1972. As a member-based organization, SEWA identifies the needs of its members. Its programmes and services are demand-driven and need-based. Often, they are designed and implemented by the members themselves, and often, they are designed to extend, improve, or supplement existing government programmes and schemes45. (See also brief on trade unions).

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

45 For more details on how SEWA works with informal enterprises see Chen, et al. (2003).
46 ILO (2007c)
Businesswoman in her enterprise, Cote D’Ivoire.
Workers in a small shoe factory. Jordan.
This section provides a list of resources which can enable the reader to delve deeper into the issue. Details of the good practices cited above can be accessed here. The section comprises international instruments, International Labour Conference conclusions, relevant publications and training tools. A bibliography of references in the text is further below. There may be some overlap between the two.

ILO instruments and ILC Conference Conclusions


Relevant Publications


High Level Commission on the Legal Empowerment of the Poor, 2006. Overview paper, UNDP

ILO 2006. Informal Economy Poverty and Employment Project Final Report

-- 2007a The informal economy, Committee on Employment and Social Policy, Governing Body, GB.298/ESP/4 March 2007 Geneva

Tools


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


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

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


For further information see the ILO’s Job Creation and Enterprise department website http://www.ilo.org/empent/lang--en/index.htm

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Workshop manufacturing moldings frame. Tbilisi.
A POLICY RESOURCE GUIDE SUPPORTING TRANSITIONS TO FORMALITY

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

PART I: Key concepts

1. Decent Work and the Informal Economy
   1.1 Key conceptual issues

2. Measurement of the Informal Economy
   2.1 Addressing statistical challenges

PART II: Policies to support transitions to formality

3. Growth Strategies and Quality Employment Generation
   3.1 Patterns of economic growth and the informal economy

4. The Regulatory Framework and the Informal Economy
   (A) International Labour Standards
      4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work
      4.a2 International Labour Standards (ILS): bringing the unprotected under the law
      4.a3 Understanding the employment relationship and its impact on informality
   (B) Specific Groups
      4.b1 Domestic Workers: strategies for overcoming poor regulation
      4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law
      4.b3 Street vendors: innovations in regulatory support
      4.b4 Micro and Small Enterprises (MSEs), informality and labour law: reducing gaps in protection
      4.b5 Strategies for transforming undeclared work into regulated work
   (C) Labour Administration
      4.c1 Labour administration: overcoming challenges in reaching the informal economy
      4.c2 Labour inspection and the informal economy: innovations in outreach

5. Organization, Representation and Dialogue
   5.1 Social dialogue: promoting good governance in policy making on the informal economy
   5.2 The role of Employers’ organizations and small business associations
   5.3 Trade unions: reaching the marginalized and excluded
   5.4 Cooperatives: a stepping stone out of informality

6. Promoting Equality and Addressing Discrimination
   6.1 Promoting women’s empowerment: a gendered pathway out of informality
   6.2 Migrant workers: policy frameworks for regulated and formal migration
   6.3 Disability: inclusive approaches for productive work

7. Entrepreneurship, Skills Development, Finance
   7.1 Informal enterprises: policy supports for encouraging formalization and upgrading
   7.2 Enhancing skills and employability: facilitating access to the formal economy
   7.3 Microfinance: targeted strategies to move out of informality

8. Extension of Social Protection
   8.1 Extending social security coverage to the informal economy
   8.2 HIV/AIDS: overcoming discrimination and economic exclusion
   8.3 Extending maternity protection to the informal economy
   8.4 Childcare: an essential support for better incomes

9. Local Development Strategies
   9.1 Local development: opportunities for integrated strategies for moving out of informality
This brief examines the impediments to skills upgrading in the informal economy: ranging from lack of policy coherence at the macro level, institutional weaknesses in training providers at the meso level through to inappropriate and inflexible delivery at the micro level. It highlights a range of policy innovations from around the world which have opened up entry points for integration with the mainstream economy. These include strengthening the capacity of existing service providers to reach the informal economy; recognising skills gained in the informal economy; policy coherence between human resource policies and other macro-policies to ensure better alignment of supply and demand; as well as improving the quality, delivery and relevance of skills to meet the needs of those currently in the informal economy.
Skills training and informality. Upgrading skills can be a key channel to improve productivity and incomes in the informal economy and open opportunities to link with the formal economy. It is an important element of building capacities within pro-poor growth frameworks and a strong support for strategies to enable the transition to formality. Within an integrated approach encompassing business training, credit and post training supports, as well as a legal and regulatory framework supportive of private sector development, skills training can support medium term strategies for integration with the mainstream economy while also offering a range of immediate benefits to informal economy entrepreneurs and workers. For example technical and vocational skills can improve product quality, reduce wastage and encourage innovation. Business skills can improve occupational health and safety and stimulate better working conditions. Core work skills can improve functional literacy and numeracy, while empowerment related skills such as negotiation, communication, problem solving and confidence building can increase bargaining power and enhance decision making. For national economies, upgrading skills can reduce labour shortages in high growth sectors, encourage foreign direct investment, improve global competitiveness and stimulate innovation and economic growth. Additionally skills upgrading can make local economies more dynamic and it can contribute to the inclusion of economic activities in the informal economies into national and international value chains.

Nonetheless a multitude of challenges must be overcome at policy, institutional and micro levels to enable skills training to improve the productivity of enterprises, the employability and competencies of workers, and contribute to their integration into the formal economy. Issues of access to training, relevance of skills, costs of training and quality of skills are as pertinent in the informal economy as the formal economy, particularly given the characteristics of many informal economy activities. While the informal economy is diverse - ranging from dynamic segments through to survivalist activities - at the most marginalised end, low entry barriers exacerbate problems of market saturation and competition. Low productivity, a weak position

in markets, poor remuneration and limited access to productive resources can continuously threaten the viability of enterprises and activities at the lower end.

For women in the informal economy, the problems may be even more acute. Discrimination in access to education and skills often begins early in life, hampering economic choices in adulthood. The gender division of labour in the household is often reflected in economic activities, with many female occupations linked to domestic responsibilities. The narrow range of occupations and work available to women often confines them to the margins of economic life in poorly paid and highly precarious work. Even within the informal economy women tend to earn less than men, have fewer assets, less skills, more limited employment choices and more fragile enterprises. (see brief on Gender Equality).

For both women and men, a low skills base keeps many trapped in a vicious cycle of low skills low productivity and poverty. Numerous barriers reinforce this low skills base: limited training opportunities, lack of literacy which acts as an obstacle to vocational training access, the high costs of formal education and training and the inflexibility of many training providers to meet the needs of certain groups within the informal economy such as youth, poorer women, disabled, the poor and the non-literate.

For skills training to fulfil its potential to be an important element supporting integration with the mainstream economy a number of policy and institutional challenges need to be overcome. This brief will review seven major challenges which will also be addressed in the Emerging Approaches section to follow: (i) the policy level (in particular the lack of policy coherence within the wider policy frameworks as well as the need to realign human resources policies to reach the informal economy); (ii) weaknesses in existing training providers and their capacity for outreach to the informal economy; (iii) the need to improve the relevance of training provided by training centres and reduce the imbalance between training outcomes and employment opportunities; (iv) Addressing problems of access to skills training; (v) Inappropriate training delivery; (vi) exclusion of vulnerable groups and the need to enhance equitable outcomes; (vii) lack of recognition of existing skills provision and acquisition in the informal economy.

**Skills training policy** should be coherently linked with broader economic policies, including sectoral, trade, agricultural and industrial policies as well as policies linked to private sector growth.

**Weak policy coherence with human resource policies.** Governments design human resources and skills training policies in order to fulfil commitments to education and life learning as a basic human right, as well as to meet wider economic and development goals. Ideally skills training policy should be coherently linked with broader economic policies, including sectoral, trade, agricultural and industrial policies as well as policies linked to private sector growth. However this ideal is rarely met, resulting in considerable mismatch between the demand for skills and the supply of skills. Policy gaps at the macro level can create an unfriendly environment for skills formation to contribute towards the move out informality. Skills training needs to be part of a broader integrated package of policy measures embedded within an employment-centred development framework. A macro-economic framework oriented to capital intensive economic growth often has high costs in terms of employment, particularly amongst the poor. A lack of coordination between economic growth, employment policy and poverty alleviation strategies can prevent the poor from both benefiting from and participating in economic growth. Pro-poor growth strategies which emphasise the centrality of skills upgrading to build the capacities of the poor are often lacking or inadequately implemented.
Skills training policies also need to be effectively linked to private sector growth policies. Cumbersome, complicated and costly registration procedures can inhibit private sector growth and discourage the registration of informal businesses. Opportunities for skills training can even be an incentive within an overall incentives structure to encourage the registration of informal enterprises. (see also brief on Informal Enterprises). At the level of skills policy itself resources may be directed primarily towards the formal economy, neglecting the vast numbers of workers and entrepreneurs in the informal economy. Significant re-orientation of policies and skills training institutions is required if objectives of poverty reduction and decent work are to be met, though this is made more complex by the sheer size and heterogeneity of the informal economy.

Weakness in existing providers’ capacity to address the needs of the informal economy. There are many types of training service providers. Few however are flexible and diverse enough in their delivery, responsive enough to labour market demands or cost effective enough to meet the needs of informal economy workers and operators. A brief review of the range of skills training service providers is necessary to highlight inherent weaknesses in service provision for the informal economy.

- **Public VET systems**: have often been established to serve the needs of the formal economy. They tend to require significant prior education including literacy, numeracy and high school education, thus marginalising a large section of the poor from entry. Courses tend to be of a longer duration, and thereby unresponsive to the needs of the poor who need to continually earn an income. The content is often limited to vocational trades such as carpentry or mechanics, and often with very little orientation towards the self employed. Choices for women are often even more limited, thus reinforcing labour market segmentation and occupational segregation. Public VET systems are also often criticised for being supply driven and unresponsive to labour market demands and the needs of the private sector.

- **NGOs** (non-formal training providers) have strong ties to local communities and often fill gaps in public VET provision by orienting their services to the disadvantaged and rural areas. They have the advantage of being less bureaucratic and more flexible than public providers, though often much more limited in scope. Those with a social orientation often face problems of lack of responsiveness to the local economy and private sector demand. They often offer long courses oriented to wage employment. Others have a stronger business orientation and links to the private sector, with shorter demand-driven courses. All types of NGOs face the challenge of finding external funding, and their impact may be further limited by the lack of appropriate selection criteria for trainees and limited post training support.

- **Private Sector Training providers**: often offer courses complementary to public providers including office skills, entrepreneurial skills and IT skills. The fees structure and entry requirements often make them inaccessible to the informal economy, though the content of the courses are highly relevant for the self employed and entrepreneurs. Private businesses are also involved in training though primarily for their own workforce or different
levels of their subcontract chain including homework at the bottom end of the value chain. While often limited to a specific product or service, it can expose informal economy operators to efficient business practices, quality control and design specifications. The extension of business training in the informal economy is limited since the low skills base and lack of equipment tends not to attract formal businesses.

- **Informal Apprenticeship systems (IA).** These are one of the largest sources of skills acquisition in the informal economy and are found in many developing countries, in particular in African countries. They have evolved over considerable time and have strong roots in the socio-cultural milieu of many societies. While family ties are important, as well as the master craftsperson's standing in the community, IA as a system providing initial training for a trade/occupation has continued to evolve over the last decades, generating new rules and often expanding into new, modern occupations such as car mechanics, or electrical services. Master craftpersons select their trainees carefully based on social networks, personal traits such as talent, competence or trustworthiness, and some on educational level. Training itself is done by observation and emphasises practical learning. The level of theoretical content varies depending on the occupation, but usually is minor. IA is governed by informal rules and norms, most of which are not written. IA offers many advantages: it is less costly than other modalities, it enables apprentices to build up social and business networks and also covers a range of skills such as costing, marketing, supplier and customer relations, work attitudes, while also inducting the trainee into a business culture. There are however significant flaws in IA. Working conditions may be harsh, with poor remuneration, long hours and a risk of exploitation by master craftpersons. Because the theoretical content is usually low and learning is based on observation and repetition, the apprentice does not gain a broader understanding of the theory of the trade, nor is innovation and diversification encouraged. Significantly, because IA is embedded within socio-cultural traditions it is very much oriented to boys rather than girls, though some apprenticeship training does take place in female dominated trades such as hairdressing and embroidery. While the training agreement is governed by informal rules, a lack of formal regulation and certification means that apprentices usually do not gain standardised skills. Moreover, the quality of training varies greatly depending on the pedagogical skills of the master craftsperson, with some having secondary or VET education, and with others having far more basic education. Attempts to strengthen and upgrade IA have to be careful to avoid upsetting the informal rules that govern the institutional framework and incentives structure which guide the delicate relationship between master and apprentice.

- **The mismatch between supply and demand: the relevance of training.** A criticism of many training providers whether in the formal or informal economy is that they tend to be supply driven with little relevance to labour market demand or response to high growth sectors and technological changes.
innovations. Very often social dialogue and partnerships with the private sector are lacking or inadequate in determining the demand for skills. Poorly functioning labour market information systems further exacerbate inaccurate forecasting of skills needs and shortages. At a community level, a lack of market analysis of the local economy prior to training contributes to an oversupply of skills in certain jobs resulting in market saturation and low returns on income. For women in particular, who are often concentrated in a narrow range of economic activities, guidance in identifying more lucrative high demand, and often non-traditional skills, is often lacking.

**Lack of access to training.** As outlined above on the limited outreach of existing service providers, financial and non-financial barriers play an important role in impeding access to skills development for people in the informal economy. High entry requirements, high fees as well as the opportunity cost of training in terms of livelihood income are key barriers to upgrading skills in the informal economy. A significant non-financial barrier to training is the low education level within the informal economy. Poor investment in basic education, high illiteracy rates keeps many in the informal economy excluded from the mainstream economy.

**Inappropriate training delivery.** Different pedagogical modalities are often required for those in the informal economy, including for non-literate populations. Shorter, intensive courses with post training follow-up, linking practical with theoretical training are often in limited supply. Demonstration techniques, exposure visits, enterprise based instruction and opportunities for distance learning, particularly for those in remote and rural areas, are often more appropriate for those in the informal economy, but rarely available. Flexible delivery schedules are particularly important for women, given their domestic responsibilities.

**Exclusion of vulnerable groups of women.** Women are often disproportionately represented in the informal economy and often in the most marginalised end. Women’s more limited skills base as a result of weak access to education is a major factor behind this phenomenon. Global literacy rates for women are lower than for men though the illiteracy gap between girls and boys is closing somewhat as a result of country efforts under MDG 2. The gender division of labour in the household, in which women are often primarily responsible for the domestic sphere, is a considerable impediment to women gaining access to training opportunities. Occupational segregation along gender lines persists due to stereotypes and also limits access of women to training and informal apprenticeship in non-traditional work. Lack of childcare opportunities, few targeted training subsidies, lack of transport allowances and inflexible training schedules and locations act as serious barriers to access new skills for many women. This can be compounded further where there are cultural barriers which restrict women’s mobility. However it is not only women who are vulnerable to social exclusion and limited access to skills training. Those in rural communities, people with disabilities, migrant workers, older workers, ethnic minority and indigenous groups, youth are amongst those who are also often trapped in a vicious cycle of low skills and low productivity jobs.

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Few mechanisms are available to validate skills gained in the informal economy.

Lack of recognition of skills in the informal economy. A serious barrier to those in the informal economy gaining access to formal economy job opportunities is the lack of recognition of skills acquired in the informal economy. Skills are commonly recognized socially, but only extend to social networks and local vicinity. Few mechanisms exist to assess skills irrespective of where the skills were gained which would allow many in the informal economy to access formal training systems and formal economy jobs. Certification processes and assessment of skills are important to validate the skills gained and enable employers to more easily recognize the competencies and skills of job applicants, whether in the formal or informal economies.

12 Ibid
EMERGING APPROACHES AND GOOD PRACTICES

- Policy innovations and policy coordination
- Improving the capacity of training service providers to address the needs of the informal economy
  - Public VET systems
  - Private training providers
  - NGOs
  - Upgrading Informal Apprenticeship systems
- Improving the relevance of training
- Enhancing access to skills
- Improving Training Delivery
- Ensuring Equitable Outcomes
- Recognising Prior Learning

It has always been evident that upgrading skills can play a role in facilitating social and economic advancement. What is also becoming increasingly apparent is that skills development is a key element in supporting the transition to formality and opening up entry points into the mainstream economy. The following range of tools, good practices, project strategies and policy innovations highlight the ways in which governments and social partners have sought to address the challenges identified in the previous section.

- Policy innovations and policy coordination. A number of recent ILO instruments have highlighted the role of skills training to improve the employability of workers and the productivity of enterprises in order to transform marginal survival activities into mainstream economic activity. (See Resources to access these instruments).

Skills training and education need to be a part of a broader package integrating wide-ranging employment and development strategies at the macro level. Effective human resources policies designed to build the capabilities of the poor and marginalised need to be integrated into broader national development frameworks such as national development plans, pro-poor growth strategies, MDG commitments and Decent Work Country Programmes.

An enabling macro-economic environment with employment generation as a core principle is critical if skills training is to deliver on its potential to encourage the move out of informality. Skills policies also need to be coordinated with a range of other policies including fiscal, trade, industrial, sectoral and agricultural policies.

Policy measures to enhance private sector growth also have a key role to play. Simplified registration procedures, fiscal incentives, labour law protection, market information, access to finance and business advisory services, technological innovation and access to social protection when combined with training opportunities can provide important incentives for formalisation of enterprises in the informal economy. (see also brief on informal enterprises).
At the level of human resources policies themselves there is much that government can do to ensure that training systems become more responsive to labour market demand. These include establishing social dialogue mechanisms, for example through tripartite commissions on national training policies to oversee training strategies, developing private-public partnerships, revitalising labour market information systems and orienting their outreach to the informal economy, and better coordination between demand side policies and human resources policies.

In India, where the labour force is primarily in the informal economy, high growth rates in certain sectors have resulted in acute skills shortages. India’s Planning Commission is seeking to address the skills gaps and meet the demand for core and technical skills from India’s employers. Educational infrastructure is being expanded and linkages strengthened to industry, services and agriculture. Developing certification, public-private partnerships, industrial training systems, and providing short intensive skills training to disadvantaged groups as well as providing resources for research and technological innovation are incorporated in its strategy. A number of methodologies for skills provision and certification in the informal economy will be tested through its implementation13.

Targeted interventions for rural workers have been developed in China to facilitate their entry into formal jobs. The Dew Drop Programme is a skills training programme which encourages rural workers to migrate to urban areas where there are skills shortages. Through a combination of training, subsidies and relocation assistance to urban areas the programme is part of a larger poverty alleviation strategy14.

Jamaica has sought to address its low productivity through upgrading skills. Analysis has shown that the economy is plagued by a low skills base, lack of technological uptake, poor quality education, a large informal economy and little diversification in economic activities. The National Development Plan has created incentives for enterprise development and a national qualifications framework. Social dialogue plays a key role, particularly in the functioning of the Jamaica Productivity Centre – a tripartite body which helps diagnose productivity and competitiveness gaps and design effective solutions15.

Ghana’s pro-poor economic strategies aim to upgrade the informal economy. Tripartite structures have been developed through the Ghana Decent Work Pilot Programme which have put in place local economic development plans. Skills training formed a central plank within the overall strategy to assist small enterprises to upgrade their businesses and expand into the formal economy. Public-private partnerships have facilitated more relevant training, which in turn, had an even greater impact through an integrated strategy which included infrastructural investment, linkages to health insurance, savings and credit as well as pensions.

14 For more details see Resources section to access: ILO, 2008 ‘Skills for Improved Productivity and Employment Growth and Development’ op.cit
15 Ibid
Improving the capacity of training service providers to address the needs of the informal economy. Existing skills training providers have the potential to significantly expand their services into the informal economy, as described below.

- **Public VET systems** have the advantage of experience, human and technical resources and infrastructure to deliver training, but they may require considerable reform to improve their relevance and quality of training to the informal economy. They may need to offer different types of training to reach the informal economy, moving beyond just technical skills to business skills for the self-employed as well as incorporating life skills, negotiation skills, employability skills, amongst others. Training delivery may need to become more flexible, offering shorter courses combining practical and theoretical knowledge and participatory approaches. For those with low levels of education, remedial courses may be required. Incorporating methodologies to select trainees, for example by recognising their prior skills and experience gained outside the formal economy can help to expand their services to many informal economy workers and operators. Post training support, in particular linking to employers, business advisory services and labour market information systems are important to improve the employment outcomes for many in the informal economy.

Outreach of national training institutions can also be expanded by combining innovative approaches like community-based training, distance learning, mobile training, entrepreneurship skills training, and through labour-based methods in improving rural infrastructure which could provide training in construction, maintenance and public procurement.

Resources and political will are required by governments to adapt public training systems to meet the needs of those in the informal economy. Efforts to reform curricula, establish certification, or develop poverty-oriented subsidies can have considerable impacts in bringing informal economy actors into the mainstream.

In Honduras, Centros de Educación para el Trabajo (CENETS) target the poor in rural and urban communities. Local needs assessments and community participation are linked to the national vocational training institution INFOP. Core skills are combined with gender and literacy training as well as technical and entrepreneurship training.

In Peru, remedial education has been combined with employment services and technical training, targeting poor underemployed and unemployed youth. The Training for Work programme (CAPLAB) assesses the prior experience of trainees as well as labour market demand, particularly in small enterprises. It includes both on the job training as well as training in formal training institutions and links to employment services. CAPLAB has now been incorporated in the General Law on Education 2003. Peru has also developed a programme of support for micro and small enterprises (PRODAME) which provides free counselling to individuals who wish to formalise their business. PROMPYME is another Peruvian programme which aims to enhance market access for small enterprises.

Access to public procurement is a major incentive to register businesses with the programme.

The Botswana Training authority has put in place strategies to expand access to vocational training for women in the informal economy, starting with regular data collection on gender in all vocational training institutions, particularly on occupational segregation and the training needs of men and women. It has also addressed stereotyping in curricula and given staff gender training. In China, vocational training institutions are increasingly using distance learning in order to reach informal economy workers in poorly serviced areas. Subjects include English, IT, business skills.

• **Private training providers** could become even more effective in upgrading the performance of micro and small enterprises in the informal economy, if their fee structure did not act as a significant barrier. Public sourced subsidies, training grants, vouchers and scholarships could open access to poorer clients in the informal economy. Incentive structures may be very effective in making private training providers more important to the informal economy. Access to capital, fiscal incentives and technical support from national vocational training institutions (new methodologies, labour market research, curriculum development, training of trainers, trade testing and certification) may enable them to expand their scope into the informal economy.

• **NGOs.** The outreach and impact of NGOs training can be strengthened through capacity building in areas such as staff training, dissemination of good practices and by forming partnerships with government, public and private training institutions and social partners. NGOs also need to ensure that the skills they provide are relevant to the local economy. They could do this by establishing regular market needs assessments and monitoring mechanisms, including tracking their graduates after training.

• **Upgrading Informal Apprenticeship systems.** Governments are increasingly recognising the importance of IA as a system of initial training that is a practical, cheap and viable alternative to centre-based training. A number of countries have sought to address some of the inherent weaknesses in the system in order to strengthen IA’s capacity in upgrading the skills base in the informal economy. Strategies include developing incentives and support structures for master craftspersons and apprentices more effective pre-selection procedures and the provision of post training support.

Changes and restructuring in IA requires an institutional approach recognising the culture and informal rules that govern it. Upgrading IA should be based on incentives and tangible benefits for master craftspersons and their apprentices. Complementary courses have proven very effective in building capacities for both masters and the apprentices. New pedagogical techniques, information about markets and higher value added products, new technologies, occupational health and safety, business skills and new technical skills have been effective in improving the training provided by masters and the performance of their own enterprises. For apprentices, complementary training including literacy, numeracy, marketing, business

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18 For more details see Resources section to access: ILO, 2008 ‘Skills for Improved Productivity and Employment Growth and Development -Ibid

19 For more details see Resources section to access: ILO, 2008 ‘Skills for Improved Productivity and Employment Growth and Development -Ibid

20 For more details see Resources section to access: ILO, 2008 ‘Skills for Improved Productivity and Employment Growth and Development -Ibid
skills and theoretical knowledge of the trade have helped many apprentices maximise the benefits of their apprenticeship. Financial assistance to apprentices may also be necessary through public resources to enable many youth to access training, or pay for tools and equipment. Post training support is also particularly important including providing information about self employment opportunities, microfinance, market information, employment services and business advice. Interventions to upgrade informal apprenticeship also need to create linkages with existing formal training institutions. Furthermore, linking to or building certification and assessment systems can enable IA to transmit a more uniform and standardised set of skills to trainees and introduce recognition of skills at national level (see also: recognizing prior learning)). Formalisation of IA involves linking its underlying informal institutional framework (socially assigned rules) to formal institutional frameworks of the formal VET system, and requires carefully designed interventions that do not destroy the incentive structure of the informal apprenticeship system. Innovations in IA strategies include:

- In Kenya, skills development for new products and better business practices, resulted in tangible business improvements for master craftspersons to improve the results of apprenticeship training.
- In Zimbabwe new short, intensive pre-training courses were introduced to better prepare potential apprentices for informal apprenticeship.
- In Cameroon a market driven approach, using market analysis tools to analyse demand in the local economy, has helped to identify and create new opportunities for local products within a local economic development framework.
- In Ghana training courses were set up to improve the skills of masters (for example training in design reading, skills to repair equipment, saving raw materials, production of new items, calculating prices and managing time).
- In Benin, several different interventions in collaboration with crafts associations aimed to improve the informal apprenticeship system. Based on these experiences, the government introduced legislation in 2005 that established a dual apprenticeship system building on the informal practice: apprentices attend training at public or private training centres on Saturdays, while working in their master craftsperson’s business during the week. After three years, the common duration of informal apprenticeship, they sit an exam and receive a formally recognized certificate.

An important weakness of IA is that it tends to benefit young men more than young women. Social factors often inhibit the participation of women in male-dominated trades, and many of the trades that are considered ‘female-oriented’ do not have apprenticeship schemes (except hair-dressing, catering and tailoring where IA is often well established). An ILO/IPEC project in sub-Saharan Anglophone Africa has sought to address this problem through encouraging girls to participate in traditionally male oriented trades such as

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A range of mechanisms can be put in place to enable skills training to be better aligned with labour market demand. 

**Improving the relevance of training.** Mechanisms need to be developed for a range of training providers to match supply with demand for skills. Social dialogue at the enterprise, sectoral and national levels is a key mechanism of improving the relevance of skills to the labour market. Public-private partnerships can ensure better coordination between labour market needs and training institutions. Well functioning labour market information systems are also essential for identification, monitoring and anticipation of skills needs which can feed into training systems. Skills training policies overall need to be aligned and coordinated with industrial, sectoral and trade policies to identify shortage of skills. At a community level, market analysis of the local economy is an essential first step prior to skills training, particularly for the self-employed.

In Malawi, Zambia and Tanzania efforts have been made to coordinate supply and demand by establishing relationships with the private sector. National consultative bodies have been developed to enable vocational training to become more responsive to labour market demand. In Madagascar, an ILO project based on the Training for Rural Economic Empowerment (TREE) package fostered industry linkages by bringing local farmers into international value chains for high value vegetable exports.

**Enhancing access to skills.** Policy interventions need to address both financial and non-financial barriers to accessing skills training for the informal economy. High entry requirements, high fees as well as the opportunity cost of training in terms of livelihood income can be overcome by targeted poverty alleviation strategies. Training subsidies, transport allowances, active labour market policies emphasising training and re-training have an important role to play in reducing the costs to the trainees.

An important non-financial barrier to training is the low education level within the informal economy. Investments in basic education, remedial education including literacy and complementary training is often required to enable many in the informal economy to access and benefit from upgrading skills. Short intensive pre-training and complementary skills training (including literacy, numeracy, leadership skills, management skills, employability skills, occupational health and safety and life skills) have been shown to be effective in preparing trainees for business and vocational training and instilling the ability to continuously learn and develop.

The ILO has developed an important tool in this regard which is anchored within a local development framework and which aims to create new economic opportunities for poor and disadvantaged groups, particularly in rural areas. The **Community Based Training tool - Training for Rural Economic Empowerment (CBT-TREE)** helps communities identify economic opportunities, designs and delivers community based skills training, and provides post training support for example access to markets or organising credit and savings groups. TREE works at a number of levels from micro through to policy development to support community-based training initiatives. At the micro level it not only matches skills to demand but also recognises that a range of complementary skills may be required. A number of TREE projects for example have integrated literacy skills and self confidence building for literacy in carpentry. The project is based on a strong communication and awareness raising strategy for parents, employers and the wider community.

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self employed women. At another level the design and delivery of training often involves significant capacity building of partners. TREE promotes an integrated package including post training support such as micro credit, business advisory services and market information.

TREE has been effectively adapted to the meet the needs of specific communities. The ILO/TREE project in Pakistan for example addressed the issue of women’s restricted mobility outside their homes by using female resource persons to train women in their homes. Support was also provided to male trainees from rural areas in terms of board and lodging. In Pakistan and the Philippines, tracer studies have shown that trainees have used their new skills and earned higher incomes. In the Philippines, 94 percent of those interviewed attributed their present economic activities to the TREE training. In Pakistan the literacy component integrated in TREE greatly improved the participants’ ability to benefit from vocational training. TREE has been implemented in Sri Lanka, Madagascar, Pacific countries, Burkina Faso and Niger.

The ILO’s TREE programme evolved out of its Community Based Training programmes which were similarly anchored in participatory approaches at the local level. In Bangladesh the CBT project targeted rural women and integrated confidence building and gender awareness training with technical and business skills. Market assessment was conducted prior to designing the training package and post training support has also been particularly important in enabling women to start enterprises. Training was designed in modular forms and at times convenient and locations to the women participants. A small training allowance encouraged participation and supported transport costs. In Cambodia CBT focused on training and employment needs, course identification with NGOs and the private sector, development of curriculum, training of trainers and selection of trainees for self employment. Flexible modalities included both centre based training and shorter mobile courses. Microfinance options were linked to training. Tracer studies showed that of the 5,500 enrolments, drop-out rates were as low as 0.4 percent and some 77 percent of graduates were employed after training (mainly self employed). In the Philippines the CBT approach has flourished into the Community based training and Entrepreneurship Development (CBTED) programme which has become a standard programme of the national skills development organisation TESDA. The importance of pre-training economic research has been widely recognised and has been streamlined into all training. CBTED is primarily implemented at the municipal level through coalitions of government agencies and NGOs.

Innovations in training delivery have often combined institution based learning with enterprise based instruction, linking practical with theoretical, incorporating mobile learning units as well as distance learning opportunities, particularly for those in remote or rural areas.

Improving Training Delivery. Training systems need to be diverse and flexible and recognise that while skills take a long time to be acquired, short intensive courses are often the most effective when also accompanied by post training support. Innovations in training delivery have often combined institution based learning with enterprise based instruction, linking practical with theoretical, incorporating mobile learning units as well as distance learning opportunities, particularly for those in remote or rural communities. Participatory pedagogical techniques, and modular courses are particularly relevant for non-literate or poorly educated groups. Demonstration techniques, exposure visits and practical learning need to be accompanied by theoretical knowledge which can facilitate a broader understanding of the trade and encourage diversification and innovation. Curriculum may need to be revised and standardised to enable a more uniform transmission of skills. The TREE programme described above incorporates a range of participatory pedagogical techniques and methodologies.

Ensuring Equitable Outcomes. Given the significantly more limited skills base of women, investing in basic education is critical for girls. Incentive schemes have been developed by numerous countries to encourage parents to send their daughters to school. A range of strategies such as conditional cash transfer schemes to mothers, scholarships, food products, in-school feeding programmes, free textbooks and uniforms, back-to-school camps and bridging programmes for girls have been effective in improving girls’ access to schooling. In some communities subsidised child care facilities have also eased the burden of sibling care for many girls and life skills courses for teenage mothers have enabled them to continue to access education. For adult women, overcoming barriers set by their household responsibilities is critical to enable them to gain access to skills opportunities. Providing childcare for training opportunities, subsidies, transport allowance, flexible training schedules and locations, and, for women with restricted mobility: mobile training units and home-based training, have proven to be very effective in various settings.

Addressing labour market segmentation, gender wage gaps and occupational segregation in the informal economy, as in the formal economy, requires a range of parallel strategies such as career guidance into skills that are in high demand, reform of skills training providers in terms of curriculum and courses, targets for gender balance in participation and considerable awareness raising amongst employers, including master craftspersons in informal apprenticeship, and the wider community. For training in non-traditional skills to be effective they must first be accompanied by an accurate market assessment of skills in demand, and often a long and sustained advocacy and awareness raising at the community and institutional level to build support for new economic roles for women. Where gender relations are particularly restrictive, training in non-traditional skills should be undertaken with considerable caution and with the cooperation of the wider community to avoid marginalisation of the women trainees.

A number of ILO projects, including the TREE projects mentioned above have sought to address these issues through both a gender mainstreamed approach (whereby interventions are designed to take into account the different situation, needs and impact on both men and women equally), and, where relevant, a gender specific approach (whereby interventions are designed to upgrade the situation of the particularly disadvantaged sex). The ILO Decent Employment for Women (DEW) project in India worked with poor and illiterate women. A range of skills modules were offered including entrepreneurial, life skills, occupational health and safety for women, gender
equality, legal literacy, confidence building and leadership skills. Post training support included linkages with employers, industries, markets, banks, microfinance and the national employment service. In some cases training was also provided in non-traditional skills.

Women often need support to expand their activities to more lucrative demand driven work. An evaluation of an early phase of an ILO project on entrepreneurship development for women with disabilities in Ethiopia (DEWD) found that women tended to go into similar low-income food processing activities. Later phases, based on a participatory market assessment enabled women to identify more lucrative economic opportunities in their communities.

Youth A number of countries are also making strong efforts to ensure that other vulnerable groups such as youth and disabled have opportunities for skills upgrading. In Trinidad and Tobago for example, the National Centre for Persons with Disabilities offers two year skills training in a range of courses certified by the National Examination Council of the Ministry of Education. In addition to technical skills the programmes include numeracy, literacy, IT, independent living skills and core skills to enhance disabled persons employability in the labour market. Graduates are channelled into apprenticeships or advanced training before moving on to jobs at local companies. Over 55 percent of graduates find jobs in open employment and some enter self employment.

In Cambodia under the Alleviating Poverty through Peer Training (APPT) project, people with disabilities are given in-house training in already established businesses. Pedagogical techniques are based on learning by doing and supported by market analysis to avoid market saturation in particular business niches.

An Africa Educational Trust project, the Somali Educational Incentives for Girls and Young Men (SEIGYM) used vouchers to encourage disadvantaged youth to gain reading and work skills in urban areas across Somaliland and Puntland. The vouchers allowed disadvantaged youth to pay for literacy and numeracy training before they went on to skills training for employment (carpenters, driving instructors, painters, tailors and nurses). Vouchers were only redeemable if the training providers certified training. Some 5,000 young women and men in Northern Somalia were selected and offered vouchers to access the course of their choice such as literacy and computer courses.

27 The latter component was the one area which generated mixed results. Although it was relatively easy for the women trained in traditional vocational skills to find work or sell their produce, it was much more challenging for women trained in non-traditional skills to find work. Many women trained as plumbers and taxi drivers were not able to find work because of the attitudes of employers and the community. Limited organization of the trainees into production groups and cooperatives was also a factor. Such problems can be overcome by a strong awareness raising component for the community, adequate market assessment prior to training and better linkages between training institutions, small scale employers and labour market institutions.


29 For more details see Resources section to access: ILO, 2008 'Skills for Improved Productivity and Employment Growth and Development' Op.cit

30 For more details see Resources section to access: ILO, 2008 'Skills for Improved Productivity and Employment Growth and Development' Ibid

31 For more details see http://www.africaeducationaltrust.org/africa.html
Recognising Prior Learning. A key issue for informal economy workers and operators is that their skills are not recognised in the formal economy. This blocks their entry into the formal labour market or the formal training system. The South African Qualifications Authority has developed guidelines and procedures for the recognition of prior learning within its National Qualifications Framework. Guidelines include assessment, feedback and quality management. Industry specific plans have been developed which include skills verification systems and the organisation of upgraded training. A number of industry specific plans specifically target the informal economy in order to facilitate entry to the formal economy. In Chile the Second Chance programme has developed short courses with flexible schedules to facilitate entry into the formal labour market. The Chilecalifca programme was launched in 2002 with the objective of improving the level of schooling and technical training, national certification of skills and competencies and labour market information systems.

South Africa and Chile have developed guidelines and procedures for recognising skills gained informally.

Upgrading informal apprenticeship - A resource guide for Africa

In 2012, the ILO released a new package to support the strengthening of informal apprenticeship systems. The package provides detailed practical guidance in overcoming some of the existing weaknesses in informal apprenticeship systems, which have been described in this brief, in areas such as financing, monitoring quality, strengthening gender equality, and improving linkages with formal systems.

To access this publication, see http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---ifp_skills/documents/publication/wcms_171393.pdf

However it should be noted that experience in recognizing prior learning so far, in particular in the context of National Qualification Frameworks, is mixed. Several recognition systems are cumbersome and costly, most established systems have not reached large numbers, and evidence of their use by employers is lacking in many countries. See for example Allais, S. 2010. The implementation and impact of National Qualifications Frameworks: Report of a study in 16 countries, Skills and Employability Department (Geneva, ILO).


For more details see Resources section to access: ILO, 2008 ‘Skills for Improved Productivity and Employment Growth and Development’. ibid.
This section provides a list of resources which can enable the reader to delve deeper into the issue. Details of the good practices cited above can be accessed here. The section comprises international instruments, International Labour Conference conclusions, relevant publications and training tools. A bibliography of references in the text is further below. There may be some overlap between the two.

**ILO instruments and conference conclusions**

- ILO Human Resources Development Recommendation, 2004 (No.195)
  

  

  

- ILO 2008 Conclusions on 'Skills for improved productivity and employment growth and development' International Labour Conference 97th session 2008 Geneva
  

**Relevant Publications**

  

  

- Liimatienen, Marjo-Riitta 2002 Training and skills acquisition in the informal sector: A literature review Skills Working Paper no.9, Infocus Programme on Skills, Knowledge and Employability (Geneva, ILO)
  

  


  

  

**Tools**

- ILO The Know About Business (KAB) programme.
  

  

  


For further information see the ILO Skills and Employability Department website http://www.ilo.org/skills/lang--en/index.htm

References


Lilimateinen, Marjo-Riitta 2002 Training and skills acquisition in the informal sector: A literature review Skills Working Paper no.9, Infocus Programme on Skills, Knowledge and Employability (Geneva, ILO)

Mitra, A 2002 Training and skill formation for Decent Work in the informal sector: Case Studies from India Skills Working Paper no.8 Infocus Programme on Skills, Knowledge and Employability (Geneva, ILO)


Nübler, I 2007, Apprenticeship: A Multidimensional Approach, ILO workshop on Apprenticeships in the West African Region, 3-4 May


# A Policy Resource Guide Supporting Transitions to Formality

**Contents:**
- Acknowledgments / Foreword / Preface / How to use the Guide / Acronyms

## PART I: Key concepts

1. Decent Work and the Informal Economy
   - 1.1 Key conceptual issues

2. Measurement of the Informal Economy
   - 2.1 Addressing statistical challenges

## PART II: Policies to support transitions to formality

3. Growth Strategies and Quality Employment Generation
   - 3.1 Patterns of economic growth and the informal economy

4. The Regulatory Framework and the Informal Economy
   - (A) International Labour Standards
     - 4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work
     - 4.a2 International Labour Standards (ILS): bringing the unprotected under the law
     - 4.a3 Understanding the employment relationship and its impact on informality
   - (B) Specific Groups
     - 4.b1 Domestic Workers: strategies for overcoming poor regulation
     - 4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law
     - 4.b3 Street vendors: innovations in regulatory support
     - 4.b4 Micro and Small Enterprises (MSEs), informality and labour law: reducing gaps in protection
     - 4.b5 Strategies for transforming undeclared work into regulated work
   - (C) Labour Administration
     - 4.c1 Labour administration: overcoming challenges in reaching the informal economy
     - 4.c2 Labour inspection and the informal economy: innovations in outreach

5. Organization, Representation and Dialogue
   - 5.1 Social dialogue: promoting good governance in policy making on the informal economy
   - 5.2 The role of Employers’ organizations and small business associations
   - 5.3 Trade unions: reaching the marginalized and excluded
   - 5.4 Cooperatives: a stepping stone out of informality

6. Promoting Equality and Addressing Discrimination
   - 6.1 Promoting women’s empowerment: a gendered pathway out of informality
   - 6.2 Migrant workers: policy frameworks for regulated and formal migration
   - 6.3 Disability: inclusive approaches for productive work

7. Entrepreneurship, Skills Development, Finance
   - 7.1 Informal enterprises: policy supports for encouraging formalization and upgrading
   - 7.2 Enhancing skills and employability: facilitating access to the formal economy
   - 7.3 Microfinance: targeted strategies to move out of informality

8. Extension of Social Protection
   - 8.1 Extending social security coverage to the informal economy
   - 8.2 HIV/AIDS: overcoming discrimination and economic exclusion
   - 8.3 Extending maternity protection to the informal economy
   - 8.4 Childcare: an essential support for better incomes

9. Local Development Strategies
   - 9.1 Local development: opportunities for integrated strategies for moving out of informality
Microfinance can be an important support for the transition to formality both through providing incentives to move out of informality and through their position within supervisory frameworks. They have the advantage of being flexible and accessible to the poor while also being regulated. Importantly, MFIs can support informal operators’ access to other markets and income generating opportunities and are therefore attractive partners for informal economy operators that wish to grow. MFIs also often offer the advantage of not requiring formal property as collateral for loans and rely less on written documentation than formal financial institutions. Similarly, the underlying poverty alleviation orientation of MFIs enables them to meet both equity and efficiency objectives including job creation, reducing vulnerability and facilitating empowerment through group organization.
KEY CHALLENGES

- Microfinance and informality
- The role of microfinance in addressing market failure
  - Legal form
  - Transaction costs
  - Information asymmetries
  - Collateral substitutes
  - Moving towards formality through documentation
- Assessing impact on economic and social indicators
- Sustainability issues

Microfinance and informality. Microfinance has grown rapidly as a sector throughout the world and is widely recognized as a valuable instrument to combat financial exclusion of poor communities. Microfinance has attracted interest as a strategy for reducing poverty for several reasons: it has rapid, massive and verifiable effects; it can be measured and evaluated; it can often be scaled up quickly; it can be targeted with precision at the poor and sometimes even the very poor; microfinance recycles financial resources generated in the local economy (unlike grant or transfer-based programs in poverty reduction). Above all, microfinance empowers: it is a catalyst for organizing, and also treats the poor as autonomous, responsible individuals who are expected and want to take charge of their lives.

While microfinance is generally recognized to have positive income stabilization effects on the self-employed and micro enterprises in the informal economy, much less is known about the impact of microfinance on supporting the move out of informality. It is likely there is a strong link because loan, deposits and other service contracts contain elements of the formal economy, without being at the same time as sophisticated as mainstream bank services. Also, in order to grow microfinance institutions encourage their clients to grow themselves from livelihood activities to genuine micro-enterprises, and from these to small and medium enterprises.

The ILO’s interest in this link stems from the fact that moving out of informality is intrinsically woven into the Decent Work agenda. It has consequences for the wages of workers on the payroll of a micro-entrepreneur. Higher labour incomes provide more margin to protect against risks. Transitioning to formality also facilitates the creation of safe working conditions; it helps ensure fair and equitable access to employment opportunities, and it contributes to the elimination of child labour and abolition of bonded labour. In all of the above instances microfinance can make a difference, by providing incentives to move out informality.

MFIs themselves have an interest in alleviating decent work deficits amongst their clients. One reason is that this is a way to counteract the negative publicity caused by controversies around excessively high interest rates and aggressive collection practices. In Bolivia, Mexico, India, Bangladesh and many other places MFIs have become criticized because of what is perceived

What is Microfinance?
Microfinance covers financial services such as savings, credit, insurance and remittances to low income groups, very often women. What distinguishes microfinance from conventional finance is the aim to serve poor people – and generally people outside the reach of the formal financial market – through financially sustainable microfinance institutions. Most banks for example are not poverty-oriented and do not carry a social mission. Microfinance, by contrast, embodies a viable combination of equity and efficiency.

In a world where most private enterprises employ fewer than ten workers and where self-employment is pervasive, microfinance facilitates the acquisition of assets needed by small economic actors to improve their enterprise and to access markets. All over the world large numbers of people are engaged in informal activities. It is primarily this clientele operating in the informal economy that is targeted by microfinance institutions (MFIs).

Microfinance contributes to:
- Job creation via products that facilitate small investments in fixed assets and working capital (e.g. credit, equity, leasing, guarantees).
- Reducing Vulnerability through products (e.g. savings, emergency loans and insurance products) which stabilize incomes of people living near the subsistence level.
- Empowerment through group organization that give voice.

1 For more details see Resources section to access: ILO, 2002, “Microfinance for employment creation and enterprise development.”
in the public opinion as excessive interest rates and “exploitative,” “usurious”
practices. MFIs therefore need to show tangible, massive welfare effects on
their clients, including for example enabling parents to send their children
to school or facilitating clients to settle doctor’s fees through disposing of
savings balances or that clients have better access to the formal economy.
Another reason that MFIs have a stake in supporting the transition to formal-
ity is that less informal clients become more transparent to the MFI, hence
less risky.

The role of microfinance in addressing market failure

Formal finance providers cannot directly deal with home-based produc-
ers and microenterprises, because of their very small scale of operations.
Another obstacle is the absence of a legal form that allows insight into the
ownership situation:

• Legal form. Small businesses that are unincorporated are usually not
required to submit financial reports. Nor do not have the kind of collateral
that investors or creditors expect as security to protect against default
risk. The performance of a small undertaking therefore hinges on the
qualities of one person, the entrepreneur – a fact that increases the risk
exposure of the lender. Many family-based enterprises also tend to have
very personalized and proprietorial attitude towards their undertaking,
which makes them reluctant to share ownership and decision making with
associates. This weakens their equity position and makes access to loans
more difficult.

• Transaction costs. The most important constraint to market access lies
in the functioning of the financial market itself. Key to the functioning of
financial markets is access to information about risks and returns. Gather-
ing and processing accurate information about clients and their proposed
projects are costly. The cost for banks to evaluate a loan application is
largely fixed and independent of loan size. Thus, financial institutions
tend to seek out larger and better-secured transactions. Even in developed
countries, the average start-up capital for people coming out of unem-
ployment and seeking to set up their own business (£6,000 in the United
Kingdom, €22,000 in Ireland, €25,000 in Germany, €23,000 in France and
C$12,000 in Canada) is sometimes considered too small by banks.

• Information asymmetries. Lenders or investors feel that they do not
have sufficient information about the entrepreneur’s history or intentions
to make sound decisions. Very small business owners also do not maintain
appropriate accounts nor financial statements which reduces the validity
of information.

In contrast to banks MFIs are less constrained in the way they secure their
loan portfolio. This has made microfinance attractive for people without
property rights and land titles. Among the techniques that MFIs have
adopted to overcome collateral constraints, are:

3 ILO 2002 Microfinance for employment creation and enterprise development. GB. 285/ESP/3.
• **Collateral substitutes.** In the absence of assets with property rights verifiable in courts joint liability, personal guarantees, the pledging of household goods, jewelry, and other items enforce repayment obligations socially; in contrast to conventional collateral, if and when an asset is liquidated, the residual cash value of such items are of little or no use in repossession procedures. This substitution of conventional collateral is one of the hallmarks of microfinance.

Joint liability is strategically used by some MFIs to reach poorer, less formal clients (RCPB/Burkina, OTIV/Madagascar). Joint liability works via peer pressure, primarily to reduce default rates, and this peer pressure can be used to also sensitize clients about cost-effective ways to improve decent work standards, like reducing child labour or hazardous working conditions. Jewelry, household appliances and other collateral substitutes are used by CVEVA Mali only for smaller transactions. By accepting and insisting on specific household appliances as collateral substitutes, the MFI generates information about the household-enterprise. Most financial cooperatives expect some prior deposits.

Some MFIs, however, are increasingly moving away from collateral substitution. Those that operate both individual and group-based transactions tend to use more and more conventional collateral for individual transactions while continuing to rely on joint liability for group-based transactions. The larger the loan amount, the more likely the use of conventional security.

• **Moving towards formality through documentation.** Another way to address lack of client information is to encourage clients to document themselves before they become eligible to larger loans. Documents give information about the client, and the more information is available the safer the transaction. Formality also gives additional leverage to ensure client’s compliance with regulations.

The Government of Brazil, for example, induced micro entrepreneurs to register by applying a simplified tax payment system. The Alexandria Business Association (ABA), an MFI in Egypt, links follow-up loans to progressively higher documentation requirements, thus encouraging borrowers to slowly “graduate” out of informality.

Some major challenges confront MFIs including the quality of the jobs created as a result. The concern for job creation resonates increasingly in the microfinance industry. Major microfinance networks refer to the expected impact on jobs as one of the key benefits of their programmes. Opportunity International, for example, claimed having created or maintained over 1.2 million jobs in 2004 worldwide. MFIs cater primarily to the self-employed and household activities, many are own account operators with unpaid family workers. While clients may be able to generate employment, this does not necessarily mean full-time, stable and remunerated jobs, but also largely unpaid family jobs. Moreover, employment in the informal economy is often sub-standard: unproductive, poorly remunerated, not recognized or protected by law, lacking social protection and economic security. So far, the evidence would suggest that the services provided by MFIs tend to stimulate more

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5 José Mauro de Morais, Credit support program for micro, small and medium enterprises in Brazil, OECD Conference Brasilia, March 2006, p.26
6 For more details see Resources section to access: Opportunity International UK Annual report 2004, p.7
demand for unpaid family labour and child labour, apprentices, day workers, less for wage employment. This may be due to the limited productivity boosts induced by micro-loans in livelihood micro-enterprises.

- **Assessing impact on economic and social indicators.** Beyond anecdotal stories, there is still not enough information about the impact of microfinance. The reason is that the average client of MFIs is a “household-enterprise” where changes in employment are difficult to track, for instance: whether a seasonal job is transformed into a permanent job or whether a paid job is downgraded into an apprenticeship or whether children who had been attending school drop out and work.

The household-enterprise is a “black box” with highly fungible financial resources, generated and spent by the household and the enterprise for investment, savings and consumption. The goals of such a complex unit as a household-enterprise are equally complex: household-enterprises seek to generate income, manage risks and protect themselves against income fluctuations by diversifying income sources and by building human capital over the longer term through education and health care.7

There are also methodological challenges to establishing the “impact” of microfinance on employment:

- Employment is an indirect effect, filtered by decisions made by the client, not by the MFI providing the credit; therefore it may be difficult to ascertain whether the employment change results directly from microfinance or other factors;

- The shifts and substitution effects taking place over time between different forms of paid and unpaid employment in a household-enterprise are largely hidden.

- The shifts in demand for labor do not necessarily enhance work quality. If a loan allows parents to have sufficient additional income that they can afford to send a child back to school, then it has improved work quality for the entire household-enterprise. But taking out a loan could also mean that family members have to work or that children are withdrawn from school to work longer hours.

- **Sustainability issues.** Sustainability is another key challenge that MFIs face. Since only a small number of micro activities have the potential to accumulate capital, increase productivity, grow in assets and turnover, and create wage employment subsequently, some MFIs have opted to focus on these growth-oriented micro-enterprises or even go straight into “meso” finance, i.e. SME finance. The advantages to the MFI is that higher yields at lower transaction costs; it diversifies the client base and allows the introduction of new services like longer term investment financing, leasing and cross-subsidization of loss-making business lines. For example, the African Capacity Enhancement Program (ACEP), an MFI in Senegal,

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7 Income-generation: The most common approach is to provide microfinance services (credit, equity, leasing, and payment and guarantee products) to start or expand an income-generating activity in a micro enterprise. This allows entrepreneurs to build assets and to create and sustain jobs. Risk-management and reduction of vulnerability: microfinance also plays a role for vulnerable persons to cope with and mitigate risk. Through appropriate risk-managing financial services, such as savings, emergency loans and possibly insurance products, microfinance helps vulnerable groups to stabilize income levels and smooth consumption and thereby to weather the storms of unpredictable expenses and income droughts. Empowerment: Microfinance approaches, e.g. group lending, savings mobilisation etc, enable persons to take over financial responsibility for their life and thereby strengthening social capital and empowering people, especially women. The titles in J.D. von Pischke’s credit impact bibliography in fact reveal that the preferred dependent variables are empowerment, risk management and community level issues, J.D. von Pischke, Poverty, Human development and Financial Services, UNDP Occasional Papers 25, New York, 1999.
Sustainability is a key challenge facing microfinance institutions. It considers that of its 20,000 active borrowers, over 1,000 have growth potential. It introduced a new scheme ACEP-PME\(^8\) which is meant to cater to loans up to $34,000. In Madagascar, the Action pour le Développement et le Financement des Micro-Entreprises (ADEFI) with the help of the Agence Française de Développement launched in 2002 a medium-term investment credit aimed at small and medium-sized businesses with the expectation to cross-subsidize services targeted at the poor. In Burkina Faso, the cooperative bank network Réseau des Caisses Populaires du Burkina (RCPB) recently set up a Centre Financier aux Entrepreneurs, geared towards responding to the demands of SME clients\(^9\).

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8. African Capacity Enhancement Program–Petites et Moyennes Entreprises (Small and Medium Enterprises)
Young women negotiating a loan, Bolivia.
EMERGING APPROACHES AND GOOD PRACTICES

- Meeting protective (and productive) needs in the informal economy
- Microinsurance
- Release from bonded labour
- Integration, non-discrimination, equal opportunities
- Creating wage employment
- Working conditions
- Combining financial and non-financial services
- Targeting
- Smart subsidies: Resolving the poverty-sustainability dilemma
- Combining financial and non-financial services
- Role of banks and public authorities

Meeting protective (and productive) needs in the informal economy.
Microfinance has continued to evolve over the last 30 years. Overall, MFIs have been strong in responding flexibly to a variety of needs of clients in the informal economy as they innovate financial service provision, expand the range of financial products beyond entrepreneurial credit, and link financial with non-financial services. The perception of the scope and direction of microfinance has changed considerably. All MFIs have diversified their credit products to include emergency loans and longer term loans while many have in addition acquired the legal capacity to take deposits either from their members (if they are a cooperative) or from the general public (if they transform into a financial institution). Several, and in particular those that are keenest on poverty reduction, offer training, legal awareness courses, maternal health care, and other non-financial services.

Microinsurance. One of the most dynamic changes is the growing demand for microinsurance for a variety of contingencies (health, life, assets, accident, old age, crop failure etc.). BASIX, one of India’s premier microfinance institutions, collaborated with insurance companies to offer a wide range of insurance products such as life, livestock, rainfall, and health insurance. 10

Generally MFIs which supply services to workers and enterprises in the informal economy realize more and more that the poor need protection against a variety of risks. Any threat to their health and well-being immediately endangers their livelihoods. GRET created a microinsurance programme after it was becoming apparent that the main cause of arrears and loan default among many of their microfinance clients was out-of-pocket health expenses.

Release from bonded labour. The National Rural Support Programme (NRSP), a multi-purpose NGO in Pakistan, has since 1998, used a broad mix of social mobilization and microfinance to make sure that “haaris”, a caste of bonded labourers who had escaped economic servitude, do not slip back

In Pakistan access to microfinance and non-financial services has helped former bonded labourers avoid a return to forced labour into debt bondage. Former haaris were provided with a “safety net” to reduce the likelihood of freed bonded labourers being exploited again or returning to bonded labour. The economic components of this safety net included access to affordable micro-credit, a savings programme and a land-lease programme that has so far enabled 54 families (out of a total of 400 families) to own a piece of land. The mix of financial and non-financial services led to tangible results as none of the families living in the participating settlements returned to debt bondage.11

Integration, non-discrimination, equal opportunities. Women and other discriminated groups have particularly benefited from access to microfinance. Examples of initiatives launched by MFIs to include formerly discriminated groups of the populations include:

- FECECAM in Benin, RCPB in Burkina Faso, Kafio and Nyegisio in Mali, among others, developed specific products targeted at illiterate women (« le tout petit crédit pour les femmes »)
- Flexible collateral requirements: loans between $10 and $50 are secured by a Guarantee Fund (PAMECAS in Senegal)
- Decentralizing disbursements and collection to mobile loan officers (AMMACTS in India, CAME in Mexico)
- Setting up of distribution points (Nyegisio in Mali, Kaxa Taon in Mexico) close to home-based clients.

Promoting gender equality through access to finance

Women entrepreneurs throughout the world contribute to economic growth and sustainable livelihoods of their families and communities. Microfinance helps empower women from poor households to make this contribution. By the end of 2006, microfinance services had reached over 79 million of the poorest women in the world. The business case for focusing on female clients is substantial, as women often register higher repayment rates. They also contribute larger portions of their income to household consumption than men. Thus there is a strong business and public policy case for targeting female borrowers. Children of women microfinance borrowers also reap benefits, as there is an increased likelihood of fulltime school enrolment and lower drop out rates, particularly for girls.

Although the positive impacts of microfinance on women’s empowerment are strongly evident, special measures may need to be put in place to offset negative outcomes. In some cases male household members may take control of the loan, while in others women may struggle with a heavier workload created by the responsibility for loan payment. Moreover differences in literacy, property rights and social attitudes about women may limit impact outside of the immediate household.

Strategies for advancing gender equality through microfinance include:

- Capacity building on gender mainstreaming for MFI staff
- Adjusting financial services to better address women’s needs (including tailored financial products, savings products to manage risk, microinsurance, adjusting collateral requirements and encouraging the registration of property in women’s names)
- Offering access to non-financial services (including literacy training and business training)
- Community based awareness raising on gender issues and women’s income generation

11 For more details see Resources section to access: website of the National Rural Support Programme (NRSP).
12 Fédération des caisses d’épargne et de crédit agricole mutuel
13 Réseau des caisses populaires du Burkina
14 Acts Mahila Mutually Aided Coop Thrift Society
15 Centro de Apoyo al Microempresario
• Strengthening women’s groups (not only as a means of lowering MFI costs but also to enable the delivery of non-financial services such as literacy and health programmes. These groups can also be an important means of giving women voice and strengthening bargaining power in poor communities.

See: Small Change, Big Changes: Women and Microfinance, International Labour Office

Creating wage employment. Several MFIs are keen to move into the market segment of SME finance synonymous with job creating clients. For example a special SME window has been created in Burkina Faso: Centre de Financement d’Entreprise at the RCPB, ACEP-PME in Senegal, ADEFI16 in Madagascar. In other cases special products have been developed: equipment finance, mutual assistance fund (TYM Fund in Vietnam); life, credit life, livestock and other asset-based insurance (BASIX, ASA17, Cashpor, AMACTS/ all India), particularly suitable to SMEs.

Working conditions. Microfinance programmes have also been channels for providing information and incentives to improve working conditions. For example Al Amana in Morocco provides leaflets on workplace improvements and some MFIs use collateral substitution as an incentive for improvements in working conditions. For example CVEVA in Mali, RCPB in Burkina Faso, OTIV in Madagascar.

Targeting. Targeting is potentially a strong means to support the transition to formality. MFIs have always targeted clients. Part of their anti-poverty mission is to correct market failure and build bridges to those excluded by conventional financial institutions. MFIs usually target by observable individual characteristics like age, gender or skills profile.

As MFIs continue to evolve there is strong potential for them to target decent work outcomes. Clients who meet eligibility criteria could get preferential treatment, whether through interest rebates, relaxed collateral requirements or fast track arrangements for speedy issuance of loans.

MFIs could also opt to support only income generating activities without health hazards and child labour.18 An MFI could, for example, choose not to lend to enterprises in the construction sector unless the businesses have insurance for workplace accidents.19 MFIs can also target market segments signaled by average transaction sizes and collateral requirements. MFIs can target location, excluding some and including others.

The complexity of targets varies: there are single and fairly inclusive targets (like “poor women” or “rural poor” or “micro-entrepreneurs” or “informal enterprises”), and there are also complex, more exclusive targets (“rural women below the poverty line in drought-affected areas where Dalits form the majority of the population”20 or “women in poor households earning less

16 Action pour le Développement et le Financement des Micro-Entreprises
17 Activists for Social Alternatives
18 This is comparable to negative investment criteria advocated for example for large scale financial corporations in the Equator principles.
19 In extreme cases it may wish to exclude from its portfolio any activity known to violate decent work norms. An example for targeting a specific line of business with a view to maximize job creation – albeit not from the micro-finance field – is the J for Jobs initiative of a US trade union controlled life insurance company.
20 Action for Social Advancement (ASA), India.
than $6.5 a month and total assets no more than $1,000; between 18 and 55, good physical condition.” Some MFIs target broadly, yet with explicit exclusions: “not the young, no wage earners.”

Targeting is a good illustration of the substantial discretion at the disposal of MFIs. Methodologies can and do evolve over time. Amongst the MFIs that have changed their target groups are PRIZMA (Bosnia), which broadened its target clients either marginally from “women only” to “women and their families,” or extensively like RCPB which added SMEs to their target clients, or Nyegisio which enlarged its catchments’ area from 100 percent rural to mixed rural and urban.

Smart subsidies: Resolving the poverty-sustainability dilemma. A fundamental issue faced by practitioners and donors is how to preserve the dual commitment of MFIs to poverty reduction (thus decent work) and profitability. The balance can be a challenge particularly when a social mission implies lower profit margins and higher transaction costs for the MFI.

This can mean that there are MFIs with a pronounced social mission that may have sustainability problems. Public funds are one way of enabling MFIs to continue to support poverty reduction. Public sector promotion of MFIs comprises a host of measures, including subsidies. Budgetary support to MFIs is not inherently good or bad, it all depends whether they are tailored to avoid market distortions and induce better institutional performance in MFIs. Some of the lessons learnt in this respect are:

- Subsidizing networks or apex institutions create fewer distortions than subsidizing individual MFIs.
- Subsidizing the intermediary distorts less than subsidizing the client directly.
- Subsidies that come without strings attached are likely to have a greater adverse effect than performance-linked grants.
- Subsidies attached to an exit strategy are preferable to subsidies without time limit.

A few minimum requirements to enable public policy to support ‘smart’ subsidies include:

- An MFI must have a ratio of operational self-sustainability of at least 100, i.e. it must cover its operational cost by operational revenues, leaving aside inflation, subsidies and accounting errors.
- MFIs should over time show a progression towards full financial sustainability
- Massive and deep outreach can compensate for a temporary shortfall in financial sustainability.

Efficiency comparisons only make sense in relation to a cluster or group of similar MFIs that use similar resources, offer similar products and operate in similar markets. Within its clusters MFIs should advance towards the performance levels of the one MFI that is performing best. Subsidies conditioned on performance and a contractual basis are not likely to distort the market. Lastly, MFIs that are and remain inefficient and continue to depend on subsidies should be cut off from public support.

21 TYM, Viet Nam.
22 CVECA Burkina Faso.
Combining financial and non-financial services. In isolation, financial service provision, training or advocacy or legal awareness courses usually do not make a dent on poverty; but their combination does. Vocational training is more effective if at the end of a training course there is a prospect of funding to apply the skills acquired; inversely, the utilization of loans is improved when some non-financial service improves technical and managerial competence. In addition, several MFIs, especially those with a social mission, see financial services as a vehicle to transmit other messages.

An example is Freedom from Hunger which combines microcredit to very poor women with health education, literacy and business training. “Credit with Education” has become recognized as an effective way to help families become food secure. The approach is also implemented in Burkina Faso (RCPB), in Mali (NYEGISIO) and in Madagascar (VOLA). Another example is NRSP in Pakistan where former bonded labourers are organized in small units for literacy training, legal awareness raising, social mobilization and – of course - distributing and collecting loans.

Non-financial services are costly, and a major drawback is that they rarely can be fully charged to the client; nor can these costs always be fully absorbed by the MFI through cross-subsidization. Attempts by MFIs in West Africa to charge women the full costs of “Credit with Education” led to a dramatic client drop-out. Furthermore, under certain conditions, non-financial services can limit outreach: ASA in Bangladesh, for example, had 140,000 active members in 1990 when it provided a whole range of services typical of multi purpose NGOs, like skills training, awareness raising, in addition to savings and credit; in 1991, its decision to focus on microfinance allowed ASA to literally explode its outreach to over 5 million by the end of 2005. For this reason MFIs increasingly seek to outsource non-financial services, such as self help groups.

From the angle of supporting the transition to formality the wide choices in microfinance methodologies are quite attractive: links of financial services with training are good for job creation, moving out informality, combating child labour and debt recycling; in general, these combinations respond to client needs and open opportunities to the MFI to link access to finance to the acquisition of specific competencies.

Role of banks and public authorities. The role of public authorities, i.e. governments, central banks and donors is to provide an enabling environment that reduces the level of risk in the financial market. Entry points for policy interventions comprise consumer protection, transparency norms for financial institutions, anti-monopoly and antitrust measures, among others perfecting the financial infrastructure. More specifically, there is interest in exploring the necessity of public policy to ensure that the increasing involvement of private sector investors in microfinance does not lead to mission drift, pushing aside MFIs with a more social agenda and usually higher per client transaction costs. The notion of “smart subsidies” signals the need to ensure the survival of a diversified microfinance industry, yet at the same time avoiding market distortions and perverse moral hazard effects.

The combination of financial and non-financial services opens entry points to support the move out of informality.

The role of public authorities, is to provide an enabling environment that reduces the level of risk in the financial market.

24 For more details see the Resources section to access: Freedom from Hunger homepage:
25 For more details see: Nurul Shekh, Microfinance and Poverty Reduction: is there a trade-off? A case study from rural Bangladesh, Nordic Journal of Development Research No.2 2006, volume 33, Oslo, p.373
26 This argument is developed in B.Balkenhol (ed.), Microfinance and Public Policy, Palgrave McMillan/ILO, 2007
This young woman has benefited from microcredit to set up her own business. Rwanda.
This section provides a list of resources which can enable the reader to delve deeper into the issue. Details of the good practices cited above can be accessed here. The section comprises international instruments, International Labour Conference conclusions, relevant publications and training tools. A bibliography of references in the text is further below. There may be some overlap between the two.

Relevant Publications

http://www.hsrc.ac.za/Research_Publication-3861.phtml


Freedom from Hunger homepage:
http://www.freedomfromhunger.org/programs/index.php


http://www.gdrc.org/icm/wind/uis-wind.html


National Rural Support Programme (NRSP). (Pakistan)
http://nrsp.org.pk/index.htm
Opportunity International UK Annual report 2004
http://www.opportunity.org/media-center/publications/annual-report/


Tools


ILO Data base on micro-insurance schemes.

For further information see the ILO’s Social Finance Unit website

References


de Morais, Jose Mauro. Credit support program for micro, small and medium enterprises in Brazil, OECD Conference Brasilia, March 2006,


Opportunity International UK Annual report www.opportunity.org.uk

A POLICY RESOURCE GUIDE SUPPORTING TRANSITIONS TO FORMALITY

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

PART I: Key concepts

1. Decent Work and the Informal Economy
   1.1 Key conceptual issues

2. Measurement of the Informal Economy
   2.1 Addressing statistical challenges

PART II: Policies to support transitions to formality

3. Growth Strategies and Quality Employment Generation
   3.1 Patterns of economic growth and the informal economy

4. The Regulatory Framework and the Informal Economy
   (A) International Labour Standards
      4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work
      4.a2 International Labour Standards (ILS): bringing the unprotected under the law
      4.a3 Understanding the employment relationship and its impact on informality
   (B) Specific Groups
      4.b1 Domestic Workers: strategies for overcoming poor regulation
      4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law
      4.b3 Street vendors: innovations in regulatory support
      4.b4 Micro and Small Enterprises (MSEs), informality and labour law: reducing gaps in protection
      4.b5 Strategies for transforming undeclared work into regulated work
   (C) Labour Administration
      4.c1 Labour administration: overcoming challenges in reaching the informal economy
      4.c2 Labour inspection and the informal economy: innovations in outreach

5. Organization, Representation and Dialogue
   5.1 Social dialogue: promoting good governance in policy making on the informal economy
   5.2 The role of Employers’ organizations and small business associations
   5.3 Trade unions: reaching the marginalized and excluded
   5.4 Cooperatives: a stepping stone out of informality

6. Promoting Equality and Addressing Discrimination
   6.1 Promoting women’s empowerment: a gendered pathway out of informality
   6.2 Migrant workers: policy frameworks for regulated and formal migration
   6.3 Disability: inclusive approaches for productive work

7. Entrepreneurship, Skills Development, Finance
   7.1 Informal enterprises: policy supports for encouraging formalization and upgrading
   7.2 Enhancing skills and employability: facilitating access to the formal economy
   7.3 Microfinance: targeted strategies to move out of informality

8. Extension of Social Protection
   8.1 Extending social security coverage to the informal economy
   8.2 HIV/AIDS: overcoming discrimination and economic exclusion
   8.3 Extending maternity protection to the informal economy
   8.4 Childcare: an essential support for better incomes

9. Local Development Strategies
   9.1 Local development: opportunities for integrated strategies for moving out of informality
EXTENDING SOCIAL SECURITY COVERAGE TO THE INFORMAL ECONOMY

This brief examines the diversity of social security schemes and the factors behind their lack of coverage in the informal economy. Policy instruments need to take into account the diversity within the informal economy with regard to the degree of formalization, the status of employment, the revenues, the level of coverage and the ability to pay of different groups within the informal economy. While this diversity makes uniform solutions unrealistic, a basic social security floor combining different instruments can not only make a major contribution to the transition to formality but also have a dramatic effect on poverty reduction.
KEY CHALLENGES

- Social security and informality
- Exclusion from universal schemes
- Categorical social assistance schemes
- Labour-based social insurance

Social security and informality. Despite their greater exposure to risk and income insecurity, the vast majority of informal economy workers are deprived of social security coverage. Lack of social protection is a major contributor to social exclusion and poverty. But its impacts are also felt in the formal economy since workers and enterprises in the formal economy are obliged to carry the full burden of funding the social security system through taxes or social insurance.

Understanding the determinants behind the lack of social protection in the informal economy is essential to develop policy solutions to extend coverage. Firstly there is a great diversity in the conditions of access to social security benefits (social transfers). The recipients of social transfers may be in a position to receive such transfers from a specific social security scheme because:

- they have contributed to such a scheme (contributory scheme), or
- because they are residents (universal schemes for all residents), or
- they fulfil specific age criteria (categorical schemes), or
- they experience specific resource conditions (social assistance schemes) or
- because they fulfil several of these conditions at the same time.
- In addition, some schemes require that beneficiaries accomplish specific tasks (workfare schemes for example) or
- that they adopt specific behaviours (conditional cash transfers for example).

In any given country, several of these schemes may co-exist and may provide benefits for similar contingencies for different population groups.

Most of the categories of schemes referred above do not consider the employment situation when defining eligibility. For example many countries, including in the developing world, have adopted a universal scheme for all residents to guarantee access to health care. In some countries, a flat rate pension is delivered to all residents above a determined age.

What is social security? The notion of social security adopted here covers all measures providing benefits, whether in cash or in kind, to secure protection, inter alia, from:

- lack of work-related income (or insufficient income) caused by sickness, disability, maternity, employment injury, unemployment, old age, or death of a family member;
- lack of access or unaffordable access to health care;
- insufficient family support, particularly for children and adult dependants;
- general poverty and social exclusion.

Social security thus has two main (functional) dimensions, namely “income security” and “availability of medical care”, which are identified specifically in the Income Security Recommendation, 1944 (No.67) and the Medical Care Recommendation, 1944 (No.69), respectively, as “essential elements of social security”. These Recommendations envisage that, firstly, “income security schemes should relieve want and prevent destitution by restoring, up to a reason-

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1 For some, this lack of coverage is precisely the criteria utilized to define which job is informal and which job is not.
2 All social security benefits are income transfers, i.e. they transfer income in cash or in kind from one group of people to another. This transfer may be from the active to the old, the healthy to the sick, the affluent to the poor, etcetera.
Exclusion from universal schemes. Exclusion may happen even when universal schemes are adopted for several reasons including lack of financing or delivery issues. The poor may face greater exclusion in access to health care than the better-off, notably because they have greater difficulties overcoming indirect costs associated with access. People in rural areas generally suffer higher exclusion than those living in urban settings because density and quality of health services is generally lower. Some countries have both universal schemes and employment based social insurance. In such cases, workers with formal jobs tend to be better covered than those with similar characteristics but with informal jobs.

Categorical social assistance schemes. A growing number of developing countries have adopted categorical social assistance schemes. These provide benefits, under resource conditions, to certain population group such as the disabled, the elderly or the families with children below 15 years. People that belong to such categories and fulfil the resources conditions criteria can receive benefits whatever their occupational situation. The level of benefits provided by such schemes tend to be lower in principle to those provided through social insurance or universal tax-financed schemes. Examples of such schemes include conditional cash transfers or targeted “social pension” schemes. Exclusion from access to benefits even for those who meet the criteria is often a result of insufficient budget allocation.

Labour-based social insurance. While a diversity of schemes exist in many countries, labour-based social insurance, in most cases, remains the central pillar of social security systems. Such schemes are based on an explicit contract in formal enterprises in the context of an identifiable employment relationship between a dependent worker and an employer. In developing countries, workers that are not in such position are generally not covered by law by labour-based social insurance. This is the case for the self-employed who represent a large proportion of informal economy actors who are not covered most of the time. The growing number of “dependant” workers where the employment relationship is unclear, ambiguous or hidden are another category excluded from social insurance coverage. (See also brief on the Employment Relationship) In addition, some labour laws and social security legislation do not cover enterprises numbers of employees under a certain threshold, thereby leaving these workers unprotected by statutory social insurance. In other cases even where the laws exist it may not be applied, excluding de facto workers from their labour rights. This is the case for example for wage workers without contract in formal enterprise (undeclared workers), who represent a relatively high share of total informal employment in middle income countries.

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4 In the case of a dual system to guarantee access to health care, it would be wrong to assume that all workers with formal jobs and access to social insurance are better covered than all informal economy workers without access to social insurance. Other determinants have to be considered. For example, workers covered by social insurance and living in rural areas may experience in practice a lower access than informal economy workers living in urban areas, or the poorest among those covered by social insurance may suffer higher exclusion than those with informal jobs but higher income level.

5 At least when considering public expenditure in social protection
Factors influencing the exclusion from social security coverage to the informal economy. In some developing countries, social security legislation extends social insurance coverage to some categories of informal economy workers, notably self-employed workers, domestic workers and some occupational groups. Until recently, these attempts to reduce exclusion of informal economy workers have shown limited results in practice. Several reasons underlie this situation:

- Many informal economy actors have too low and/or unstable income to pay the contributions required from the social insurance. This is frequently the case for self-employed who are obliged in many countries to pay both the employer and worker contribution.
- Even when informal economy workers have the capacity to pay they may lack willingness to do so for a number of reasons including the lack of trust in social security institutions, the gap they perceive between the type of benefits provided and what they consider as their priority needs, the complexity (and time) of the procedures to register and to receive benefits.
- In addition, the long period of contribution required to be entitled to some benefits, notably pensions, may discourage many informal economy workers who often have insecure jobs and unpredictable employment paths.

While, as indicated above, there are a variety of schemes that do not consider the employment situation, in practice such schemes are scarce and of a limited coverage in developing countries. In most of these countries, social security systems are organized around labour-based social insurance and other statutory schemes that do not cover informal economy workers and entrepreneurs. While exclusion is also evident within the formal economy, informal economy actors tend to suffer the highest level of exclusion. This lack of social security coverage is often associated with a particularly high exposure to risk. Informal economy actors, and in particular women, often work in the most hazardous jobs, conditions and circumstances. Preventive measures to reduce risks at work often do not reach the informal economy.

Although not everyone in the informal economy is poor, a significant proportion of the poor are in the informal economy and, because they are poor, a larger proportion of them than of the overall population tend to face risk-inducing factors such as poor-quality nutrition, low access to drinking water and sanitary facilities, low access to education and health services, precarious housing, etc. High exposure to risk combined with low social protection coverage places most informal economy workers in a very vulnerable situation.

It should be noted that in some countries, the coverage of social insurance is limited due to the inconsistencies of its operation, the inability of the state to enforce mandatory contributions and the lack of confidence in public institutions. A badly designed and implemented social insurance scheme may create an incentive for informalization. This is one of the reasons why efforts to improve the governance and efficiency of social insurance should be considered among the set of policies required to reduce informalization of employment and extend coverage.

6 In that case, coverage of life cycle risks (old-age, maternity for example) is more frequent than coverage for occupational risk (unemployment, work injury for example).
Despite these challenges, extending social security to the informal economy is a major plank in supporting the transition to formality and reducing poverty, and, as the examples discussed below reveal, is within reach for countries with even very low levels of income.
Many small enterprises lack adequate social security protection. Small workshop, Argentina.
EMERGING APPROACHES AND GOOD PRACTICES

- A rights based approach
- Taking diversity into account
- Extending the coverage of labour-based social insurance
- Setting up national health insurance
- Launching tax-finance non-contributory schemes
- Combining instruments within an integrated national social security strategy

Social security is not only a basic human right but it is a fundamental means to reduce poverty, social exclusion as well as enhance social cohesion and economic productivity.

A rights based approach. Social security is a basic human right, as affirmed by Article 22 of the Universal Declaration of Human Rights: “Everyone, as a member of society, has the right to social security.” This right constitutes the first source of legitimacy for the extension of social security coverage to all. But social security is also a fundamental means of reducing poverty and social exclusion and promoting social cohesion. A growing body of evidence in developing countries shows the important contribution of social security to improving access to health, education and productive economic opportunities, reducing child labour and facilitating the participation of the poorest members of society in the labour market. The improved knowledge and understanding of the contribution of social security to the development agenda have incited many countries in the developing world to undertake initiatives to extend coverage to those excluded from existing schemes, and in particular to those in the informal economy. These efforts are both welcome and urgent; nevertheless, the transition from the informal economy to the mainstream remains a priority to reduce decent work deficits and extend the protective measures attached to formal employment to a larger share of the population.

Contributions, benefits and operations of social insurance need to be adapted to the specificities of informal economy actors.

Taking diversity into account. The informal economy includes workers with very different characteristics in terms of income (level, regularity, seasonality), status in employment (employees, employers, own-account workers, casual workers, etc.), sector of activities (trade, agriculture, industry, etc.) and needs. Extending coverage to such a heterogeneous set of workers requires the implementation of several (coordinated) instruments adapted to the specific characteristics of the different groups, to the contingencies to be covered and to the national context. It is not possible here to affect an analysis by group and contingency of current experiences in coverage extension. The different approaches that are briefly described below provide only a generic view of some ways of extending coverage. These are not “either-or” policies but rather, in most cases, complementary.

Extending the coverage of labour-based social insurance. While social insurance schemes have been set initially for formal wage employment, legislators have extended their coverage at a later stage in a number of cases. In practice this extension, by bringing in successively smaller enterprises and/or including new categories of workers such as the self-employed, has not so far reached many more groups of the working population with the exception of a few countries.

Efforts to extend the coverage of social insurance have been successful when they included the adaptation of benefits, contributions and operations to the characteristics of some categories of informal economy workers. These may include:

- giving beneficiaries a choice whether to affiliate to all branches, according to their needs and contributory capacity;
- more flexible contribution payments to take into account income fluctuations or seasonal revenues (for workers in agriculture for example);
- introducing specific mechanisms to determine contribution levels for employees and self-employed workers where real incomes are difficult to assess (capitation or lump-sum payment based on size of economic activity, on area cultivated, etc.);
- reducing the costs of registration; and offering small-scale contributors “simplified schemes” in terms of both registration and compliance with tax obligations.

In South Africa, domestic workers were included under the Unemployment Insurance Fund (UIF) in 2003. The Fund provides unemployment, maternity and adoption benefits as well as benefits in case of illness or death and cover all domestic workers, including housekeepers, gardeners, domestic drivers and persons who take care of any person in the home. The employer must register their workers and provide contributions. Lack of compliance is a punishable offence. The employer must pay unemployment insurance contributions of 2% of the value of each worker’s pay per month. The employer and the worker each contribute 1%. The UIF has streamlined registration procedures and provided free online registration to minimise administrative hurdles for employers and workers. From 2003-2008 the Fund registered more than 633,000 domestic workers and more than 556,000 domestic employers have collected R395 million. By 2008 over 324,000 temporarily unemployed workers had received social security payments, the vast majority being women.

Innovations in registration and collecting of contributions for independent workers in the informal economy – Monotributors in Uruguay

Monotributors is a particular social security collection method, but implemented as a tax category, for self-employed workers with a limited turnover and with small commercial activities in public communities and environments. It is strongly focused on boosting coverage in the informal economy.

Small businesses that fall into the category of Monotributors can choose between paying a single tax on revenue generated by their activities, named “monotributo”, instead of paying the special social security contributions and the existing national taxes, except in the case of export earnings. A fraction of the taxes collected through Monotributo scheme are then transferred by the tax authority to the Institute of Social Security to finance the social security coverage (except unemployment benefits).
Recent tax reforms on Monotributors scheme have led to the elimination of some restrictions to be considered “monotributistas” companies, including the abolition of the restriction related to the site where the activity takes place, the type of activities (including some production activities), the type of companies (coverage is extended to companies in fact, not registered), the conditions of sale (accepting companies that sell on credit), the maximum billing, and opens the possibility to sell (for some activities) not only to the final consumer, but also to other companies and to the government.

As a result of these reforms, in less than three years from the effective date of the new law (June, 2007), number of firms and workers covered previously in this category of coverage tripled. The more flexible design mechanisms for funding and collecting contributions have yielded very important impacts. This scheme is based on joint efforts between social security institutions and the authorities responsible for collecting taxes.

8.1 Extending Social Security Coverage to the Informal Economy

- **Access to health care** is one of the most important sources of security that vulnerable groups and informal actors look for.

- **Setting up national health insurance.** Social health protection, defined as guaranteeing effective access to affordable quality health care and financial protection in case of sickness, is essential from both a rights perspective and an economic efficiency perspective. Access to health is universally recognized as one of the most fundamental rights and a key factor in stimulating productivity and growth. Guaranteed access to health care is also in many circumstances the first security that poor and vulnerable people look for. The impact of health shocks on poverty is also quite severe and affects millions of people every year. Social health protection is increasingly perceived as a crucial component of policies and reforms aiming to improving health systems and access to quality health services.

Ghana, Rwanda and Philippines have launched national health insurance with a view to providing universal access to comprehensive benefit packages.

While “classical” tax-funded universal health systems are common, several countries such as Ghana, Rwanda and Philippines have launched national health insurance with a view to providing universal access to comprehensive benefit packages. Setting up and implementing national health insurance raises many challenges at the organizational, institutional and financial levels. The success of these schemes is also highly dependent on the existence of good provision of quality health care services. The ongoing schemes are too young for any conclusions to be drawn about their effectiveness and sustainability but, despite the hard challenges mentioned above, some are showing promising results. Other demand-side financing mechanisms have also been introduced in a number of countries, notably to improve targeting of equity subsidies, increase outputs and raise the productivity of the health systems. Reproductive health vouchers are one example of these mechanisms that have been adopted by countries such as Uganda. Within each of these financing mechanisms lies a range of options for organizing arrangements for pooling funds and purchasing services, leading to a great diversity of systems.

In Ghana the National Health Insurance Scheme (NHIS) has the aim of ensuring universal access to quality health services without out-of-pocket payment being required at the point of service use. The Government provides direct financial support to the District Mutual Health Insurance schemes as part of its ongoing Poverty Reduction Strategy. Community-based District

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8 National health insurances are insurance schemes targeting all citizens and financed both by tax revenues and contributions for those who can afford it.

9 During pregnancy, out-of-pocket fees and indirect costs (like transportation) required for maternal and obstetric services mean that access to appropriate care remains beyond the reach of many. Maternity care may not only be expensive for poor households but may also be a low priority in the use of scarce household resources. Without effective access to affordable quality health care and protection against related financial burdens, poor women and their families are often discouraged from seeking the care they need.

10 For more details see Resources section to access: ILO 2008 Social health protection: An ILO strategy towards universal access to healthcare?

11 For more details see Resources section to access: ILO 2009 Extending social security to all: A review of challenges, present practices and strategic options.
Mutual Health Insurance Schemes thus constitute the bedrock upon which the government is building its national health insurance programme. The NHIS premiums are generally based on participants’ ability to pay. Community Insurance Committees identify and categorize residents into four social groups, namely the core poor, the poor, the middle class and the rich, and graduate their respective contributions accordingly. The core poor\(^{12}\) (or the indigent), together with those aged 70 years or more are exempted from paying any premiums or contributions. While contributions vary slightly from district to district, members in the informal economy generally pay about €72,000 (or New GH¢7.2; about US$5). For members in the formal economy, participating in the SSNIT, 2.5 per cent is deducted monthly as their health insurance contribution. Workers in the formal economy should thus become automatic members of the NHIS, but still have to register with their respective District Mutual Health Insurance Schemes. The Government has also introduced a 2.5 per cent sales levy to support the funding of the NHIS. For all contributors, coverage is extended to their children and dependants under 18 years of age. Data from Ghana NHIS headquarters in Accra indicate that in 2008 some 12.5 million Ghanaians, or 61 per cent of the total national population of 20.4 million, had registered with the NHIS\(^{13}\).

In Rwanda, a national policy on the development of mutual health organizations was developed in 2004. Mutual health organizations have been set up in 30 health districts and a section de mutuelle is present at the level of the health centre (there are 403 of these units). In 2006 the Government adopted a policy of compulsory health insurance for the entire Rwandan population. The membership rate of mutual health organizations has sharply risen over the last five years: from just 7% in 2003, it rose to 27% in 2004, 44.1% in 2005, 73% in 2006 and stood at 85% by the end of June 2008.

The premium for a primary healthcare package at the level of the health centre was set at FRW 1000 per person per year as from January 2007 with a 200 FRW co-payment due upon treatment. In addition to this package, beneficiaries have access to complementary benefits covering services and treatment at the hospital level. The 1000 FRW cost of this package is financed via district and national risk pools on behalf of the beneficiaries. Upon treatment a co-payment of 10% of the total bill is required at the district or reference hospital. The district-level risk pool is made up of contributions from the national risk pool, 10% of each 1000 FRW premium paid by beneficiaries for the primary package, and from donor subsidies. The national risk pool or “Solidarity Fund” is constituted mainly by contributions from the State, donor agencies and public and private sector workers.

Though the 1000 FRW premium for the primary healthcare package is kept low in relation to the real costs of health care, it remains out of reach for many Rwandans living in extreme poverty. The Global Fund to Fight AIDS Tuberculosis and Malaria along with other NGOs (e.g. The Red Cross, Oxfam, Caritas) and government programmes (e.g. FARG) have therefore opted to finance health insurance premiums for the poorest Rwandans, orphans and people living with HIV/AIDS\(^{14}\).

\(^{12}\) The NHIS defines the core poor as “adults who are unemployed and do not receive any identifiable and constant support from elsewhere for survival” (Republic of Ghana NHIS Brochure n.d., 6; Ghana National Health Insurance Council, 2007).


\(^{14}\) For more information, see Resources section to access: GESS platform at http://www.socialsecurityextension.org/gjmi/gess/
Emerging Approaches and Good Practices

8. Extension of Social Protection

Health micro-insurance have shown good potential for reaching groups excluded from statutory social insurance.

Promoting micro-insurance schemes. Microinsurance schemes have proliferated over the last decade particularly in South Asia and Africa, often to extend health protection. These schemes are often initiated by civil society organizations and are delivered through a diversity of organizational settings. Health microinsurance have shown good potential for reaching groups excluded from statutory social insurance, mobilizing supplementary resources, contributing to participation in civil society and empowering socio-occupational groups including women. However, stand-alone, self-financed micro-insurance schemes have major limitations in terms of sustainability and efficiency in reaching large segments of excluded populations. Their impact should be increased notably by developing functional linkages with extended and expanded national or social insurance systems, contributing in this way to better equity and efficiency in national social security policies.

Launching tax-financed non-contributory schemes. A promising way of extending social security in the area of income security is through non-contributory, tax-financed cash transfers delivered in various forms and ways:

- a universal social pension paid to all the elderly population;
- cash transfers to families with children, often conditional on school attendance or participation in preventive health programmes;
- benefits aimed at specific groups such as persons with disabilities, orphans and other vulnerable people; and targeted social assistance programmes.

During the last decade, more than 30 developing countries have developed schemes of this kind, some of them such as Bolsa Família in Brazil or the National Rural Employment Guarantee Scheme in India are covering several tens of millions of persons.

Bolsa Família (Brazil) - An emblematic conditional cash transfer scheme

The Bolsa Família (family grant) programme merged four pre-existing cash transfer schemes and was launched in Brazil in 2003. It is the largest conditional cash transfer programme in the world. In 2008, it covered around 11.35 million families (47 million people), corresponding to a quarter of Brazil’s population. The budget for 2008 was US$ 5.5 billion which represents 0.3 percent of the GDP. Coverage is expected to be extended to cover 12.4 million families by the end of 2009.

The programme’s main objectives are to:
- reduce current poverty and inequality, by providing a minimum level of income for extremely poor families; and
- break the inter-generational transmission of poverty by conditioning these transfers on beneficiary compliance with human development requirements (school attendance, vaccines, pre-natal visits).

The programme is an integral part of Brazil’s social policies which cover food and nutritional security, social assistance (psycho-social), cash transfer and basic social services. More recently, the PlanSeQ programme has been established to help beneficiary families obtain professional qualifications and prepare them for jobs in demand. Currently, some 211, 930 people are involved in PlanSeQ programmes.

15 For more details see Resources section to access: ILO 2009 Extending social security to all: A review of challenges, present practice and strategic options.
16 Ministério do Desenvolvimento Social e Combate à Fome. 2008 UN exchange rate for January 2009: US$ = R$ 2.3

8.1 Extending Social Security Coverage to the Informal Economy
Only very poor households are entitled to the basic benefit of R$ 62 and then the benefit varies depending on household income and composition. Targeting of the grant is done through a combination of methods: geographic allocations and family assessments based on per capita income. The geographical targeting takes place at two levels: federal and local.

The families enrolled in the programme are committed to fulfilling the three main requirements:
(i) prenatal and postnatal monitoring;
(ii) nutrition and vaccination monitoring for children from 0 to 7 years old and
(iii) at least 85 percent school attendance for children aged 6 to 15 years old and 75 percent for teenagers from 16 to 17 years old.

A recent change to the Bolsa Família programme has been its integration with the Child Labour Eradication Programme (PETI). Approximately, 450,000 families have been earmarked as being in a child labour situation and in 2008 the programme reached some 875,000 children. As a consequence, their fulfilment of the school attendance conditionality has been more closely monitored. In fact, the programme helps illustrate that conditionality is not necessarily punitive but the non-fulfilment can be an indicator or vulnerability. In this sense conditionality has a revealing power that can alert social services, therefore permitting a better understanding of familial needs in terms of the utilisation of services.

Despite some evidence of leakage the delivery of Bolsa Família has been well targeted: 80 percent of the Bolsa Família reported incomes goes to families living below the poverty line (half of the minimum wage per capita).


The Indian National Rural Employment Guarantee Scheme

The Indian National Rural Employment Guarantee Scheme (NREGS) was established in 2005. It entitles rural households to demand up to 100 days of unskilled manual employment per year, with a provision reserving 1/3 of those employment opportunities for woman workers. The programme undertakes projects facilitating land and water resource management, together with infrastructure development projects such as road construction. In 2006-7, a total of 511,335 projects were completed. According to the law, the wages paid should be equal to the prevailing minimum wage for agricultural labourers in the area. The minimum wage per-day of work cannot be less that Rs 60. If work is not provided within the stipulated time, the applicant is entitled to receive an unemployment allowance.

NREGS is a universal scheme. In practice, it is designed in a manner which is self-targeting and demand-driven. The Panchayat Raj Institutions (PRIs), India’s decentralized form of governance, are the primary agencies for the planning and implementation of the varying NREGS schemes. Unlike previous employment assurance schemes, NREGS originates from an Act of Parliament. As such there are inherent mechanisms within the Act to ensure transparency, accountability, provisions of penalty, grievance-reprisal, and social auditing.

The NREGS Act endeavors to reduce rural migration between States, create sustainable assets in rural areas, empower women through independent income earning opportunities, and encourage overall development of the rural economy and its cascading effects on the national economy. In 2008/2009, the number of households provided employment was more than 45 millions, with the average an average of 47 days worked per household. The allocation for the programme from the national budget for the financial year 2006-7 was around 0.3 per cent of GDP. Of the total cost of the project, 60% is reserved for wages of unskilled workers, while the remaining 40% is set aside for skilled and semi-skilled workers, and required materials for various schemes.


18 Furthermore, very poor households can receive additional variable benefits for each child up to a maximum of three children (0-15), for adolescents (16-17) and if there are pregnant women. Very poor families can receive up to R$182 per month. If households have a monthly income between R$60 to R$120 they can receive additional variable benefits depending on the number of children, adolescents and pregnant women. The transfer entitlement can be as much as R$120. However, the latter are not entitled to the basic grant. Source: Ministério do Desenvolvimento Social e Combate à Fome. 2009. www/mds.gov.br/bolsafamilia/i_o_programa_bolsa_familia

19 Ananias de Sousa, 2009
Among non contributory schemes, social assistance programmes have gained importance worldwide. Some have undergone considerable transformation, indicating an increasing willingness to go beyond their traditional redistributive role and emphasise stronger linkages with labour market policies and support to fostering social inclusion and human development. The development of social assistance programmes appears quite promising as a means of tackling extreme poverty. Existing opportunities for extremely poor people are severely constrained due to mismatches between the structure of opportunities available and the complex set of constraints they face. It is now accepted that mainstream development approaches, especially microfinance, skills development, cooperative promotion or access to basic social services, largely bypass this population group. One of the reasons is that they are engaged in daily survival to respond to their immediate needs and are thus in no position to engage any spare resources (including time) or capacities in activities that do not provide an immediate return or where that return is seen as uncertain. New social assistance programmes seek to respond to such difficulties by using approaches that combine transfers to overcome the immediate and fundamental needs of the most poor with active support to strengthen their access to economic opportunities and basic social services.

Reaching the ultra-poor: TUP programme in Bangladesh

The “Challenging the Frontiers of Poverty Reduction - Targeting the Ultra Poor” (TUP) programme of the Bangladesh NGO BRAC. This programme was launched in 2002, following BRAC staff’s conclusion that their existing interventions – while valuable to many Bangladeshis living in poverty – were not reaching or helping the very poorest people in rural Bangladesh.

The TUP programme combines asset/income transfers linked to livelihood skills training, health promotion and other social programmes with potentially empowering and transformative aspects. An example of the latter is legal advice on issues such as marriage and domestic violence law – particularly relevant as many of the ultra poor are women. Again, the development of capabilities is built in to the programme as a whole, with an aim of enabling participants to eventually join a BRAC micro credit programme.

BRAC’s evaluation found that, on average, by 2005 participants’ incomes had grown beyond those who were ‘not quite poor enough’ to be selected for the programme in 2002, but that they were still poor. This is perhaps not surprising in a relatively short period of time. The participants made progress in several key areas related to vulnerability (notably livelihood assets, savings and health), and appeared more confident in their ability to withstand serious shocks or livelihoods ’crises’, such as the serious illness of an income earner.


While non-contributory programmes are developing quickly in middle-income countries, they are still scarce in low-income countries. Nevertheless, they are gaining considerable interest from governments and international agencies. For example, social pension schemes are being implemented in a growing number of African countries and some of them, such as Cape Verde, have recently increased their coverage and level of benefits. The 2006 Livingstone Call for Action resulting from a conference organized jointly by the African Union and the Government of Zambia illustrates the growing interest in tax-financed cash transfers in the continent.

20 Particularly cash and food transfers
Combining policy instruments the context of an integrated national social security strategy. Several policy instruments may logically coexist in one country because they seek to provide coverage for different contingencies and for groups with different characteristics. The mix of policy instruments used should be adapted both to the specific characteristics and needs of the groups to be covered and to the national environment. To be efficient, as stated in 2001 by the 89th International Labour Conference, the different “policies and initiatives on the extension of coverage should be taken within the context of an integrated national social security strategy”. Improving policy coordination and coherence between the various social security mechanisms remains an important task in most developing countries to maximize the utilization of resources, avoid the exclusion of groups of the population and promote the formalization of employment.

Thailand: A pluralistic system to deliver social health protection

In 2001, Thailand took a radical step towards achieving full population coverage in health care by introducing a universal health care scheme, now popularly called the “UC scheme” (earlier known as the “30 Baht” scheme). The scheme offers any Thai citizen, who is not affiliated either to the Social Security Health Insurance (SSO) or the Civil Servant Medical Benefit Scheme (CSMBS), access to health services provided by designated district based networks of providers (consisting of health centers, district hospitals and cooperating provincial hospitals). Individuals are able to access a comprehensive range of health services, in principle without co-payments or user fees, including ambulatory (“outpatient”) services, inpatient services and maternity care, furnished by public and private providers, within a framework which emphasizes preventive and rehabilitative aspects.

As of 2006/2007, the overall legal coverage for health in Thailand reached almost 98 per cent of the population. Thailand’s pluralistic approach has therefore succeeded in achieving near-universal coverage in a relatively short period of time. The role of the UC scheme has been crucial in providing social health protection to the very poorest, especially informal economy workers whose health care needs inspired the development of this scheme. However, an unresolved issue is that out-of-pocket payments continue to represent a significant proportion of total health expenditure (28.7 per cent in 2007, comprising 74.8 per cent of private health expenditure). 22

The pluralistic development of both targeted and universal schemes, on a coordinated basis, is a particular feature of Thailand’s approach to social health protection. A range of revenue sources has been mobilised, including general government revenue and earmarked taxes together with contributions and premiums, hence accelerating progress in increasing coverage, especially of the poor. The main areas of cooperation between schemes include management of the information system, standards of health services and health facilities, and the claim and audit system. 23

India has adopted a specific law to support the coverage of the informal economy (unorganised sector) through a combination of instruments. The 2008 Unorganised Workers’ Social Security Act provides legislative support for a series of pre-existing social security and welfare schemes. Those included under the scheme include home-based workers, self-employed workers, wage workers (including migrant workers) in the unorganised sector, as well those not covered in the organised sector.

Policy coordination and coherence between the various social security mechanisms is needed to maximize the use of resources, avoid exclusion and support the move out of informality.

India the 2008 Unorganised Workers’ Social Security Act provides legislative support for a series of pre-existing social security and welfare schemes.

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The Central Government is responsible for formulating suitable welfare schemes for unorganized workers in matters relating (a) life and disability cover; (b) health and maternity benefits; (c) old age protection; and (d) any other benefit as may be determined by the Central Government. At the State level, unorganized workers are able to participate in welfare schemes including (a) provident funds, (b) employment injury benefits, (c) housing, (d) educational schemes for children, and (e) skills upgrading for workers.

The new law outlines the responsibilities, provisions and structure for the creation of a National and State Social Security Boards, empowered to take decisions on essential social security measures for all unorganized workers. As 94% of the workforce is in the unorganised sector, this Act strives to pave the way towards a nation-wide social security system.

Evidence has grown that social security is possible from the earliest stages of development and that social security can play a key role in economic development.

**Affordability of social security in developing countries.** For decades, social security has been viewed by many as only applicable in high income countries. These views have declined as evidence has grown that social security is possible from the earliest stages of development and that social security can play a key role in economic development. More than 30 developing countries have been able to significantly extend their coverage through a variety of programmes.

Modelling work on affordability is helping policy dialogue move beyond anecdotal evidence and assumptions about the financial burden of long-term social security programmes. This work shows that providing a basic set of social security benefits is affordable in most of the middle-income countries. In some poor countries, significant long-term aid will be required until non-contributory social benefits can be funded solely from tax revenues.

In practice, any increase in domestic revenues allocated to basic social security is determined by both fiscal space and the political will to increase the share of public expenditures dedicated to this policy field. Capacity to create a fiscal space should be considered in the context of a comprehensive government expenditure framework in the medium term. Capacity to mobilize additional revenue by increasing the tax base, improving the efficiency of expenditure by strengthening public institutions, and adequate policies to sustain productivity remain the key factors in creating fiscal space in poor countries. The decision to increase the share of public expenditure dedicated to basic social security will depend on the political will to do so and on how much of the government budget is already committed. To support the decision-making process, overall feasibility, both financial and administrative, should be assessed and the projected outcomes of providing basic social security estimated.

**The ILO approach and the social protection floor.** The ILO promotes a two-dimensional approach to extend social security coverage. The first dimension (horizontal) comprises the extension of income security and access to health care, even if at a modest basic level, to the entire population. In the second dimension (vertical), the objective is to provide higher levels of income security and access to better-quality health care as countries achieve higher levels of economic development – and gain fiscal space.

24 For more details see Resources section to access: The Unorganised Workers’ Social Security Act, 2008, No. 33 of 2008.
The UN Chief Executives’ Board for Coordination, reinforced by the ILO’s Global Jobs Pact, has pointed to a new strategic approach to the first dimension, the horizontal one, by promoting a set of basic social security guarantees within the framework of a wider social protection floor. This floor is conceived as consisting of two main elements that help to realize human rights:

- **Essential public services**: geographical and financial access to essential services (such as water and sanitation, health and education).
- **Social transfers**: a basic set of essential social transfers, in cash and in kind, paid to the poor and vulnerable to provide a minimum income security and access to essential health care.

The social transfer component of the social protection floor comprises a basic set of essential social guarantees realized through transfers in cash and in kind, typically ensuring:

- universal access to essential health services;
- income (or subsistence) security for all children through child benefits;
- income support combined with employment guarantees and/or other labour market policies for those of active age able (and willing) to work, who cannot earn sufficient income on the labour market;
- income security through basic tax-financed pensions for older people, persons with disabilities and those who have lost the main family breadwinner.

The term “guarantees” leaves open the question whether all or some of these transfers are (i) granted on a universal basis to all inhabitants of a country; or (ii) arranged through compulsory, contributory, broad-based social insurance schemes, or (iii) provided only in the case of assessed need, or (iv) based on certain behavioural conditions. The key determinant is that all citizens have access to essential health services and the means of securing a minimum level of income.

**Recommendation 202 concerning national floors for social protection**

In 2012, the International Labour Conference adopted an instrument on national social protection floors. These are nationally defined sets of basic of social security guarantees which secure protection aimed at preventing or alleviating poverty, vulnerability and social exclusion. The Recommendation makes explicit reference to people in the informal economy, acknowledging that social security is an important tool to prevent and reduce poverty and support the transition from informal to formal employment.

For more details see http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_183326.pdf
Homeless man, Brazil.
This section provides a list of resources which can enable the reader to delve deeper into the issue. Details of the good practices cited above can be accessed here. The section comprises international instruments, International Labour Conference conclusions, relevant publications and training tools. A bibliography of references in the text is further below. There may be some overlap between the two.

**ILO instruments and Conference Conclusions**

http://www.ilo.org/ilolex/english/convdisp1.htm

The Social Security (Minimum Standards) Convention 1952 (No.102)
The Medical Care and Sickness Benefits Convention, 1969 (No. 130)
Medical Care and Sickness Benefits Recommendation, 1969 (No. 134)
The Equality of Treatment (Social Security) Convention, 1962 (No. 118),
The Maintenance of Social Security Rights Convention, 1982 (No. 157)
Maintenance of Social Security Rights Recommendation, 1983 (No. 167)
The Maternity Protection Convention, 2000, (No. 183)
The Maternity Protection Recommendation, 2000 (No. 191)
The Invalidity, Old-Age and Survivors’ Benefits Convention, 1967 (No. 128)
The Invalidity, Old-Age and Survivors’ Benefits Recommendation, 1967 (No. 131)
The Employment Injury Benefits Convention, 1964 (No. 121)
The Employment Injury Benefits Recommendation, 1964 (No. 121)


ILO 2011 Resolution concerning the recurrent item discussion on social protection (social security), International Labour Conference, 100th session Geneva 2011

**Relevant Publications**

http://www.oecd.org/LongAbstract/0,3425,en_2649_34637_37224079_119684_1_1_1,00.html

http://www.sed.man.ac.uk/research/events/conferences/documents/Social%20Protection%20Papers/Barrientos2.pdf

Barrientos, A. and Scott J. 2008; Social transfers and Growth: A Review. BWPI Working paper, 52. Poverty Institute, University of Manchester
http://www.bwpi.manchester.ac.uk/resources/Working-Papers/bwpi-wp-5208.pdf

http://cinterfor.org.uy


http://www.socialsecurityextension.org/gimi/gess

http://www.worldbank.org
http://www.ilo.org/step


http://www.ilo.org/secsec


http://www.ilo.org/gimi/gess/RessShowRessource.do?ressourceId=5951


http://ilo.org/secsec


http://www.ilo.org/secsec


http://www.socialsecurityextension.org/gimi/gess/


http://www.socialhealthprotection.org/

http://www.ilo.org/global/


http://www.unrisd.org/80256B3C005BCCA9/(httpPublications)/955FB8A594EEA0B0C12570FF00493EAA7/OpenDocument


http://www.ilo.org/secsec
Oficina International del Trabajo; Banco de Previsión Social; Centro de Estudios de Seguridad Social, Salud y Administración de Uruguay. (Próximamente). Trabajadores independientes y protección social en América Latina. Argentina, Brasil, Chile, Colombia, Costa rica, Uruguay. Montevideo


Tools


Selected Government websites

Brazil, Bolsa Familia programme
www.mds.gov.br/bolsafamilia/o_programa_bolsa_familia

Ghana, National Health Insurance Ghana National Health Insurance [21]
http://www.nhis.gov.gh/


http://mrega.nic.in/netnrega/home.aspx

South Africa, Unemployed Insurance Fund [21]

Thailand, Universal Health Insurance [21]
http://www.nhso.go.th

Uruguay, Monotributors programme [21]

Electronic Platforms

http://www.ciaris.org/
http://www.cipsocial.org
http://www.socialsecurityextension.org/gimi/gess

For further information see the ILO’s Social Security Department website [21]
http://www.ilo.org/public/english/protection/secsoc/

References

http://www.oecd.org/LongAbstract/0,3425,en_2649_34637_37224079_119684_1_1_1,00.html

http://www.afd.fr/jahia/Jahia/home/publications/NotesDocuments/pid/2776

http://www.sed.man.ac.uk/research/events/conferences/documents/Social%20Protection%20Papers/Barrientos2.pdf

http://cinterfor.org.uy

http://www.socialsecurityextension.org/gimi/gess

http://www.worldbank.org

http://www.iolo.org/step


http://www.iolo.org/seccsoc


http://www.iolo.org/gimi/gess/RessShowRessource.do?ressourceId=5951

http://ilo.org/seccsoc

http://www.iolo.org/seccsoc


http://www.socialsecurityextension.org/gimi/gess/

http://www.socialhealthprotection.org/


http://www.eurocentre.org/data/1181637085_99921.pdf


http://www.iolo.org/global/

http://www.unrisd.org/80256B3C005BCCCF9/(httpPublications)/955FB8A594EEA0B0C12570FF00493EAA?OpenDocument


Oficina Internacional del Trabajo; Banco de Previsión Social; Centro de Estudios de Seguridad Social, Salud y Administración de Uruguay. (Próximamente). Trabajadores independientes y protección social en América Latina. Argentina, Brasil, Colombia, Costa rica, Uruguay. Montevideo


# A POLICY RESOURCE GUIDE SUPPORTING TRANSITIONS TO FORMALITY

**Contents:**
- Acknowledgments / Foreword / Preface / How to use the Guide / Acronyms

## PART I: Key concepts

1. Decent Work and the Informal Economy
   - 1.1 Key conceptual issues

2. Measurement of the Informal Economy
   - 2.1 Addressing statistical challenges

## PART II: Policies to support transitions to formality

3. Growth Strategies and Quality Employment Generation
   - 3.1 Patterns of economic growth and the informal economy

4. The Regulatory Framework and the Informal Economy
   - (A) International Labour Standards
     - 4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work
     - 4.a2 International Labour Standards (ILS): bringing the unprotected under the law
     - 4.a3 Understanding the employment relationship and its impact on informality
   - (B) Specific Groups
     - 4.b1 Domestic Workers: strategies for overcoming poor regulation
     - 4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law
     - 4.b3 Street vendors: innovations in regulatory support
     - 4.b4 Micro and Small Enterprises (MSEs), informality and labour law: reducing gaps in protection
     - 4.b5 Strategies for transforming undeclared work into regulated work
   - (C) Labour Administration
     - 4.c1 Labour administration: overcoming challenges in reaching the informal economy
     - 4.c2 Labour inspection and the informal economy: innovations in outreach

5. Organization, Representation and Dialogue
   - 5.1 Social dialogue: promoting good governance in policy making on the informal economy
   - 5.2 The role of Employers’ organizations and small business associations
   - 5.3 Trade unions: reaching the marginalized and excluded
   - 5.4 Cooperatives: a stepping stone out of informality

6. Promoting Equality and Addressing Discrimination
   - 6.1 Promoting women’s empowerment: a gendered pathway out of informality
   - 6.2 Migrant workers: policy frameworks for regulated and formal migration
   - 6.3 Disability: inclusive approaches for productive work

7. Entrepreneurship, Skills Development, Finance
   - 7.1 Informal enterprises: policy supports for encouraging formalization and upgrading
   - 7.2 Enhancing skills and employability: facilitating access to the formal economy
   - 7.3 Microfinance: targeted strategies to move out of informality

8. Extension of Social Protection
   - 8.1 Extending social security coverage to the informal economy
   - 8.2 HIV/AIDS: overcoming discrimination and economic exclusion
   - 8.3 Extending maternity protection to the informal economy
   - 8.4 Childcare: an essential support for better incomes

9. Local Development Strategies
   - 9.1 Local development: opportunities for integrated strategies for moving out of informality

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This brief examines the complex linkages between informality, poverty, exclusion and HIV/AIDS. The pandemic is a significant set-back to the transition out of informality. The long term consequences for individuals - particularly women - enterprises, communities and economies can be catastrophic. Emerging responses have seen interventions targeted to the informal economy including specifically tailored training tools, microfinance and social protection measures, awareness raising and income generation supports. National policies have also been developed at the macro level.

8.2 HIV/AIDS AND THE INFORMAL ECONOMY: OVERCOMING DISCRIMINATION AND EXCLUSION

Awareness raising on HIV/AIDS, Vietnam.
KEY CHALLENGES

- HIV/AIDS and informality
- Gendered impacts on informality
- Economic impacts of the pandemic
- Discrimination and the growth of informality
- A workplace issue
- Prevention and mitigation strategies in the informal economy
- The need for multi-pronged approaches

HIV/AIDS and informality. HIV/AIDS is a global concern with significant cost for all levels of society and sectors of the economy and a direct impact on workers and enterprises. The spread and the impact of the disease is particularly serious in developing countries, mostly in sub-Saharan Africa, accounting for 67% of HIV infection worldwide, 68% of new HIV infections among adults and 91% of new HIV infections among children. In this region, poverty and informality are also the highest. Workers in informal occupations are usually highly exposed and vulnerable to HIV/AIDS because they operate in social and economic contexts characterized by lack of steady income, poor working conditions, low education levels, lack of social protection and limited access to health facilities, as well as to information and prevention strategies. Illness places enormous strains on poor households as well as on informal business, threatening livelihoods and productivity, reducing business profits and individual income generating capacity, limiting the informal transfer of skills and experience and undermining the present and future generations’ opportunities to prepare for productive employment. It stigmatizes and marginalizes individuals socially and economically and deepens poverty across generations.

Gendered impacts on informality. Informal employment is generally a larger source of employment for women than for men in the developing world. And they are more likely to be clustered in the more marginalized and survivalist segments of the informal economy. Given their double burden as primary caregivers and income earners, and their subordinate roles in many societies, women – particularly young women tend to suffer the heaviest long-term consequences in terms of missed opportunities for education, skills development and employability. When a family member is affected by HIV, women and girls tend to be the first to drop out from school to work both within and outside the household to support themselves, sick relatives and siblings or to give up formal full time employment to dedicate time to care for AIDS patients or orphans. Flexible, unregulated, precarious and poorly remunerated activities might then be the only income generating option left to them, with serious negative consequences on their capacities to socially and economically contribute to development.

1 See AIDS Epidemic Update, UNAIDS/WHO, 2009. The increase in HIV infected people is on the other hand particular important in East Asia where the number of people living with HIV nearly doubled since 2001, and in Eastern Europe and Central Asia, where the total number in 2007 is estimated to have grown to over 250 per cent the level in 2001. See: HIV/AIDS and the world of work, Report (IV), International Labour Conference, 98th Session, 2009, ILO Geneva 2008.
2 See Resources section to access: ILO 2002 Women and Men in the informal economy: A statistical picture
3 Twice as many affected households took a girl out of school as a boy, according to a survey in three South African provinces: “Women, HIV/AIDS and the world of work” ILO AIDS leaflet.

Many in the informal economy are highly exposed to HIV/AIDS for a variety of reasons.

The costs of care are transferred to the private domain of female dominated unpaid and voluntary work. As a result women tend to suffer the heaviest long-term consequences in terms of missed opportunities for education, skills development and employability.
Informality, poverty, exclusion and HIV/AIDS are mutually reinforcing phenomena. Informality also exposes them to HIV risky behaviours. HIV/AIDS, poverty and informality are phenomena that affect women and men differently. Globally, women not only assume most of the burden of unpaid care and voluntary community work, but they also tend to be more exposed to HIV/AIDS infection than men, due to their sexual and economic subordination in their personal and professional life, which prevents them from negotiating safe sex or to refuse unsafe sex. Women’s economic empowerment and voice are essential priorities for actions with important impacts in terms of exposure and vulnerability to HIV/AIDS. Their disproportionate burden of unpaid care work has been intensified by the pandemic, especially in times of economic crisis and scarce public and private social protection support for care activities. Unless unpaid care work’s economic value and cost are fully recognised and taken into account by national development strategies, policies and budgets, HIV/AIDS will increasingly impose sometimes untenable burdens on the shrinking capacities of traditional family networks and in particular on women and girls. It is equally important to also recognise the specific challenges the pandemic imposes on men both in terms of stigma linked to infection and to the non-traditional caring roles they might have to assume due to the disease’s impact on family structures, and for which they are often ill prepared.

Informality, poverty, exclusion and HIV/AIDS are mutually reinforcing phenomena, generating a vicious circle of intergenerational inequality and deprivation. Their long-term economic and social impact on individuals, enterprises, communities and societies are potentially disastrous. Understanding their relationship and addressing their causes and consequences, especially but not exclusively on women and girls, is not only a matter of social justice and basic human rights, but an indispensable step to foster economic growth and productivity.

**Economic impacts of the pandemic.** From a macro economic perspective, the epidemic is known to reduce savings and investment rates, slow employment growth and reduce per capita income. For individuals and informal enterprises, absenteeism, illness and death of workers is often catastrophic.

Discrimination and the growth of informality. Widespread stigmatisation and discriminatory practices toward infected workers push many into the informal economy. Infected workers, as well as relatives in charge of their care (mostly women and girls), may be pushed outside the formal sector into informal, precarious, unprotected and poorly remunerated employment, where their physical and physiological health is often at greater risk. This is also increasingly apparent for children who are orphaned or left to care for HIV-positive parents.

In a number of countries in Africa and the Caribbean, infection rates among young women (under 24 years) are two to six times higher than among young men. Ibid.
A workplace issue. The ILO’s approach to HIV/AIDS recognises the disease as a workplace issue – whether or not in a formal or informal work site – and takes the world of work as an entry point for action. The rationale for this approach lies in the fact that 90 per cent of people with HIV/AIDS are part of the productive population – adults of working age – and on the recognition of the workplace as a crucial delivery point for prevention, care and treatment. It also recognises that many workers become affected as a result of their occupational activities and that many more suffer from discrimination and stigmatisation at the workplace, because they are infected. The HIV/AIDS crisis has also further highlighted the central role ILO’s constituents contribute to national efforts as social actors in combating the epidemic. As highlighted in a recent report, “HIV/AIDS is an obstacle to reducing poverty, to achieving sustainable development and to implementing the Decent Work Agenda. HIV/AIDS requires a response at all levels of society and by all sectors of the economy”. To such a statement could also be added that HIV/AIDS significantly impedes the transition to formality.

In June 2010, a new international standard was adopted on HIV/AIDS in the world of work. The new Recommendation provides the ILO and its constituents with an opportunity for discussion in each country on the appropriate responses to the HIV epidemic and to review action already undertaken (see box). Compliance with the recommendation will be monitored under the existing ILO monitoring and follow up mechanisms. The recommendation is also a valuable instrument to give detailed guidance and collect good practices.

Prior to the adoption of the Recommendation, the ILO developed a Code of Practice as a framework for action on HIV/AIDS and the world of work. The Code of practice contains 10 key principles for policy development, whose implications for the informal economy are summarised in the box below:

Key principles of the ILO Code of Practice on HIV/AIDS and their relevance for the informal economy

- Recognition of HIV/AIDS as a workplace issue. This implies that all workplaces, including informal sites, are to be recognized by governments, which often is not the case in the informal economy.
- Gender equality is an overriding concern in the code of practice. However, women in the informal economy are much more vulnerable than men, and more vulnerable than women employed in the formal economy.
- Healthy work environment. The informal environment is often far from healthy and hygienic, particularly for children who come to the workplace with their mothers.
- Social dialogue is contingent on an organized labour force. The informal economy is not adequately organized and is without a voice.
- Screening does not appear to be an issue for workers in the informal economy. There is, however, considerable stigmatization, which needs to be addressed.
- Confidentiality is not applicable in the informal economy. Stigmatization and gossip are common in small enterprises.
- Continuation of the employment relationship. Since the relationship is by definition informal, there is no contract to be terminated, nor are there any social security benefits to protect workers who fall ill.

Prevention strategies need to be integrated into existing programmes (training, business development programmes or literacy programmes). Mitigation efforts include enhanced access to social protection such as micro-insurance, as well as income generating activities.

Prevention and mitigation strategies in the informal economy. Interventions in the informal economy should be therefore adapted to the specific and different needs and circumstances of this sector. The informal economy accounts for a very large proportion of all new jobs created. This means that preventive and care interventions focusing on formal workplaces are likely to have a modest impact. Reaching informal economy workers through their workplaces and their work activities is paramount to limit the spread and effects of the disease. As Governments, employers and workers have come to realise the high cost of inaction and the benefits of preventive and treatment and care measure, they progressively join efforts to design and implement initiatives directly or indirectly focusing on HIV/AIDS and the informal economy.

The issue of addressing HIV/AIDS in the informal economy encompasses the following points:

- What mechanisms can be put in place to ensure that informal workers access information and awareness on HIV/AIDS?
- How can informal workers develop or have access to coping strategies to manage the risks linked to HIV/AIDS, including access to health care and income to cover related costs?

The first point is linked to prevention strategies and the most viable way to sustain them within the informal economy is to integrate prevention into existing programmes (training, business development programmes or literacy programmes). This has been the line followed by ILO in programmes targeting the informal workers, such as in South Africa.

The second point relates to impact mitigation. This includes working towards social protection schemes (including micro-insurance) that target vulnerable groups to enable them to access funds to cover health care and ARVs (anti-retrovirals); (and it also includes IGAs and improving business opportunities to ensure a sustainable income for People Living with HIV (PLHIV) to cover such expenses. Some interventions along these lines have been piloted in Mozambique and Tanzania.

The need for multipronged approaches. Integrated programmes covering both HIV/AIDS prevention and impact mitigation strategies for the informal workers are being implemented in Mozambique, Ethiopia, Tanzania, Benin and Cameroon.

When addressing HIV/AIDS within the informal economy and designing instruments for prevention and impact mitigation, there is the need to consider the specificity of AIDS and the informal context: many non-formal financial institution’s mechanisms are time-bound and not sustainable in the long term.


6 SIDA funded programme on HIV/AIDS prevention in the informal economy, pilot - 2002-2003
7 SIDA funded programme on HIV/AIDS prevention and impact mitigation in Sub-Saharan Africa, component on “Mobilizing cooperatives and informal sector in the response to HIV/AIDS” 2006-2009
run, while the need for ARV is life-long; informal workers may not have the same priorities and hence the same life planning as workers in the formal sector.

Existing policies and programmes range from the adoption of specific legislation or national plans of action, the establishment of micro insurance and community based health schemes, to the implementation of innovative education and information activities targeting specific and vulnerable groups, including the use of peer educators, the media and community based work, just to mention some. The following section describes effective policy innovations and examples of interventions that have been designed and implemented in selected countries.
Discussion group on women’s health, Tanzania.
Many children whose parents died of HIV/AIDS visit this primary school of the Kiwohede, Tanzania.
As noted above there are many interrelated factors determining the specific challenges HIV/AIDS poses to informal economy workers. There are therefore many kinds of policies and programmes that potentially impact these factors. Different types of policy interventions and programmes have been grouped around the following broad objectives:

- Reducing the exposure of informal economy workers to infection: the role of education and information.
- Extending the availability and accessibility of quality health care facilities and services to informal economy workers.
- Reducing the vulnerability of informal economy workers to the socio-economic consequences of the disease.

In a number of countries training of “peer educators” has proven to be a very effective strategy to disseminate information and reach informal economy actors, including migrant populations.

In Ghana, for example, pilot peer education initiatives have proven successful in reaching garage-owners and hairdressers in rural and urban settings. Educators were selected and trained to work with peers on the basis of communication skills and attitude and in consultation with the leadership of the groups involved. Education and prevention measures need to take into account the different needs of men and women, boys and girls, and the different way they

For further information see Resources section to access: HIV/AIDS+work, Technical Cooperation.

See for example the TC project: “HIV/AIDS prevention and impact mitigation in Sub-Saharan Africa” covering transport, cooperatives and informal economy (2006-09).
are affected and infected by the disease. Involvement of NGOs, community-based organisations, including women associations and association of HIV/AIDS infected persons, among others, is crucial in this case as it helps ensure the ‘right’ peer educators are selected and the message is transmitted at community level in an understandable and convincing format. As time is a serious constraint for informal economy workers, particularly for workers with care responsibilities, training activities need to be planned to take into due consideration ways to compensate the time of beneficiaries and peer educators alike. An important lesson learned from the Ghana project described above is that including business skills in training programmes and linking projects to micro-finance schemes, can help attract interest and address wider issues such as employment creation, especially for youth.

As part of the programme ‘Prevention of HIV/AIDS in the world of work: a tripartite response’, the ILO collaborates with the National AIDS Control Organization, people living with HIV (PLHIV), public and private sector enterprises and workers’ and employers’ organisations in India to carry out research and develop advocacy, communication and training materials targeting both formal and informal economy workers and their families. Unions like Hind Mazdoor Sabha (HMS), Council of Indian Trade Unions (CITU) and Indian National Trade Unions Congress (INTUC) have also taken up HIV/AIDS projects among informal economy workers in Jharkhand, West Bengal and Andhra Pradesh respectively.

Procurement, distribution and information on proper use of condoms at informal worksites, such as near the markets, along main roadways, near construction sites, etc, is also an important means of reaching those who are excluded from formal workplace initiatives. In order for these initiatives to be sustainable and have a multiplier effect, multi partnerships are essential. While local stakeholder play a fundamental role to reach the workers and their families at community level, national and regional strategies and planning is essential to set the conducive environment for the intervention to have greater impact. For example, collaboration mechanisms have been established with sub-regional bodies, such as SADC, the Southern Africa Transport and Communication Commission, the Federation of East and Southern African Road Transport Association and the Cross Border Road Transport Agency, to address the issue of HIV/AIDS risk in the transport sector.10

Information and prevention initiatives in formal worksites can be designed and implemented in a way to also reach informal workers and the larger community, for example through networks of contractors. A variety of informal economy workers are in fact linked to formal enterprises along production-consumption chains. Sub-contractors, suppliers, clients, consumers, service providers, as well as a number of other workers located in the proximity of large formal worksites (markets, amusement places, etc.) can be reached by disseminating the right information through the formal worksite. For example, Geita Gold Mine Ltd. (GGML), in Tanzania GGML has had a workplace prevention programme that includes peer education for its own personnel and as part of a community outreach initiative. Volunteer educators reach sex workers and cover life-skills training and advocacy, linking education to a package of services including care for TB and malaria, in partnership with local government. The company has trained managers and involved a local steering committee to ensure commitment11 There is also strong potential to use structures and community groups created to implement public works

10 For further details see Resources section to access: HIV/AIDS+work. Technical Cooperation. Op.cit
11 For further details see Resources section to access: Workplace action on HIV/AIDS: identifying and sharing best practice. Op.cit
programmes, as a means to channel support services to workers and communities. This may be one way of reaching remote or otherwise inaccessible areas.

Information and education initiatives, should also aim at the promotion of attitudinal and behavioural changes both in terms of risk taking and in terms of discrimination and stigmatisation of infected individuals. Education and information activities need to take into account the combination of biological, social and cultural factors underlying gender difference in exposure and impact of HIV/AIDS. This implies that “improving the health of females and men requires awareness not only of the biological aspects of diagnosis and treatment, but also of the social factors that promote or reduce good health”12.

The ILO has been conducting training courses for specific target beneficiaries linked to labour law and regulations in the workplace. These include labour inspectors from Mozambique, Zambia and Malawi and judges from 15 countries (Benin, Burkina Faso, Cameroon, the Democratic Republic of the Congo, Ethiopia, Lesotho, Malawi, Mauritius, Mozambique, Nigeria, South Africa, the United Republic of Tanzania, Togo, Zambia and Zimbabwe). These interventions are intended to improve compliance with labour and occupational safety and health (OSH), law and regulations in the workplace, enhancing a non-discriminatory and safe work environment.

Extending the availability and accessibility of quality health care facilities and services to informal economy workers. In the context of HIV/AIDS epidemic, health care and social protection involve a set of vital elements, including preventive measures; ARV treatment in cases of need (and treatment for opportunistic infections including TB), provision of health care services and access to family health cover and other kinds of support. In most developing countries public resources allocate to health care delivery services are meagre and progressively shrinking, and most of the above elements do not reach the informal economy. Institutional mechanisms to locate this “invisible sector” and provide the appropriate levels of support are largely absent.

A defining characteristic of the informal economy is its lack of regulation and social protection - workers and entrepreneurs are generally excluded for a variety of reasons from statutory social protection and contributory health care schemes (see also brief on Social Security). Coverage of statutory schemes is lowest in countries where HIV spread is particularly severe and poverty levels the highest. According to the ILO, only 10% of workers in sub-Saharan Africa and Southern Asia are covered by such schemes. Where other forms of coverage, such as micro health insurance or decentralised social protection initiatives exist, HIV/AIDS crisis represents a great challenge for their sustainability. To overcome these challenges some micro insurance initiatives have set up a specific fund for AIDS cases, imposing conditions for individual members, for example establishing a limit on the amount of benefits, setting a flat rate for each illness or covering only specific care such as hospital fees or medicines. Partnership, including government and private subsidization of these schemes is also a potentially effective measure to address the sustainability challenges of micro insurance and mutual health organisations dealing with HIV/AIDS.

12 For further details see Resources section to access: Engendering Development. Through Gender Equality in Rights, Resources and Voice
In Cameroon for example linkages between Cooperatives and service providers, CBOs and other health facilities (VCT, PMTCT, STI and AIDS treatment) has facilitated access to care by cooperative members and informal workers. Income generation activities and support to micro enterprises has also been targeted to vulnerable groups women, young men and girls.

Home based programmes are also an innovative response adopted in many countries to address the increasing demand of care delivery services and the scarcity of public health providers. Nongovernmental organisations, such as community based and faith-based organisations have initiated these programmes to complement available public health care service. Apart from meeting an increasingly recognised social need, these initiatives have become an attractive source of employment for many informal economy workers especially in countries where the supply of health workers is weak. The Zimbabwe Red Cross Home Based Care (HBC) programme has been in operation since 1992 and offers a well-developed illustration of the potential for the objectives of public works employment and service provision to be addressed jointly.

Health workers have an increasingly important role to play both in prevention and care. The Guatemalan health workers’ union ANTRASPG/SNTSG conducts prevention education activities with unionized and non-unionized workers from various sectors, including health care and agriculture, and in the informal economy.

Finally, availability and accessibility of ARV drugs can be particularly challenging to informal economy workers, not only in terms of the financial resources the treatment implies. As pointed out by the 2008 ILO report on HIV/AIDS and the World of Work, “some patients struggle to continue taking these drugs because they are not financially able to get to the health facilities where the drugs are provided, or because of particularly difficult working conditions (such as long and irregular hours, or long travel between home and workplace) which prevent strict adherence to a course of treatment. They may also find it difficult to continue with the regime as a result of persistent stigmatization. These are important reasons for community and workplace-based strategies to be closely coordinated and integrated, and to involve ministries of labour and the social partners in crafting plans for addressing HIV/AIDS in the country.”

- Reducing the vulnerability of informal economy workers to the socio-economic consequences of the disease. Informal economy workers have high levels of vulnerability to risks and shocks. Their economic activities are generally characterized survivalist activities with low productivity and low profitability. HIV/AIDS therefore inflicts major costs to individuals and households with long term consequences on their economic and human security. Poor families lack economic and social resources to face the additional costs related care and treatment and to the loss of income caused by absence from work. They also normally have limited access to goods, services or infrastructures that would help them save time to dedicate to productive work (e.g household labour saving utensils, health services or home based treatments, transportation and water and sanitation infrastructures, etc). Having to care for a sick family member may represent a considerable amount of additional household work, including fetching water, cleaning...

13 For further details see Resources section to access: Anna McCord, Public Works in the Context of HIV/AIDS
14 For further details see Resources section to access: HIV/AIDS and the world of work, International Labour Conference

A range of policies and programmes can be put in place to alleviate the economic and social impacts of the epidemic including: cash transfers, in kind transfers, provision of physical assets, community gardens, micro credit and public works.
and washing. Coping strategies to overcome these challenges include using child labour, selling productive tools and assets or contracting debts, among others.

A range of policies and programmes can be put in place to alleviate the economic and social impact of HIV/AIDS on poor families. These include cash transfers, in kind transfers, provision of physical assets related to livelihoods, such as individual or community gardens or school gardens, microcredit, and public work programs, among others. Cash transfers schemes are receiving increasing recognition as an important part of a comprehensive AIDS response, especially targeting the poorest and most vulnerable sectors of the society. The criteria for eligibility to cash transfer can vary, but they generally aim at targeting the most vulnerable population, from infected individuals to extremely poor families and communities. Availability of cash to purchase food is essential, as evidence shows the slowing effects of good nutrition on the progression of AIDS, as well as on the effectiveness of antiretroviral therapy. With the support of GTZ, the Ministry of Community Development and Social Services (MCDSS) of Zambia has set up a social cash transfer scheme to support poor household facing the heavy impact of HIV/AIDS. The evaluation of the scheme has highlighted positive results for households and communities by improving nutrition and health, increasing access to education and to livelihood opportunities, boosting individual self confidence, and decreasing pressure on the community. More than a dozen countries in southern and East Africa currently have cash transfers programs.

Cameroon: HIV-positive women gain economic independence

A number of HIV-positive women in North West Cameroon are helping themselves by generating income through cooperatives, with the assistance of the ILO and SIDA [Swedish International Development Cooperation Agency].

The project, which aims to make the women more financially independent and generally enhance the quality of their lives, has so far helped more than 100 HIV-positive women, to operate in a broad range of areas such as commerce, tailoring, designing, and rearing pigs and poultry, secretarial support and communication services.

A revolving micro-credit fund’s scheme was set up last year in three micro-finance institutions (MFIs): Bamenda Women Savings and Credit Cooperative, Kumbo Business Women Savings and Credit Cooperative and Wum Business Women and Savings Cooperative.

Assistance also included training the Managers and Psycho Social and Economic Counsellors from the targeted micro-finance institutions to support beneficiaries. The training package included: business development, management procedure of the scheme, AIDS support, counselling and stigma reduction. Capacity building workshops were held for HIV infected women from the targeted communities, diagnosis of the micro-projects (feasibility, viability, profitability and durability), management of the business, bookkeeping, re-imbursement and savings plans. Following the assessment of 192 micro-projects submitted after the training, 68 received seed funding and all of the beneficiaries are now running their own businesses.

15 For a analysis of the possible criteria for cash transfer targeting and conditionality, see Resources section to access: Michelle Adato and Lucy Bassett, What is the Potential of Cash Transfers to Strengthen Families affected by HIV and AIDS? A Review of the Evidence on Impacts and Key Policy Debates
16 For further details see Resources section to access: GTZ 2008, Experiences with social cash transfers as a tool to mitigate the impact of AIDS in rural families in Zambia
17 Michelle Adato and Lucy Bassett, op. Cit.
Micro credit initiatives can also play an important role. Micro finance intervention, especially when combined with vocational and life skills training activities, including reproductive health and gender equality issues, can be a determinant in reducing the level of exposure to infection. These activities have proven particularly relevant to women, as they not only reduce their economic vulnerability to additional expenses, but, as a result of their economic empowerment and increased awareness on HIV/AIDS women tend to be in a better position to negotiate and refuse unsafe sexual relationships.
Electrical engineering student makes a symbolic red ribbon out of wire representing his fight against AIDS, Tanzania.
This section provides a list of resources which can enable the reader to delve deeper into the issue. Details of the good practices cited above can be accessed here. The section comprises international instruments, International Labour Conference conclusions, relevant publications and training tools. A bibliography of references in the text is further below. There may be some overlap between the two.

ILO instruments and Conference Conclusions

- Recommendation concerning HIV and AIDS and the World of Work, 2010 (No.200)
- ILO Code of Practice on HIV/AIDS and the world of Work, 2005
- ILO convention relevant to HIV/AIDS include:
  - Discrimination (Employment and Occupation) Convention, 1958 (No. 111).
  - Occupational Health Services Convention 1985 (No. 161).
  - Termination of Employment Convention, 1982 (No. 158).
  - Vocational Rehabilitation and Employment (Disabled Persons) Convention, 1983 (No. 159).
  - Social Security (Minimum Standards) Convention, 1952 (No. 102).
  - Labour Inspection Convention, 1947 (No. 81).
  - Work in Fishing Convention, 2007 (No. 188).

Relevant Publications

- GTZ 2008, “Experiences with social cash transfers as a tool to mitigate the impact of AIDS in rural families in Zambia”, GTZ
- ILO 2002 Women and Men in the informal economy: A statistical picture


Tools

ILO Know more about HIV/AIDS. A toolkit for workers in the informal economy developed by the ILO Sub-regional office for South East Asia “Informal Economy, Poverty and Employment” project
Also available in Mongolian


ILO 2005 A handbook on HIV/AIDS for labour and factory inspectors, ILO Programme on HIV/AIDS and the World of Work (ILO Geneva)


For further information see the ILO Programme on HIV/AIDS and the World of Work website http://www.ilo.org/aids/lang--en/index.htm
References


GTZ 2008, “Experiences with social cash transfers as a tool to mitigate the impact of AIDS in rural families in Zambia”, GTZ

ILO 2002 Women and Men in the informal economy: A statistical picture, ILO Geneva


UNAIDS 2009 AIDS Epidemic Update 2009

Admission of a person in a dispensary for people with HIV/AIDS, India.
A POLICY RESOURCE GUIDE SUPPORTING TRANSITIONS TO FORMALITY

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

PART I: Key concepts

1. Decent Work and the Informal Economy
   1.1 Key conceptual issues

2. Measurement of the Informal Economy
   2.1 Addressing statistical challenges

PART II: Policies to support transitions to formality

3. Growth Strategies and Quality Employment Generation
   3.1 Patterns of economic growth and the informal economy

4. The Regulatory Framework and the Informal Economy
   (A) International Labour Standards
   4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work
   4.a2 International Labour Standards (ILS): bringing the unprotected under the law
   4.a3 Understanding the employment relationship and its impact on informality

   (B) Specific Groups
   4.b1 Domestic Workers: strategies for overcoming poor regulation
   4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law
   4.b3 Street vendors: innovations in regulatory support
   4.b4 Micro and Small Enterprises (MSEs), informality and labour law: reducing gaps in protection
   4.b5 Strategies for transforming undeclared work into regulated work

   (C) Labour Administration
   4.c1 Labour administration: overcoming challenges in reaching the informal economy
   4.c2 Labour inspection and the informal economy: innovations in outreach

5. Organization, Representation and Dialogue
   5.1 Social dialogue: promoting good governance in policy making on the informal economy
   5.2 The role of Employers’ organizations and small business associations
   5.3 Trade unions: reaching the marginalized and excluded
   5.4 Cooperatives: a stepping stone out of informality

6. Promoting Equality and Addressing Discrimination
   6.1 Promoting women’s empowerment: a gendered pathway out of informality
   6.2 Migrant workers: policy frameworks for regulated and formal migration
   6.3 Disability: inclusive approaches for productive work

7. Entrepreneurship, Skills Development, Finance
   7.1 Informal enterprises: policy supports for encouraging formalization and upgrading
   7.2 Enhancing skills and employability: facilitating access to the formal economy
   7.3 Microfinance: targeted strategies to move out of informality

8. Extension of Social Protection
   8.1 Extending social security coverage to the informal economy
   8.2 HIV/AIDS: overcoming discrimination and economic exclusion
   8.3 Extending maternity protection to the informal economy
   8.4 Childcare: an essential support for better incomes

9. Local Development Strategies
   9.1 Local development: opportunities for integrated strategies for moving out of informality

Extension of Social Protection

8.3 EXTENDING MATERNITY PROTECTION TO THE INFORMAL ECONOMY

Maternity can present enormous health and economic risks to already vulnerable populations in the informal economy. Efforts to increase protection are not only affordable even by low income countries, but they are also proving to be a valuable tool for increased productivity and ensuring a healthier workforce. A range of instruments are being tested in different countries, including those with very low incomes, which are showing impacts for individual women, their families and communities.
KEY CHALLENGES

- Poor maternity protection in the informal economy
- High vulnerability to loss of income and maternity related costs
- Exclusion from legal protection
- Exclusion from conventional social security schemes
- Exposure to particularly high work related hazards
- Lack of awareness and limited access to information and counselling
- Limited access to qualified health care provision
- Persistence of discriminatory practices against women due to pregnancy and maternity
- Limited opportunities for breastfeeding

Poor maternity protection in the informal economy. Women account for a large share of the working poor in most developing countries. The correlation between poor maternal health and weak maternity protection, lack of decent work and persistence of poverty is a strong feature within the informal economy. Across generations, lack of maternity protection affects women’s capacities to contribute socially and economically to the development of their communities and societies. Already facing high economic risks, motherhood often poses additional threats to health and economic security. Women in the informal economy are often not protected under existing legislation and they are not covered or cannot afford existing social security and health care schemes. Poor maternal, infant and child health are not only indicators of inequality between women and men, but – at the same time – are consequences and causes of female poverty, exclusion and lack of fundamental rights and freedoms. Of the estimated 358,000 maternal deaths worldwide in 2008, developing countries accounted for 99 percent with nearly three fifths of the maternal deaths occurring in sub-Saharan African region alone followed by South Asia. The combined figures for the two regions accounts for 87 percent of the global total of maternal deaths. Invariably, many of these deaths are among those who are unprotected in the informal economy. Among developing regions, the adult lifetime risk of maternal death (the probability that a 15-year-old female will die eventually from a maternal cause) is at 1 in 31 in the African continent, followed by Oceania (1 in 110), South Asia (1 in 120), versus 1 in 4300 in the developed regions. Despite a striking improvement in use of antenatal care worldwide, data show that in all developing regions only 57% of births were attended by a skilled health worker (doctor, midwife, or nurse).1

2 ibid.
Reducing maternal mortality: an essential step in the pathway out of poverty

“Women are the mainstays of families, the key educators of children, healthcare providers, carers of young and old alike, farmers, traders, and often the main, if not the sole, breadwinners. A society deprived of the contribution made by women is one that will see its social and economic life decline, its culture impoverished, and its potential for development severely limited.”

Joint WHO/UNFPA/UNICEF/World Bank statement on Reducing Maternal Mortality

The ILO has long recognised the importance of maternity protection, adopting the first Convention on Maternity Protection (No.3) in 1919. It has consistently advocated that maternity protection is essential to ensure women’s equal access to employment and continuation of often vital income which is necessary for the wellbeing of her family. Pregnancy and maternity are especially vulnerable times for working women and their families. Expectant mothers and nursing mothers require special protection to prevent harm to their own or their infants’ health, and they need adequate time to give birth, to recover, and to nurse their children.

At the same time, they also require protection to ensure that they will not lose their job simply because of pregnancy or maternity leave. Safeguarding the health of expectant and nursing mothers and protecting them from job discrimination is a precondition for achieving genuine equality of opportunity and treatment for men and women at work and enabling workers to raise families in conditions of security.

The ILO adopted a subsequent convention in 1952: the Maternity Protection Convention (Revised), 1952 (No. 103) and Recommendation (No. 95), and further in 2000, the Maternity Protection Convention, 2000 (No.183) recognised the diversity in the economic and social circumstances of member states of the ILO, the diversity in enterprises and new developments in national law and practice.

For full text of Conventions see: http://www.ilo.org/ilolex/

Expanding women’s access to health care during and after pregnancy, and reducing the economic risks related to maternity is in the interests of not just individual women but of societies and economies. While there are common misconceptions that it is costly and beyond the means of many low income countries, maternity protection is in reality within the reach of most countries. Examples of innovative practices from around the world demonstrate that improvement is possible in countries with very different levels of economic wealth and at a relatively low cost. For example, the adoption of decentralized health care measures since the 1950s— including community based maternal health care systems- are believed to be at the origin of drastic reductions of the maternal mortality ratio in Sri Lanka, Cuba, China and Malaysia. More recently, many developing countries have witnessed the growth and expansion of micro insurance schemes and community based health financing systems. These offer viable and affordable options to extend access healthcare and reduce vulnerability to maternity related risks to those in the informal economy. Education, information and dissemination campaigns are also useful and effective policy instruments adopted by governments, trade unions and employers to reach informal economy workers and reduce the potentially adverse consequences of maternity for workers and societies at large.

Taking the world of work as an entry point, the ILO promotes maternity protection as part of the broad Decent Work Agenda, central to the achievement of poverty reduction and economic development. The underlying rationale is not simply one of social justice and respect of fundamental rights, but of economic efficiency. The long term economic and social effects of a healthy and productive workforce largely counter more immediate short term costs.

Priority areas for policy intervention on maternity protection

The ILO contribution to the achievement of MDGs 4 and 5 on the improvement of maternal and child health focuses on the promotion of maternity protection through the world of work. To this aim, 3 broad priority areas for action have been identified:

1. Ensuring that work does not threaten the health of mothers and children during and after pregnancy, and that women’s roles as mothers is not a barrier to their economic and employment security. The following six elements have been identified as part of maternity protection according to international standards:
   a. Protection of health of pregnant and breastfeeding women and their children from workplace risks;
   b. The right to maternity leave;
   c. The right to cash benefits to ensure she can support herself and her child during leave;
   d. The right to medical care;
   e. Protection from dismissal and discrimination;
   f. The right to continue breastfeeding on return to work.

Access to information and counselling on relevant health related issues through the workplace is also key to guarantee the right to maternity protection and reduce the risks for mothers and newborns.

2. Ensuring that social health protection is accessible and affordable for all women, independently from the type of work they have. Access to quality health care, including prenatal, childbirth and postnatal care, is a largely unattended target in many countries and a determinant barrier to the reduction of maternal and child mortality rate.

3. Improving the quality of health care provision by ensuring decent work conditions for health workers. Increasing shortages and uneven geographic distribution of health workers is recognised to have a detrimental impact on maternal and child health. Efforts to promote working condition of this sector’s workforce are therefore of key importance to attain MDG 5.

See: ILO 2007 ‘Safe maternity and the world of work’ ILO Geneva

The ILO has promoted maternity protection as a core labour standard since the very establishment of the Organisation if 1919. Since then, Member States have adopted a set of legal provisions to cover larger categories of workers and guarantee a wider set of rights to working mothers. The most recent ILO instrument on the subject - the Maternity Protection Convention, 2000 (No. 183) and its accompanying Recommendation (No. 191) - specifically cover all employed women, including those in atypical forms of work. For the first time protection is extended to categories of workers, such as home workers, seasonal workers, casual, temporary and part time workers,
previously excluded from the scope of the Convention. Furthermore, the Convention expands the range of entitlements and benefits granted to working mothers to reduce the risks for their own and their children’s health. The Social Security (Minimum Standards) Convention, 1952 (No 152) also addresses maternity as one of the nine core contingencies leading to the stoppage or substantial reduction of earning to be covered by social security. This Convention sets the minimum standards for the provision of health care during pregnancy and confinement, as well as for cash benefits for the related loss of income.

Yet the application of international norms at the national level remains largely deficient both in law and in practice. Large numbers of women, particularly in the informal economy remain totally or partially unprotected during their pregnancy and nursing periods. Progress toward the achievement of MDG 5 on maternal mortality is still too slow. Even in those countries that have ratified Convention No.183 and its accompanying Recommendation No.191, many groups of women including in the informal economy, family workers and self-employed remain only poorly covered or not at all. The following are some of the many challenges faced by informal economy women workers in relation to maternity:

- **High vulnerability to loss of income and maternity related costs.** Loss of income during pregnancy and nursing period as well as the cost related to pregnancy and childbirth have a particularly disruptive impact on the working poor and their families. Given the informal characteristics of their work and the precariousness of their employment, informal economy workers and entrepreneurs are often pushed to continue or resume economic activities when it is not medically advisable to do so. When they are unable to rest and recover during the last stage of pregnancy, delivery and post-delivery, they often put their health and their child’s health at serious risk. Informal economy actors are largely excluded from cash benefits provision or fail to meet the criteria for entitlement to protection, such as the minimum length of service. Also, when these are not covered by social assistance funds, women often opt not to seek the care they need, as medical costs related to pregnancy, delivery and nursing are likely to be unaffordable for poor households. In other cases, families sell productive assets or contract debts to cover these expenditures, with potential long term catastrophic effects on their poverty level.

- **Exclusion from legal protection.** Aside from own-account workers, some categories of dependent workers, such as domestic workers, home workers and agricultural workers are often explicitly excluded from the legal provisions on maternity leave. This issue is in addition to general exclusion from social security schemes.

- **Exclusion from conventional social security schemes.** The absence of a clear employment relationship often means that many in the informal economy are not covered by contributory social security schemes. Furthermore, the majority of the working poor in most developing countries have too little or intermittent income to provide for their basic needs and cover the costs of statutory social security schemes. New forms of decentralised initiatives such as micro insurances and community based health financing schemes, including subsidisation for those below a certain level of income are options to respond to the needs of informal economy workers (see also brief on Social Security).
**Extension of Social Protection**

- **Exposure to particularly high work-related hazards:** Women are disproportionately represented in specific segments of the informal economy, including unpaid productive labour in farms or small or family business, home work, unregulated domestic service in other people’s homes, street trading, commercial sex work, among others. These occupations are often carried out under safety and health conditions that are poorly regulated and particularly hazardous for pregnant and nursing women and their children. Work-related risk include: the manual lifting, carrying, pushing or pulling of loads; exposure to biological, chemical or physical agents which represent a reproductive health hazard; work requiring special equilibrium; work involving physical strain due to prolonged periods of sitting or standing, to extreme temperatures, or to vibration; night work, if this is incompatible with pregnancy or nursing conditions. Long working hours, lack of weekly rest and of annual and sick leave are also important aspects of working conditions that might affect the health of pregnant women in the informal economy. Migrant workers, especially domestic workers in irregular status, are also particularly at risk since they often face extra cultural or language barriers in accessing health care and they work in unfamiliar, isolated working environments.

- **Lack of awareness and limited access to information and counseling.** Women are often unaware of the health-related risks of their work and their possible consequences on pregnancy and maternity. They also generally have limited access to formal and informal services and counselling on maternal health issues, including HIV detection, prevention and treatment.

- **Limited access to qualified health care provision.** Women, particularly in rural areas, may face economic/physical/cultural barriers to access adequate health care assistance. Transportation to qualified health care institutions and/or availability of health care professional in remote areas is in fact one of the most important obstacles to maternal and child health. Reduction of public welfare funds, especially in times of financial crisis, and consequent shortages of qualified health care personnel (and their poor working conditions) and structures in certain developing countries have furthermore contributed to the deterioration of health assistance and negatively impact maternal health.

- **Persistence of discriminatory practices against women due to pregnancy and maternity.** Discrimination linked to maternity include practices such as compulsory pregnancy tests before and during employment, loss of jobs or demotion as a result of being pregnant, reduction or suspension of salary during pregnancy or nursing period, etc. While discrimination against women workers for maternity related causes occurs across sectors and in both formal and informal employment, informal economy workers have de facto limited and sometimes no access to effective remedy against such practices.

- **Limited opportunities for breastfeeding.** Mothers and children who live and work in poverty are amongst the population groups who would benefit most from extended breastfeeding. The health and economic benefits of breastfeeding are in fact largely documented. While this is true for all mothers and children, extended and exclusive breastfeeding is particularly

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6 For more details see Resources section to access: ILO Recommendation No. 191, paragraph 6.2
7 For an overview of the benefits of breastfeeding for mothers and children see Resources section to access: WABA, The Maternity Protection Campaign (MPC) Kit - A Breastfeeding Perspective

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**KEY CHALLENGES**

- Working in the informal economy often exposes pregnant women to a range of risks and hazards that can seriously affect their health and that of their unborn baby.

- Despite discriminatory practices related to pregnancy and maternity, there is often very little recourse for women in the informal economy.
important in situation where lack of basic infrastructures such as access to water and sanitation is limited and exposure to infections is particularly high. However, the conditions under which informal economy workers are employed often make it difficult for mothers to continue breastfeeding. Long and heavy working days both outside and inside the households, occupational fatigue, lack of safe, clean and private nursing or rest facilities, exposure to hazardous situations or substances can hamper possibilities to breastfeed. This clearly puts mothers and children's health at risk. Infants are particularly vulnerable to hazardous agents, as a few infections or toxic substances can pass to the baby through the mother’s milk, causing it harm.
EMERGING APPROACHES AND GOOD PRACTICES

- Improving access to quality health care
- Micro insurance schemes
- Sustainability issues
- Better working conditions for health workers
- Reducing vulnerability to income loss
- Improving access to information, prevention and counselling
- Reducing vulnerability through the social and economic empowerment of women
- Promoting breastfeeding arrangements or opportunities

**Improving access to quality health care.** Most informal economy women workers and entrepreneurs worldwide are still partially or completely excluded from maternity protection. The social and economic costs of this for individuals, households and societies are increasingly evident. A comprehensive approach is needed to improve and expand women’s access to affordable (if not free) health care of quality on the one hand, and reduce the adverse socio-economic impact of maternity on women and their households, on the other. Health care initiatives should be accompanied by complementary interventions such as maternity benefits schemes, awareness raising campaigns on work related hazards for pregnant and nursing women, (including HIV and AIDS prevention- information and counselling services), targeted employment promotion programmes, capacity building and activities in support to women’s social and economic empowerment and voice.

ILO experience in extending access to health care has shown the importance of “building upon and incorporating existing local and national schemes into a pluralistic national system that provides effective access to quality health care and financial protection against health related costs”. Within this approach, specific community based health financing schemes, such as micro insurance or self help schemes are proving particularly effective to reach informal economy actors. Cash transfer schemes are also being used as effective instruments to alleviate the potentially adverse consequences of maternity on the extremely poor and improve their access to health care.

**Micro insurance schemes.** These are insurance mechanisms with risk pooling based on small premium payments and limited benefits. They normally cover beneficiaries who are excluded from existing statutory social security schemes and/or have an income at or below the national poverty line. The schemes are managed by public or private entities and involve beneficiaries in decision making. These types of schemes have shown a strong potential for reaching informal economy actors, mobilizing supplementary resources for social protection and contributing to the reduction of social exclusion, especially for women.

Micro insurance mechanisms can provide for maternity related care coverage. These range from prenatal care (medicine supplies, regular check-ups, delivery care and postpartum care) and related health interventions. A pluralistic approach within national systems have proven to be effective in ensuring access to healthcare.

referral and laboratory tests), delivery (both normal or with complication, transportation) and postnatal care (such as medicine supplies, regular check-ups, vaccination, laboratory tests and complementary nutrition).

Such schemes are being adopted around the world. The Lalitpur Medical Insurance Scheme in Nepal, for example, has a focus on maternal and child health, awareness raising and health education on safe motherhood. It provides its members with essential drugs and primary health services for a nominal fee. Another Nepalese example is the health cooperative set up by the Federation of Nepalese Trade Unions (GEFONT), which includes a health insurance scheme in cooperation with a hospital and is targeted towards the informal economy. It provides for antenatal checks up as well as for delivery and serious illness, it includes a referral mechanism to a hospital where members obtain treatment at subsidized rates. In Uganda, a number of community health based plans currently offer medical services with or without co-payments or discounts to members of the schemes. In Cambodia, the microfinance institution EMT has initiated two experimental health insurance projects targeting rural households in two provinces, meant to prevent families fall into indebtedness due to health related costs. The Safe Motherhood Fund’s Community Insurance Scheme in Tanzania and the Rural Health Programme of Grameen Kalyan in Bangladesh offer a comprehensive set of antenatal and postnatal services to their members.

**Sustainability issues.** One of the major limitations of such schemes, though, seems to be related to their financial sustainability as well as to their capacity to expand and cover larger segments of the population, especially those below a certain level of income, for whom even small contributions might be unaffordable. In some cases these concerns have lead the schemes to specifically exclude certain health services, such as those relate to normal delivery, arguing that the associated costs would imply an increase of the premium to a rate which would not be affordable for many potential beneficiaries. Cross-subsidisation from other sources, such as pooled capital or profits generated from other business activities, subsidisation of premiums paid by low income members, provision of technical assistance to schemes administrators and managers, are all possible strategies to overcome these sustainability challenges.

In general, community based health-care schemes that include some maternity care element, whether micro insurance schemes, self-help schemes or prepayment systems, tend to be generally founded by organisations that already offer health care services (health care provider-based). In other cases the schemes are managed by non-health care provider entities that offer partial or total reimbursement of specific medical costs or cash benefits in the form of a lump-sum payment before or after delivery. This is true, for example, in the case of SEWA India, which offers insured women maternity benefits in the form of a lump-sum of Rs 300 before delivery.  

**Better working conditions for health workers.** In addition to implementing measures to expand the coverage and reach of social health protection for pregnant and nursing women, particular attention should be paid to improving the quality of health services by guaranteeing better working conditions for health workers.  

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10 For more details see Resources section to access: Extending maternity protection to women in the informal economy. An overview of community-based health financing schemes
conditions for health workers. Low salaries, long working days, safety and health concerns (including exposure to violence at the workplace and high risk of contracting infectious diseases, etc), are just some of the adverse working conditions experienced by health workers in many developing countries. As a consequence, many developing countries face an increasing shortage of health sector labour force (often due to international migration of qualified workers) and/or a significantly impoverished quality of the service delivered. Capacity building, institutional strengthening and promotion of social dialogue so as to ensure full participation of health workers to relevant reforms, are the priority areas the ILO is focusing on to support countries improve their health care systems. Building partnership at national and international level is therefore essential and the ILO is actively promoting efforts in this sense. The ILO is part of the Global Health Force Alliance, launched in 2006 and hosted by WHO, to seek solutions to the health workforce crisis. The ILO offers technical advice in general but also on specific issues such as labour migration in the health sector.

Trade Unions have a particularly important role to play to promote the rights of health workers: Public Services International (PSI) for example promotes a number of important initiatives to support health sector workers, including a global campaign on quality public services and training materials on relevant issues such as workplace violence.

**Reducing vulnerability to income loss.** Cash benefits programmes are another effective instrument to reduce the potentially adverse effects maternity can have on working mothers and their households as a result of loss of income and increased costs. ILO Convention 183 allows the right to cash benefits that at least enables a woman to maintain herself and her child in proper conditions of health and with a suitable standard of living. Cash transfer initiatives, initiated in many developing countries with the aim of alleviating poverty by targeting the poorest sectors of the population, are often conditional on antenatal and postnatal health monitoring for mothers and children (including growth monitoring and vaccinations) and/or child school attendance. For example, the Indonesian Government announced a substantial increase of its 2009 poverty alleviation fund, which covers among others a direct cash transfer programme, or ‘Hopeful Family Programme’ (PKH). Under the PKH, each family below a certain level of income, will receive a yearly direct cash aid. Transfers are conditional and expectant mothers need to undergo at least 4 medical check-ups during maternity.

Similarly the Mexican PROGRESA (Oportunidades since 2002) conditional cash transfer scheme boosted demand for antenatal care by 8 percent and contributed to a 25 percent drop in the incidence of illness among newborns. By focusing on women, the programme reaches those who tend to make decisions for the entire family on health, nutrition and education. Under this scheme a pregnant woman who attends the monthly lectures gets free baby-delivery services. Participation in the programme is conditional on antenatal care and relevant vaccinations. Beneficiaries get free antenatal care if they show up within the first three months of pregnancy. Pregnant and lactating women and their children receive vitamins and nutritional supplements. The

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11 For more details see Resources section to access: Framework Guidelines For Addressing Workplace Violence In The Health Sector. The Training Manual.
12 For more details see Resources section to access: ILO Global Job Crisis Observatory.
13 For more details see the Resources section to access Mexican Government Programme Oportunidades.
scheme, which has started in 1997 with a focus on rural communities has a national coverage including big metropolitan areas.14

In Brazil the national programme Bolsa Familia is one of the most comprehensive cash transfer programmes in the world, reaching more than 11 million families. The programme conditions provision of cash transfers to school attendance and access to health care and social assistance. It also includes the provision of health-care services in communities mainly in the poorest regions.15

While often legal provisions cover only a very small minority of working mothers, pilot initiatives are being tested to include cash benefits in community-based micro insurance schemes. The Safe Motherhood Programme for example in Cambodia, is being implemented with the assistance of ILO and GTZ, has developed such measures. Another example is the Mutual Social Providence Fund for Informal Economy Workers (MUPRESSI), part of Trade Unions’ effort to promote unionization of IE workers in Burkina Faso, with assistance of ILO and DANIDA.16 In the case of Burkina Faso the Government has in fact passed a legislation (2007) extending social security benefits to informal economy workers.

- **Through its WISER tools the ILO has been promoting practical improvements in working conditions in small enterprises, including maternity aspects**

- **Improving access to information, prevention and counselling.** The workplace is often an important entry point to improve access to information and counselling on labour rights issues, including maternity protection and prevention of heath related risks for working mothers. Information and education campaigns can be designed in a simple and accessible way to reach formal and informal economy workers. The provision of advisory services and technical assistance to policy makers, employers and workers for the design and implementation of effective information, education and counselling programmes (including HIV prevention), can be an effective way of addressing maternal health issues through the workplace. The benefits of such programmes for the individual worker (in terms of improved heath), the employer (in terms of more productive workforce) and the national health objectives, cannot be overemphasized. Through its Work Improvement in Small Enterprises (WISE) program, the ILO has developed training tools that are proving to be successful in promoting practical improvement of employment and working conditions for many workers in small enterprises. In order to expand the reach of the programme and enlarge its scale, the ILO has developed a new program, WISE-R, that aims at expanding the scope and coverage of WISE to include other key working conditions issues, such as maternity protection and other family-friendly measures, working time, wages and sexual harassment. The methodology is adapted to vulnerable groups of unprotected women and men at work, such as those in the informal economy and, since it is based on forging links with local partners, such as employers’ and workers’ organizations, ministry and inspectorate of labour, local governments and community-based organizations it is able expand its reach to a much larger number of workers and small businesses.17

14 For an evaluation and bibliographic reference on the experience PROGRESA/Oportunidades programme in Mexico see for example: http://cider.berkeley.edu/SEGA/progresa_oportunidades.htm
15 For more details see the Resources section to access Brazilian Government BolsaFamilia website
17 For more details see the ILO Conditions of Work and Employment Programme web site: http://www.ilo.org/public/english/protection/condtrav/workcond/ie/ie.htm

8.3 EXTENDING MATERNITY PROTECTION TO THE INFORMAL ECONOMY
Reducing vulnerability through the social and economic empowerment of women. In order to achieve the broad MDG on maternal and child health, it is not sufficient to protect maternity by reducing its associated risks (economic and social) to working mothers and their children through social security measures. There is also a critical need to address the root causes of vulnerability to the risk, and therefore of poor maternal health, by means of promoting Decent Work and adequate standard of living for working poor, in particular for women. Increased income and better working conditions for women workers are fundamental contributing factors to improved health for mothers and their children. Availability and affordability of quality social care services, in particular childcare, are determinant factors facilitating, among other issues, women’s return to work after maternity and influencing their ability to access to better quality jobs. Similarly, policy measures aiming at supporting responsible paternity are likely to promote a more equal sharing of family responsibilities between women and men.

Promoting breastfeeding arrangements or opportunities. The benefits of breastfeeding for both mothers and children have been discussed above. Providing simple breastfeeding arrangements is beneficial for employers as well, since it is likely to reduce mothers’ absenteeism due to the child’s or mother’s sickness and to impact the level of retention of experienced workers who otherwise might decide to leave work due to their conflicting family responsibilities. Breastfeeding arrangements/opportunities are also simple and largely affordable for most employers even in small and informal enterprises. This involves allowing mothers extra time and space to bring their babies to work to feed (if it is in a safe environment) or express the milk and store it in a bottle for the infant’s next feeding after they return home at the end of the day. The ILO WISE-R (“More Work Improvements in Small Enterprises”), which aims at improving productivity of small enterprises through family friendly policies, has developed a training module highlighting the potential benefits of promoting maternity protection, including introduction of breastfeeding arrangements, in small enterprises.

A Maternity Protection Resource package

In 2012 the ILO will be releasing a Maternity Protection Resource package which provides guidance and tools to strengthen maternity protection to all women in all types of economic activities.

It can be used in capacity building training, policy advice, research and action by governments and social partners, ILO and UN officials, NGOs, researchers and practitioners. It contains many examples of good practices. The key message of the package is that maternity protection at work is both possible and desirable, as well as contributes towards maternal and child health, social cohesion and decent for women and men. A guide for training of trainers is also available for this package.

The package is a joint collaboration between the ILO Conditions of Work and Employment Branch (TRAVAIL), the Bureau for Gender Equality (GENDER), ILO-Beijing, ILO-Moscow and the ILO International Training Centre, in partnership with the WHO, UNICEF, UNFPA, UN Women and IBFAN-GIFA. It will be available in English, French, Spanish, Chinese and Russian.

8.3 Extending Maternity Protection to the Informal Economy

Mother working, with her baby, Bolivia.
This section provides a list of resources which can enable the reader to delve deeper into the issue. Details of the good practices cited above can be accessed here. The section comprises international instruments, International Labour Conference conclusions, relevant publications and training tools. A bibliography of references in the text is further below. There may be some overlap between the two.

ILO instruments and ILC Conference Conclusions

Maternity Protection Convention 1919, (No 3)
http://www.ilo.org/ilolex/cgi-lex/convde.pl?C003

Maternity Protection Convention 1952, (No 103)
www.ilo.org/ilolex/cgi-lex/convde.pl?C103

Maternity Protection Convention, 2000, (No 183)
http://www.ilo.org/ilolex/cgi-lex/convde.pl?C183

Maternity Protection Recommendation, 2000, (no.191)
http://www.ilo.org/ilolex/cgi-lex/convde.pl?R191

Social Security (Minimum Standards) Convention, 1952, (No 102)

Maternity Protection Recommendation, 2000 (No.191)
http://www.ilo.org/ilolex/cgi-lex/convde.pl?R191

Relevant Publications


ILO 2007 Safe maternity and the world of work ILO Geneva

ILO 2010 Achieving MDGs through Decent Work


http://www.ituc-csi.org/international-campaign-for-the?lang=en

ITUC-CSI 2007 Maternity Protection Campaign.
http://www.ituc-csi.org/maternity-protection,460


WABA, The Maternity Protection Campaign (MPC) Kit - A Breastfeeding Perspective
http://www.waba.org.my/whatwedo/womenandwork/pdf/05.pdf


Tools

8.3 EXTENDING MATERNITY PROTECTION TO THE INFORMAL ECONOMY


ILO work Improvements in Neighbourhood Developments (WIND) training tool

ILO 2004 Social dialogue in the health services: A tool for practical guidance ILO Geneva


ILO Global Jobs Crisis Observatory

Paul, J. 2004 Healthy beginning: Guidance on safe maternity at work”, ILO Geneva

ILO 2012, Maternity Protection Resource package

Some Government websites for more details on selected good practices
Mexican Government web site of the Programme Oportunidades at
http://www.oportunidades.gob.mx/

Brazilian Government website for the programme:
http://www.mds.gov.br/bolsafamilia/

For further information see the ILO’s Conditions of Work and Employment Department website http://www.ilo.org/travail/areasofwork/lang--en/WCMS_122073/index.htm

References


ILO 2007 Safe maternity and the world of work ILO Geneva


ILO Conditions of Work and Employment Programme web site:

ILO Global Job Crisis Observatory website

ITUC 2007 Burkina Faso: Informal economy at the centre of new solidarity initiatives. ITUC-CSI, March 2007


WABA, “The Maternity Protection Campaign (MPC) Kit - A Breastfeeding Perspective”
http://www.waba.org.my/whatwedo/womenandwork/pdf/05.pdf

### A POLICY RESOURCE GUIDE SUPPORTING TRANSITIONS TO FORMALITY

#### Contents:
- Acknowledgments / Foreword / Preface / How to use the Guide / Acronyms
- **PART I:** Key concepts
  - 1. Decent Work and the Informal Economy
    - 1.1 Key conceptual issues
    - 2.1 Addressing statistical challenges
- **PART II:** Policies to support transitions to formality
  - 3. Growth Strategies and Quality Employment Generation
    - 3.1 Patterns of economic growth and the informal economy
  - 4. The Regulatory Framework and the Informal Economy
    - (A) International Labour Standards
      - 4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work
      - 4.a2 International Labour Standards (ILS): bringing the unprotected under the law
      - 4.a3 Understanding the employment relationship and its impact on informality
    - (B) Specific Groups
      - 4.b1 Domestic Workers: strategies for overcoming poor regulation
      - 4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law
      - 4.b3 Street vendors: innovations in regulatory support
      - 4.b4 Micro and Small Enterprises (MSEs): informality and labour law: reducing gaps in protection
      - 4.b5 Strategies for transforming undeclared work into regulated work
    - (C) Labour Administration
      - 4.c1 Labour administration: overcoming challenges in reaching the informal economy
      - 4.c2 Labour inspection and the informal economy: innovations in outreach
  - 5. Organization, Representation and Dialogue
    - 5.1 Social dialogue: promoting good governance in policy making on the informal economy
    - 5.2 The role of Employers’ organizations and small business associations
    - 5.3 Trade unions: reaching the marginalized and excluded
    - 5.4 Cooperatives: a stepping stone out of informality
  - 6. Promoting Equality and Addressing Discrimination
    - 6.1 Promoting women’s empowerment: a gendered pathway out of informality
    - 6.2 Migrant workers: policy frameworks for regulated and formal migration
    - 6.3 Disability: inclusive approaches for productive work
  - 7. Entrepreneurship, Skills Development, Finance
    - 7.1 Informal enterprises: policy supports for encouraging formalization and upgrading
    - 7.2 Enhancing skills and employability: facilitating access to the formal economy
    - 7.3 Microfinance: targeted strategies to move out of informality
  - 8. Extension of Social Protection
    - 8.1 Extending social security coverage to the informal economy
    - 8.2 HIV/AIDS: overcoming discrimination and economic exclusion
    - 8.3 Extending maternity protection to the informal economy
    - 8.4 Childcare: an essential support for better incomes
  - 9. Local Development Strategies
    - 9.1 Local development: opportunities for integrated strategies for moving out of informality
Care of dependents has often been seen as the primary responsibility of women and girls which has major impacts on their ability to earn a remunerative income. In the informal economy, with lack of access to social protection, poor service delivery and weak infrastructure, the poverty risks for women and girls are immense. Conversely, increasing the availability of care facilities can significantly increase the amount of time women can spend on productive activities, engage in social dialogue, access training and other measures which can increase their income opportunities. Care facilities can therefore contribute in reducing informality by economically empowering women and enabling them to access the formal economy. While care of dependents has often been seen as a private responsibility and a low priority for public policies, innovative schemes have been developed around the world. Multiple partnerships, including subsidies from public sources are essential for the long term viability and sustainability of these programmes.
Unpaid work burdens and its impact on informality. Conflicting family and work responsibilities are one of the serious obstacles to decent and productive work for a large share of women and men in both developing and developed countries. Care for dependants, in particular for children, is often the most pressing concern for millions of poor households and an issue with important consequences for gender equality objectives and in economic and social terms.

The reasons behind this vulnerability are complex and multifaceted. Informal economy workers generally do not benefit from social security benefits and other social assistance benefits, which can act as safety nets and support poor families facing the additional costs of care for dependents. Furthermore, poor people often live in situations where care of others is particularly time consuming, because access to basic infrastructures and services (such as access to water, public transportation, health care and education facilities) is limited and labour saving devices (such as cooking and cleaning utensils) are rarely available. Time availability for paid work becomes scarce, particularly for women, who therefore often have no other option than to accept informal, home-based, flexible, low paid and low status jobs with serious decent work deficits.

Given the scale of the informal economy in developing countries an increase in the availability, affordability and quality of care services - especially for children but also for other dependants such as elderly, sick or disabled family members - is likely to provide important returns in terms of gender equality, on the one side, and contribute to opening opportunities to the formal economy, on the other. The importance of social care services for workers with family responsibilities is clearly recognized in ILO Convention No. 156 (1981) and Recommendation No. 165 on Workers with Family Responsibilities, which call upon all Member States to take measures “to develop or promote community services, public or private, such as child-care and family services and facilities (Article 5). The support for work-family balance, generally missing in the informal economy, heavily impacts women’s labour force participation rates and can contribute to breaking the poverty transmission cycle to the next generation of women and men.

The economic and social benefits of investing in family friendly policies and in expanding access to care services to informal workers should not be underestimated. The box to the right provides some examples of these benefits.

What are the benefits of childcare?

ILO research on childcare for working parents has found that the external benefits related to these measures accruing to society, employers, workers and their families, are numerous. Specifically, childcare:

- Promotes gender equality, improving women’s opportunities for employment, self-development and empowerment.
- Helps prevent the perpetuation of social inequalities and intergenerational poverty, strengthening families’ social and economic security and reducing their vulnerability to risk.
- Facilitates the smooth and efficient functioning of labour markets, through the full utilization of society’s growing investment in women’s education and a diversified labour force.
- Provides a stronger start for disadvantaged children, enhancing their physical well-being, cognitive and language skills, and social and emotional development.
- Contributes to job creation in the service sector to replace some of the unpaid household work.
- Increases tax revenues since higher participation rates and earnings of parents increase national production.
- Reduces public expenditure on welfare and in the longer term, on remedial education and crime.

In spite of the potential returns mentioned above, affordable, state supplied care services are largely unavailable in most developing countries. Where they exist, they often do not take into account the specific needs of certain categories of informal workers, for example in terms of proximity to workplaces or coverage of long or unusual working hours. According to estimates, almost half of all countries have no formal programs for children under 3. Poor women with young children, particularly in female headed households, pay the highest consequences of the lack of support to their family responsibilities.

- **Gender dimensions of care responsibilities.** While care of dependent family members is in fact a concern for both men and women, women bear most of the heavy burden of unpaid care work and consequently see their ability to earn a livelihood more seriously limited than men. With little exceptions, empirical evidence from around the world shows that the increasing female labour force participation has not been accompanied by a substantial change of men’s traditional roles towards household and care-giving responsibilities. Together with policies aimed at expanding women’s equal access to decent work and to care services, advocacy campaigns and other policies that promote a more equal participation of men to family related tasks are likely to have positive impacts both in economic and social terms.

In virtually all countries women tend to work longer hours than men and to perform a disproportionate share of household and family care activities. This trend is further exacerbated by demographic and social changes, including the increase of female headed households, rupture of extended family networks due to urbanisation and migration, growing care needs due to the increasingly aging population and to the spread of HIV and AIDS in many developing countries. Family responsibilities often keep women from engaging into regular paid work and prevent girls from attending school. Unpaid work including the care of others is therefore often an important factor pushing women into flexible, informal, precarious, unprotected and poorly remunerated employment (see also brief on Gender Equality). The correlation between the presence of young children and the female labour participation is today largely acknowledged both in developed and developing countries, while it does not negatively affect men’s labour force participation. Absence of childcare options has been for example cited as the main obstacle to take formal jobs by 40 per cent of mothers working informally in the slums of Guatemala City. As discussed above, when they do not prevent women from getting into paid work, family responsibilities still normally determine, and de facto limit, the type, location and working arrangements of women employment.

Surveys on the use of time show that they often also stretch women’s working hours at the expense of other activities such as leisure and rest. They also often confine women to less productive, less dynamic, female dominated activities, often also related to the care of others, such as domestic work. In absence of external support, families address care-giving needs by leaving their dependants unattended, resorting to the paid or unpaid help of others, or taking them at the workplace. All these coping strategies come with important downsides for individuals and societies as discussed below.

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3 Cassirer, N and Addati, L., Expanding women’s employment opportunities: Informal economy workers and the need for childcare, ILO Geneva. 2007
Informal Care Strategies. Lack of affordable care solutions for dependent family members not only pushes women into informal work but often has important consequences for the perpetuation of poverty across generations. When reliable, low-cost, out of home child-care services are not available or not affordable, poor families often use “substitute mothers”, frequently older daughters or elderly women. In other cases they rely on the paid services of other women, employed through informal arrangements, and often with even more precarious working conditions. These ‘substitution dynamics’ are often embedded in age, ethnicity, nationality or class issues, with the domestic employee often suffering from multiple layers of discrimination. (see also brief on Domestic Workers). This gendered phenomenon, part of the broader “care economy” concept 4, has clear intergenerational economic and social consequences, as it transfers the costs of care from one woman to another who de facto sees her opportunities for education and/or employment prospects jeopardised in the longer term. Additionally there are consequences for girl’s education since family responsibilities have a significant impact on girls’ school attainment rates in developing countries.

Informal caring arrangements may also prove inadequate both for the person who receives and the person who provides for care, as they can be unreliable, unsuitable and unsafe. For example, care is often delegated to elderly women (such as grandmothers) or very young girls, who might be psychologically and physically unfit to carry this burden and respond adequately to the different needs of children, disabled or sick family members. In certain cases, caring needs arising from the absence of mothers due for example to labour migration, contribute to changing roles and responsibilities among women and men within the households. Men are therefore challenged by tasks which for them are unusual, unfamiliar and often socially unacceptable. They are often not prepared to take up child caring roles and when they are ready to do so, they frequently have to face the social pressure of disapproving peers, employers and traditional societies. Studies conducted in several Latin American countries for example, show that men tend to see themselves as breadwinners rather than caregivers and that they believe this role of ‘providers’ exempts them from most domestic or care work. Even when family friendly options exist, such as paternity or parental leave opportunities, empirical evidence shows men are often openly or indirectly discouraged by employers and peers to use these benefits. This division of roles and responsibilities within and outside the household is often also endorsed by women, who in many cases show a certain resistance to men’s involvement in domestic and care work. Policies aimed at supporting men’s greater involvement in care giving activities as well as advocacy campaigns for social and cultural change are also important complementary instruments to guarantee a better work and family balance for women and men.

5 In a study of care providers for AIDS-affected people in South Africa, two male carers spoke of how men in the community saw them as ‘deviants’, doing unmanly duties, and sometimes teased them as a result. Case reported in Emily Esplen: “GENDER and CARE Overview Report BRIDGE, February 2009
Bringing children to work. Many working mothers have no other option other than taking their children to their workplace. In India it is estimated that 7 or 8 million children accompany their parents (mostly mothers) to building sites. In Indonesia, 40 per cent of working women care for their children while working. This practice has important negative consequences in a number of areas. First and foremost it contributes to informality, including homework and casual work, as it largely limits mothers’ options and takes away time from paid work. Having children at work reduces the time and investments women can put into important activities such as training, market development, registration and expansion. Given the poor working conditions most informal workers are engaged in, this practice also involves the possible exposure of children to hazardous, unhealthy or unsafe environments, and it increases the risk of child labour.

Providing for affordable care services is often seen as a costly and low priority exercise for the meagre public budgets of many developing countries. Some policymakers consider it to fall under the private responsibility of women and their extended family networks. Yet it is has been shown that the introduction of progressive and innovative measures to support care responsibilities can not only provide long term returns in terms of gender equality and economic development and growth, but it also often requires limited financial and human resources.

8 Managing Diversity in the workplace: training package on work and family. ACT/EMP and TRAVAIL, ILO Geneva 2009
9 Cassirer, N. and Addati, L. op.cit. 2007
10 Ibid.
Family of farmers, Vietnam.
Extended schooling hours can be a simple way of supporting working parents in the informal economy.

Strategies to support families to meet their basic care needs, and therefore allow women to have more and better access to decent and productive employment, usually focus on the following broad policy objectives: making family responsibilities more compatible with work and making workplaces more compatible with family responsibilities. To reach these broad objectives a wide range of complementary initiatives can be implemented by different actors to:

- improve and increase the availability, affordability and quality of services for the care of dependant family members;
- reduce families vulnerability to the economic and social costs associated with the care of dependents;
- promote and support cultural and attitudinal changes toward traditional roles and responsibilities of women and men within and outside the household, by creating a conducive environment for a more equitable share of care activities among sexes.

Flexible schooling arrangements. Informal workers and entrepreneurs often cannot afford or are sometimes not aware of existing care services and structures. The few care facilities that exist often do not respond to their specific needs, (for example, they may be too costly, far away or do not cover the long working day of informal workers) or/and they do not provide quality services. They may be understaffed or have staff with poor working conditions who are undertrained or not qualified to care for young children, sick, disabled or elderly dependents.

The re-organisation of existing school hours to meet the needs of specific categories of workers is for example a rather simple - yet effective and often affordable- measure to ease parents’ full and productive participation to paid employment. Several countries in Latin America and the Caribbean have started programmes to lengthen the school day. In Chile, for example, as of 2006, there were some 7,000 schools with extended hours. Another programme in Costa Rica, “Segunda Casa”, has started with some success. However both examples are facing...
sustainability challenges\textsuperscript{11}. In both cases, support from existing infrastructure offered an enormous advantage.\textsuperscript{12} Flexible arrangements regarding, for example, parents-teachers consultation can also enable informal workers to keep more regular contact with schools minimising the impact on the time spent on productive activities and increasing parents’ ability to participate in the care services. Similarly, co-location of pre-school care services within existing schools can have the positive effect of enabling older siblings to take younger children to the care facilities without absenting themselves from school. In Kenya, primary schools include a unit for pre-school education, known as Baby Classes, for children from the age of 3. This arrangement has been possible through a multi partnership approach: parents’ associations, religious and welfare organizations, private firms and individuals cooperate with local authorities for the creation, financing and management of these units. These partners have also played a key role in training pre-school teachers\textsuperscript{13}.

\begin{itemize}
  \item \textbf{Targeting specific informal economy groups.} Mobile populations within the informal economy including migrant and seasonal agricultural workers have specific constraints. In Mexico, the Programa de Educación Preescolar y Primaria para Niños y Niñas de Familias Jornaleras Agrícolas Migrantes, PRONIM, was initiated in 1997 to guarantee children access to education and school attainment despite their mobility and their families’ difficult living conditions. The program targets boys and girls from the age of 3 to 14. It encourages intercultural and gender-sensitive education for children of indigenous, mestizo, migrant and settled, agricultural day-workers parents. Public schools are expected to receive these travelling students and ensure that their studies are not interrupted.\textsuperscript{14}

  \item \textbf{Multiple partnerships.} The ILO has compiled information on some innovative initiatives developed by governments, employers and workers to make childcare available to vulnerable groups of workers in the informal economy. Most of these initiatives provide – in addition to education – meals and health services, therefore contribute substantially to reducing the economic and social insecurity of the family. Participation and consultation of parents in designing childcare services is highlighted as indispensable to their success. Services directed to vulnerable groups have to consider the often very limited contributory capacity of their beneficiaries. None of the cases analysed by the ILO study fully rely on parental contribution. Medium and long term economic sustainability is often a challenge, in spite of the growing demand for such services. While external donor support is often invaluable (though rarely sustainable) to subsidize these services, multi-partnership seem to provide for viable solutions to sustainability concerns. The Chilean child care centres for seasonal agricultural workers (CAHMT) is a good example of such partnerships scheme, where national government offers finance, oversight and standards, local government contributes building space, national professional foundations and associations provide nutritional, educational, and health services and materials, and other actors contribute supplementary funds and resources\textsuperscript{15}.
\end{itemize}

\textsuperscript{11} On the decision to close most of the schools under the programme, see the article http://www.nacion.com/ln_ee/2009/marzo/02/pais1891090.html
\textsuperscript{12} For more details see the Resources section to access ILO-UNDP, Work and Family: Towards new forms of reconciliation with social co-responsibility op.cit.
\textsuperscript{13} For more details see the Resources section to access ACT/EMP and TRAVAIL, op.cit. 2009
\textsuperscript{14} For more details see Resources section to access: ILO-UNDP, op cit, Chile 2009
\textsuperscript{15} For more details see Cassirer and Addati, op. cit. 2007
In Peru, the Wawa Wasi (children’s homes) program, launched in 1993 with the support of external donors (UNICEF, IDB, EU and WFP), has been institutionalized by the government and has created around 20,000 low cost, home-based or community based child-care centers for children under 3 years living in extreme poverty. Apart from allowing low income families to access quality care services, the major advantage of this scheme is the creation of employment for local women16. In Colombia, community initiatives originally organised by women to take care of neighbours’ children, have been institutionalised by the government in the form of child care programmes, run by the family welfare institute (Instituto Colombiano de Bienestar Familiar, ICBF)17.

Community partnerships and community outreach in partnership with formal enterprises, trade unions and NGOs have also produced some innovative strategies for supporting care of dependents. For example the San Salvador Mayor’s office child-care initiative for market and street vendors has been put in place. A network of childcare facilities in close proximity to the markets has been established, geographical proximity being an important aspect of the scheme’s success. The municipality pays staff salaries and daily operating costs are covered, in part, by fees paid by parents18.

Mobile pre-school services. An interesting innovation from India has seen the development of mobile pre-school services and the promotion of co-operatives for social and child care, including family cooperatives, which are able to respond to the needs of working parents in the informal economy. The voluntary organisation Mobile Crèches operates childcare centres for workers on construction sites and slums of Delhi, Gurgaon, Noida, Ghaziabad, Faridabad. Day-care is integrated with supplementary nutrition, healthcare, and age appropriate learning programme, followed by School Admission and Support. Mobile Crèches open day-care centres in agreement with the employer at construction sites. The builder then provides accommodation, electricity and water and the crèche only lasts as long as construction on the site. Financing comes from construction contractors, local grants, foreign donors and private fund raising.19

The Hogares Comunitarios Program (HCP), established in Guatemala City in 1991, aimed at alleviating poverty by providing working parents with low-cost, quality childcare within their communities. Each daycare center was established by a group of families who chose a local woman to provide childcare in her home for up to 10 of their children. The government provided food for the children in addition to subsidizing the caregiver’s services. The evaluation of the program highlighted that beneficiaries’ mothers were more likely to have salaried - and possibly more stable - employment than mothers who use other childcare arrangements, which often resulted in higher wages. Also benefiting from the program were the caregivers themselves, who tended to be older, less educated mothers with possibly fewer opportunities to work outside the home. Moreover, the evaluation pointed out at the significant positive impact of the program on the diets of participating children20.

16 For more details see Resources section to access: ACT/EMP and TRAVAIL, op.cit.
17 For more details see Resources section to access ILO-UNDP, Work and Family: Towards new forms of reconciliation with social co-responsibility. Op.cit
18 For more details see Resources section to access: ACT/EMP and TRAVAIL, op.cit.
19 For more details see the Mobile Crèches organization http://www.mobilecreches.org
20 For more details see the Resources section to access: IFPRI, City profile, op.cit. 2001

8.4 CHILDCARE: AN ESSENTIAL SUPPORT FOR BETTER INCOMES
Childcare initiatives that include meals and health services contribute substantially to reducing a family’s economic and social insecurity.

**Complementary services.** Innovative approaches to family-work balance often include a combination of different yet complementary elements and services. The government-led National Rural Employment Guarantee Programme in India includes the provision of on-site crèches among other worksite facilities, such as medical aid, drinking water and shade. This has been seen as an essential pre-requisite to enable more women to participate in the programme, and an important innovation since many employment guarantee schemes tend to favour the participation of men for a variety of reasons.

From Rhetoric to Reality: Promoting Women’s Participation and Gender Responsive Budgeting

This is a Joint UN programme carried out in Nicaragua with support from the Spanish MDG fund: Gender Equality Window.

As part of its broad strategic objective of promoting gender equality in the country, the project includes the provision of child care to informal workers, such as seasonal agricultural workers involved in coffee harvest. These initiatives adopt a multi partnership approach, through the support of local and national governments, employers and workers organisations.


**Social partners working together.** Both employers’ and workers’ organisations are also promoting innovative policies to make work and family responsibilities easier to balance. These initiatives are based on the recognition of the importance of family friendly policies to attract women into the labour market and therefore make a more efficient use of the human capital. The International Organisation of Employers deals with the issue as part of diversity management. Making the business case for creating family friendly workplaces, the ILO Bureau for Employers’ Activities and the Condition of Work and Employment Programme (TRAVAIL) recently issued a training package on work-family policies. Similarly, the ILO Bureau for Worker’s Activities (ACTRAV) developed a training manual to support trade unions to include family friendly policies in the collective bargaining negotiations.

**Promoting Decent Work for care workers.** Importantly, improving the working conditions of care workers is an essential element for creating decent work opportunities in this sector, and will invariably help to enhance the quality of services provided. Recognising the education and training needs of informal workers of all ages in the informal care economy, including domestic work, is an important aspect of improving their working and living conditions. Domestic workers play an indispensable role in delivering care services and, yet are exposed to very poor working and living conditions. The ILO recently adopted international standards to support decent work for domestic workers, while also drawing attention to the enormous economic and social contribution that domestic work provides to development and growth (see brief on Domestic Workers). Similarly, the ILO is researching issues related to the shortage of care and health workers in developing

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21 For more details see the Resources section to access: The National Rural Employment Guarantee Act 2005 (NREGA), Operational Guidelines, Ministry Of Rural Development Department Of Rural Development, Government Of India
Policies that aim to reduce the costs and risks of caring for dependents range from conditional or unconditional cash transfer initiatives to investment in basic services and social infrastructure.

- **Reducing families’ vulnerability to the cost of care, through social protection measures.** Informal economy actors not only face difficulties in accessing available and affordable care services, but they are often the most vulnerable to the economic and social risks associated with care of dependents. Additional expenses for children or other dependant family member, including sick (including people affected by HIV and AIDS) or elderly people, often have catastrophic effects on poor households’ security. Poor families have limited capacities to purchase goods (such as processed food, labour saving tools such as cooking and washing utensils, private transportation means, etc) or services (private childcare, health services for the ill or disabled, domestic help) that would reduce the time they have to spend in unpaid household work. As noted earlier, they often have no access to social assistance and contributory social security schemes. Policies that aim at reducing the costs and risks of caring for dependents range from conditional or unconditional cash transfer initiatives to investment in basic services and social infrastructure. The latter include affordable public transportation to and from care giving facilities or water and energy supply to isolated areas. These can considerably reduce the amount of time spent on unpaid care activities and therefore have a positive impact on the amount of time possibly spent on remunerative employment.

Some Latin American countries, such as Chile and Mexico, are for example, experimenting with new forms of social protection through programmes that include early childhood components in the form of subsidies to enable access to childcare facilities for informal workers, among others. Day care centres are also used as important means to deliver nutritional and health related support to vulnerable households. In Chile the comprehensive protection system for early childhood, (Sistema de Protección Integral a la Primera Infancia Chile Crece Contigo), known as “Chile grows up with you”, created in 2006 offers benefits such as a prenatal family subsidy and preferential access to child development services, as well as free, quality childcare for all children under the age of two, whose mothers are either working or seeking employment. The program is particularly relevant to informal economy workers as it targets the most vulnerable 40% of the population. In particular the program includes as a target group mothers who are studying, especially teenage mothers, in order to retain them in the school system. Through this program approximately 900 new centres have been built every year, and by the end of 2009, 3,500 free, public child care centres will care for 70,000 infants, up 500% increase over the public sector supply in 2005. Some offer countrywide services.

- **Opening up income opportunities for women.** Any program or project aiming to promote more and better income opportunities for women in the informal economy is likely to impact the household capacities to pay for care (private care -institutional or individual) for dependant family members. These policies cover a wide range of possible initiatives, from anti-discrimination campaigns for trade unions, employers and informal workers so to better equip them identifying and addressing discrimination on the basis of sex or family responsibilities, to the extension of social security to excluded

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22 For more details see Resources section to access: UNESCO, “Education for All Global Monitoring Report 2009”

23 For more details see Resources section to access: ILO-UNDP, Work and Family: Towards new forms of reconciliation with social co-responsibility. Op.cit
Promoting cultural and attitudinal changes about the traditional roles and responsibilities of women and men. Measures that aim to change behaviours and attitudes are essential to enable a more equitable division of household tasks. While these strategies are for the medium and longer terms since attitudinal shifts take time, they have the potential to significantly impact on how those in the informal economy organise their private and productive lives. They encompass a wide range of gender equality initiatives, from education and training programme, school curricula design to parental benefits and parental leave among others. Such measures are based on the recognition of the imbalance in tasks and responsibilities among men and women in the private and public spheres and of the consequent impact this has in both economic and social terms. Gender equality initiatives should recognise the caring roles of men as well as of women and offer both viable and targeted solutions to achieve a better balance of work and family. Family friendly policies cannot focus on women only, as this would simply perpetuate the existing gender division of labour. In designing family-friendly policies policy makers should consider the different impact these have on both women and men. Education and awareness raising initiatives through formal and informal education should focus on challenging traditional attitudes, while recognising the implication social change has for both women and men. An example of community education programme aimed at discussing the costs of “traditional masculinity” is the Brazilian-based Program H ("Hombres"). This NGO programme was set up in 1999 in collaboration with young men from low-income communities in Brazil and Mexico. With the support of a specifically designed training manual and awareness raising materials, the programs questions the assumption that men are not care givers and focuses on how young men themselves define care-giving and the place it has, and should have, in their daily lives. The program has been more recently complemented by program M ("Mujeres"), which involves young women into the design of awareness raising materials (including a radio broadcasted soap opera) on a variety of gender equality issues such as parenthood and shared care-giving.24

24 For more details see Resources section for Emily Esplen: “GENDER and CARE Overview Report BRIDGE, February 2009
8.4 CHILDCARE: AN ESSENTIAL SUPPORT FOR BETTER INCOMES

Women with her baby working in a small dressmaking workshop, Bolivia.
This section provides a list of resources which can enable the reader to delve deeper into the issue. Details of the good practices cited above can be accessed here. The section comprises international instruments, International Labour Conference conclusions, relevant publications and training tools. A bibliography of references in the text is further below. There may be some overlap between the two.

ILO instruments and Conference Conclusions

Workers with Family Responsibilities Convention, 1981, (No 156)
Employment (Women with Family Responsibilities) Recommendation, 1965, (No 123)
Equal Remuneration Convention, 1951, (No 100)
Equal Remuneration Recommendation, 1951, (No 90)
Discrimination (Employment and Occupation) Convention, 1958, (No 111)
Discrimination (Employment and Occupation) Recommendation, 1958, (No 111)

ILO 2009 Conclusions concerning Gender Equality at the heart of Decent Work, International Labour Conference 98th session, Geneva

Relevant Publications

Cassirer, N. and Addati, L. 2007 Expanding women’s employment opportunities: Informal economy workers and the need for childcare, ILO Geneva


Hein, C, 2005 Reconciling work and family responsibilities: practical ideas from global experience, ILO TRAVAIL, Geneva,


ILO Global Job Crisis Observatory,


http://unesdoc.unesco.org/images/0017/001776/177683e.pdf

Tools

ILO 2009 Training package on Work and Family. Managing Diversity and Equality at the Workplace, ACT/EMP-TRAVAIL.


http://actrav.itcilo.org/english/library/socdiag/v07000.htm

For more information see the ILO Conditions of Work and Employment Department website http://www.ilo.org/travail/lang--en/index.htm

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Cassirer, N. and Addati, L. 2007 Expanding women’s employment opportunities: Informal economy workers and the need for childcare, ILO Geneva

Esplen, E. 2009 Gender and Care Overview Report BRIDGE, February 2009

Hein, C. and Cassirer, N. 2010 Workplace solutions for childcare, ILO Geneva

Hein, C., 2005 Reconciling work and family responsibilities: practical ideas from global experience, ILO TRAVAIL, Geneva,


ILO Global Job Crisis Observatory,


http://nrega.nic.in/Nrega_guidelinesEng.pdf


## Contents:

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

### PART I: Key concepts

<table>
<thead>
<tr>
<th>1. Decent Work and the Informal Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 Key conceptual issues</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. Measurement of the Informal Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1 Addressing statistical challenges</td>
</tr>
</tbody>
</table>

### PART II: Policies to support transitions to formality

<table>
<thead>
<tr>
<th>3. Growth Strategies and Quality Employment Generation</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1 Patterns of economic growth and the informal economy</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>4. The Regulatory Framework and the Informal Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>(A) International Labour Standards</td>
</tr>
<tr>
<td>4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work</td>
</tr>
<tr>
<td>4.a2 International Labour Standards (ILS): bringing the unprotected under the law</td>
</tr>
<tr>
<td>4.a3 Understanding the employment relationship and its impact on informality</td>
</tr>
<tr>
<td>(B) Specific Groups</td>
</tr>
<tr>
<td>4.b1 Domestic Workers: strategies for overcoming poor regulation</td>
</tr>
<tr>
<td>4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law</td>
</tr>
<tr>
<td>4.b3 Street vendors: innovations in regulatory support</td>
</tr>
<tr>
<td>4.b4 Micro and Small Enterprises (MSEs), informality and labour law: reducing gaps in protection</td>
</tr>
<tr>
<td>4.b5 Strategies for transforming undeclared work into regulated work</td>
</tr>
<tr>
<td>(C) Labour Administration</td>
</tr>
<tr>
<td>4.c1 Labour administration: overcoming challenges in reaching the informal economy</td>
</tr>
<tr>
<td>4.c2 Labour inspection and the informal economy: innovations in outreach</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>5. Organization, Representation and Dialogue</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1 Social dialogue: promoting good governance in policy making on the informal economy</td>
</tr>
<tr>
<td>5.2 The role of Employers’ organizations and small business associations</td>
</tr>
<tr>
<td>5.3 Trade unions: reaching the marginalized and excluded</td>
</tr>
<tr>
<td>5.4 Cooperatives: a stepping stone out of informality</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>6. Promoting Equality and Addressing Discrimination</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.1 Promoting women’s empowerment: a gendered pathway out of informality</td>
</tr>
<tr>
<td>6.2 Migrant workers: policy frameworks for regulated and formal migration</td>
</tr>
<tr>
<td>6.3 Disability: inclusive approaches for productive work</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>7. Entrepreneurship, Skills Development, Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.1 Informal enterprises: policy supports for encouraging formalization and upgrading</td>
</tr>
<tr>
<td>7.2 Enhancing skills and employability: facilitating access to the formal economy</td>
</tr>
<tr>
<td>7.3 Microfinance: targeted strategies to move out of informality</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>8. Extension of Social Protection</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.1 Extending social security coverage to the informal economy</td>
</tr>
<tr>
<td>8.2 HIV/AIDS: overcoming discrimination and economic exclusion</td>
</tr>
<tr>
<td>8.3 Extending maternity protection to the informal economy</td>
</tr>
<tr>
<td>8.4 Childcare: an essential support for better incomes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>9. Local Development Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>9.1 Local development: opportunities for integrated strategies for moving out of informality</td>
</tr>
</tbody>
</table>
9.1 OPPORTUNITIES FOR INTEGRATED SUPPORTS FOR MOVING OUT OF INFORMALITY

This brief focuses on local development strategies - integrated, participatory approaches anchored in social dialogue, which can generate comprehensive, localized responses to support informal economy workers and entrepreneurs. When local government, social partners and civil society organizations support informal economy workers and enterprises to move out of informality, they create the foundation by which the poorest and most vulnerable segment of the population can achieve decent work and sustainable livelihoods. For society at local and national level, the dividends from the transition of informal firms into formality come in the form of a more dynamic economy that is economically and socially inclusive, and which generates revenues and investments that can be channeled back locally. For the enterprises, wide-ranging support from local authorities can enable their businesses to grow and encourage them to move out of informality.
KEY CHALLENGES

- Local development and informality
- The relationship between local government and the informal economy
- Weak managerial capacity at local level
- Weak dialogue mechanisms
- Poor policy coherence linking national and local levels
- Constraints on local business regulatory environment
- Poor outreach and service delivery

Local development and informality. Local government authorities and community organizations are the primary, and sometimes only, contact point for informal economy actors to access social and economic development services. Local government and civil society organizations have closer spatial, organizational, and social proximities and a more intimate understanding of their communities’ priorities. They are ideally suited to delivering interventions that address localized social dialogue and inclusion, economic development and employment promotion, and social protection. Indeed local development strategies offer opportunities for multifaceted and comprehensive approaches to upgrading informal economy workers and economic units. Setting up basic infrastructure, establishing streamlined regulatory environments and zoning regulations, supporting SME development, facilitating public contracts and tendering processes, fostering public-private partnerships, targeting support to the especially disadvantaged such as women and youth, encouraging labour-intensive methodologies in infrastructural development and facilitating employment creation are just some of the means available to municipalities to support the move out informality for the populations within their territory. The combinations of these tools and strategies have the largest possible impact in contrast to piecemeal approaches.

The relationship between local government and the informal economy. Despite its potential, local development strategies are under-utilized to support the upgrading and the move out of informality for the informal economy at the local level. Indeed the actors and economic units within the informal economy often have a fraught and uneasy relationship with local authorities. At best the links may be of a benign tolerance on the part of local government – but with the vast majority of its resources and policies directed at the formal economy; at worst it can include harassment and hostility. Slum clearance and eviction of traders is not uncommon given that many local authorities perceive petty traders, street vendors, waste pickers, and other informal economy actors as a public menace. Yet supporting upgrading of enterprises and the transition to formality can be equally beneficial to local authorities since it can increase their revenues, reinvigorate local economies and attract investment, as well as ensure greater social cohesion.

1 See Resources section to access: ILO, the Informal Economy, Governing Body, 298th session Geneva, March 2007 GB.298/ESP/4
and man-made shocks, and greater social cohesion through more equitable distribution of economic opportunities. Local social dialogue offers an opportunity to translate national rights and employment policy frameworks into action and align them with existing local strategies.

Within local development strategies are specific methodologies for local economic development (LED). LED is an important mechanism for employment promotion through micro and small enterprise development, support of social dialogue and development planning. At the centre of the approach is the creation of public-private partnerships that brings together stakeholders in the local economy, including representatives of regional and local government, employers’ and workers’ organizations, Chambers of Commerce, cooperatives, producers’ associations, women organizations and other NGOs. Based on the rational use of local capacities and resources, the stakeholders define common priorities for the development of their region taking into account the social and environmental contexts. Local development strategies which include the informal economy as active participants and beneficiaries can catalyse economic regeneration, tackle poverty and facilitate the strengthening of their voice. Local development strategies therefore are an important tool to ensure the democratisation of policymaking and planning.


In order for local development strategies to fulfill their promise of being a fertile ground for supporting transition to formalization a number of challenges need to be overcome. These challenges include weak capacity at local level, weak dialogue mechanisms, disconnect between national and local level policy alignment, constraints on the local regulatory environment as well as poor service delivery especially to remote and rural areas.

- **Weak managerial capacity at local level.** Municipalities, specialized government agencies (for example chambers of commerce, local employment offices), social partners (workers’ organizations and employers’ organizations) and civil society organizations (e.g. NGOs, CBOs) will often be the primary implementing agent for opening opportunities for informal economy actors to link with the mainstream economy. The strength of intervention lies not only in its design, but also the capacity of the implementing agents to convert planned strategy into tangible action.

The growing commitment by national-level government to frame policies and deliver services at the local level has led to the decentralization of executive authority and fiscal space at local level. Decentralization improves the responsiveness of sub-national government agencies and community based organizations to better respond to local needs and capture opportunities. However for local governments to achieve the intended aims of decentralization, the challenges of weak local capacities to deliver plan and services, and poor coordination and policy alignment at local and national levels will need to be addressed. Part of this process also involves overcoming inherent reluctance to engage with the informal economy and view those who work in it as potentially dynamic economic actors. The majority of budget resources and policies at local level are therefore often directed to what are perceived as stronger economic actors, often in the formal economy.

- **Weak dialogue mechanisms.** Social dialogue is the central pillar of local development strategies, which in turn is grounded in strong representative capacities of local stakeholders. Yet a defining feature of the informal economy is its weak organization and representation. Vulnerable groups particularly women and youth are rarely represented and are often without voice at policy level. This problem of poor organization often means that those in the informal economy remain marginalized from dialogue and planning processes and there is a risk that resources and policy direction may be captured by elites or those with stronger bargaining power. Indeed, while decentralization offers good opportunities for greater democracy at the local level, it cannot be assumed that there will always be a commonality of interests among the stakeholders. Local territories can be fractured by conflicts of interest along economic, class, religious, ethnic, gendered and other lines, and there is also the danger that there is less incentive at the local level to translate national level rights into effect at the community level.

Dialogue mechanism need to be established which can help build the capacity of workers’ organizations and entrepreneurs’ organizations in the informal economy. Even where dialogue mechanisms have been established with the informal economy, maintaining commitments to these dialogue platforms requires ongoing intensive efforts. The example of Durban city council which has been lauded as international good practice in supporting the informal economy (see box later in this section) has seen some policy reversals, in part due to setbacks in social dialogue processes.
- **Poor policy coherence linking national and local levels.** Decentralization has increased both the role and the expectations on local governments. But there is plenty of scope for disconnect between the national and local levels, partly because of inappropriate understanding of local realities by national entities and weak capacity on the part of local governments. National frameworks may be viewed by local government as a matter of national-level policy and regulatory reform, but not pertinent or actionable at the local level. On the other hand there are dangers that national level frameworks may abrogate responsibilities for public goods such as education, health, utilities, infrastructure as well as compliance with legal frameworks to the local level - which however cannot generate the resources and economies of scale required to meet these needs. Policy coherence between the national and local level therefore requires alignment and coordination of objectives, and opportunities for partnership and joint ventures. Local government may need guidance to develop the appropriate understanding and strategies to localize national frameworks. Local development strategies need to incorporate guidance to government and civil society actors in filling in compliance gaps between national and local actors.

- **Constraints on local business regulatory environment.** A factor that can hinder local economic development is unclear and complex business registration and licensing environment for micro and small enterprises. When business licensing procedures are highly bureaucratic, involve steep financial or documentary requirements, and officials are allowed to exercise discretion arbitrarily, then enterprises may be intimidated and discouraged from registering. Moreover, overly bureaucratic business registration and licensing processes can be a signal to firms that local government is unfriendly to business and as a result keep enterprises in informality. (see brief on Informal Enterprises).

- **Poor outreach and service delivery.** Local authorities may cover terrain which includes vast areas of rural and agricultural sectors. Delivery of services to remote areas is not surprisingly costly and complicated, and local authorities may be less inclined to invest scarce resources into these areas. Rural actors, who make up a large part of the informal economy and a considerable proportion of the world’s poor, are often therefore geographically isolated and unable to access information, services, resources and facilities which can support their economic activities. The high cost and lengthy journey of own-account workers living in remote rural communities areas may dissuade many from registering their enterprises, or seek out vocational training or other business supports. However it is not just in rural areas that service delivery is poor. Even in urban informal settings, access to supports including market information, business development services, training, labour administration may be impeded by the orientation of these institutions and services to the needs of the formal economy.
9.1 OPPORTUNITIES FOR INTEGRATED SUPPORTS FOR MOVING OUT OF INFORMALITY

Street vendor in the rain, Chengdu, China.
9. Local Development Strategies

9.1 OPPORTUNITIES FOR INTEGRATED SUPPORTS FOR MOVING OUT OF INFORMALITY

Local tripartite social dialogue between workers, employers and government creates a platform where informal economy actors can organize their collective voice to debate issues from labor laws to land tenure to the social inclusion of marginalized groups. Where local development strategies have managed to overcome these obstacles and reorient their policy attention to the informal economy there has been significant impact for workers and economic units, and in many cases progress towards formality. While the innovations discussed below are taken as self-contained they are in fact part of integrated and comprehensive strategies at local level, and therefore have a far greater impact than stand-alone interventions. In all cases the key underlying mechanism for local development is the support and institutionalization of social dialogue mechanisms at local level, and hence the active participation of informal economy actors in planning and implementation.

Strengthening social dialogue. Local development strategies are anchored in social dialogue. Local tripartite social dialogue between workers, employers and government, like that of national tripartite social dialogue, creates a platform where informal economy actors can organize their collective voice to debate key issues from labor laws to land tenure to the social inclusion of marginalized groups. Successful local economic development requires the collaboration of government, the private sector, workers organizations and civil society. The entire society has a stake in the types of investments that are made in their locality. Thus, the interests and experience of different groups will contribute to overall planning process. Locally led initiatives in ideal cases are highly democratic, participatory, and inclusive of all groups within a community, especially the vulnerable, marginalized, and minorities. However as noted in the challenges section, weak organization within the informal economy risks elite capture of community-led projects and may reinforce existing divisions and conflicts within a community.

There are several avenues by which participation in planning and implementation have been institutionalized.

- Some governments have created multi-sectoral local councils that provide recommendations to local executives and local legislative bodies on the design and prioritization of development programs, including those related to economic and employment promotion, health and education, and infrastructural projects. In Ghana, the ‘Decent Work and Local Development through Dialogue and Partnership Building Project’ leveraged...
gains made from 10 district initiatives in agricultural sector promotion, skills upgrading and job creation for youth, and labour intensive infrastructure to demonstrate to national level policy makers the success and replicability of local economic development strategies.

- Within local legislative bodies of decentralized regimes, civil society and private sector groups can participate in the discussion and deliberation of proposed local ordinances and resolutions.
- Within administrative bodies, private groups can enter into cooperative or joint ventures with the local government in implementing programs, projects and activities, including the delivery of certain basic services.

How effectively these participatory mechanisms are used depends upon whether these mandated mechanisms are actually implemented; it also depends upon the degree to which informal economy groups and local communities are mobilized and organized.

- Public-private partnerships. Partnerships between the public and private institutions can be a key factor to effectiveness in service delivery. 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 a number of stakeholders including: 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 association which look after security and settlement of vendor disputes. Similar partnerships have been carried out in waste collection, community infrastructure improvements and street cleaning in several countries with positive results not only in service delivery but also in deepening dialogue between local governments and local associations. Avenues for participation need to be institutionalized and made credible to local communities. To enhance equity and prevent dominance by any one single interest, they must include marginalized groups in a meaningful way.

In Sri Lanka the Enter-Growth project in several districts focused on the creation of a business enabling environment for micro and small enterprises. The project was firmly grounded in social dialogue between the public and private sectors. Local institutions were supported to strengthen labour market governance. As a result of strong lines of communication between stakeholders, Enter-Growth enhanced productivity and competitiveness of SMEs. Forums for SMEs were set up and supported by the training of some 2,000 local officials in enterprise licensing and registration.

4 For more details see the Resources section to access: Staermose, T. 2008 The role of public sector in Private Sector Development (PSD) at the local level.
Ways Local Development frameworks can support the transition to formality

Local Economic and Social Development Responses

- Improve local government’s policy and fiscal space to allow for greater inward investments via community sub-contracting and hiring of local firms for slum upgrading, road construction and other local public works projects
- Increase the number of employment-intensive infrastructure (as opposed to mechanized) creation and maintenance projects to create jobs, and create socially (i.e. schools, hospitals) and economically (i.e. marketplaces) supportive infrastructure
- Strengthen the capacity and opportunities of informal workers by enhancing the outreach of local vocational centers, employment offices and community organizations in vocational demand assessment, capacity building, and job matching
- Increase linkages between formal and informal economy firms to increase the economic opportunities for both sets of firms
- Mapping of the local economic strength and opportunities to prioritize the levels of support to local capacity development, firm strengthening, infrastructure creation, and inward investments.
- Promoting local-level business environment reform
- Opening access to productive resources including finance, market information, business development services, training opportunities.

Social Protection

- Creating local development frameworks and action strategy plans at the municipal and village levels to translate national initiatives (e.g. occupational safety and health, elimination of child labour and ensuring maternity protection) to actionable elements for local government and civil society organizations
- Working with specialized agencies (e.g. government, donor) to providing technical guidance in creating local level social protection and security initiatives (e.g. employment guarantees) that are inclusive of the informal economy
- Local level advocacy to employers the economic and social dividends that result from investing into workers’ occupational safety and health standards
- Integration of cross-cutting issues (e.g. HIV/AIDS, child labour, environment) into local economic development activities

Social Dialogue and Rights

- Improving policy cohesion between national and local government policy through local development frameworks
- Strengthen organization and voice (e.g. business associations, cooperatives, trade unions) and establishing social dialogue platforms (e.g. local economic development forums and networks) to develop consensus and democratic planning
- Strengthen community based organizations’ ability to define economic and social development priorities, engage in participatory planning and coordinate with local authorities in local project governance
- Improve the quality of public-private forums and partnerships to increase responsiveness and efficiency of public institutions and the private sector in implementing local level initiatives
- Support and strengthen coordination activities between local economic actors to prioritize activities, reduce redundant efforts, and maximize yield of scarce developmental resources
- Mainstream women, minority, indigenous people, and other marginalized groups into the participation process
- Upholding the rights of freedom of association and collective bargaining, elimination of forced labour, abolition of child labour, and elimination of discrimination in respect of employment and occupation
Building local authority capacity to support local development. Substantive policies measures that promote local economic development and employment can be categorized into the following:

- those that improve competitiveness and stimulate demand for investment and employment,
- those that enhance the supply of employment through social investments and consumption, and
- institutions that match supply and demand— or where they do not, to address such market inefficiencies or failures.

The role of local governments has often been confined to administering public services and regulating business activities. Institutions traditionally found at the local level support enterprise regulation (i.e. business permit and licensing office) and physical planning (i.e. planning and engineering offices). In some countries that have undergone decentralization, functions traditionally performed solely by line ministries have been devolved to – or at least shared with – the regional and municipal levels of government, reflecting a growing mandate and responsibility at the local level. Many of these roles are new to local governments and stakeholders. Examples that are relevant to the informal economy are:

- trade and industry - promoting micro and small businesses, market linkages and business logistics services to producers within value chains,
- labour promotion and protection - collecting labour market information, dispute mediation among contractors, extending social security, job placement,
- occupational safety and health - delivery of occupational health information and services,
- education - vocational training, aligning curricula with industrial priorities, and
- agricultural training - promoting efficient and safe production techniques and equipment among small landholding farmers.

Stages of Local Economic Development

Local development strategies, including methodologies linked to Local Economic Development (LED), are often based on phased processes described below. These are particularly important for project implementation but have relevance to the core work of the local authorities.

- Preliminary data collection, initial territorial analysis, and detailed territorial diagnosis. Coordination of core stakeholders in institutional mapping of public, civil society and private sector and defining local economic assessment of strength, weaknesses, opportunities and challenges. Focus is on the prioritization of local socio-economic needs and identification of high-growth, high-employment sectors. Based on the primary analysis the core stakeholders will mobilize a wider segment of the community to participate in the decision making and implementation processes.

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6 For more details see Resources section to access: Onalan, F et.al.2007. Dialogue at the local level in Europe: Comparison of case studies
9. Local Development Strategies

- Establishing or strengthening of local economic and social development forums and networks. The establishment and/or strengthening of forums and networks provides government and social partners with a platform to advocate concerns, share knowledge, coordinate activities and contribute to the overall planning and implementation of local interventions. The forum is a means by which national-level frameworks, growth strategy and partnerships can develop policy cohesion with sub-national partners.

- Design of an integrated local strategy and action plan. Local stakeholders create medium and long term strategic plans to outline vision, objectives and actions to stakeholders. Local forums and networks need to be active partners in the development and implementation of the plan. Having strong local ownership will enhance the sustainability of the initiative’s activities.

- Monitoring and evaluations. A strong feedback loop between beneficiaries in the field and implementers enables mid-course corrections of activities and the incorporation of lessons learnt into new initiatives. Knowledge sharing of the initiatives successes and lessons learnt will be used in the replication of the initiative’s activities in other regions.

**Local Development supports for employment promotion.** With the proper financial and human resources, local authorities and private sector organizations have the means to actively strengthen their businesses support to enhance the opportunities for actors and economic units in the informal economy. A locality can develop its economic strength and competitiveness by investing in its human capital, physical infrastructure, and other business supports. Local economic and social development is designed to facilitate transactions between the market and the community. Increased local governance, social dialogue and advocacy can heighten the ability of local authorities and social partners to respond to demands in social services by the community and as well as demands by the labour market.

There is tremendous scope for local authorities to support micro, small and medium sized enterprises. These will be discussed in the following areas: enhancing capabilities and skills; promoting inward investment including local tendering and employment intensive methodologies; enhancing enterprise competitiveness; creating an enabling environment for enterprise registration; and developing infrastructural support. Together, they create a comprehensive set of business supports which can significantly improve prospects for supporting the transition to formalization.

- Upgrading the local skills base. Own-account workers account for some 33% on a global basis, 51.4% in South Asia, and 25.5% in Latin American and the Caribbean of the total global workforce. With self-employed workers accounting for a substantial percentage of the workforce, training in business management and basic accounting is critical in building the capacity of entrepreneurs to improve current operations, plan for future growth, and prepare for unforeseen events (e.g. illness, weddings, economic crisis, natural disasters). Employment upgrading can be achieved by enhancing the skills of workers thereby increasing the range of employment opportunities that are available to them. Local government and community can develop sub-sector

7 See Resources section to access: ILO 2007 Decent work and the transition to formalization: Recent Trends, Policy Debates and Good Practices
Local authorities need to engage with workers’ and employers’ organizations in the identification of in-demand skills, since generating supply without demand does not result in employment.

Interventions by identifying and supporting location specific advantages, that may provide them with a means to generate employment and income for local workers. The market demand ultimately dictates the types of trainings that are to be provided for. Local development strategies anchored in enhancing skills and capabilities can give a local territory a significant edge in competitiveness and in attracting investment, rather than relying on low wages as a competitive advantage. Areas that rely heavily on the low cost of labour to attract firms are in a vicious, competitive cycle with other regions that are similarly driving down labour costs. The result is an overall depression of wages across regions.

The cost-oriented view of lowering wages and relaxing labour protection systems has the negative consequence of reducing labour productivity and undermining the true base of competitive advantage: skills, education, health, and training opportunities. It also brings cities to a low “skills equilibrium” where the resulting demand for low productivity labour is met with low level of skills supply, wasted human resources, and labour “shortages.” This approach is unsustainable and corrosive to sustainable, high quality economic growth. The key measure for building an effective human capital base, in fact, is the promotion and preservation of human capital.

Local authorities can engage with workers organizations and employers in the identification of in-demand jobs. Generating supply without demand does not result in employment. For local government administration, skills training in development and crisis risk management may improve the ability for administrators to design, deliver and optimize local projects tailored to address local requirements. The ILO “Job Opportunities for Young Women and Men” (JOY) project focuses on skills building and employment creation for the youth. JOY intends, among other things, to revitalize the Indonesian Youth Employment Network to enable new graduates job matching services, entrepreneurial assistance and continued education for beneficiaries.

The supply or training of workers is not always the problem. The lack of employment opportunities for vocation training graduates results in unemployment or underemployment. As a result, the informal economy must absorb the surplus labour supply. Local government and the private sector can be part of a broad initiative to better align supply with demand, including supporting job matching, apprenticeships and other forms of post-training opportunities.

Local policy makers need to have a good understanding of what types of skills are available and in-demand by local industries. The accurate forecasting of promising industries and desired job skills needed to power the industries requires quality labour market intelligence. Identifying economic and employment opportunities requires industrial and labour market information. The data, which often is unavailable or incomplete, needs to be properly analyzed into tangible training, education, research and industrial support materials.

Upskilling of Labour
Shanghai Municipal Level Vocational Training Programme

An example of how policies can be geared towards supplying talent and labour to emerging industrial needs can be seen in the Shanghai Municipal Government’s initiatives to integrating informal economy workers into the greater local economy. In 2004, the Municipal Government defined ten priorities to address. These priority, consisting of among others, attraction of highly skilled Chinese emigrant returnees, specialized training for highly skilled managers, scientists, engineers, politicians and public servants; and wider programmes to upskill Shanghai’s labour force. In 2006, the list of ten priorities was narrowed down to five with key priority given to training of migrant workers and rural surplus labour in Shanghai. Notably, training is now delivered on the basis of an annually reviewed, “Talent Development Catalogue” which prioritizes skills that are in demand by employers. The introduction of Shanghai’s training intelligence observatory enables the area’s vocational training centres to promote in-demand skills and subsequently develop more accurate supply of labour to meet market demand.

• Supporting inward investments including employment intensive methodologies. Increasing the fiscal autonomy to the local level encourages greater inward investment and reduction of investment leaks, since they can support local enterprises that supply the needs of local demand. Community sub-contracting is an important part of employment intensive strategies to support local development. The ILO Nepal’s ‘Employment Creation and Peace Building through Local Economic Development Project’ invests heavily in the construction and maintenance of rural roads and irrigation canals. Short term employment is created for poor households through employment-intensive methodologies. The assets for the community can be found not only in the multiplier effects of generating employment but also in the building of infrastructure and physical assets for the community that enable agricultural crops and other goods to flow to local market, and improving rural access to health care, education, and other social services. When donors and firms select tenders from local firms or engage in community sub-contracting, the local economy experiences a rise in employment and the wages that are spent locally stimulates the local economy.

Employment intensive infrastructural development such as those undertaken by Nepal, have multiplier effects by generating local employment as well as building community assets

Employment intensive infrastructure creation and maintenance has also been used as a mechanism for cash infusions into weak economies, and temporary job creation for vulnerable households. Cash-for-work activities by CHF International in the North Darfur were established to rehabilitate rural roads. The cash earned by individuals provided the community with seed money for petty trading, agriculture, and other economy activities.¹

In North Darfur labour intensive infrastructure maintenance has been an important mechanism of cash infusion in weak local economies

Local authorities have at their disposal increased budgetary autonomy and the means to ensure that public procurement is embedded within local communities. Their decision on the selection of public tenders for infrastructure has significant impact on local employment. City councils can opt for labour-intensive and local firms vs. equipment intensive and non-local firms. The result is that labour-intensive infrastructure creates more jobs, and the hiring of local firm enables a greater degree of investments to be retained within the local economy. However, in some instances central government places restrictive rules onto local governments. Bureaucratic requirements, security deposits and other regulations can make the tendering process difficult for small, local firms in the informal economy. Local government needs to be able to get negotiate with central government to push for reduced local procurements.

¹ For more details see Resources section to access CHF International
In South Africa under the Gundo Lashu Programme, the Limpopo provincial government collaborated with local municipalities to implement and identify rural infrastructure projects. The programme aims to utilize local resources rather than a central government public works or road authority to construct the roads and bridges. As a result, 24 local businesses were contracted to build roads, bridges and other related infrastructure. After the process, local businesses were knowledgeable in the public tending processes and were able to garner additional contracts resulting in increased local employment. The programme achieved its aim by engaging with municipal government and local businesses to build business enabling infrastructure while creates jobs locally and stimulates the local economy. This municipal government played a crucial role as it had the managerial capacity and local knowledge to engage smaller formal and informal sector businesses in the immediate area, more so than provincial or central government which would have contracted a large infrastructure development company.


### Promoting enterprise competitiveness

Value chain upgrading and cluster building are avenues that can increase the competitiveness of a territory. Through increased integration of network relationships in the form of linkages to markets, buyers and suppliers (i.e. value chains), and business clusters, the efficiency in product and service creation can be improved; previously untapped markets may be opened; and innovations in products are made possible. Value chain upgrading helps resolves production inefficiencies (i.e. high cost, low production) due to constraints in a production processes or a business supplier. Cluster development revolves around the agglomeration of complementing (i.e. businesses within a product chain) and competing businesses (i.e. businesses in the same industrial segment).

Having a dense network of businesses in close geographic proximity enables enterprises to reduce transaction costs, improves responsiveness to demand, and enables new products or services to be developed. Network linkages and improved coordination enables smaller firms in the formal and informal economy to achieve big business advantages in areas such as bulk buying and cost sharing of logistic services. UNDP Mongolia’s ‘Enterprise Mongolia: Microcredit and Entrepreneurship’ Project has engaged in value chain and cluster development to address the challenges of enterprise growth in very remote, rural areas. Co-location of workshops, cost sharing of transportation services and tighter integration in the value chain has made rural products increasingly competitive with foreign imports and capital city made goods.

### Creating an enabling enterprise environment at the local level

A well functioning business licensing process is one that is transparent in both the fees that are required and services that will be available to the applicant after registration. A streamlined business registration and licensing system provides a number of benefits. It can:

- Increase local tax revenues for the government, which bolsters local reserves for further the local business enabling environment
- Create opportunities for sub-contracting with larger, formal sector clients, and government
- Reduce vulnerability to corruption and provides enterprises with access to legal recourse

10 For more details see Resources section to access UNDP website on the project
• Build a local roster of businesses to better coordinate government, donor or civil society sub-sector development and promotion (e.g. marketing, branding, procurement networks).
• Broaden enterprises’ access to financial services, while at the same time lowering the cost for credit by increasing the clients and creditors.

In a study of 16 local government units in the Philippines which streamlined local business registration systems, six types of good practices were identified. One of them is improving the registration process through reducing the number of steps and signatures needed for business registration and renewal. Other good practices identified included setting up a business one-stop shop; computerizing and networking information; partnering with the private sector; creative information, education and communication strategies; and soliciting customer feedback.

**Infrastructural development.** The creation of infrastructure can enhance an enterprise’s ability to engage in the physical production and market exchange of goods and services. Roads, railroads, and utilities enable the transfer of products and service and have the capability to bridge isolated communities to global markets. Communities then have increased exposure to greater economic opportunities and social services (e.g. hospitals, schools, vocational training centers). Infrastructural development targeted to informal economy actors can significantly improve their productivity and incomes. Establishing physical venues for street trading and vending for example can enable entrepreneurs to have fixed site for their economic activities while also facilitating access to a range of services including security, utilities, finance and information. A number of Asian cities, such as Bangkok, Chiang Mai and Singapore, have tapped into the productive potential of infrastructural support and space allocation for local entrepreneurs. The impacts can be seen in vibrant local markets which provide much needed goods and services to the community and beyond.

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11 For more details see Resources section to access BSMBD Philippines website on good practices in streamlining business registration.
Integrated supports for the informal economy at local level

Durban Metropolitan Council, South Africa

The Durban Metropolitan Council in South Africa is an example of a highly integrated delivery of enabling supports for informal economy enterprises and workers. The recognition that the informal economy comprised a large percentage of the City’s overall economic output, and employed a substantial percentage of the poor and vulnerable prompted the City to reexamine its social and economic policies with respect to the informal economy. As a result, in 2000, Informal Economic Policy was adopted by the eThekwini Municipality, of which Durban City is a part of, with the aim of including informal trade organizations and being responsive to the needs of the informal economy.

The Council recognized that the informal economy, like that of the formal economy, would require access to services and infrastructure. The City worked with informal economy workers to upgrade local infrastructure, strengthen business development and microfinancing services, and improved business licensing system. Through the Council’s infrastructure initiatives, workers in informal economy have better places of work and increased access to marketplaces. The results of infrastructure upgrading have improved firm productivity and worker occupational safety and health. Moreover, the Council has been working to increase the breadth and depth of business development and microfinancing services by strengthening linkages between service providers so as to deliver a comprehensive package of vocational and business training, technical assistance, and access to finance to firms. In the area of business licensing, the Durban Metropolitan Council has been working to simplify and consolidate the licensing process and introduce incentives, such as vocational training and lower utilities tariffs, for informal sector businesses.

Moreover, the Council worked to develop the capacity of informal economy organizations to increase community level advocacy and increase sustainability by ensuring that the services provided by the Council were truly needed by the beneficiaries.

However recent policy reversals have signaled the importance of maintaining commitment to social dialogue and the participation of local actors in planning and policy making.

Source: ILO. 2007. Decent work and the transition to formalization: Recent Trends, Policy Debates and Good Practices. ILO: Geneva

Argentina: LED in the face of the previous financial crisis

In the wake of the 2001 financial crisis the ILO supported local actors to design and implement LED strategies. The priorities identified included: strengthening public employment services (PES), setting up a labour market observatory, identifying growth sectors, enhancing access to training, and capacity building for ministries and local authorities. Over 170 municipality-based PESs were established and strengthened through training. Job creation pacts at the local level to support SMEs. Over 4,000 local officials and stakeholders were trained in LED methodologies, while over 6,000 workers – many drawn from the informal economy were trained and received certified skills.

The evaluation from the project revealed that municipalities have a critical role in employment policy implementation, particularly when targeting more vulnerable groups in the community. The evaluation also stressed the key role that social dialogue played in successful planning and implementation.

Source: Final report AREA programme, ILO 2008
Improving access to social protection. Considerable gaps exist in social protection coverage for those in the informal economy for a variety of reasons (See brief on Social security). The role of local governments in the delivery of social protection is less apparent relative to other functions. However in some countries, local governments have been given powers to address health promotion and social protection of its workforce. This mandate motivates local governments to look for ways to finance health services, leading it to consider and implement health insurance programmes. The existence of a national social security and health insurance schemes provides local governments with a mechanism for delivering social protection. The ability to share risks and pool larger contributions reduces the cost of insurance making beneficiaries less vulnerable to shocks. At the same time, the participation of local governments and local stakeholders helps extend the coverage of national schemes to remote and hard-to-reach workplaces, including informal workers with no clear addresses.

Social protection mechanisms include a wide range of instruments such as employment guarantee schemes. An employment guarantee’s scheme is an income stabilization instrument designed to provide a subsistence wage. Employment guarantees schemes are designed as poverty alleviation initiatives and temporary income support in the economic recovery process as a result of natural disasters (e.g. floods, droughts) or man-made crises (e.g. conflict, commodity speculations, economic shocks). The schemes often involve employment intensive public works projects that are designed to create temporary employment and infrastructure that improves the social (e.g. schools, hospitals) and business environment (i.e. building roads, irrigation canals). As the work is labour-intensive and non-competitive to productive sectors (i.e. wages in guarantee scheme are non-competitive to higher compensating and more productive private sector employment), as a result there is a self selection process whereas the poorer and more disadvantaged beneficiaries with little or no employment options choose to do this work. (See also brief on Social Security).
9.1 OPPORTUNITIES FOR INTEGRATED SUPPORTS FOR MOVING OUT OF INFORMALITY

Stall holders in a market in Khan El-Khalili District, Egypt.
Traditional market of Ghotheye, Niger.
This section provides a list of resources which can enable the reader to delve deeper into the issue. Details of the good practices cited above can be accessed here. The section comprises international instruments, International Labour Conference conclusions, relevant publications and training tools. A bibliography of references in the text is further below. There may be some overlap between the two.

Relevant Publications


Howell.J. Good Practice Study in Shanghai on Employment Services for the Informal Economy.


ILO 2007 Decent work and the transition to formalization: Recent Trends, Policy Debates and Good Practices. ILO Geneva


Staermose, T. 2008 ILO-SLIDA Seminar: The role of public sector in Private Sector Development (PSD) at the local level. ILO: Sri Lanka


Tools


CHF International North and South Darfur project
http://www.globalcommunities.org/node/21047

ILO 2005 Local Development Sensitisation Package Modules 1-5 (ILO Geneva)

ILO 2006, Local Development and Decent Work (ILO Geneva)


ILO Women’s Entrepreneurship tools

ITC Turin, Creating an Enabling Environment for Small Enterprise Development (training course)

ITC Turin, Strategies for Local Economic Development. (training course)


Postuma, A ILO Methodology and Capacity-Building in Local Economic Development: An Employment Centred approach

UNDP Annual Report 2010-2011 Creating Resilience in Economies in Mongolia

For further information see the ILO’s Local Economic Development unit website
References

Adam, C. and Harriss-White, B. ‘From Monet to Mondrian: characterizing informal economic activity in field research and simulation models’ In: Barbara Harriss-White and Anushree Sinha. 2007. Trade liberalization and India’s informal economy. New Delhi : Oxford University Press


Street vendor, Brazil.

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A POLICY RESOURCE GUIDE SUPPORTING TRANSITIONS TO FORMALITY

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

PART I: Key concepts

1. Decent Work and the Informal Economy
   1.1 Key conceptual issues

2. Measurement of the Informal Economy
   2.1 Addressing statistical challenges

PART II: Policies to support transitions to formality

3. Growth Strategies and Quality Employment Generation
   3.1 Patterns of economic growth and the informal economy

4. The Regulatory Framework and the Informal Economy
   (A) International Labour Standards
   4.a1 The Regulatory Environment and the informal economy: setting a social floor for all who work
   4.a2 International Labour Standards (ILS): bringing the unprotected under the law
   4.a3 Understanding the employment relationship and its impact on informality
   (B) Specific Groups
   4.b1 Domestic Workers: strategies for overcoming poor regulation
   4.b2 Homeworkers: reducing vulnerabilities through extending and applying the law
   4.b3 Street vendors: innovations in regulatory support
   4.b4 Micro and Small Enterprises (MSEs), informality and labour law: reducing gaps in protection
   4.b5 Strategies for transforming undeclared work into regulated work
   (C) Labour Administration
   4.c1 Labour administration: overcoming challenges in reaching the informal economy
   4.c2 Labour inspection and the informal economy: innovations in outreach

5. Organization, Representation and Dialogue
   5.1 Social dialogue: promoting good governance in policy making on the informal economy
   5.2 The role of Employers’ organizations and small business associations
   5.3 Trade unions: reaching the marginalized and excluded
   5.4 Cooperatives: a stepping stone out of informality

6. Promoting Equality and Addressing Discrimination
   6.1 Promoting women’s empowerment: a gendered pathway out of informality
   6.2 Migrant workers: policy frameworks for regulated and formal migration
   6.3 Disability: inclusive approaches for productive work

7. Entrepreneurship, Skills Development, Finance
   7.1 Informal enterprises: policy supports for encouraging formalization and upgrading
   7.2 Enhancing skills and employability: facilitating access to the formal economy
   7.3 Microfinance: targeted strategies to move out of informality

8. Extension of Social Protection
   8.1 Extending social security coverage to the informal economy
   8.2 HIV/AIDS: overcoming discrimination and economic exclusion
   8.3 Extending maternity protection to the informal economy
   8.4 Childcare: an essential support for better incomes

9. Local Development Strategies
   9.1 Local development: opportunities for integrated strategies for moving out of informality
THE INFORMAL ECONOMY AND DECENT WORK:
A POLICY RESOURCE GUIDE SUPPORTING TRANSITIONS TO FORMALITY