

# Tripartite Interregional Symposium on the informal economy: Enabling Transition to Formalization

## Symposium Highlights

### GENERAL

1. ***The Interregional Symposium on the Informal Economy-Enabling transition to formalization***, brought together around 80 participants including 50 government, employers and workers representatives, in addition to resource persons and institutions, experts and researchers, donor countries and representatives of international and regional organizations and the UN system, in Geneva from 27-29 November 2007.
2. In the follow-up to the **2002 International Labour Conference Resolution on decent work and the informal economy**, the objective of the Symposium was to examine a number of good practices that are emerging in different regions enabling transition to formalization and to share knowledge and experience amongst participants.
3. The framework for action is set by the 2002 ILC Resolution and Conclusions concerning decent work and the informal economy and other relevant instruments and Resolutions that have been adopted in recent years and that address the issue of transition to formalization, such as the Recommendation on Human Resource Development (2004), the Recommendation on the Employment Relationship (2006), 2001 ILC Resolutions and Conclusions concerning Social Security and the Conclusions concerning the promotion of sustainable enterprises (2007).
4. In March 2007, the ILO Governing Body Committee on Economic and Social Policy reviewed the progress made in operationalizing the framework since 2002.
5. The highlights of the Symposium point, in a very succinct manner, to the issues which were debated, the good practices that were shared and the actions identified by participants to move forward.
6. It was acknowledged that this question remained central to realizing decent work as a global goal and for all workers. The informal economy concerns a significant majority of the work force in developing countries. Since 2002, considerable momentum has been gained in international policy debates and discussions at regional level. Addressing the informal economy has been given prominence in commitments reached at meetings such as the African Union summit of 2004, ILO African Regional Meeting 2007, the ILO Asian Regional Meeting in 2006, the Summit of the Americas in 2005, the OECD Job Strategy 2005 and the ECOSOC Ministerial Declaration 2006. At the

country level, the Symposium reviewed a number of good practices and innovative approaches that have been developed by governments, social partners and other actors.

7. The Workers' representative from ITUC emphasized that the informal economy should not be thought of as a solution to problems of job creation, and that governments tend to use the informal economy as a substitute for policies for employment creation and development. He referred to the ILC 2002 discussion as the first real opportunity for a tripartite consideration of the concept. The 2002 Discussion did in fact cast informality in terms of the relationship to law. The concept included situations where economic activities were only insufficiently covered by law - thus the scope of the concept was somewhat broadened. However, the idea that all of these situations could be characterised as being located somewhere on a decent work "continuum" was rejected as the situations were disparate and often unrelated. Instead the conclusions stressed the need to take the conceptual difficulties of diverse situations into account. The informal economy refers to different situations, with different causes, posing different problems with different solutions; Informality means decent work deficits caused by good governance deficits. For the ILO governance means the application of standards. The advice to the ILO was to address these issues throughout the organization and to involve ACTRAV and ACTEMP in all aspects including their design. ILO activities should be designed to promote transition. The conclusions of other ILC committees especially the employment relationship also constituted advice for the ILO in dealing with the informal economy. The ILO should focus on a large scale legal approach to informality rather than a development assistance approach.
8. The Employers' representative thanked the ILO for keeping the informal economy on the agenda. She emphasized the importance of the informal economy in developing countries in generating employment and incomes. She pointed out the inability of governments to enforce regulations, problems of high transaction costs, over-regulation, high taxes, costly registration which drive many enterprises into informality. She highlighted the impact of the informal economy on the formal economy and noted that formal enterprises which pay taxes and comply with regulations have to compete with informal enterprises. She noted that informal economy preceded globalization. She set out a number of critical issues for governments to address such as decentralizing registration, gradual taxation, promoting awareness on regulation, training the labour force in relevant skills for the private sector and collecting reliable statistics. Employers called governments to carefully consider the IFC Doing Business Report in order to identify obstacles to formalization, in particular with regards to business registration. Employers Organizations have a key role in advocacy and extending services to employers in the informal economy in transition to the formal economy.
9. It was acknowledged that the informal economy thrives in the context of high levels of unemployment, poverty, gender inequality and precarization of labour. In the majority of situations, it is not a matter of choice but lack of

alternative opportunities. The issue of child labour in the informal economy needs concerted attention.

10. Emphasis was laid on the diversity and heterogeneity in the informal economy and that measures to promote transition to formalization should respond to the diverse needs and situations across countries, economic sectors, contractual and occupational status and other criteria.
11. Transition to formalization should be through policies that promote economic dynamism, employment opportunities, enterprise creation, effective application of standards and inclusive social protection.
12. Social dialogue and tripartite partnerships are key to the design, implementation and monitoring of context-specific solutions for enabling transition to formalization.
13. The Decent Work Agenda and Decent Work Country Programmes (DWCPs) can provide the integrated framework for transition to formalization that cuts across the four pillars of the Decent Work Agenda: rights, employment, social protection and social dialogue.
14. Participants welcomed the opportunity for interregional and tripartite interface in exchanging experience on transition to formalization and called on the ILO to support and promote further dissemination of knowledge and experience and strengthening the capacities of the tripartite constituents through all possible means.

## **THEMATIC**

### **Improving labour legislation, labour administration and labour inspection: Lessons from practical experience**

15. The relationship between law, regulations and their impact on informality usually results from three situations: First, the absence of legal recognition of certain types of workers and entrepreneurs denies them the benefits and rights that go with a legal status. Secondly, even as the labour law explicitly covers all types of workers, implementation is deficient. Labour administration mechanisms, methods and capacities need to facilitate formalization. Finally, the labour law needs to address specific categories of workers, such as self-employed workers, domestic workers, home workers and new forms of employment through subcontracting.
16. New initiatives have sought to address this need from an integrated set of actions in response to the multiple factors leading to labour informality. The multi-dimensional approach implemented in Argentina focused on strengthening of labour inspection; the reduction of recruitment costs for new workers in small and medium-sized enterprises; the simplification of the administrative procedures to include workers in the social security system,

and a law on Home Work. In China the Government developed a policy for integrating rural migrants through seven simultaneous concrete measures which relate to minimum wages, employment services which include job placement and training, and enforcement of labour laws.

17. In Peru the labour inspection system was significantly improved and their mandate expanded to visit home workers. Because of the improvements in labour inspection, the coverage of health insurance has increased, especially among household workers. The same experience of capacity building in Senegal was highlighted. Another example is the Blitz inspection in South Africa that involves teams of inspectors targeting the informal economy on a “street to street” and “sector to sector” basis. In Eastern Africa, tripartite partnership and working through global supply chains provided useful strategies for effective application of OSH.

### **Strategies**

- Strengthen social dialogue and tripartism for labour law reform, labour inspection in the informal economy, identifying disguised employment relationships and in developing guidelines for outsourcing and subcontracting.
- Reinforce the application of labour law and ensure recognition of the employment relationship through legal contractual arrangements.
- Simplify legal frameworks, particularly for MSEs and reduce costs of registration, and simplify procedures for inclusion of workers in social security, develop incentives structures to encourage informal economy operators to comply with labour law, including fiscal structures, reduction in recruitment costs for workers in SMEs, opportunities for training and access to productive resources.
- Develop integrated approaches which include multi-pronged strategies not just labour law reform, such as awareness raising, demand driven skills training, social protection.
- Strengthen labour administration and labour inspection through training and resources for effective implementation of ratified Conventions.
- Initiate innovative labour inspection approaches combining advisory and information services, public and private interventions, incentives and enforcement procedures, to improve compliance.
- Promote employment generation policies and programmes in the formal segment of the economy by channelling appropriate investments and develop adequate labour market policies.
- Expand the scope of labour inspection to include all categories of workplaces.

- Develop labour legislation for categories of workers such as domestic workers and agricultural workers that have been specifically excluded from labour legislation.
- Remove legal barriers to the recognition of trade unions as a strategy for formalization.

## **Representation: review of recent experiences**

18. Organization of informal economy workers and entrepreneurs is the first step towards social dialogue and the development of tripartite solutions which can take into account contextual factors and diversity within the informal economy. It requires an environment for organization, where informal workers and operators can freely form associations and belong to organisations of their choice. In recent years employers' and workers' organizations have been taking initiatives to engage the informal economy workers and operators. In some cases they have been integrated into existing organizational structures, while in others informal economy associations have been formed.

Some of the good practices discussed included:

19. *Devising different strategies for different groups:* Awareness-raising on workers rights, advocacy, engagement, with government authorities, media campaigns and the provision of services such as micro credit were all effective strategies for organising workers in Benin, Trinidad and Tobago.
20. In Mexico employers supported different strategies against those who were using illegal activities to compete with the formal sector, and for those who operated in the informal economy due to lack of choice.
21. *Formation of cooperatives* - constituted one promising method of transiting from informality to formality since it increases bargaining power and opportunities to access social protection, while providing grounds for social dialogue. Nonetheless, as the Brazilian experience suggested, it was important to have an adequate legal framework to properly observe the rights of the workers in cooperatives.
22. *Tripartite dialogue and cooperation* - formed the basis of strategies to register the unregistered employed in Turkey. Tripartite work plans have been implemented through provincial and national steering committees. This has resulted in 130,000 workers registering since October 2004.
23. *Building partnerships and cooperation* - between the actors in the informal and formal economies was essential in the experiences in Mexico, Turkey and Benin.

### **Strategies**

- Apply international labour standards to ensure that freedom of association and collective bargaining are realized in the informal economy.
- Establish tripartite mechanisms to address the informal economy.
- Develop recruitment campaigns for workers in the informal economy to join or form their own organizations.
- Develop outreach by employers' organisations to informal enterprises through advocacy, provision of business information, access to subcontracts, networks, and links to credit.
- Provision of fiscal incentives, credit, training, market information and other incentives to encourage the formation of cooperatives.
- Strengthen linkages between large and small companies.
- The possibility of collective bargaining is increased when enterprises are registered and workers are legally recognized as employees.

## **Improving the regulatory environment to facilitate integration to formal economy**

24. Poorly designed regulations and unnecessary bureaucratic burdens on business limit enterprise start-ups and ongoing operations of existing enterprises and lead to informality, corruption and efficiency costs. Regulatory environment not only impacts the ease of establishing business enterprises and their growth but also allowing the workers to enjoy their rights and protection. Several good practices were discussed some of which are:
25. The Law on Family enterprises in Chile which simplified registration of household-based family enterprises by combining various requirements (including tax and sanitary aspects) into one single procedure. Other related government initiatives include improving the access to credit, subsidized bank transactions, health services, training for OSH and slum upgrading.
26. In Egypt, the Alexandria Business Association (ABA) provides micro credit to informal economy workers. The scheme provides for a progressive seven-stage incentive system for formalization. At each stage additional requirements such as business registration and tax record are needed to access larger amounts of loans.
27. In Jamaica various programmes managed by employers' organizations have been launched to ensure private sector and employment growth such as the Business Information Center which has been operating for assisting enterprises for their start up and through facilitating cluster development approaches.

### **Strategies**

- Reduction of formality entry costs for all.
- Simplify rules and procedures.
- Redesign mechanisms for access to formality.

- An integrated approach of combining the business registration, taxation, property rights and labour law needs to be pursued for creating an enabling environment for the informal enterprises to grow and workers to exercise their rights.
- A balanced view of the regulatory environment with equal emphasis on both enterprise growth and workers' protection is needed. Social dialogue in reform process is crucial to ensure this balance. Good practices can be illustrated in bringing about such a balanced view.
- Support enterprise development activities in an integrated manner to promote creation of jobs, improve productivity and incomes.
- Empower the working poor legally including access to judicial system.
- Supply dynamics for providing productive resources (including micro-finance) and entrepreneurial and skills training need to take into account good practices and innovative approaches to create an enabling environment for both enterprises and workers.

## **Improved access to social security and the informal economy**

28. Extending social security coverage to workers in the informal economy is a challenge. This is because of its enormous size, which can account for as much as 92 percent of the total national workforce in India for instance. It is also due to the fact that most of workers in the informal economy are poor.
29. Social security is of vital importance for the well being of workers and their families as well as for the communities. Social security is a basic human right, a means of social cohesion, social peace and social inclusion.
30. Several ILO studies carried out in a number of countries in Africa and Asia demonstrate that a social security floor is affordable in the developing world, as a social security package, including old-age and invalidity pension, child benefit and health care, would cost less than 5 percent of GDP. Presentations on the experience gained in India, Argentina, Chile and Uruguay also confirmed it. The minimum floor should be defined in each national context. Social security schemes could be managed on a tripartite basis.
31. Social security floor applies to all workers, including workers with multiple employers and migrant workers.
32. More and more countries have developed national strategies for extending social security to workers in the informal economy. Four country practices were presented. In India, two policy initiatives, namely National Rural Employment Guarantee (NREG) and Social Security for Unorganized (informal) Sector Workers, have been developed since 2005 to provide basic social protection to this vast number of workers. In Argentina and Uruguay, the extension of social security coverage to independent (informal) workers in the area of old age, survivorship and disability is carried out through three existing social security schemes in line with their classified categories. In

Chile, the Congress is debating a Bill to reform the pension system that includes mandatory participation of independent workers, which has been voluntary since 1981.

### **Strategies**

- As stated by the ILC in 2001, the highest priority should be given to policies and initiatives which can bring social security to those who are not covered by existing systems.
- Extend the coverage of existing social security schemes and/or introduce new schemes which must take into account the overall framework of the current national system.
- Develop approaches that combine the provision of social security and measures which facilitate access to employment.
- Explore the possibility of establishing a social security floor providing a basic set of benefits, such as access to health care, child benefits, social assistance and universal basic pensions.
- Take measures to ensure that all entitled workers are actually registered and their contributions paid.

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

33. There is a significant overlap between being poor, being a woman and working in the informal economy and it is critical to understand how policy measures affect women and men differently. Traditional roles and family responsibilities increase the likelihood of informalization for women. For example, women's unpaid work constrains their income and employment choices and places them at risk of poverty. Finding solutions to issues, such as childcare, can ensure that women have employment choices which enable them to earn sustainable incomes. Several examples of good practices were reviewed some of which are:
34. Asset building in the hands of women is the strongest form to combat poverty. The Self-Employed Women's Association (SEWA) in India has been at the forefront of organizing women through a strategy which combines: organizing for collective strength, capacity building, social security and capital formation for self reliance. Sister organizations were formed to provide a range of services to members including a bank, housing support, marketing, training, cooperatives, social security schemes and pension schemes.
35. Establishing a women's entrepreneurship association in Ethiopia has expanded the productive horizons of a group of women entrepreneurs and integrated them in the mainstream economy. This was through measures such as capacity building, skills training, media campaigns and trade fairs. Women entrepreneurs have increased their visibility, bargaining power and gained acceptance in the wider society.



36. Child care is one area that is essential to enable women to access employment and shift to formal activities. An ILO cross regional study of childcare services demonstrated that successful schemes were only those that involved such as trade unions, donors, corporate social responsibility initiatives of employers and that very few Governments view this as a public policy issue. However, sustainability of these schemes is a problem and therefore governments have a leading role to play.
37. Trinidad and Tobago have an Unremunerated Work Act which gives recognition to unpaid work and ensures it is counted in systems of national accounts. However, domestic workers are still struggling to achieve recognition as workers under industrial relations law.

### **Strategies**

38. Gender equality is a crosscutting issue for Decent Work policies hence:
- Gender equality issues should be on the agenda of governments and the social partners more prominently and it should be the focus of dialogue in a systematic manner.
  - Domestic workers are a major concern to all partners as well as the ILO and more efforts are needed at all levels (e.g. national legislation, mobilization, etc.). The trade unions called for support on their initiative to propose an ILO Convention on domestic work.
  - Childcare is a pressing public policy issue and governments needed to take more responsibility. ILO Convention 156 on Workers with Family Responsibilities can provide essential guidance to social partners on addressing this issue.
  - National legislation based on ILO Conventions on equality need to be continuously reinforced and with stronger implementation mechanisms. The ILO should pay attention and undertake research as to why this rights deficit persists despite legislation.

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

39. Working conditions and skills development are intricately linked to improved productivity, which in turn can open the door to formalization of the informal economy.
40. Participatory strategies are the most effective in improving working conditions in the informal economy. In Cambodia, practical, low-cost and participatory strategies were applied for home-workers and small enterprises to improve safety and health through the Work Improvement for Safe Home (WISH) training programme. In Thailand, Primary Care Units (PCUs) have been used by the Ministry of Health to develop participatory approaches to conduct training for informal economy workplaces. The example from Vietnam focused on improvements in OSH in agriculture through the WIND (Work Improvement in Neighbourhood Development) which enabled farmer volunteers to train other farmers in the community.

41. Improving the skills of informal economy workers is the key to their ability to gain access to jobs, improve productivity and income. In Benin, Togo, Mali and Senegal dual systems of training link practical experience in informal enterprises with national qualification systems has increased the skills base of young people in the informal economy.

### **Strategies**

- Facilitate tripartite participation at all levels of OSH and training initiatives
- Promote wider recognition that occupational safety and health and prevention of work related hazards strongly contributes to productivity, competitiveness, quality of production and could facilitate transition to formalization.
- Promote networks of local trainers to take advantage of local knowledge and expertise.
- Combine elements of both formal and informal mechanisms of skills transmission to reach the informal economy.
- Strengthen linkages between employers and Ministries of Education and Labour to ensure skills training in the informal economy are relevant to labour market demands.
- Promote collaboration between public administration and employers' organizations to fund dual training systems and promote social dialogue
- Through their design, training programmes should have as an objective the transition to formalization.

### **Integrated Strategies at the Local Level**

42. Local government units represent the first level of contact and engagement for the workers in the informal economy. Local development by definition brings together a host of policy areas that affect the working and living conditions of the informal economy. It is at this level that various stakeholders come together. It also provides a good link between macro policy and local level development.

In South Africa, inclusive and wide ranging policies were established in the Durban Municipality. This included free utilities to benefit home-based workers, market supports to specific sectors, infrastructure and design solutions such as space for street vendors, and avenues for collaboration and social dialogue with organizations of informal economy workers and entrepreneurs.

43. In Togo, several initiatives were carried out to address widespread corruption affecting informal businesses. One initiative which was led by a trade union was subsequently strengthened through agreements signed with Municipal Authorities.

44. Ghana sought to upgrade the informal economy by integrating all partners in the implementation of a strategy that supported the creation of associations and cooperatives. Part of its success was based on public and private

partnerships for local economic development in facilitating access to social security schemes, skills training and better business opportunities.

45. Trade unions in Benin led efforts to provide higher health and safety standards for workers in the informal economy who use motorcycles for work purposes. The Government supported the initiative and helped to expand its reach.

### ***Strategies***

- Strengthen tripartite collaboration at the local level to address the challenges of developing integrated approaches for diverse groups within the informal economy.
- Continuous dialogue and monitoring is necessary to ensure policies are not reversed at the local level.
- Take measures to fight corruption.
- Empower and build the capacities of local authorities for implementing appropriate and coherent policies enabling formalization of informal economy operators and their access to resources and services.