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## Decent work and the informal economy

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Discussion Paper No. 2005/04

## **Decent Work and the Informal Economy**

Anne Trebilcock \*

January 2005

### **Abstract**

The ILO was founded for social justice, a mandate expressed today in terms of decent work as a global goal, for all who work, whether in formal or informal contexts. In June 2002, the delegates to the International Labour Conference from governments, workers' and employers' organizations adopted a resolution incorporating conclusions on decent work and the informal economy. The four components of decent work – opportunities for employment and income, respect for rights at work, social protection and stronger social dialogue – form the backbone of the ILO's approach to the informal economy. These elements can also be seen through a development lens, and necessarily feature a strong gender dimension. To make the action foreseen by the ILC conclusions more easily operational in a cross-disciplinary way, the issues they address can be cast in terms of macro policy, governance, enhancement of productivity, markets and employment, social protection/addressing vulnerabilities, and representation and voice. All play key roles in poverty reduction. Moreover, recognizing the importance of measuring progress towards decent work, developments in relation to indicators are briefly described. This paper includes annexes reproducing the ILC conclusions along with two relevant resolutions adopted by the International Conference of Labour Statisticians and a list of ILO websites that address various aspects of decent work and the informal economy.

**Keywords:** employment, governance, ILO, indicators, informal sector, representation, rights, social protection

**JEL classification:** E26, J23, J40, J80

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## **1 Introduction**

The mandate of the International Labour Organization (ILO) is social justice as the basis for peace. This is expressed today as decent work for all, whether the activity is carried out in a formal or an informal context. Decent work is a global goal, one that calls for coherent action for greater policy coherence between institutions – from the international to the local level. It strives for decent work in the sense of opportunities for men and women to obtain decent and productive work, in conditions of freedom, equity, security and human dignity.

The policy of the ILO is set by its constituents – the delegates representing member governments, and employers' and workers' organizations from those countries, in the governing structures. The majority of the ILO's 175 Member States are developing countries. The Secretariat of the Organization (the International Labour Office) provides support through information collection and dissemination, research, advisory services and field-based initiatives that promote the goals of the Organization. The ILO's work is carried out together with partners such as other intergovernmental organizations, and ILO constituents, who have recently given new direction to the approach to the informal economy.

## **2 A new ILO approach to the informal economy**

At its 90<sup>th</sup> Session (June 2002), the International Labour Conference (ILC) adopted a resolution containing Conclusions concerning Decent Work and the Informal Economy (see Annex I). These represented a new departure in addressing the topic – a topic which has generated a good deal of controversy over the past 30 years within the ILO and beyond. The fact that delegates coming to the topic from often different perspectives could agree on conclusions was in itself a landmark for moving forward.

When the report of the Committee on the Informal Economy was adopted in the plenary session of the Conference, the employer and worker vice-chairpersons of the Committee had the opportunity to stress the issues of most importance to their groups. Their statements ([www.ilo.org/public/english/standards/relm/ilc/ilc90/com-inf.d.htm](http://www.ilo.org/public/english/standards/relm/ilc/ilc90/com-inf.d.htm)) reflect the differences in perspective that they had brought to the discussions, and provide insight into the areas where agreement was reached.

For the employers, the great entrepreneurial potential, creativity and work ethic of people in the informal economy was important. Noting the contribution the informal economy makes to the provision of goods of services, they regretted that this was often in unfair competition with the formal economy. While concurring that governance was a key issue, they rejected an exclusively labour-rights based approach, and noted that while addressing needs of people in the informal economy, it was important not to drive them out of existence.

Citing the Preamble to the ILO Constitution, which links lasting peace with social justice, the workers stressed the need for national, legal and institutional frameworks. They expressed the view that there were only two ways to address the informal economy, one being good law and its proper application and the other being self-

organization and collective action. They traced the origin of decent work deficits to good governance deficits.

The first step in the new consensus reflected in the 2002 ILC conclusions was to move away from the words ‘informal sector’, since informal activity is quite diverse, and occurs in many economic sectors. Instead, the ILC Committee on the Informal Economy preferred the term ‘informal economy’. By this, it referred to: ‘All economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements. Their activities are not included in the law, which means that they are operating outside the formal reach of the law; or they are not covered in practice, which means that – although they are operating within the formal reach of the law, the law is not applied or not enforced; or the law discourages compliance because it is inappropriate, burdensome or imposes excessive costs’ (para. 3 of the conclusions). This was more than a terminological change; it expanded the concept to include both enterprise and work relationships. This expanded concept was illustrated in a matrix presented in the Annex of Report VI to the ILC, which served as the basis for discussion, and is reproduced at the end of Annex III to this paper. The ILC conclusions further distinguished informal activities from ‘criminal and illegal activities, such as smuggling of illegal drugs, ... [which] are not appropriate for regulation or protection under labour or commercial law’ (para. 5).

While not a definition per se, the phrase used in the 2002 conclusions, that is, that activity is ‘appropriate for regulation or protection under labour or commercial law’, provides a useful point of departure (although property law and fiscal law also play key roles, as pointed out in other paragraphs of the conclusions). The logic of traditional labour law, for instance, is relatively simple: if factors are present that indicate an employment relationship, the employee benefits from the coverage of labour law, which has as its purpose the rebalancing of the unequal power of capital and labour. As long as it identifies an ‘employee’, labour law does not care whether the employer is ‘formal’ or ‘informal’ for other purposes, such as being subject to and/or complying with commercial or fiscal regulations.

But both labour markets and product markets have become more complex, and the law and government have been struggling to keep pace. Whether *de facto* or *de jure*, too many people remain without legal protection and recourse to rights that should empower them. The essential questions addressed by the ILC conclusions are: How can people, whether their work is designated ‘formal’ or ‘informal’, be both empowered and protected?<sup>1</sup> How can entrepreneurial innovation and creativity to create decent jobs be fostered?

In a review of the 2002 ILC conclusions, Lin Lim has noted, ‘Another significant feature of the new conceptual framework is that it depicts a continuum of production and employment relations. It does away with the idea that there are distinct formal and informal “sectors” without direct links and instead stresses that there are “linkages, grey areas and interdependencies between formal and informal activities” ’ (para 3). The framework views formal and informal enterprises and workers as co-existing along a *continuum*, with decent work deficits most serious at the bottom, unprotected,

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<sup>1</sup> This is an elaboration of Arturo Bronstein’s question, ‘how to protect the unprotected?’ (Bronstein 1999: 1).

unregulated, survivalist end, but also existing in some formal jobs as well, and with increasingly decent conditions moving up towards the formal protected end. By highlighting the dynamic linkages between formal and informal activities, we can frame the policy issue more realistically: the issue is not whether informal workers or informal units have direct ties with the informal economy – clearly they do – but whether those ties are benign, exploitative or mutually beneficial. The policy concern should be to enhance the positive linkages and to ensure that there is decent work all along the continuum (ILO 2002b: 38).<sup>2</sup>

As Lim further observes, perhaps the most significant and far-reaching aspect of the Conclusions is the endorsement of an approach based on decent work deficits. ‘An approach based on decent work deficits has considerable merit and should be pursued. The ILO approach should reflect the diversity of situations and their underlying causes found in the informal economy. The approach should be comprehensive, involving the promotion of rights, decent employment, social protection and social dialogue. The approach should focus on assisting Member States in addressing governance, employment-generation and poverty-reduction issues’ (para. 35).

It might be useful for us to briefly remind ourselves of the implications of the decent work approach. Very importantly, it has enabled us to break away from what was previously termed the ‘dilemma’ of the informal sector and from the tensions and confusion surrounding a goal couched in terms of ‘formalizing the informal’. It is no longer an either-or dilemma of rights and social protection versus employment creation. It should help to allay the concern of some of our constituents that the aim is to destroy jobs in the informal economy. The Conclusions noted that ‘to promote decent work, it is necessary to eliminate the negative aspects of informality while at the same time ensuring that opportunities for livelihood and entrepreneurship are not destroyed, and promoting the protection and incorporation of workers and economic units in the informal economy into the mainstream economy’. (para. 13)

They also state that ‘especially in countries struggling with abject poverty and with a large and rapidly growing labour force, measures should not restrict opportunities for those who have no other means of livelihood. However, it should not be a job at any price or under any circumstances’ (para. 21). A clear challenge for follow-up is to demonstrate how job quantity and quality can go together and how respect for basic labour rights would promote productivity growth. A related challenge is to ensure that activities targeting the informal economy do not lead to the growth of poor quality jobs but instead to the upgrading of jobs. *The Conclusions call for an upward transition and not a downward pull along the continuum of decent work ...* (emphasis added).

‘All four dimensions of decent work – rights, employment, social protection, organization and social dialogue – reinforce each other; the comprehensive and integrated decent work approach is essential for addressing the multi-faceted and multi-

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<sup>2</sup> Lim (2003). The continuum idea has been reflected in Becker (2004).

rooted problems of the informal economy. Reducing decent work deficits in the informal economy will go a long way towards reducing poverty. The Conclusions stress the links with the Millennium Development Goals, in particular the poverty reduction goal' (para. 36(d)). In this context, some of the challenges in the follow-up will be, for example, to determine the overlap between the working poor and the informal economy (not everyone in the informal economy is poor) and the policy environment needed to stimulate pro-poor promotion of more and better jobs.

In line with the decent work approach, the Conclusions also give special attention to the most vulnerable groups. They emphasize the importance of taking into account the varying degrees of dependency and vulnerability of those in the informal economy and call for special measures to assist the most vulnerable, in particular women, young first-time job seekers, older retrenched workers, migrants and those afflicted with or affected by HIV/AIDS (para. 37(l)). ... But ... until and unless there are changes at macro policy level and in the legal and institutional frameworks, the impact of action programmes will be limited to some specific target beneficiaries' (Lim 2003).

In addition to addressing issues of governance (see section 4 below), Lim continues, 'Another major area that emerged in the Conclusions is organization, representation and voice. Without organization and representation, those in the informal economy generally do not have access to a range of other rights at work (para. 17), but to date it has been an uphill battle for workers' and employers' organizations "extending membership and services to employers and workers in the informal economy, and encouraging and supporting the creation and development of new member-based, accessible, transparent, accountable and democratically managed representative organizations, including bringing them into social dialogue processes"' (para. 31). 'It is the responsibility of governments to provide an enabling framework at national and local levels to support representational rights. National legislation must guarantee and defend the freedom of all workers and employers, irrespective of where and how they work, to form and join organizations of their own choosing without fear of reprisal or intimidation' (para. 24).

Quality employment is key to solving the problems of the informal economy. The general discussion harped on the fact that the majority are in the informal economy because they are unable to find other jobs or start businesses in the formal economy. Governments should adopt a dynamic approach to place decent employment at the centre of economic and social development policies and also to promote well-functioning labour markets and labour market institutions, including labour market information systems and credit institutions.

To promote quality employment, productivity and market enhancement are critical aspects. Several paragraphs of the Conclusions underscore the importance of investing in people, especially the most vulnerable, in their education, skills training, lifelong learning, health and safety, and also in improving market access for informal producers ... 'to help meet the massive demand for jobs and livelihoods in ways that respect labour standards and enable entry into the economic and social mainstream' (para. 37(h)) .... The Conclusions also call for appropriate trade, investment and technology policies (para 15).

A final theme that links several parts of the Conclusions has to do with poor working conditions, insecurities and vulnerabilities in the informal economy and the measures for addressing these (with paragraphs devoted to child labour – para. 37(g) and women – para. 37(l), and others such as young first-time job seekers, older retrenched workers, migrants and the HIV/AIDS afflicted or affected). Although most at risk and therefore most in need, most workers in the informal economy have little or no social protection and receive little or no social security coverage, either from their employer or from the government (para 10). The Conclusions thus reinforce the campaign agreed at the 89<sup>th</sup> ILC to improve and extend social protection for all especially those in the informal economy, inter alia, through the development and piloting of innovative ideas, such as the Global Social Trust (para. 37(k)). (Lim 2003)<sup>3</sup>

One year after the 2002 conclusions were adopted, delegates to the next annual International Labour Conference had the chance to debate the issues in the context of poverty reduction. The report that formed the basis for this discussion, *Working Out of Poverty* (ILO 2003a)<sup>4</sup> noted the frequent overlap of informality and poverty, and put forward policy suggestions and examples of good practice, particularly in the areas of representation and governance. More examples were contributed by delegates during the plenary discussions.

These views of the tripartite constituents to the 2002 and 2003 International Labour Conferences were among the sources of information available to the World Commission on the Social Dimension of Globalization. The report of this high-level group, *A Fair Globalization: Creating Opportunities For All*, appeared in February 2004. The Commission noted:

[W]hile some informal workers provide low-cost inputs to global production systems, the majority are excluded from the opportunities of globalization and confined to restricted markets. This is a major governance issue, with a considerable impact on the distribution of the benefits from globalization. First, the lack of rights and protections leads to vulnerability and inequality, undermining many of the principles of governance outlined above. Second, there is lack of access to markets and services, so that potential for growth and development is unrealised. Third, there is a failure to build a fair and participative economy, for the rules of the game are in effect not the same for all. ... The goal must be to make these informal activities part of a growing formal sector that provides decent jobs, incomes and protection, and can trade in the international system. (ILO 2004a: paras. 262-4)

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<sup>3</sup> The Global Social Trust, now in a pilot phase, aims at forming a global network of national social trusts in which voluntary contributions from individuals in developed countries would be invested in building up basic social protection in developing countries. The Global Social Trust would sponsor concrete benefits for a defined initial period until the basic social protection schemes become self-supporting. See ILO (2002a).

<sup>4</sup> See especially pp. 29-30 and 72-75 on informality.



Another recent ILO report that touches somewhat on informality, *Economic Security for a Better World*, sums up the situation in this way: ‘The reality is that workers all over the world face degrees of informality, the most formal of which have multiple forms of protection, the least formal none at all’ (ILO 2004b: 141). Surveys used for this report reveal some interesting findings. For instance, it states, ‘it is too simplistic to equate informality with poverty, even though more of the relatively informal have low incomes. Informality does not map neatly onto income. What seems to be the case is that formality gives greater protection for men than for women... What is key to an understanding of the linkages is that being in an informal labour status means a greater likelihood of income variability and decline. ... [T]hose in informality worry more than others about what will happen in their old age when they are unable to work’ (ILO 2004b: 141, 160). As also reflected in the discussion at the ILC in 2002, a close link is seen between degrees of informality and certain forms of insecurities. Whether seen as decent work deficits or insecurities, the challenges posed for people in the informal economy need to be met head on.

### **3 Using the Decent Work Agenda to address informal economy issues**

Since 1999, the ILO has organized much of its analysis and even its structure around the Decent Work Agenda. This approach places decent work at the heart of development (see Rodgers 2001). The Decent Work Agenda has four ‘strategic objectives’:

- Promote and realize standards and fundamental principles and rights at work
- Create opportunities for women and men to secure decent employment and income
- Enhance the coverage and effectiveness of social protection for all
- Strengthen tripartism and social dialogue.

The ILC discussion in 2002 was structured around these themes, with a focus on reducing what are called ‘decent work deficits’ – ways in which the reality that people live falls short of decent work.<sup>5</sup> The Conference embraced this approach, while also calling for policy responses that draw on the range of expertise that exists among the ILO and its constituents. Recognizing the importance of measurement, the ILO was called on work on developing Decent Work Indicators (see section 5 below).

To stimulate cross-disciplinary work on the informal economy within the ILO, a framework for using the four parts of the Decent Work Agenda as a development tool was devised based on the ILC conclusions. With gender and development as cross-cutting issues, this framework highlights five areas where work is needed to reduce decent work deficits in relation to the informal economy:

- Governance: including rule of law, enabling legislative frameworks and their administration and enforcement, access to justice and effective labour market

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<sup>5</sup> For fuller discussion of the Decent Work Agenda and decent work deficits, see ILO (1999) and ILO (2001a). The background report for the 2002 ILC discussion was ILO (2002b).

institutions, responsive local and national governments, respect for rights (especially human rights and property rights)

- Macro policies: macroeconomic policies, development and social policies, policy coherence in relation to investment, trade, employment and labour issues at international, regional and national levels, policies for equitable, job-creating growth and social protection, policies to encourage entrepreneurship, fiscal policy, etc.
- Representation and voice: guarantee and exercise of freedom of association, strengthening of representative workers' and employers' organizations and other member-based, democratic institutions such as cooperatives; avenues and methods of bargaining, social dialogue and collective action, voice and alliance-building
- Productivity, market enhancement and employment: policies and programmes for decent and productive employment, better access to markets, credit, skill formation/upgrading/recognition, information on labour and product/service markets, improved working conditions to enhance productivity, job creation, better and more stable incomes
- Addressing vulnerabilities: improving working conditions to protect livelihoods, social protection as an anti-poverty measures, preventing and coping with HIV/AIDS in the informal economy, responding to the particular needs of poor women, men and children in the informal economy, the disabled, migrants, members of ethnic groups and youth at risk.

This 'conceptual strategic framework' – structured around governance, macro policies, representation and voice, market enhancement and productive employment, and social protection to address vulnerabilities – has been used in some of the ILO's project work in the field. It begins to be further explored in section 4 below.

Recently, Martha Chen, Joann Vanek and Marilyn Carr have used the Decent Work Agenda in developing strategies for decent work for informal workers in the context of gender and poverty reduction. They have recast its elements (Chen et al. 2004: part 4) in terms of:

- Promoting opportunities (employment-oriented growth, supportive environment, market access and competitiveness, skills and technologies)
- Securing rights (of both informal wage workers and the self-employed)
- Promoting protection (against common contingencies and protection for migrant workers)
- Promoting voice (organizing informal workers, promoting collective bargaining, building international alliances).

Whatever the categories used, it is significant that the elements of the Decent Work Agenda are being recognized as building blocks of gender-sensitive poverty reduction. This is occurring at a political as well as an academic level. Quite recently, a declaration adopted by African Heads of State and Government on employment and poverty reduction (African Union Extraordinary Summit of Heads of State and Government on Employment and Poverty Alleviation, Ouagadougou, Burkina Faso, 7-8 September 2004) reaffirmed a similar approach.

## **4 Using the conceptual strategic framework in addressing informal economy issues – a closer look at governance and voice**

### **4.1 Governance**

As Lim (2003) notes, ‘Very importantly, the Conclusions underscored informality as “principally a governance issue. The growth of the informal economy can often be traced to inappropriate, ineffective, misguided or badly implemented macroeconomic and social policies, often developed without tripartite consultations; the lack of conducive legal and institutional frameworks; and the lack of good governance for proper and effective implementation of policies and laws” (para. 14); and that “since decent work deficits are often traceable to good governance deficits, the government has a primary role to play. Political will and commitment and the structures and mechanisms for proper governance are essential. Specific laws, policies and programmes to deal with the factors responsible for informality, to extend protection to all workers and to remove the barriers to entry into the mainstream economy will vary by country and circumstance. Their formulation and implementation should involve the social partners and the intended beneficiaries in the informal economy” ’ (para. 21).

‘Three types of legal and institutional frameworks and their effective enforcement are key: (i) labour legislation governing employment relationships and the labour rights and social protection of workers, and the effective enforcement of rights and protections through improved systems of labour inspection and easy and rapid access to legal aid and the judicial system (para. 30); commercial or business regulations that lower the costs to establish and operate a business and that increase the benefits of legal registration (para. 27); and laws and regulatory frameworks to secure property rights and title assets and improve access to financial capital’ (Lim 2003).

How to lower the costs and increase the advantages of regulations? Recent research on these and related issues appears in *Policies for Small Enterprises: Creating the Right Environment for New Jobs* (Reinicke and White 2004), which makes policy recommendations based on seven in-depth case studies.

Working with municipalities is one key intervention point. The ILO is working with municipalities in several locations to identify the main regulatory constraints on micro entrepreneurs, analyse their coping strategies, assess the costs of coping the impact on their informalization. This approach uses a business climate survey, simulation, and monitoring, with the involvement of stakeholders. It then examines how to maximize the use of local, labour-intensive enterprises in procurement of goods and delivery of services (while ensuring adequate working conditions and pay). Once goods and services that could be ‘localised’ have been identified, tender and contracting procedures are reviewed to see how access by informal economy operators can be improved. At the same time, possible job losses in the public sector are addressed. Measures for capacity building and involvement of local level elected officials are further features of the approach.<sup>6</sup>

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<sup>6</sup> For more information, see the website of IFP/SEED (in Annex IV). See also Mayoux (2001).

The report *Working Out of Poverty* emphasized governance in relation to informal labour markets. ‘At its core, a main barrier to entry into the economic and social mainstream is the inability of either informal workers or employers to assert the basic rights essential to the efficient and equitable functioning of labour markets’ (ILO 2003a: 73, citing Galli and Kucera 2003). Part of the task involves identifying legal and administrative requirements that unnecessarily raise the threshold of entry to formality beyond the reach of many. Many of the governance issues affecting those in the informal economy play out at the local level. But sound policies need to be backed up national legal and judicial institutions that are accessible, efficient and free of corruption.

Governance of course has a meaning that goes well beyond government and law.<sup>7</sup> It extends to the controlling, directing or regulating influence of the set of institutions and policies that determine the functioning of an economy and a society. For the informal economy, this encompasses a very broad range of responses for better governance. To cite only one example, techniques developed in the context of labour market governance, such as win-win bargaining or dispute resolution through conciliation and mediation, can be usefully applied to promote constructive relations between informal economy operators and local authorities. A wide view of governance also takes into account the entire range of circumstances micro and small entrepreneurs face – since some of the operating constraints they face are not regulatory in nature (see for example UNDP/ILO/UNIDO 2004).

#### **4.2 Rights at work as governance – one part of the equation**

The rule of law is part of governance, and within it, respect for human rights. For the informal economy, fundamental principles and rights at work and international labour standards that are relevant to the informal economy form an essential part of better governance. While not pretending that other aspects of governance lack importance, this section takes a closer look at the rights that underpin representation and voice – a core ILO concern.

It has sometimes been maintained that international labour standards are irrelevant to those in the informal economy or worse yet, push more people into precarious situations. Cumulatively, these views reflect two common misconceptions. The first is a belief that international labour standards do not address people in the informal economy, whereas in fact many provisions do. The second is confusion between the interplay between international labour standards and domestic laws and regulations (which are often not required by the ILO Conventions or Recommendations concerned and which indeed may be ill-conceived means of achieving implementation of the international instruments).<sup>8</sup> Both shut out using what international labour standards have to offer in relation to the informal economy – elements of labour market frameworks for better governance, support for human capabilities and empowerment, and protection of people.

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<sup>7</sup> *Policies and Social Partnerships for Good Governance*, GB.288/WP/SDG/2, ILO Governing Body, 288<sup>th</sup> Session, November 2003.

<sup>8</sup> For an elaboration of these points, see Trebilcock (2004).

For reasons of space and importance, this section addresses only what are referred to in the ILO as ‘core standards’ and fundamental principles. A recent paper by the United Kingdom’s Department for International Development (DfID 2004) outlined the social and economic case for core labour standards as a key element of poverty reduction. It also points to the positive correlation between respect for certain other international labour standards, such as those to ensure occupational safety and health (DfID 2004: 29), which in turn affects productivity as well as livelihoods. In an analysis of recent ILO survey results, it was found that ‘the Representation Security Index [based on freedom of association] is inversely related to the Gini coefficient of income distribution, implying that it is associated with lower levels of inequality. And it is positively and statistically significantly correlated with the UNDP’s Human Development Index’ (ILO 2004b: 273).

The ILO Declaration on Fundamental Principles and Rights at Work (1998) identified four principles as essential to enabling people to enjoy a fair share of the wealth they have helped to generate:

- Freedom of association and effective recognition of collective bargaining
- The elimination of all forms of forced or compulsory labour
- The effective abolition of child labour
- The elimination of discrimination in respect of employment and occupation.

Professor Bob Hepple argues for an expansion of the scope of labour law – which includes international labour law – ‘to bring about an equality of capabilities. This embraces the substantive freedoms that individuals need in order to survive and prosper, including freedom to pursue education and training and a career of their choosing, freedom of association and freedom to participate in economic and political decision-making that affects their lives as well as the capacity to obtain decent work’ (Hepple 2002: 31). In the next section we examine freedom of association in this context.

### **4.3 A closer look at rights underpinning representation and voice**

‘Without access to an organization that can represent their interests, most people are likely to be vulnerable to economic and social insecurity. They need ‘voice’, in the sense of belonging to a body capable and willing to bargain for rights and entitlements, and access to institutions that can enforce and enhance such rights’ (ILO 2004b: 247). It is no accident that freedom of association is explicitly mentioned in the Declaration of Philadelphia, which forms part of the ILO’s Constitution.

#### *A well-enshrined right*

As basic human rights instruments, the fundamental ILO Conventions play a particularly important role for people in the informal economy because they are linked to their empowerment. The Freedom of Association and Protection of the Right to Organize Convention, 1948 (No. 87) applies to ‘workers ... without any distinction whatsoever’. They ‘shall have the right to establish and, subject only to the rules of the organization concerned, to join organizations of their own choosing without previous authorization’ (Art. 2). The scope of the Right to Organize and Collective Bargaining Convention, 1949 (No. 98) also extends to ‘all workers’. Both instruments contain other

provisions that buttress the freedoms they are intended to protect. Conventions Nos. 87 and 98 are designated as fundamental Conventions, and the principle of freedom of association is also enshrined in universal human rights instruments adopted within the United Nations framework.

The Rural Workers' Organizations Convention, 1975 (No. 141), which contains similar language on freedom of association, applies to 'all rural workers, whether they are wage-earners or self-employed'. The role of freedom of association in development is reflected in Art. 4 of this Convention: 'It shall be an objective of national policy concerning rural development to facilitate the establishment and growth, on a voluntary basis, of strong and independent organizations of rural workers as an effective means of ensuring the participation of rural workers ... in economic and social develop and in the benefits resulting therefrom.'

Several ILO instruments address other specific categories of workers who may be active in the informal economy. The Freedom of Association (Agriculture) Convention, 1921 (No. 11) states simply that Member States undertake to secure to all those engaged in agriculture the 'same rights of association and combination as to industrial workers', and to repeal any statutory or other provisions restricting such rights. Freedom of association also lies at the heart of the Indigenous and Tribal Peoples Convention, 1989 (No. 169), which contains extensive provisions on these peoples' decision-making and participation (especially Art. 7).

Finally, both the Promotion of Cooperatives Recommendation, 2002 (No. 193) and the Promotion of Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189) incorporate provisions designed to guarantee freedom of association for members of cooperatives and business associations. A recent review of literature on effective interventions in relation to workers in the informal economy highlighted the importance of association building (Rinehart 2004), which is simply not possible in the absence of freedom of association.

#### *And in practice?*

Two global reports prepared under the follow-up to the ILO Declaration of 1998 confirm that there is widespread denial of the rights to freedom of association and group action in the form of collective bargaining (ILO 2000; 2004c).<sup>9</sup> Three times a year, the ILO Committee on Freedom of Association hears cases involving allegations of violations of freedom of association.<sup>10</sup> Many causes lay behind this situation – some political, some structural, some perhaps cultural and linked to a lack of gender awareness.

The situation is particularly dire in relation to workers and employers in the informal economy, as pointed out in the 2002 ILC conclusions. Legislation is often not adapted to permit them to organize to defend their interests. In some cases, labour market reforms have swept away not only what had been perceived by the reformers as rigidities but also provisions that provided for fundamental rights. One typical legal

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<sup>9</sup> See also ILO (2002b: 38-41).

<sup>10</sup> Decisions are reported to each Governing Body session of the ILO. See also ILO (1996).

barrier to such organization involves limiting the right of association to ‘employees’ or to people working in a minimum-sized production unit. Another is precluding free choice of the level at which collective bargaining can take place, or of the scope of topics on which bargaining can take place.

In an extensive recent survey, the following picture has emerged: ‘a great many working people, particularly in developing countries, are not aware of unions, are not drawn to belong to unions and are not aware of the advantages that they could provide ...’ (ILO 2004b: 273). Although trade union efforts to organize in the informal economy have stepped up in several countries, for example in India and South Africa (see for example Goldman 2004), the obstacles to doing so remain great (see for example Schlyter 2001; Kanyenze 2004).

However, despite the odds, organization does take place in the informal economy. Trade unions themselves are placing increasing emphasis on organizing in the informal economy (see for example ILO 2001b; WCL 2004).<sup>11</sup> An important new development is the establishment of the International Coordinating Committee following the Ahmedabad Conference on Organizing in the Informal Economy (December 2003) (Street Net International 2004). The examples of SEWA, Street Net and HomeNet are well known in the development community. Additional examples reviewed in four recent sectoral studies (on clothing, construction, street trading and taxi operations) in South Africa have pointed out important elements in organizing strategies in the informal economy: providing social benefits/some elements of social protection, providing access to a range of relevant services, identifying bargaining partners and establishing a relationship, identifying leverage points, having a long-term vision coupled with a practical programme (Goldman 2004).

Local business associations are also manifestations of freedom of association, and they can play a key role in the informal economy. A wide range of services to members, combined with mobilizing to influence policy, are important features of successful organizations of this type (ILO 2003b; 2004d).<sup>12</sup>

In addition, cooperatives provide useful lessons in relation to organization building. Cooperatives are member-based institutions, dependent upon freedom of association to exist, that provide a link between the formal and informal economies. Joint action involving cooperatives and trade unions can strengthen both of them, to the benefit of their respective members (Birchall 2001). Recent studies of such efforts in Rwanda, Tanzania and Uganda show the convergence of interests of cooperatives and trade unions, as democratic, member-based institutions formed to address the economic and social concerns of their members. At the same time, however, they recall the many challenges facing organization in the informal economy. One of the policy recommendations made by DfID (2004) is the encouragement of alliances between workers in the formal sector and those not traditionally protected by labour market institutions. Indeed, a policy framework that includes this and other practical ideas was developed in advance of the ILC 2002 discussion (Chen et al. 2001). The Ahmedabad

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<sup>11</sup> See, for example, ILO (2001b, Booklet 4, prepared in collaboration with the International Confederation of Free Trade Unions) and WCL (2004).

<sup>12</sup> An example is the Polvos Azules Association in Lima, Peru, described in M. Tueros (2004).

resolution highlights a wide range of areas for action in relation to organizing informal workers.

This brief overview highlights the importance of the ILC conclusions on representation and voice, which stressed the key role of ‘democratic, independent, membership-based organizations of wage workers, own-account workers, self-employed persons [and] employers in the informal economy’ (para. 17). The conclusions point to the advocacy role that such organization can fulfil to press for transparent, responsive institutions that form part of better governance. Noting that many organizations have developed innovative and effective strategies and good practices to reach out, recruit, organize and assist workers and enterprises in the informal economy, the conclusions called for these to be more widely publicized and shared. The new Informal Economy Resource Database and various websites serve as vehicles to accomplish this (see Annex IV for relevant websites), but clearly much work lies ahead.

## **5 Honing measurement tools**

Among the ILC conclusions was a call for the ILO to ‘assist Member States to collect, analyse and disseminate consistent, disaggregated statistics on the size, composition and contribution of the informal economy that will help enable identification of specific groups of workers and economic units and their problems in the informal economy and that will inform the formulation of appropriate policies and programmes’ (para. 37(r)).

A debate parallel to the one over definitions has been going on for some years in relation to measurement of the informal economy and its various aspects.<sup>13</sup> This section describes the historical development of these issues in the International Conference of Labour Statisticians before briefly sketching out approaches that are currently being developed in the ILO.

### **5.1 ‘Informal sector’ and ‘informal employment’ measurement**

Ralf Hussmanns has provided an overview of the development of statistical approaches in this field (internal citations omitted):

In January 1993, the *Fifteenth International Conference of Labour Statisticians (15<sup>th</sup> ICLS)* adopted an international statistical definition of the informal sector, which was subsequently included in the revised international *System of National Accounts (SNA 1993)*. Inclusion in the SNA of the informal sector definition was considered essential as it would make it possible to identify the informal sector separately in the accounts and, hence, to quantify the contribution of the informal sector to the gross domestic product. In order to obtain an internationally agreed definition of the informal sector, which was acceptable to labour statisticians as well as national accountants, the informal sector had to be

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<sup>13</sup> For examples of various approaches, compare ILO (2002c), ILO (2002d) and Unni and Charmes (2002).



defined in terms of characteristics of the production units (enterprises) in which the activities take place (enterprise approach), rather than in terms of the characteristics of the persons involved or of their jobs (labour approach).

A criticism sometimes made of the informal sector definition adopted by the 15<sup>th</sup> ICLS is that persons engaged in very small-scale or casual self-employment activities may not report in statistical surveys that they are self-employed, or employed at all, although their activity falls within the enterprise-based definition. Another criticism is that informal sector statistics may be affected by errors in classifying certain groups of employed persons by status in employment, such as outworkers, subcontractors, free-lancers or other workers whose activity is at the borderline between self-employment and wage employment. Women are more likely than men to be engaged in such activities. Still another criticism is that an enterprise-based definition of the informal sector is unable to capture all aspects of the increasing so-called 'informalisation' of employment, which has led to a rise in various forms of informal (or non-standard, atypical, alternative, irregular, precarious, etc.) employment, in parallel to the growth of the informal sector that can be observed in many countries. From the very beginning, it had however been clear that the informal sector definition adopted by the 15<sup>th</sup> ICLS was not meant to serve this purpose, which goes far beyond the measurement of employment in the informal sector.

For the above-mentioned reasons, the Expert Group on Informal Sector Statistics (Delhi Group) joined statistics users in concluding that 'the definition and measurement of employment in the informal sector need(ed) to be complemented with a definition and measurement of informal employment.'

'Employment in the informal sector' and 'informal employment' are concepts, which refer to different aspects of the 'informalisation' of employment and to different targets for policy-making. One of the two concepts cannot replace the other. They are both useful for analytical purposes and, hence, complement each other. However, the two concepts need to be defined and measured in a coherent and consistent manner, so that one can be clearly distinguished from the other. Statistics users and others often tend to confuse the two concepts because they are unaware of the different observation units involved: enterprises on the one hand, and jobs on the other. (Husmanns 2004)

Recalling the stress placed in the 2002 ILC conclusions on decent work and the informal economy for more and better statistics, Husmanns notes that, 'in order to be able to collect statistics on the informal economy, one needs to have a definition of the informal economy'. The ILC used the term 'informal economy' as referring to 'all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements' (para. 3). The ILO report (2002b) which had been prepared as a basis for the discussion by the ILC, defined employment in the informal economy as comprising two components: (i) employment

in the informal sector as defined by the 15<sup>th</sup> ICLS, and (ii) other forms of informal employment (i.e. informal employment outside the informal sector).

As part of the report, the ILO developed a conceptual framework for employment in the informal economy. The framework lent itself to statistical measurement as it built upon internationally agreed statistical definitions, which were used because of their consistency and coherence. It enables measures of employment in the informal sector to be complemented with broader measures of informal employment. At its fifth meeting, the Delhi Group endorsed the framework and recommended it to countries for testing. Subsequently, several countries (Brazil, Georgia, India, Mexico and the Republic of Moldova) tested the framework successfully.

The conceptual framework developed by the ILO was submitted to the 17<sup>th</sup> ICLS (November-December 2003) for discussion. The 17<sup>th</sup> ICLS examined the framework, made some minor amendments to it, and adopted guidelines endorsing it as an international statistical standard (*ILO 2003[a]*). These guidelines, which are attached as an Annex III to the present paper, complement the 15<sup>th</sup> ICLS Resolution concerning statistics of employment in the informal sector. The work by the Delhi Group and its members was essential to the development and adoption of the guidelines.

The 17<sup>th</sup> ICLS unanimously agreed that international guidelines were useful in assisting countries in the development of national definitions of informal employment, and in enhancing the international comparability of the resulting statistics to the extent possible. It also realized that such guidelines were needed in support of the request, which had been made by the ILC in 2002, that the ILO should assist countries in the collection, analysis and dissemination of statistics on the informal economy.

During discussions on terminology, some considered the term ‘informal employment’ as being too positive and thus potentially misleading for policy purposes. Others feared that statistics users might have difficulties to understand the difference between ‘informal employment’ and ‘employment in the informal sector’ and confuse the two terms. Nevertheless, the term ‘informal employment’ was retained by the 17<sup>th</sup> ICLS because of its broadness, and because there was no agreement regarding the use of an alternative term, such as ‘unprotected employment’. (Husmanns 2004)

As Husmanns observes, ‘the 17<sup>th</sup> ICLS did not endorse the term “*employment in the informal economy*”, which had been used by the ILO to refer to the sum of employment in the informal sector and informal employment outside the informal sector (Cells 1 to 10). The 17<sup>th</sup> ICLS agreed that, for statistical purposes, it would be better to keep the concepts of informal sector and of informal employment separate. The informal sector concept, as defined by the 15<sup>th</sup> ICLS, needed to be retained because it had become part of the SNA 1993, and because a large number of countries, as documented by the ILO (2002c), were collecting statistics based on it’ (Husmanns 2004).

As mentioned by Husmanns, testing of statistics on ‘informal employment’ has been done or is underway in several countries. More would be done if additional funding could be secured. In some countries this work is linked to the development of Decent Work Indicators, as described below.

## 5.2 Decent Work Indicators

The development of Decent Work Indicators in the ILO is based on the goal of decent work for all (see introduction). Based on this general framework, a set of thirty statistical indicators were identified for initial consideration (Anker et al. 2002; 2003). They are organized under ten headings concerned with decent work itself and an eleventh on economic and social context. As the work proceeds, some indicators may be dropped and others added. Recent work has been grappling with how to capture aspects of rights at work in terms of indicators.

Of the 30 Decent Work Indicators initially identified, seven have been more extensively developed. They measure essentially what are ‘decent work deficits’:

- low hourly pay
- excessive hours of work for economic or involuntary reasons
- national unemployment
- children not at school (as a proxy for child labour)
- youth unemployment
- the male-female gap in labour force participation, and
- old age without a pension.

They were chosen for development because they are amenable to measurement in a large number of countries, with data compiled from recent national labour force surveys (Bescond et al. 2003). Most of these indicators should provide useful insights into capturing some of the dimensions of informality that affect peoples’ lives. One of their strengths is that they build upon data collection that is already occurring in a wide range of countries on a more or less regular basis.

## 5.3 Socio-economic security indices

Another approach to capturing a picture of decent work has been pursued around the concept of seven forms of security in the sphere of work. Developed and tested over the past five years, application of the indices is reported in the recent publication, *Economic Security for a Better World* (ILO 2004b).

The work is based on data drawn from national statistical indicators on social and labour policies, coupled with information from survey covering almost 50,000 people in 15 countries (People’s Security Survey) and from over 10,000 firms in 11 countries (Enterprise Labour and Flexibility Security Survey). As the basis for a composite Economic Security Index, the research work developed what are designated as input indicators, process indicators and outcome indicators. It identified these seven forms of labour-related security:

- Labour market security (adequate employment opportunities)
- Employment security (protection against arbitrary dismissal, etc.)
- Job security (a niche designated as an occupation or career)
- Work security (protection against accidents and illness at work)

- Skill reproduction security (opportunities to gain and retain skills)
- Income security (protection of income through minimum wage machinery, wage indexation, comprehensive social security, taxation to reduce inequality)
- Representation security (protection of collective voice, independent trade unions and employer associations)

Of these, the last two stand out as lying at the crux of a security that should encourage legitimate risk-taking and innovations while promoting society and social solidarity (ILO 2004b: 14-17, 51).

The People's Security Survey provides some interesting results from the perspective of the informal economy. 'In 13 of 15 surveys undertaken, at least one-third of all households said that household income was not sufficient for food, and a higher proportion indicated that they did not have enough for basic health care needs' (ILO 2004b: 115).

In relation to informality, the economic security approach identifies five criteria as the basis for constructing a labour informality continuum: regularity status (in regular wage labour, full-time or part-time, or in registered self-employment), contract status (having a written contract of employment), workplace status (working in or around a fixed workplace), employment protection status (being protected against arbitrary dismissal or entitled to severance pay), and social protection status (being entitled to medical care). Using a continuum with a range of values from 0 to 5, the results reveal much greater levels of informality than suggested by methods that use an enterprise-based concept, and differing patterns for men and women in various countries (ILO 2004b: 141-5).

#### **5.4 A comment on approaches to measurement**

Each of these methods has its strong and weak points, but they have two unfortunate features in common. The first is that they appear to have been developed largely in isolation from a discourse with legal experts, for whom many of the definitions and concepts have no identifiable counterpart in laws and regulations. True, definitions and concepts are adopted for different purposes in different disciplines. However, this can create a conundrum for policy makers, since some aspects of policy frequently need to be translated into legislation. It is increasingly accepted that labour law has not kept pace with changing labour markets or responded creatively to the challenges of globalization. This is a pity, because the purpose of labour law is to introduce some balance into the disequilibrium between labour and capital and to provide the basis for security for families while not stifling entrepreneurial dynamism. Today, this is less and less the case around the globe. To address the problems of informality, only an interdisciplinary approach will be able to deliver adequate solutions that contribute to better governance.

Furthermore, each of the approaches presented here shares a second characteristic: the measures they use are not generally reflected, much less mainstreamed, in broader development frameworks such as the monitoring accompanying the Millennium Development Goals (MDGs), or the Poverty Reduction Strategy Papers processes at either the international or the country level. Neither the goal of decent work, nor even the more traditional objective of full, productive and freely chosen employment that was

part of the commitments coming out of the Copenhagen Conference on Social Development (1995), is reflected in these development frameworks.

True, the MDG indicators do include two relating to employment (women's share of non-agricultural employment and the unemployment rate of 15 to 24-year olds), but neither one tells us much about addressing decent work deficits in the informal economy. This is a major shortcoming, both for measuring progress towards the MDGs (since without decent work for more people they will not be reached) and for informing the poverty reduction debate from the perspective of decent work and the informal economy (ILO 2003a). Clearly it is time for these conversations to come closer together.

## **6 The challenge remaining**

The World Commission on the Social Dimension of Globalization made a series of recommendations for greater policy coherence and fairness which, if followed, would create opportunities for women and men to have better lives. Among many other measures, decent work for all would be seen as a global goal at the heart of poverty reduction efforts. Decent work would serve as a guidepost for institutional reform towards a fairer globalization, with respect for rights acting as a stimulus to productive innovation. The idea is to move people up the continuum to decent work.

Ultimately, this is the path to take in addressing decent work deficits in the informal economy. In the meantime, more research, thought and action is clearly needed. First, to improve means of measurement. Second, to come up with creative and coherent approaches – both conceptual and practical – to address the issues raised in the 2002 ILC conclusions on decent work and the informal economy. Third, advocacy. These are tasks for us all.

### **Annexes**

Annex I. Conclusions concerning decent work and the informal economy, adopted by the International Labour Conference at its 90<sup>th</sup> Session (2002)

Annex II. Resolution concerning statistics of employment in the informal sector, adopted by the 15<sup>th</sup> International Conference of Labour Statisticians (1993)

Annex III. Guidelines concerning a statistical definition of informal employment, endorsed by the 17<sup>th</sup> International Conference of Labour Statisticians (2003)

Annex IV. ILO websites most relevant to the informal economy

## Annex I

### Conclusions concerning decent work and the informal economy

(adopted by the International Labour Conference at its 90<sup>th</sup> Session, Geneva, 2002;  
reproduced from ILC, *Provisional Record*, No. 25)

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

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

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

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

**5.** In some countries, the term "informal economy" refers to the private sector. In some other countries, the term is considered synonymous with the "underground", "shadow" or "grey" economy. However, the majority of workers and enterprises in the informal economy produce legal goods and services, albeit sometimes not in conformity with procedural legal requirements, for example where there is non-compliance with registration requirements or immigration formalities. These activities should be distinguished from criminal and illegal

activities, such as production and smuggling of illegal drugs, as they are the subject of criminal law, and are not appropriate for regulation or protection under labour or commercial law. There also may be grey areas where the economic activity involves characteristics of both the formal and informal economy, for instance when formal workers are provided with undeclared remuneration, or when there are groups of workers in formal enterprises whose wages and working conditions are typical of those existing in informality.

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

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

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

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

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

**11.** While some people in the informal economy earn incomes that are higher than those of workers in the formal economy, workers and economic units in the informal economy are generally characterized by poverty, leading to powerlessness, exclusion, and vulnerability. Most workers and economic units in the informal economy do not enjoy secure property rights, which

thus deprives them access to both capital and credit. They have difficulty accessing the legal and judicial system to enforce contracts, and have limited or no access to public infrastructure and benefits. They are vulnerable to harassment, including sexual harassment, and other forms of exploitation and abuse, including corruption and bribery. Women, young persons, migrants and older workers are especially vulnerable to the most serious decent work deficits in the informal economy. Characteristically, child workers and bonded labourers are found in the informal economy.

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

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

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

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

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



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

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

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

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

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

**22.** Legislation is an important instrument to address the all-important issue of recognition and protection for workers and employers in the informal economy. All workers, irrespective of employment status and place of work, should be able to enjoy, exercise and defend their rights as provided for in the ILO Declaration on Fundamental Principles and Rights at Work and its

Follow-up and the core labour standards. To ensure that labour legislation affords appropriate protection for all workers, governments should be encouraged to review how employment relationships have been evolving and to identify and adequately protect all workers. The elimination of child labour and bonded labour should be a priority goal.

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

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

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

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

**27.** A conducive policy and legal environment lowers the costs to establish and operate a business, including simplified registration and licensing procedures, appropriate rules and regulations, reasonable and fair taxation. It also increases the benefits of legal registration, facilitating access to commercial buyers, more favourable credit terms, legal protection, contract enforcement, access to technology, subsidies, foreign exchange and local and international markets. Besides, such policies discourage businesses in the formal economy from shifting into

the informal economy. This helps new businesses to start and smaller businesses to enter the formal economy and to create new jobs, without lowering labour standards. This also increases state revenues.

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

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

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

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

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

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

adapted to the needs of the informal economy that can yield important results such as improved safety and health, improved labour-management cooperation or productivity enhancement.

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

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

**36.** The efforts of the Office should:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- (m) develop greater understanding of the relationship between the informal economy and the feminization of work, and identify and implement strategies to ensure that women have equal opportunities to enter and enjoy decent work;
- (n) assist member States to collect, analyse and disseminate consistent, disaggregated statistics on the size, composition and contribution of the informal economy that will help enable identification of specific groups of workers and economic units and their problems in the informal economy and that will inform the formulation of appropriate policies and programmes;
- (o) expand the knowledge base on governance issues in the informal economy and solutions and good practices for dealing with these issues;
- (p) collect and disseminate information on transitions made to the mainstream economy, how such transitions were facilitated, and key success factors;
- (q) take the lead role in working with other relevant institutions whose expertise could complement that of the ILO in addressing the issues in the informal economy;
- (r) include work with other international organizations including United Nations and Bretton Woods institutions, promoting dialogue to avoid duplication, identify and share expertise, while the ILO itself takes the lead role.

## **Annex II**

### **Resolution concerning statistics of employment in the informal sector, adopted by the 15th International Conference of Labour Statisticians (January 1993)**

[Extract]

#### **Concept**

5 (1) The informal sector may be broadly characterized as consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. These units typically operate at a low level of organization, with little or no division between labour and capital as factors of production and on a small scale. Labour relations - where they exist - are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees.

(2) Production units of the informal sector have the characteristic features of household enterprises. The fixed and other assets used do not belong to the production units as such but to their owners. The units as such cannot engage in transactions or enter into contracts with other units, nor incur liabilities, on their own behalf. The owners have to raise the necessary finance at their own risk and are personally liable, without limit, for any debts or obligations incurred in the production process. Expenditure for production is often indistinguishable from household expenditure. Similarly, capital goods such as buildings or vehicles may be used indistinguishably for business and household purposes.

#### **Operational definitions**

##### *Informal sector*

6 (1) For statistical purposes, the informal sector is regarded as a group of production units which, according to the definitions and classifications provided in the United Nations System of National Accounts (Rev. 4), form part of the household sector as household enterprises or, equivalently, unincorporated enterprises owned by households as defined in paragraph 7.

(2) Within the household sector, the informal sector comprises (i) "informal own-account enterprises" as defined in paragraph 8; and (ii) the additional component consisting of "enterprises of informal employers" as defined in paragraph 9.

(3) The informal sector is defined irrespective of the kind of workplace where the productive activities are carried out, the extent of fixed capital assets used, the duration of the operation of the enterprise (perennial, seasonal or casual), and its operation as a main or secondary activity of the owner.

##### **Household enterprises**

7. According to the United Nations System of National Accounts (Rev. 4), household enterprises (or, equivalently, unincorporated enterprises owned by households) are distinguished from corporations and quasi-corporations on the basis of the legal organization of the units and the type of accounts kept for them. Household enterprises are units engaged in the production of goods or services which are not constituted as separate legal entities independently of the households or household members that own them, and for which no complete sets of accounts (including balance sheets of assets and liabilities) are available which would permit a clear distinction of the production activities of the enterprises from the other activities of their owners and the identification of any flows of income and capital between the enterprises and the owners. Household enterprises include unincorporated enterprises owned and operated by individual household members or by two or more members of the same household as well as unincorporated partnerships formed by members of different households.

## Informal own-account enterprises

8 (1) Informal own-account enterprises are household enterprises (in the sense of paragraph 7) owned and operated by own-account workers, either alone or in partnership with members of the same or other households, which may employ contributing family workers and employees on an occasional basis, but do not employ employees on a continuous basis and which have the characteristics described in subparagraphs 5 (1) and (2).

(2) For operational purposes, informal own-account enterprises may comprise, depending on national circumstances, either all own-account enterprises or only those which are not registered under specific forms of national legislation.

(3) Registration may refer to registration under factories or commercial acts, tax or social security laws, professional groups' regulatory acts, or similar acts, laws, or regulations established by national legislative bodies.

## *Enterprises of informal employers*

9 (1) Enterprises of informal employers are household enterprises (in the sense of paragraph 7) owned and operated by employers, either alone or in partnership with members of the same or other households, which employ one or more employees on a continuous basis and which have the characteristics described in subparagraphs 5 (1) and (2).

(2) For operational purposes, enterprises of informal employers may be defined, depending on national circumstances, in terms of one or more of the following criteria:

(i) size of the unit below a specified level of employment;

(ii) non-registration of the enterprise or its employees.

(3) While the size criterion should preferably refer to the number of employees employed on a continuous basis, in practice, it may also be specified in terms of the total number of employees or the number of persons engaged during the reference period.

(4) The upper size limit in the definition of enterprises of informal employers may vary between countries and branches of economic activity. It may be determined on the basis of minimum size requirements as embodied in relevant national legislations, where they exist, or in terms of empirically determined norms. The choice of the upper size limit should take account of the coverage of statistical inquiries of larger units in the corresponding branches of economic activity, where they exist, in order to avoid an overlap.

(5) In the case of enterprises, which carry out their activities in more than one establishment, the size criterion should, in principle, refer to each of the establishments separately rather than to the enterprise as a whole. Accordingly, an enterprise should be considered to satisfy the size criterion if none of its establishments exceeds the specified upper size limit.

(6) Registration of the enterprise may refer to registration under specific forms of national legislation as specified in subparagraph 8 (3). Employees may be considered registered if they are employed on the basis of an employment or apprenticeship contract which commits the employer to pay relevant taxes and social security contributions on behalf of the employee or which makes the employment relationship subject to standard labour legislation.

10. For particular analytical purposes, more specific definitions of the informal sector may be developed at the national level by introducing further criteria on the basis of the data collected. Such definitions may vary according to the needs of different users of the statistics.



## **Population employed in the informal sector**

11 (1) The population employed in the informal sector comprises all persons who, during a given reference period, were employed (in the sense of paragraph 9 of resolution I adopted by the Thirteenth International Conference of Labour Statisticians) in at least one informal sector unit as defined in paragraphs 8 and 9, irrespective of their status in employment and whether it is their main or a secondary job.

### **Treatment of particular cases**

14. Household enterprises, which are exclusively engaged in non-market production, i.e. the production of goods or services for own final consumption or own fixed capital formation as defined by the United Nations System of National Accounts (Rev. 4), should be excluded from the scope of the informal sector for the purpose of statistics of employment in the informal sector. Depending on national circumstances, an exception may be made in respect of households employing domestic workers as referred to in paragraph 19.

16. For practical reasons, the scope of the informal sector may be limited to household enterprises engaged in non-agricultural activities. With account being taken of paragraph 14, all non-agricultural activities should be included in the scope of the informal sector, irrespective of whether the household enterprises carry them out as main or secondary activities. In particular, the informal sector should include secondary non-agricultural activities of household enterprises in the agricultural sector if they fulfil the requirements of paragraphs 8 or 9.

17. Units engaged in professional or technical activities carried out by self-employed persons, such as doctors, lawyers, accountants, architects or engineers, should be included in the informal sector if they fulfil the requirements of paragraphs 8 or 9.

18 (1) Outworkers are persons who agree to work for a particular enterprise, or to supply a certain quantity of goods or services to a particular enterprise, by prior arrangement or contract with that enterprise, but whose place of work is not within any of the establishments, which make up that enterprise.

(2) In order to facilitate data collection, all outworkers should be potentially included in the scope of informal sector surveys, irrespective of whether they constitute production units on their own (self-employed outworkers) or form part of the enterprise, which employs them (employee outworkers). On the basis of the information collected, self-employed and employee outworkers should be distinguished from each other by using the criteria recommended in the United Nations System of National Accounts (Rev. 4). Outworkers should be included in the informal sector, or in the population employed in the informal sector, if the production units, which they constitute as self-employed persons or for which they work as employees fulfil the requirements of paragraphs 8 or 9.

19. Domestic workers are persons exclusively engaged by households to render domestic services for payment in cash or in kind. Domestic workers should be included in or excluded from the informal sector depending upon national circumstances and the intended uses of the statistics. In either case, domestic workers should be identified as a separate sub-category in order to enhance international comparability of the statistics.

## Annex III

### **Guidelines concerning a statistical definition of informal employment, endorsed by the Seventeenth International Conference of Labour Statisticians (November-December 2003)**

The Seventeenth International Conference of Labour Statisticians (ICLS),

Acknowledging that the relevance of informal employment varies among countries, and that a decision to develop statistics on it is therefore determined by national circumstances and priorities,

Noting that the term 'informal economy' is used by the ILO as including the informal sector as well as informal employment, and that as a supplement to the System of National Accounts 1993 an international conceptual framework for measurement of the non-observed economy already exists, which distinguishes the informal sector from underground production, illegal production, and household production for own final use,

Recalling the existing international standards on statistics of employment in the informal sector contained in the Resolution concerning statistics of employment in the informal sector adopted by the Fifteenth ICLS (January 1993),

Noting the recommendation made by the Expert Group on Informal Sector Statistics (Delhi Group), during its Fifth Meeting, that the definition and measurement of employment in the informal sector need to be complemented with a definition and measurement of informal employment,

Emphasizing the importance of consistency and coherence in relating the enterprise-based concept of employment in the informal sector to a broader, job-based concept of informal employment,

Considering the methodological work, which the International Labour Office and a number of countries have already undertaken in this area,

Supporting the request, which was made by the International Labour Conference in paragraph 37(n) of the Resolution concerning decent work and the informal economy adopted during its 90<sup>th</sup> Session (2002), that the International Labour Office should assist countries in the collection, analysis and dissemination of statistics on the informal economy,

Recognizing that the considerable diversity of informal employment situations poses limits to the extent to which statistics on informal employment can be harmonized across countries,

Realizing the usefulness of international guidelines in assisting countries in the development of national definitions of informal employment, and in enhancing the international comparability of the resulting statistics to the extent possible,

Endorses the following guidelines, which complement the Resolution concerning statistics of employment in the informal sector of the Fifteenth ICLS, and encourages countries to test the conceptual framework on which they are based.

**1.** The concept of informal sector refers to production units as observation units, while the concept of informal employment refers to jobs as observation units. Employment is defined in the sense of paragraph 9 of the Resolution concerning statistics of the economically active population, employment, unemployment and underemployment adopted by the Thirteenth ICLS.

**2.** *Informal sector enterprises and employment in the informal sector* are defined according to the Resolution concerning statistics of employment in the informal sector adopted by the Fifteenth ICLS. For the purpose of statistics on informal employment, paragraph 19 of the Resolution concerning statistics of employment in the informal sector adopted by the Fifteenth ICLS should be applied to exclude households employing paid domestic workers from informal sector enterprises, and to treat them separately as part of a category named 'households'.

3. (1) *Informal employment* comprises the total number of informal jobs as defined in subparagraphs (2) to (5) below, whether carried out in formal sector enterprises, informal sector enterprises, or households, during a given reference period.

(2) As shown in the attached matrix, informal employment includes the following types of jobs:

- (i) own-account workers employed in their own informal sector enterprises (cell 3);
- (ii) employers employed in their own informal sector enterprises (cell 4);
- (iii) contributing family workers, irrespective of whether they work in formal or informal sector enterprises (cells 1 and 5);
- (iv) members of informal producers' cooperatives (cell 8);
- (v) employees holding informal jobs (as defined in subparagraph (5) below) in formal sector enterprises, informal sector enterprises, or as paid domestic workers employed by households (cells 2, 6 and 10);
- (vi) own-account workers engaged in the production of goods exclusively for own final use by their household (cell 9), if considered employed according to paragraph 9 (6) of the Resolution concerning statistics of the economically active population, employment, unemployment and underemployment adopted by the Thirteenth ICLS.

(3) Own-account workers, employers, members of producers' cooperatives, contributing family workers, and employees are defined in accordance with the latest version of the International Classification of Status in Employment (ICSE).

(4) Producers' cooperatives are considered informal, if they are not formally established as legal entities and also meet the other criteria of informal sector enterprises specified in the Resolution concerning statistics of employment in the informal sector adopted by the Fifteenth ICLS.

(5) Employees are considered to have informal jobs if their employment relationship is, in law or in practice, not 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.). The reasons may be the following: non-declaration of the jobs or the employees; casual jobs or jobs of a limited short duration; jobs with hours of work or wages below a specified threshold (e.g. for social security contributions); employment by unincorporated enterprises or by persons in households; jobs where the employee's place of work is outside the premises of the employer's enterprise (e.g. outworkers without employment contract); or jobs, for which labour regulations are not applied, not enforced, or not complied with for any other reason. The operational criteria for defining informal jobs of employees are to be determined in accordance with national circumstances and data availability.

(6) For purposes of analysis and policy-making, it may be useful to disaggregate the different types of informal jobs listed in paragraph 3 (2) above, especially those held by employees. Such a typology and definitions should be developed as part of further work on classifications by status in employment at the international and national levels.

4. Where they exist, employees holding formal jobs in informal sector enterprises (cell 7 of the attached matrix) should be excluded from informal employment.

5. *Informal employment outside the informal sector* comprises the following types of jobs:

- (i) employees holding informal jobs (as defined in paragraph 3 (5) above) in formal sector enterprises (cell 2) or as paid domestic workers employed by households (cell 10);
- (ii) contributing family workers working in formal sector enterprises (cell 1);
- (iii) own-account workers engaged in the production of goods exclusively for own final use by their household (cell 9), if considered employed according to paragraph 9 (6) of the Resolution

concerning statistics of the economically active population, employment, unemployment and underemployment adopted by the Thirteenth ICLS.

6. Countries, which do not have statistics on employment in the informal sector, or for which a classification of employment by type of production unit is not relevant, may develop statistics on informal employment, if desired, in specifying appropriate definitions of informal jobs of own-account workers, employers and members of producers' cooperatives. Alternatively, they may limit the measurement of informal employment to employee jobs.

7. Countries, which exclude agricultural activities from the scope of their informal sector statistics, should develop suitable definitions of informal jobs in agriculture, especially with respect to jobs held by own-account workers, employers and members of producers' cooperatives.

### Conceptual framework: informal employment

Production units by type	Jobs by status in employment								
	Own-account workers		Employers		Contributing family workers	Employees		Members of producers' cooperatives	
	Informal	Formal	Informal	Formal	Informal	Informal	Formal	Informal	Formal
Formal sector enterprises					1	2			
Informal sector enterprises <sup>(a)</sup>	3		4		5	6	7	8	
Households <sup>(b)</sup>	9					10			

(a) As defined by the Fifteenth International Conference of Labour Statisticians (excluding households employing paid domestic workers).

(b) Households producing goods exclusively for their own final use and households employing paid domestic workers.

Note: Cells shaded in dark grey refer to jobs, which, by definition, do not exist in the type of production unit in question. Cells shaded in light grey refer to formal jobs. Un-shaded cells represent the various types of informal jobs.

*Informal employment:* Cells 1 to 6 and 8 to 10.

*Employment in the informal sector:* Cells 3 to 8.

*Informal employment outside the informal sector:* Cells 1, 2, 9 and 10.

## Annex IV



### **ILO websites most relevant to the informal economy**

**Informal Economy Resource Database** ([www.ilo.org/dyn/infoecon](http://www.ilo.org/dyn/infoecon)), which is maintained by the Policy Integration Department ([www.ilo.org/public/english/bureau/integration](http://www.ilo.org/public/english/bureau/integration))

For the International Labour Conference *resolution and conclusions on decent work and the informal economy*, background documents, working papers and other materials prepared for the ILC discussion, see [www.ilo.org/public/english/employment/infeco](http://www.ilo.org/public/english/employment/infeco)

Information on labour *statistics* pertinent to decent work and the informal economy ([www.ilo.org/public/english/bureau/stat](http://www.ilo.org/public/english/bureau/stat)) and decent work indicators ([www.ilo.org/public/english/bureau/integration](http://www.ilo.org/public/english/bureau/integration))

**The Report of the World Commission on the Social Dimension of Globalization, A Fair Globalization: Creating Opportunities for all** (ILO 2004a) and its preparation ([www.ilo.org/public/english/fairglobalization/index.htm](http://www.ilo.org/public/english/fairglobalization/index.htm))

**ILO International Training Centre – Informal Economy**  
[www.itcilo.it/pub/page\\_main.php?VersionID=2&ContentTypeID=49](http://www.itcilo.it/pub/page_main.php?VersionID=2&ContentTypeID=49)

**Workers and Workers' Activities –**  
[www.ilo.org/public/english/dialogue/themes/wo.htm](http://www.ilo.org/public/english/dialogue/themes/wo.htm)

**Employers and Employers' Activities –**  
[www.ilo.org/public/english/dialogue/themes/emp.htm](http://www.ilo.org/public/english/dialogue/themes/emp.htm)

**Gender –** [www.ilo.org/public/english/bureau/gender](http://www.ilo.org/public/english/bureau/gender)

**More and Better Jobs for Women and Men –**  
[www.ilo.org/public/english/employment/gems/index.htm](http://www.ilo.org/public/english/employment/gems/index.htm)

**InFocus Programme on Promoting the Declaration**  
ILO Declaration on Fundamental Principles and Rights at Work –  
[www.ilo.org/dyn/declaris/DECLARATIONWEB.INDEXPAGE](http://www.ilo.org/dyn/declaris/DECLARATIONWEB.INDEXPAGE)

**IPEC – International Programme on the Elimination of Child Labour –**  
[www.ilo.org/public/english/standards/ipec](http://www.ilo.org/public/english/standards/ipec)

**IFP/SEED – InFocus Programme on Boosting Employment Through Small Enterprise Development –**  
[www.ilo.org/dyn/empent/empent.Portal?p\\_prog=S&p\\_lang=EN](http://www.ilo.org/dyn/empent/empent.Portal?p_prog=S&p_lang=EN)

**Youth Employment Network –**  
[www.ilo.org/public/english/employment/strat/yen/index.htm](http://www.ilo.org/public/english/employment/strat/yen/index.htm)

**COOP – Cooperatives in the ILO –**  
[www.ilo.org/dyn/empent/empent.Portal?p\\_prog=C&p\\_lang=EN](http://www.ilo.org/dyn/empent/empent.Portal?p_prog=C&p_lang=EN)

**Social Finance Programme** – Finance for poverty alleviation, employment and social integration –

[www.ilo.org/public/english/employment/finance](http://www.ilo.org/public/english/employment/finance)

For information on the report, *Economic Security for a better world* (ILO, 2004) and related data and working papers, see [www.ilo.org/public/english/protection/ses/index.htm](http://www.ilo.org/public/english/protection/ses/index.htm)

**CIARIS** – Centre for Informatic Apprenticeship and Resources in **Social Inclusion** –

<http://ciaris.ilo.org/english>

### **Regional ILO websites – in particular**

**ILO Regional Office for Asia and the Pacific** –

[www.ilo.org/public/english/region/asro/bangkok](http://www.ilo.org/public/english/region/asro/bangkok)

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