

CONCEPT NOTE

HIGH-LEVEL PANEL

Empowering People for Inclusive Growth: The Perspective of the Working Poor in the Informal Economy

The context

Globalisation is producing benefits in terms of growth and reduction of poverty. However, growth is not always inclusive. In developing countries, the majority of people working are still engaged in informal employment, characterised by a lack of adequate social protection, low average earnings and productivity, violations of labour rights, and unsafe or difficult working conditions.

The introduction of informal employment as a main concept that followed the International Labour Conference in 2002 indicates a shift of focus from informal enterprises to informally employed individuals¹. For development policy, this is an important shift of thinking as it put the needs and concerns of the poor workers in the centre. Issues such as equity, access to employment opportunities and rights of informal workers are then gaining importance on the development agenda. Before, a large part of the discourse about informality was concentrated upon formalisation and issues such as registration and taxation of informal enterprises, measures which are not necessarily poverty-reducing.

At one time considered to be a transitional phenomenon that economic growth itself would eliminate, informal employment has become a structural feature of development that has been persistent and even increased in most of the countries of the world regardless of their level of economic development. The main reasons underlying this situation are the inability of economies to create sufficient numbers of formal jobs, policies leading to labour market segregation, avoidance of high taxation and social security contributions or distrust in governance of public institutions. More recently, an increase in subcontracting driven by globalisation has led to greater diversity in the forms of informal employment.

The informal economy includes a wide variety of activities, enterprises and workers. The most visible part of the informal economy is people selling goods and providing services on the streets. Other large parts, but maybe less visible, include workers in small factories and workshops, people, often women, working with small-scale production at their homes, and casual day labourers in agriculture and construction. However, the informal economy also includes people that are fairly well off such as employers of smaller firms.

The two main categories of informal employment, wage employment in jobs without social protection and self-employment in unincorporated enterprises, can be further disaggregated

¹ Following the conclusions of the ILO International Labour Conference in 2002, the informal economy is defined as all economic activities by workers and economic units that are in law or practice not covered or insufficiently covered by formal arrangements. This is an update and an expansion of the definition of the informal sector that International Conference of Labour Statisticians (ICLS) adopted in 1993. The informal sector was defined as all employment in unincorporated small or unregistered enterprises. The ambition of the ILO, the International Expert Group on Informal Sector Statistics (the Delhi Group), and the WIEGO network that promoted the expanded definition which was later approved by the ICLS was to move towards a definition that focuses on individuals informally employed rather than on informal enterprises. In 2003, ICLS endorsed this expanded definition of “informal employment” as all informal work (i.e. without social protection through work) regardless if it is carried out in formal or informal enterprises or in households.

into different categories of employment relationships. Self-employment consists of own-account workers and employers of informal enterprises who hire other workers. The conditions of these two categories are often very different. Wage-employment includes informal employees of both formal and informal firms, subcontracted workers, wage workers for households (domestic workers), and wage workers with no fixed employer (casual day workers).

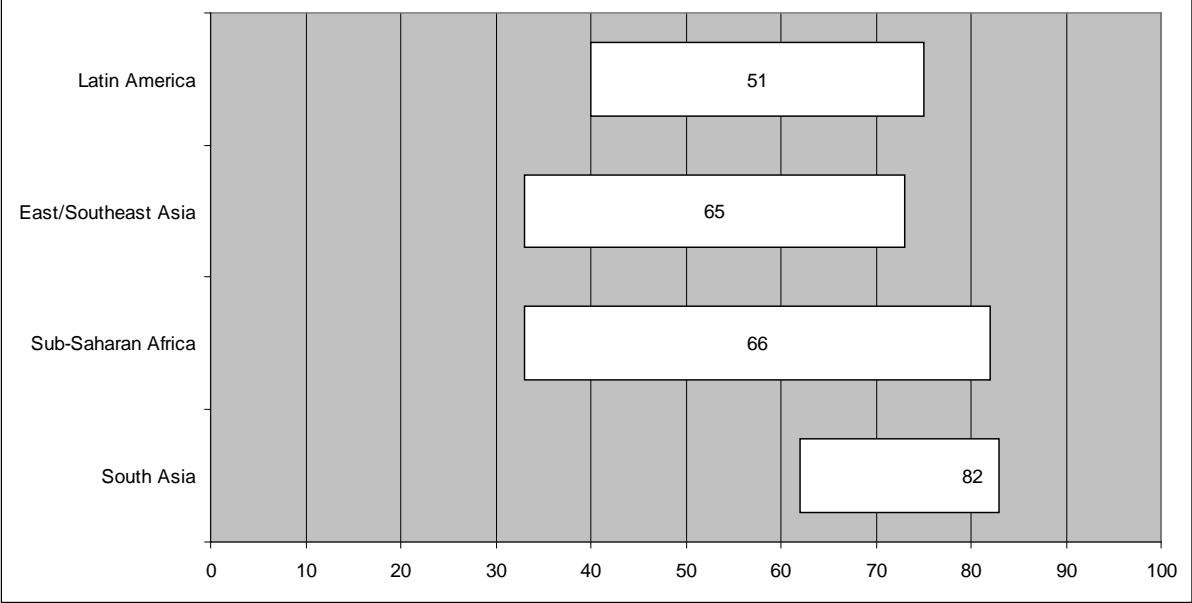
Informal employment is often casual, irregular or seasonal implying frequent changes of workplaces and employers. Informal workers experience often poor working conditions such as long working hours, high level of occupational health hazards and lack of social security (protection) usually accompanied with poor earnings, low productivity, lack of access to training and lack of legal protection and rights at work. Disadvantaged groups such as women, young workers, persons with HIV/AIDS, disabled, indigenous people or migrants are overrepresented in the informal economy.

To address the challenges of the working poor, it is necessary to better understand the nature and the dynamics of informal employment, which consists of a wide diversity of economic sectors and occupations and faces both opportunities and vulnerabilities.

Informal employment persists and is growing in some contexts, even where there is economic growth. Women and young people are overrepresented in informal employment.

Over the world, more than half of all jobs in non-agricultural sectors in developing and emerging economies can be considered informal. In some regions, including sub-Saharan Africa and South Asia, this rate is as high as 80 per cent. If informal employment in agriculture is included, this share is even higher reaching 90 percent of employment in some countries (e.g. Ghana and India).

Share (%) of Informal Employment in Non-Agricultural Employment Range and Average by Region²



² Source: Vanek, Joann, Martha A. Chen, Ralf Hussmanns, James Heintz, and Francoise Carre. 2012. *Women and Men in the Informal Economy: A Statistical Picture*. Geneva, Switzerland: ILO and WIEGO.

However, mapping the informal economy to understand its size, composition and evolution is a difficult and imprecise exercise given the lack of available data about many aspects of informal employment. This lack of data hinders the development of policy responses and to some extent limit the focus of informal employment in national policy making. To further put emphasis on informal employment, one main priority is therefore to strengthen the knowledge base and to develop statistics that are comparable across countries and sectors.

What follows is a summary of recent analyses of available data on the size or significance of non-agricultural informal employment.³ Informal employment represents a significant share of non-agricultural employment in developing regions: ranging from 51 per cent in Latin America to 65 per cent in East and Southeast Asia to 66 per cent in sub-Saharan Africa (excluding South Africa and other countries in Southern Africa with a relatively low prevalence of informal employment) to 82 per cent in South Asia. Informal employment represents 10 per cent of non-agricultural employment in Eastern Europe and Central Asia.

There is significant variation by country within the regions: from 40 per cent (Uruguay) to 75 per cent (Bolivia) in Latin America; from 33 per cent (urban China) to 42 per cent (Thailand) to 73 per cent (Indonesia) in East and Southeast Asia; from 33 per cent (South Africa) to 82 per cent (Mali) in sub-Saharan Africa; from 62 per cent (Sri Lanka) to 83 per cent (India) in South Asia. In those countries and regions where agriculture still employs a large share of the workforce, the share of total informal employment in total employment is likely to be higher still. In some countries in South Asia and Africa which measure informal employment in agriculture, informal employment represents 90 per cent or more of total employment: notably, Ghana and India.

Informal employment in the international development debate

The **European Union**, in line with its international commitments, has adopted a number of policy documents where it supports the working poor in its external and development assistance cooperation. The European Consensus on Development defines social cohesion and employment as one of its nine areas of priority action. It underlines that the EU is committed to promote decent work for all in line with the ILO agenda. The European Commission released a communication on promoting decent work for all in May 2006 and decent work and working poverty is equally an element of the internal and external dimension of the EU's growth strategy Europe 2020. The informal economy is a central theme of the EC Staff Working Document *Promoting Employment through EU Development Cooperation* it is emphasized that whereas the focus in the formal economy must be on creating more jobs, the

Notes: the regional estimates were prepared by James Heintz for Vanek et al 2012

1. The figures are for informal employment as percentage of non-agricultural employment.
2. The boxes indicate range of country-specific percentages within each region.
3. The figure within each box is the percentage for the region as a whole.
4. The Sub-Saharan range and average include South Africa and other countries in Southern Africa where the prevalence of informal employment is relatively low (<45%).

³ All of the statistical data presented in this section are from Vanek, Joann, Martha Chen, Ralf Hussmanns, James Heintz, and Françoise Carre. 2012a. *Women and Men in the Informal Economy: A Statistical Picture*. Geneva: ILO and WIEGO.

centre of attention in the informal economy should be to raise earnings and productivity and improve the, very often poor, working conditions and to increase social protection coverage.

The **United Nations** has adopted declarations and resolutions committing member states to the promotion of decent work for all. In that respect, the UN Summit on the follow-up to the Millennium Declaration (MDG +5) in 2005 endorsed the need for a fair globalization and for the goals of full employment and decent work as part of the UN development agenda. A new **MDG target**, under MDG 1 *Eradication of extreme poverty and hunger*, of achieving full and productive employment and decent work for all including women and young people was added. The corresponding indicators are to a large extent designed to capture also labour market developments in the informal economy. They include the share of working-age population that is employed, the proportion of working poor, and the proportion in unstable, insecure jobs.

International Labour Organisation has been a leading actor bringing issues in relation to informal employment into the international policy discussion over the last decades. Following a resolution from 2002 *concerning decent work and the informal economy* and reiterated in major policy documents in the last decade the main objective is **to supporting the transition to formality** by using a comprehensive and integrated strategy cutting across a range of policy areas. At the same time, the significant job creation and income-generation potential of the informal economy should not be destroyed. Efforts need to focus on addressing decent work deficits for workers and entrepreneurs in the informal economy with the objective to improve their productivity and working conditions, which will put them on a path towards the formal economy.

ILO produce and publish statistics on the informal economy on a regular basis. An updated version of the publication *Men and Women in the Informal Economy: a Statistical Picture* produced in collaboration with WIEGO and first published in 2002 will be released during the 2nd semester of 2012.

In 2009, **OECD-DAC** issued a policy statement *The role of employment and social protection – making economic growth more pro-poor* that states that “policies that recognise and improve conditions in the informal economy, where most poor women and men earn their livelihoods, are critical to poverty reduction”. It stresses that measures such as skills development, the promotion of entrepreneurship and improving working conditions must be designed for delivery and impact also in the informal economy.

Policy discussion on how to address the working poor in the informal economy

The main challenge is to support workers and operators in the informal economy to move up to the continuum towards formality through addressing and mitigating challenges and needs within a broad range of policy areas.

In order to do this, the wide diversity of the informal economy needs to be taken into account and special attention needs to be put on the most disadvantaged vulnerable groups, namely, women, young people, people living with HIV/AIDS, the disabled, indigenous people and other ethnic minority groups, and migrants. **The policy response needs to be based on a policy mix of actions targeted at the specific needs of different categories of informal workers.** That is, addressing the decent work deficits of specific categories of workers, such as street vendors, home workers, small-scale entrepreneurs et cetera.

Clearly, no single, overarching policy goal or prescription can address the concerns associated with all categories of informal enterprises or workers. What follows is a comprehensive policy framework with five broad goals to address informality:

Goal #1 – Create More Jobs, Preferably Formal Jobs

Clearly, more jobs need to be created – preferably decent or formal jobs – through labour-intensive growth. But there is on-going debate about how this can be done: to which extent should the government be involved in investing in jobs or should job creation be left to the markets? How could employment goals be integrated into economic policies and strategies?

Goal #2 - Register Informal Enterprises & Regulate Informal Jobs

Registering and taxing informal enterprises is the common narrow approach to formalizing the informal economy. However, often, the existing regulatory framework has been designed to cater for the needs of larger firms. The costs for the establishment and the operations of small business are often too high and the benefits of legal registration too low to make it attractive or even possible for many, or most informal operators to comply with difficult or prohibitive rules and regulations. Policy changes should be done by simplifying the bureaucratic procedures involved in registration and offering benefits and incentives in return for paying taxes. This also includes transparency and consistent application of regulations, as harassment, bribery and extortion practiced by public authorities are common problems faced by informal operators.

It is also important to design appropriate regulations that will discourage employers, both formal and informal, from hiring workers informally and encourage them to make employer contributions to health and pensions and extend other benefits to their workers.

Goal #3 - Extend Government Protection to the Informal Workforce

Two types of government protection are important for the working poor in the informal economy:

Social Protection – The lack of social protection is a key characteristic of the informal economy with millions of informal workers worldwide lacking access to formal mechanisms of social protection. Paradoxically, the workforce in the informal economy is the one most in need of social protection, not only because of the precariousness of their employment and the uncertainty of their income but also because of a greater likelihood of being exposed to occupational safety and health hazards. Social protection contributes to build human capital, better management of risks, promotion of investment and entrepreneurship and improve participation in labour markets. The ILO promotes the right to basic social protection for all within the Social Protection Floors initiatives that has received broad endorsement, including by the European Union. This includes basic health care benefits, income security for children, elderly and disabled, and targeted income support for poor workers.

Legal Protection – Legal protection also needs to be extended to the working poor in the informal economy. But this will require rethinking and reforming existing legal regimes in most countries. Most informal wage workers are not covered by existing *labour regulations* (which are premised on an explicit employer-employee relationship) and most informal enterprises are not covered by existing *commercial or business laws* (which are premised on a formal commercial contract). Further, many informal enterprises and activities are governed by *industry-specific regulations* or by *local government regulations*

Goal #4 – Increase Productivity of Informal Enterprises & Incomes of the Informal Workforce

Efforts to increase the productivity of informal enterprises and the incomes of the informal workforce, especially the working poor, are needed. Standard approaches include: targeted measures such as financial services, enterprise support, and training; and general measures of state support, such as infrastructure services. But changes in the wider institutional environment are also needed, including a favourable policy environment, fair terms of trade, appropriate legal frameworks, and protection against risk and uncertainty.

Of particular importance is to extend access **to education and training**, in particular for the development of vocational skills, to informal workers, and potential future informal workers. Main issues to be addressed include a strengthening of the link between the formal training system and the informal economy, the scaling up of pilot initiatives targeted at informal workers, development of training needs assessments taking into consideration the opportunities and the needs of informal workers and enterprises, and recognition of skills of informal workers.

Goal #5 – Strengthening the voice and empowerment of workers in the informal economy

This is a major concern as informal workers are excluded from or under-represented in social dialogue institutions and processes. Even if organisations of informal workers exist, they often are faced with problems of getting recognition. A major problem faced by informal economy organisations is their lack of defined interface with those with whom they need to dialogue. Without recognition by government authorities, informal organisations have no voice in public policy debates or access to the services and infrastructure they need to operate effectively and efficiently. This is particularly important at the local level to provide local interest groups of informal workers an avenue for voicing their concerns and priorities and take part in policy debates.

Objectives of the panel

This high-level panel of academics, policy-makers and practitioners will have the aim to take stock on the diversity in the informal economy and to further discuss needs and challenges of informal workers and which policies would be needed to create better opportunities for development for the workers in the informal economy.

Major questions to be discussed include:

- Why is informality increasing worldwide despite positive economic growth developments? How can growth processes become more inclusive, incorporating also the working poor in the informal economy?
- Who are the working poor in the informal economy and which are the main challenges that they are facing?
- How can policies be designed to respond to the needs and challenges of the working poor in the informal economy?
- What could be the role of the development policy to support empowerment of the working poor? How can their voice be strengthened?