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Chapter I: Decent work and the informal economy

Old and new forms of informality and informalization

It was exactly 30 years ago that the ILO first used the term “informal sector” to describe the activities of the working poor who were working very hard but who were not recognized, recorded, protected or regulated by the public authorities.¹ And it was more than a decade ago in 1991 that the 78th Session of the International Labour Conference discussed the “dilemma of the informal sector”.² The dilemma was posed as whether the ILO and its constituents should promote the informal sector as a provider of employment and incomes or seek to extend regulation and social protection to it and thereby possibly reduce its capacity to provide jobs and incomes for an ever-expanding labour force. The 1991 Report emphasized that “there can be no question of the ILO helping to ‘promote’ or ‘develop’ an informal sector as a convenient, low-cost way of creating employment unless there is at the same time an equal determination to eliminate progressively the worst aspects of exploitation and inhuman working conditions in the sector”.³ The Conference discussion stressed that the dilemma should be addressed by “attacking the underlying causes and not just the symptoms” through “a comprehensive and multifaceted strategy”.⁴

¹ ILO: *Employment, incomes and equality: A strategy for increasing productive employment in Kenya*.(Geneva, 1972).

² ILO: *The dilemma of the informal sector*, Report of the Director-General, International Labour Conference, 78th Session, Geneva, 1991.

³ *ibid.*, p. 58.

⁴ ILO: *Provisional Record*, International Labour Conference, 78th Session, Geneva, 1991, reply of the Director-General to the discussion of his Report, pp. 27/7-27/8.

Today, there is still a dilemma – but one that is much larger in magnitude and more complex. Contrary to earlier predictions, the informal economy has been growing rapidly in almost every corner of the globe, including industrialized countries – it can no longer be considered a temporary or residual phenomenon. *The bulk of new employment in recent years, particularly in developing and transition countries, has been in the informal economy.* Most people have been going into the informal economy because they cannot find jobs or are unable to start businesses in the formal economy. In Africa, for instance, informal work accounted for almost 80 per cent of non-agricultural employment, over 60 per cent of urban employment and over 90 per cent of new jobs over the past decade or so.⁵ But work in the informal economy cannot be termed “decent” compared to recognized, protected, secure, formal employment.

There has also been increasing *flexibilization and informalization of production and employment relationships* in the context of global competition and information and communications technology (ICT).⁶ More and more firms, instead of using a full-time, regular workforce based in a single, large registered factory or workplace, are decentralizing production and reorganizing work by forming more flexible and specialized production units, some of which remain unregistered and informal. A global variation of flexible specialization is the rapid growth in cross-border commodity and value chains in which the lead firm or large retailer is in an advanced industrialized country and the final producer is an own-account worker in a micro-enterprise or a home worker in a developing or transition country. As part of cost-cutting measures and efforts to enhance competitiveness, firms are increasingly operating with a small core of wage

⁵ J. Charmes, cited at Women in informal Employment: Globalizing and Organizing (WIEGO), Second Annual Meeting, 22-24 May 2000, Cambridge, Massachusetts.

⁶ See, for example, G. Standing: *Global labour flexibility: Seeking distributive justice* (Basingstoke, Macmillan Press; New York, St. Martin's Press, 1999).

employees with regular terms and conditions of employment and a growing periphery of “non-standard” or “atypical” workers in different types of workplaces scattered over different locations and sometimes different countries. These measures often include outsourcing or subcontracting arrangements and more flexible and informal employment relationships.

The non-standard wage employment that flexible specialization has given rise to includes workers in sweatshop production, home workers, industrial outworkers and casual, temporary and part-time workers. However, not all of these flexible or “atypical” workers are “informal”. For example, in advanced, industrialized countries, temporary and part-time workers and teleworkers operating from home are normally covered by labour and social security legislation (although the level of pay and benefits is lower than for regular full-time workers and the prospects for career advancement, training or skills enhancement are limited). However, casual workers, subcontractors and agency workers often do not have labour and social protection. In developing and transition countries, home-based work and that done in sweatshops and by outworkers or casual workers are typical rather than atypical, but often are not recognized or protected by labour law or covered by social protection.

Increasingly, “informal sector” has been found to be an inadequate, if not misleading term, to reflect these dynamic, heterogeneous and complex aspects of a phenomenon, which is not, in fact, a “sector” in the sense of a specific industry group or economic activity. The term “informal economy” has come to be widely used instead to encompass the expanding and increasingly diverse group of workers and enterprises in both rural and urban areas operating informally.⁷ They differ in terms of type of production unit and type of employment status, as shown in the graphical matrix presented in the annex. They

⁷ See the matrix and glossary of terms in the annex to this report.

include own-account workers in survival-type activities, such as street vendors, shoe shiners, garbage collectors and scrap- and rag-pickers; paid domestic workers employed by households; home workers and workers in sweatshops who are “disguised wage workers” in production chains; and the self-employed in micro-enterprises operating on their own or with contributing family workers or sometimes apprentices/employees. It is important to note the diversity of those working in the informal economy because the problems and needs are different, for example, for those engaged in survival activities, for home workers, whose employment relationship with an employer is not recognized or protected, and for the self-employed and employers, who face various barriers and constraints to setting up and operating formal enterprises.

These different groups have been termed “informal” because they share one important characteristic: they are not recognized or protected under the legal and regulatory frameworks. This is not, however, the only defining feature of informality. Informal workers and entrepreneurs are characterized by a high degree of vulnerability. They are not recognized under the law and therefore receive little or no legal or social protection and are unable to enforce contracts or have security of property rights. They are rarely able to organize for effective representation and have little or no voice to make their work recognized and protected. They are excluded from or have limited access to public infrastructure and benefits. They have to rely as best they can on informal, often exploitative institutional arrangements, whether for information, markets, credit, training or social security. They are highly dependent on the attitudes of the public authorities as well as the strategies of large formal enterprises and their employment is generally highly unstable and their incomes very low and irregular. They are placed at a competitive disadvantage because they do not have the type of influence which those in the formal economy are often able to exert – influence which sometimes violates an essential feature of a market economy, i.e. free and equal access to markets based on efficiency rather than influence. There is no simple relationship between working informally and being poor

and working formally and escaping poverty. But it is certainly true that a much higher percentage of people working in the informal relative to the formal economy are poor, and even more true that a larger share of women, relative to men working in the informal economy are poor.

Because informal activities are on the fringes of the law, public authorities sometimes confuse them with criminal activities and therefore subject them to harassment, including bribery and extortion, and repression. There are, of course, criminal activities in the informal economy, such as drug trafficking, people smuggling and money laundering (these are not dealt with in this report). There are also other illegal activities, including deliberate tax evasion. But the majority in the informal economy, although they are not registered or regulated, produce goods and services that are legal.

The term “informal” does not mean that there are no rules or norms regulating the activities of workers or enterprises. People engaged in informal activities have their own “political economy” – their own informal or group rules, arrangements, institutions and structures for mutual help and trust, providing loans, organizing training, transferring technology and skills, trading and market access, enforcing obligations, etc. What we do not know is what these informal rules or norms are based on and whether or how they observe the fundamental rights of workers.

Another useful way of describing the situation of informal workers and entrepreneurs is in terms of seven essential securities which are often denied them: labour market security (adequate employment opportunities through high levels of employment ensured by macroeconomic policies); employment security (protection against arbitrary dismissal, regulation on hiring and firing, employment stability compatible with economic dynamism); job security (a niche designated as an occupation or “career”, the opportunity to develop a sense of occupation through enhancing competences); work security (protection against accidents and illness at work, through safety and health

regulations, limits on working time and so on); skill reproduction security (widespread opportunities to gain and retain skills, through innovative means as well as apprenticeships and employment training); income security (provision of adequate incomes); and representation security (protection of collective voice in the labour market through independent trade unions and employers' organizations and social dialogue institutions).⁸

However, for the ILO, the most meaningful way of looking at the situation of those in the informal economy is in terms of decent work deficits. Poor-quality, unproductive and unremunerative jobs that are not recognized or protected by law, the absence of rights at work, inadequate social protection, and the lack of representation and voice are most pronounced in the informal economy, especially at the bottom end among women and young workers.

Some of the problems and constraints to decent work faced by workers and enterprises are not confined to the informal economy; they are common to parts of the formal economy. For example, the “working poor” (who earn less than enough to generate a family income of US\$1 per day per capita) can be found in both formal and informal jobs. There is no clear dichotomy or split between the “informal economy” and the “formal economy”. What happens in the informal economy will have an impact on workers and employers in the formal economy, and vice versa. Informal enterprises create unfair competition for formal enterprises by not paying taxes or social security contributions for workers or avoiding other business costs incurred in the formal economy. Measures to reduce excessive business transaction costs and institutional

⁸ The work of the InFocus Programme on Socio-Economic Security has been highlighting the importance of these various forms of security and showing that they are in most cases not accessible to those in the informal economy. See website at www.ilo.org/public/english/protection/ses/about

barriers would promote the legalization of informal enterprises, benefit workers in these enterprises and also reduce the unfair competition for formal businesses. Therefore, it is useful to adopt the view that *formal and informal enterprises and workers coexist along a continuum, with decent work deficits most serious at the bottom end*, but also existing in some formal jobs as well, and with increasingly decent conditions of work moving up the formal end.

Decent work and the informal economy

The burgeoning significance of the informal economy in both new and old places and guises would be reason enough to revisit “the dilemma of the informal sector”. But the *raison d’être* for this discussion at the International Labour Conference is the recognition that *all those who work have rights at work, irrespective of where they work* and the commitment of the ILO and its constituents to making decent work a reality for all workers and employers. *The goal is to promote decent work along the entire continuum from the informal to the formal end of the economy, and in development-oriented, poverty reduction-focused and gender-equitable ways.*

For the ILO and its constituents, decent work is a goal, not a standard, to be achieved progressively. A progressive approach would imply starting with the informal end, where most new job creation in recent years has been taking place, and promoting the transition upwards along the continuum toward the formal, decent and protected end. This would also be part and parcel of a decent work approach to poverty reduction. The

focus is, first and foremost, on the informal end because decent work deficits, as emphasized above, are most pronounced in the informal economy.⁹

Therefore, an integrated and comprehensive strategy to achieve decent work along the entire continuum would:

- *in the immediate term, give priority to reducing decent work deficits in the informal economy, importantly through ensuring that those who are currently in the informal economy are recognized in the law and have rights, legal and social protection and representation and voice;*

- *in the short and medium term, enable those currently in the informal economy to move upwards along the continuum and at the same time ensure that new jobseekers and potential entrepreneurs are able to enter the more formal, protected and decent parts of the continuum. Priority would be given to ensuring that workers and entrepreneurs have the capacity, flexibility and the conducive legal and policy frameworks to do so. Special attention would need to be given to those who are especially disadvantaged or discriminated against in the labour market, such as women, young jobseekers and migrant workers;*

- *in the longer term, create enough employment opportunities that are formal, protected and decent for all workers and employers. Already in 1991, the ILO had made it clear that the informal economy should not be developed or promoted as a low-cost*

⁹ In his Report to the 89th Session of the International Labour Conference, the Director-General emphasized that “it is in the informal economy and among the poor that the needs are greatest. If we claim universality, and that is exactly what my 1999 Report did – all those who work have rights at work’ – then we are obliged to tackle these issues”. ILO: *Reducing the decent work deficit: A global challenge*, Report of the Director-general, International Labour Conference, 89th Session, Geneva, 2001, p. 18.

way of creating employment. In the twenty-first century, decent work is certainly about much more than a job at any price or under any circumstances. Therefore, *new job creation should not be in the informal economy. The emphasis has to be on quality jobs in the upper rather than lower end of the continuum.*

To achieve decent work and reduce poverty both in the immediate and in the longer term, we need to *tackle the root causes- and not just the negative manifestations – of informality and informalization.* Measures to improve labour rights, enhance social protection, invest in knowledge and skills of workers or provide micro-entrepreneurs with access to credit and other support services are all critical for dealing with the manifestations of informality (which include poor labour standards, various forms of insecurity, stifled entrepreneurship) – but are not enough. The root causes include: the legal and institutional obstacles that make it difficult, if not impossible, for either enterprises or workers to become or to stay formal; the policies of national governments that often directly or indirectly constrain employment creation in the formal economy; the absence of or lack of access to strong and effective market and non-market institutions; demographic trends including large-scale rural-urban migration and the HIV/AIDS pandemic; direct and indirect discrimination against women and other disadvantaged groups; and the lack of representation and voice of those in the informal economy. Until and unless the root causes are dealt with effectively, there can be no sustainable move toward recognized, protected and decent work.

A process of legalization to bring informal workers and enterprises within the legal framework so that they are registered, recognized and protected is essential. Informal work can be treated as a legal problem in the sense that labour law does not apply or is not effectively enforced. On the one hand, legalization would involve reform of labour legislation and labour administration to give priority to the full application in the informal economy, as elsewhere, of the fundamental principles and rights at work. Laws must be enforced, the judicial system must be efficient and impartial and the ordinary worker

must know his or her rights and entitlements and have access to the legal system. On the other hand, legalization would involve simplifying the regulations and procedures for doing business, improving the transparent and consistent application of rules and procedures and reducing the transaction costs. The aim would be to enhance the protective, standards-related and beneficial aspects of law and to simplify the repressive or constraining aspects so that there would be greater compliance by all enterprises and workers .¹⁰

But because the root causes of the informal economy are multifaceted, legalization alone is not enough to promote decent work. Strong and effective judicial, political, economic and other market and non-market institutions and equitable access to these institutions are essential.¹¹ Informal workers and enterprises also need access to

¹⁰ In his reply to the discussion of his Report in 1991, the Director-General noted that “first of all, nobody, I believe, doubts that priority should be given to the full application, in the informal sector as elsewhere, of standards concerning fundamental human rights and those that protect them against inadmissible exploitation. ... Secondly, it is indisputable that simple laws and rules, and the flexible and efficient administration of these laws and rules are the prerequisites for the gradual legalization of the informal sector. ...Thirdly, we must be careful in our efforts to streamline not to destroy what is essential. With regard to labour legislation, each country has drawn up its own standards and legal provisions, often through the impetus of the ILO itself. Even if the precarious situation of the informal sector makes the immediate application of some of these standards impossible, and even if certain aspects of this legislation would gain from being simplified, there can be no question of going back on these social gains simply in order to allow the informal sector to become legalized”. ILO: *Provisional Record*, International Labour Conference, 78th Session, Geneva, 1991, reply of the Director-General to the discussion of his Report, p. 27/7.

¹¹ For example, countries are more likely to be competitive and to develop if there is an open flow of information to people, adequate protection of property rights, especially of the poor, enforcement of contracts and low cost of resolving disputes and access to the judicial system by

resources, information, markets, technology, public infrastructure and social services; they need a “level playing field” (similar rights, facilities and access) vis-à-vis those in the formal economy. Those who are particularly disadvantaged or discriminated against may need special measures. For the poor without property rights, measures to ensure that the legal system records property and titles assets of the poor in standardized, simple and cost-effective ways would enable them to transform their assets into productive capital and investments. Most importantly, those in the informal economy need representation and voice as a fundamental right and an enabling right to enhance their access to a range of other rights at work.

It is also important to promote good governance and to reduce the costs to governments of informality and informalization. Often, informal workers and entrepreneurs are subject to harassment, bribery and extortion practised by corrupt officials and face prohibitive costs and complexity of bureaucratic procedures for setting up and operating enterprises. On the other hand and, importantly, those in the informal economy do not pay direct taxes or social security contributions. Yet governments are expected to provide some access for informal operators to all the potential services of a responsible State, ranging from basic infrastructure to internal, external and social security – which have to be financed largely from the formal economy tax base. At the same time, to improve rights and protection in the informal economy, governments need to invest heavily in the structures of good governance to ensure enforcement of contracts, protect property rights, guarantee personal safety and social stability, reduce environmental and public health risks and so on. For a country as a whole, informality stifles the more efficient use of resources and improvements in productivity. As a result,

people in general. See World Bank: *World Development Report 2002; Building institutions for markets*: (Washington, DC, World Bank, 2002).

the economy functions below its potential, with negative impacts on rates of economic growth.¹²

Aims and outline of the report

To provide a basis for a general discussion, the report sets out to:

- describe what and who is in the informal economy and explain why the informal economy has been growing;
- highlight the decent work deficits in the informal economy; and
- suggest the key elements of a comprehensive and integrated strategy to address both the underlying causes and the symptoms of informality and informalization and, thereby, to promote decent work along the entire continuum from the formal to informal end of the economy.

Since, even after all this time, the policy debate is still hampered by differences in understanding and usage of a variety of terms, a graphical matrix and glossary of terms are presented in the annex of this report. The matrix deals with both enterprise relationships and employment relationships in the informal economy and shows how they are related. The glossary shows that concepts and definitions can be based on *statistical* criteria, on *legal* criteria or on the nature of the *employment relationship*. The annex also provides a country-specific example of the use of the matrix for describing who is in the informal economy.

¹² See, for example, N. Loyaza: *The economics of the informal sector: simple model and some empirical evidence from Latin America*, World Bank Policy Research Working Paper Series (Washington, DC World Bank, 1997), p. 29.

Chapter II starts with an attempt to map the diversity, size and importance of the informal economy. This attempt underscores the serious need for more and better statistics and policy-relevant research. The very sketchy “maps” produced do, however, illustrate the tremendous heterogeneity in the informal economy and indicate that there are important forces at work expanding the informal economy and changing many of its characteristics. The second part of the chapter therefore examines these underlying forces.

Each of the next four chapters deals with one prong of the comprehensive and integrated strategy necessary to tackle the major root causes of informality and informalization, reduce decent work deficits in the informal economy and promote the transition of workers and enterprises out of the informal economy upwards along the continuum into formal, protected and decent work. The sequencing of the chapters reflects the immediate, short, medium and long-term aims of the strategy set out in the previous section.

Chapter III argues that rights at work are as meaningful in the informal as in the formal economy. It draws attention to the relevance of the ILO Declaration on Fundamental Principles and Rights at Work and other international instruments to workers in the informal economy. Since ILO standards do provide a solid international basis for extending rights to the informal economy, the rights deficits are traced, instead, to how these standards are actually expressed and enforced through national law and practice on a gradual and selective basis and how those in the informal economy are empowered to claim their rights. The chapter reviews: how existing labour legislation can practically and effectively be applied to the informal economy; whether the legal scope of rights should be amended or extended to address the increasing informalization of the labour force; and what can be done to enhance legal literacy so that informal workers understand and are better able to claim their rights. An important reason why informal workers may not enjoy the rights accorded under their national labour legislation is that the enterprises they work in are not legally registered and regulated. Therefore, the

chapter also focuses on the business regulatory framework, the bureaucratic procedures and the related transaction costs that make it difficult, if not impossible, for micro- and small enterprises to become and to stay formal.

Chapter IV shows that the social protection deficit is especially critical for those in the informal economy, not only because of their job and income insecurity, but also because of the greater likelihood of their being exposed to serious occupational safety and health hazards. The HIV/AIDS pandemic has special implications for work and workers in the informal economy. Adequate social protection is key to decent work in the informal economy, particularly for the most vulnerable and unprotected groups of workers, especially women in hazardous jobs. The chapter argues that social protection for the informal workforce is not only a basic right but also a sound economic strategy – a more secure and healthier workforce increases productivity and makes formalization easier. The essential questions are: what forms and level of basic social protection should all workers enjoy; how can social protection for informal workers be organized; and who should be responsible for the cost of such protection. The chapter also discusses the promotion of occupational safety and health as an important complement, particularly on the prevention front, to social protection.

Chapter V emphasizes that freedom of association and the right to organize constitute a fundamental principle and a key enabling right. It is often because people in the informal economy are not organized and have no voice that they are not able to pursue their employment interests through bargaining collectively or lobbying with politicians and bureaucrats on concerns relating to legislation, access to infrastructure, property rights, social security, environmental concerns and so on. The chapter highlights the role of national and local governments and the framework of law and governance protecting and enforcing this right. It also examines how the social partners are building up social dialogue institutions and processes in the informal economy.

Chapter VI addresses the pivotal medium- and longer term issue of how to move workers and entrepreneurs currently in the informal economy upwards along the continuum into formal decent jobs and how to ensure that new jobs created are in the formal and not the informal economy. To achieve these aims, the chapter emphasizes measures, on the one hand, to invest in the workforce (with special attention to the most vulnerable and disadvantaged) so as to promote their employability, productivity and flexibility to move upwards along the continuum. On the other hand, it also draws attention to measures to make it easier for micro- and small enterprises to start up and grow in the formal economy and to adopt high-road strategies that enhance productivity and provide quality jobs for workers. A conducive policy and legal framework, appropriate and supportive institutional structures and good governance are all essential if these measures are to be effective and if jobs created are to be decent and formal, rather than being in the informal economy.

Chapter VII suggests points for discussion at the Conference.

Chapter II: Who is in the informal economy and why is it growing?

Who is in the informal economy?

Mapping the informal economy so as to comprehend its size, composition and evolution is an extremely difficult and inevitably imprecise exercise. International comparability is not possible. This is because different definitions have been used, statistical information is collected on an ad hoc rather than a regular basis and reliability of data is inconsistent. Unfortunately, currently available national data do not consistently follow the definitions and do not allow desegregation according to the matrix presented in the annex. So far, the ILO has compiled statistics only on employment in informal sector enterprises (cells 3 to 8 of the matrix), which was the concept used by the ILO and for which an internationally agreed definition adopted by the Fifteenth International Conference of Labour Statisticians (ICLS) exists. Importantly, the data available are on enterprises and workforce but not on the share of the informal economy in gross domestic product (GDP).¹

¹ However some recent efforts have been made in this direction. See J. Charmes: "Progress in measurement of the informal sector: Employment and share of GDP", in *Handbook of National Accounting. Household accounting: Experiences in the use of concepts and their compilation*, Vol. 1: Household Sector Accounts (New York, United Nations, 2000), pp. 153-168. It should be noted that the ILO does not collect data on the contribution of the informal sector to GDP because, by inter-agency agreement, the United Nations Statistics Division is responsible for collection of national accounts statistics.

The latest ILO published data ² on informal sector enterprises are based on information from 54 countries, most of which still adhere to their own national definitions of the informal sector which are not entirely in line with the international statistical definition adopted by the 15th ICLS and the 1993 System of National Accounts (1993 SNA). Of these 54 countries, 21 use the criterion of non-registration of the enterprise, either alone or in combination with other criteria such as small size or type of workplace location, while 33 countries use small size as a criterion, either alone or in combination with non-registration or workplace location. Under the 1993 definition, only one category of informal wage workers are counted, namely employees of informal sector enterprises, and individual countries can decide what size of unregistered units to include in the informal sector and whether the agricultural sector and domestic workers should be covered.³ Statistics on the size and contribution of several important subsectors of the informal economy, including home-based workers, street vendors and domestic workers, are especially weak. These are the subsectors in which women tend to be concentrated.

The criterion of non-registration of the employees of the enterprise is used by some transition countries of Central and Eastern Europe to define unregistered employment.⁴

² ILO: *Key Indicators of the Labour Market, 2001-2002* (Geneva, 2002).

³ Efforts have been made to improve data collection on the informal economy. For example in 1977 the Statistical Commission of the United Nations established an International Expert Group on Informal Sector Statistics called the Delhi Group. The Delhi Group seeks to improve concepts, measures and methods for collecting data on the size and contribution of the informal sector. The ILO Bureau of Statistics has also been providing technical advice and assistance to countries to improve their data collection. The matrix presented in the Annex to this report reflects part of this effort.

⁴ Country studies prepared for this report on Egypt and Brazil also use registration of employees as an indicator of informality, since it is the basis for the application of labour legislation, including the

About half the countries using labour force or household surveys include paid domestic workers, while the rest do not. Home workers are almost invariably excluded. This affects the comparability of data on women informal workers in particular. Often, only the main job is included, whereas large numbers of workers, particularly in developing and transition countries, may engage in more than one informal job, or in both formal and informal employment. Many countries, especially those in Latin America and Africa, have statistical information for urban areas only, while in some countries the scope is restricted to major metropolitan areas or capital cities. Given the possibly large numbers of workers in the “non-observed economy”, the available statistics are likely to underestimate the actual numbers of workers and enterprises in the informal economy.

Given the statistical and definitional limitations,⁵ three main approaches have been taken in this chapter. First, it presents the main patterns and trends based on data collected

provision of job security and social protection. See A. El Madhi: *Report on decent work in the informal sector – Case of Egypt, background paper prepared for this report, 2001*; M.C. Neri: *Decent work and the informal sector in Brazil, background paper prepared for this report, Oct. 2001*.

⁵ The need for more and better statistics on the informal economy has prompted a practical suggestion from the ILO Bureau of Statistics: “With the aim of compiling and disseminating a wider range of available national statistics on the informal economy than at present, the Office should enlarge, and regularly update, the database that it has already established. The database should be made accessible via the Internet in a user-friendly form to reach as large an audience as possible. However, improvement of a database storing existing national data will not be sufficient to have more and better statistics on the informal economy. It will be accompanied by a programme of technical cooperation aimed at assisting countries which currently do not have statistics on the informal economy to develop such statistics, and assisting countries which already have statistics to improve the quality of these statistics, including their international comparability. To support such a

by the ILO. Second, it highlights some principal features, mainly from a number of region- and country-specific studies that were commissioned as background information for the Infocus programme on Child Labour for this report.⁶ It also points to the presence of child labour in the informal economy, using ILO/IPEC sources. The purpose of this section is purely illustrative: to show the diversity of informal activities as much as to show how incomplete our current information base is. Third, readers are referred to two statistical reports that accompany this main report; the first is a compendium of ILO official statistics on employment in the informal economy, while the second, which is based on a combination of different official data sources, maps the informal economy, particularly in terms of the gender dimension. The last part of the chapter focuses on the underlying factors that have contributed to the growth and changing nature of the informal economy and highlights the main policy implications.

Employment in informal enterprises

ILO data on *informal sector employment as a percentage of total employment* refer only to 42 out of the 54 countries for which information is available. Out of these 42 countries, 17 had more than half of their total employment in the informal sector and only four countries had less than 10 per cent of total employment in the informal sector. Among the regions covered, sub-Saharan African countries tend to have the highest proportion of informal to total employment, and the transition countries of Central and Eastern Europe and the Commonwealth of Independent States (CIS) have the lowest shares (see figure 2.1).

programme, a manual containing methodological guidelines for the collection of data on the informal economy could be prepared, based on international standards and current best practices.”

⁶ These reports are available on the ILO informal economy website.

Decent work and the informal economy

Table 2.1. Persons employed in the informal sector¹ (selected countries)

Country	Year	Number (000's)			Women per 100 men	% of total employment		
		Total	Men	Women		Total	Men	Women
Latin America								
Mexico	1999	9,141.6	5,693.8	3,447.7	61	31.9	32.7	30.7
Barbados ²	1998	6.9	4.2	2.7	63	5.9	6.8	4.9
Peru ^{2,3}	1999	3,606.1	1,897.8	1,708.3	90	53.8	48.9	60.6
Brazil ⁴	1997	18,113.3	8,652.6	9,460.6	109	34.6	28.3	43.4
Africa								
Mali ^{3,4}	1996	370.6	214.3	156.3	73	71.0	n.a.	n.a.
Benin ³	1999	275.5	174.8	100.7	58	46.0	50.0	41.4
Botswana ⁴	1996	60.5	21.1	39.4	187	19.3	12.3	27.6
South Africa ⁴	1999	2,705.0	1,162.0	1,544.0	133	26.1	19.3	35.5
Ethiopia ^{2,3}	1999	1,149.5	485.6	663.9	137	50.6	38.9	64.8
Kenya	1999	1,881.0	1,090.4	790.6	73	36.4	43.9	29.5
United rep. Of Tanzania ^{2,5}	1995	345.9	221.0	124.9	57	67.0	59.7	85.3
Asia								
India	2000	79,710.0	63,580.0	16,130.0	25	55.7	55.4	57.0
Nepal ⁴	1999	1,657.0	1,052.0	605.0	58	73.3	67.4	86.5
Philippines ^{2,6}	1995	539.3	282.8	256.5	91	17.3	15.8	19.4
Turkey	2000	1,0319.5	1,183.0	136.5	12	9.9	10.6	6.2
Central and Eastern Europe								
FYR Macedonia	1999	152.0	96.0	56.0	58	27.8	n.a.	n.a.
Slovakia	1999	450.0	343.5	106.5	31	23.0	30.5	12.9
Poland ^{2,4}	1998	1,166.0	817.0	349.0	43	7.5	9.5	5.0
Lithuania ^{2,3}	1997	93.0	68.3	24.7	36	8.5	11.9	4.8
Ukraine ^{2,3,4}	1997	755.9	345.4	420.5	122	4.9	4.5	5.3
Georgia ⁷	1999	103.3	73.6	28.6	39	6.9	10.0	3.8

Notes: 1. In the same geographic areas, branches of economic activity, age limits, etc.

2. Agriculture included.

3. Urban areas.

4. Paid domestic workers included.

5. Dar-es-Salaam.

6. National Capital Region.

7. Agriculture included for urban areas.

n.a.: Not available.

Source: ILO Bureau of Statistics, on the basis of official national data.

The figures presented in table 2.1 refer to a selection of countries from different regions which use national statistical definitions of the informal sector that are in line with the current international definition and are thus more comparable. The table shows that there is considerable variation among countries as regards informal employment as a percentage of total employment, from 5 to over 70 per cent. Among the regions, countries of West and East Africa, South Asia and the Andean region tend to have the highest proportions of informal to total employment.

In about half of the countries included in table 2.1, the share of informal in total employment is higher for women than for men. In some countries (Botswana, Brazil, South Africa, Ethiopia and Ukraine), there are more women than men in informal employment, even in absolute numbers. However, the gender bias in the informal economy is probably underestimated. Women are more likely than men to be in those informal activities that are under-counted, such as production for own consumption, paid domestic activities in private households and home work. Women are also more likely than men to be in small-scale economic units where their economic contributions are invisible and therefore not counted. They are often engaged in agricultural activities, which many countries exclude from the scope of their employment surveys for practical reasons. Data from other sources show, for example, that in India and Indonesia, the informal sector accounts for nine out of ten women working outside agriculture, while in Benin, Chad and Mali, more than 95 per cent of the female non-agricultural labour force is in the informal sector.

ILO time-series data are available for only 17 countries that permit the evolution of informal employment over time to be monitored. They show that in virtually all cases, the share of informal in total employment in the corresponding branches of economic activity has increased during the 1990s (figure 2.2 gives some examples on trends in urban informal employment). Where there has been an increase in informal employment, it has

grown for both men and women. In some countries, however, particularly in Latin America, women's participation in informal employment rose much more rapidly than men's.

Status in employment

ILO data *on status in employment*,⁷ available for some 112 countries, provide a broader picture of one axis of the matrix shown in the Annex to the report. A high proportion of own-account workers could be taken as an indication of low job growth in the formal economy and a high rate of job creation in the informal economy. And where a large share of workers are unpaid family workers, there is likely to be stagnant development, little job growth, widespread poverty and often a large rural economy. Using this indicator reveals important differences between developed and developing countries. Within developed countries, the proportion of wage and salaried workers is as high as 80 or even 90 per cent of the total employed, the self-employed typically account for between 10 and 15 per cent and unpaid family workers as low as 0 to 4 per cent. Transition economies have similarly high proportions of wage and salaried workers, although since 1995 there has been a declining trend. Self-employment has been increasing, sometimes as a secondary activity. Among some of the more developed Asian economies, the

⁷ ILO labour force data distinguish three main categories of the total employed: wage and salaried workers or employees (matrix cells 2, 6, 7 and 10 in the matrix shown in the annex); self-employed (sometimes further disaggregated into employers and own-account workers) (matrix cells 3, 4 and 9) and contributing family workers (matrix cells 1 and 5). Of course, since it is possible to be a wage worker in an informal enterprise and an own-account worker in a formal enterprise, ILO data on status in employment do not allow precise measurement of employment relationships in the informal economy.

proportions of self-employment and unpaid family workers are very low. But in poor countries such as Bangladesh and Pakistan these categories account for around 70 per cent of total employment. In Latin American countries, where the major share of new jobs has been in the informal economy, self-employment accounts for 25 to 40 per cent of total employment. Men are more likely than women to be self-employed in all regions of the world, but women clearly outrank men as contributing family workers.

Some regional and country “maps”

The descriptions below are taken mainly from background papers commissioned for this report on regional and country-level patterns and changes in the informal economy. They are at best sketchy and illustrative; what they do underscore is the need for much more detailed statistical information and also more in-depth policy-relevant studies, for example on the reasons why workers or entrepreneurs enter or stay in the informal economy.

Africa

Over the past decade or so, informal work is estimated to have accounted for almost 80 per cent of non-agricultural employment, over 60 per cent of urban employment and over 90 per cent of new jobs in Africa.⁸ In sub-Saharan Africa, the informal sector accounts for three-quarters of non-agricultural employment, having increased dramatically over the last decade from about two-thirds. For women in sub-Saharan Africa, the informal

⁸ J. Charmes, cited at Women in Informal Employment: Globalizing and Organizing (WIEGO) Second Annual Meeting, 22-24 May 2000, Cambridge, Massachusetts.

sector represents 92 per cent of the total job opportunities outside of agriculture (against 71 per cent for men); and almost 95 per cent of these jobs are performed as self-employed or own-account workers and only 5 per cent as paid employees.

In sub-Saharan Africa, in particular, street vending predominates in much of the informal economy, with women traders forming the majority in a number of countries. In Angola, Nigeria, South Africa, Uganda, it is estimated that over half of informal workers are engaged in the retail trade. Considering the large size of the informal economy, formal retailing establishments, distributors and manufacturers often use informal workers in order to expand their markets to low-income groups and those in rural areas who can be reached most easily by itinerant traders and street vendors.

All of the major sources of livelihood for women in informal activities, such as food processing, handicrafts, vending and hawking, have been affected by trade liberalization. Women basket makers, for example, have been displaced by cheap imports from Asia. In South Africa, vendors and hawkers have been replaced by foreign traders from other parts of the continent. Faced with competition, many women vendors end up working for these (predominantly male) newcomers with resulting cuts in income and independence. And even vendors are becoming linked to multinational corporation chains, with companies such as Unilever selling their soap through them and with Coca-Cola renting out kiosks.⁹

Cross-border trading is also very significant in the informal economy. South Africa, for example, attracts a large number of temporary immigrants who purchase goods to take back to their own or other countries for sale. It is estimated that nearly one-fifth of the women in the informal economy in Zimbabwe are involved in cross-border activities, primarily with South Africa and Zambia. Cross-border trade is also common in West

⁹ M. Carr and M.A. Chen: *Globalization and the informal economy: How Global trade and investment impact on the working poor*, background paper prepared for this report, May 2001.

Africa where some traders travel as far as Dubai and Hong Kong, China, to purchase higher-quality goods that are cheap, though most informal trade is within the region itself.

The implications of the HIV/AIDS pandemic for the informal economy are serious. All 20 countries with the highest HIV prevalence are in sub-Saharan Africa and life expectancy is said to have regressed to 47 years, reversing gains made over the last 30 years. More and more elderly persons and children – the two least equipped and most vulnerable groups – are being forced to find work for their survival as workers in their most productive years fall ill and the main breadwinners die. The impact of the HIV/AIDS pandemic is discussed further in Chapter IV.

In the United Republic of Tanzania the Labour Force Survey 1990/91 revealed some of the characteristics of those working in the informal sector. They tend to be poorly educated: 46 per cent had no education or had not completed primary schooling and less than 4 per cent had secondary or higher education. In terms of age structure, 75 per cent were aged between 20 and 49 years. The informal economy in this country is characterized by a high degree of self-employment (74 per cent of total informal employment); 14 per cent were unpaid family workers and only 12 per cent were paid employees. Informal enterprises are small-scale enterprises: 80 per cent of all informal enterprises were one-person businesses, while those with more than one person were mainly in transportation and construction. Most are without a formal establishment: more than a third of the informal activities took place within or beside the home of the business operator, 20 per cent were without fixed location, 10 per cent were at a market and 10 per cent were in an open space or on the street. Women working in the informal economy outside agriculture were heavily concentrated in activities that are an extension of their domestic chores, such as the sale of homemade beer, food stalls and other forms of cooked food sale; and the manufacturing of mats and fibre products, clay products, processed food products and cloth products. Men, on the other hand, had more diversified informal activities in trading, manufacturing, construction, community and personal services, transport and mining and

quarrying. Men's activities were more likely to require investment capital. For both male and female informal workers, their main customers were individuals (94 per cent), followed by small enterprises.

The Dar es Salaam Informal Sector Survey 1995 carried out by the ILO found that 41 per cent of the operators worked in the informal economy because they could not find other work or had been retrenched, including from the public sector, 30 per cent because their family needed additional income, 10 per cent because of the freedom to determine their hours or place of work and only 9 per cent because of the good income opportunities.

Latin America

In Latin America, ILO data show that urban informal employment as a percentage of total urban employment grew from 52 per cent in 1990 to 58 per cent in 1997.¹⁰ The increase in the informal economy was attributed, on the one hand, to growth of the labour force due to demographic factors, a rise in the activity rate, particularly of women, and substantial rural-to-urban migration, and, on the other hand, to contraction of employment in the formal economy. In terms of the composition of the informal economy, an increase was observed in employment in micro and small enterprises, followed by growth in self-employment and a smaller increase in domestic work. The significance of definition can be seen from the fact that when a new definition was introduced in several Latin American countries in 1998, reducing the size threshold from ten to five workers, there was an immediate decrease in the estimated size of the informal economy by 10 percentage points, i.e. from 58 to 48 per cent of total urban employment.

¹⁰ Verdera: *Informality in Latin America: Recent trends, policies and prospects*, Paper prepared for ILO Technical Workshop on Old and New Facets of Informality, Geneva, 2 Mar. 2001.

Most of the early internal migration within Latin American countries was rural-urban migration, resulting in rapid and substantial urbanization. Most were economic migrants in search of not only better earnings but also better access to health care and educational facilities. These internal migrants find work mainly in the urban informal economy, as own-account workers or in domestic service. There has also been international migration with thousands moving from the poorer and conflict-ridden countries to the more developed ones within Latin America. For example, most illegal immigrants in Argentina from Bolivia, Paraguay and Peru work in informal or temporary jobs, for example, as domestic servants or garment workers and in construction. Some of the migration is seasonal, as in the case of many Nicaraguans who migrate to Costa Rica to work in the coffee and sugar cane harvests.

The literature on Brazilian labour markets often groups together self-employed units and “illegal” (i.e. unregistered) employees for purposes of defining and measuring the informal sector.¹¹ In Brazil, formal employment implies that the worker is an employee with a signed employment booklet (or card). Informal employment implies that the worker does not have a card, meaning that the employment relationship is not registered with the Ministry of Labour and is therefore not legally covered by the Labour Code. This leads to precarious employment and lack of social protection. According to the 1999 annual national household survey (PNAD), the rate of social security evasion in the private sector amounted to 62 per cent of the 64 million persons employed in this sector, up from 53 per cent in 1985. The rate of informality is higher for females (66 per cent) than for males (59 per cent). The rate of growth in informality during the period 1985-99 was also higher for females. The highest levels of social security evasion are found in agriculture (90 per cent) and construction (72 per cent). The survey also covered child labour in the 10-14 year age group. In 1998, 15 per cent of all 10 to 14-year-olds in Brazil were working: 36 per cent of

¹¹ M. C. Neri, op. cit., *Pasquisa Nacional de Amostras a Domicilio (PNAD)*.

the age group in rural areas and 8 per cent in urban areas. More than twice as many boys as girls were found working. On a positive note, there has been a declining trend in child labour in the metropolitan areas over the last two decades, dropping from approximately 12 per cent of all 10-14-year-olds in 1982 to below 4 per cent in 1999.

Central and Eastern European and CIS countries

In the transition countries of Central and Eastern Europe and the CIS, the informal economy has many forms. These range from subsistence activities (subsistence farming on small private plots of land, petty trade, etc.), undeclared/unregistered labour, unregulated or unlicensed enterprises, shuttle trade with neighbouring countries or regions, to tax evasion activities (hiring of own-account workers instead of issuing regular labour contracts, double accounting done by enterprises, payment of parts of wages “under the table”, etc.) to illegal and criminal activities.

Prior to the transition period, the private non-agricultural sector was negligible or even forbidden in most countries of the Soviet bloc. Nevertheless, the informal economy did exist in the form of undeclared labour, for example, in the construction and maintenance of family houses or flats, the provision of household and personal services, and production and sale of agricultural products, in addition to illegal activities such as illegal exchange of foreign currency, sale of drugs, etc. With the transition to a market economy, the informal economy has expanded rapidly, building at least in part on those segments that already existed. The root causes can be traced to the economic and social transformations, including the closure of many state-owned enterprises and privatization of others, retrenchment and the collapse of social insurance systems, and shrinking of real incomes of large parts of the population. Additional reasons include gaps in the legal system – legal reforms have typically fallen behind the new economic reality – as well as weak institutions and enforcement mechanisms.

A recent study carried out in Romania¹² found that 46 per cent of the unemployed persons surveyed engaged in some form of informal activity, of whom 28 per cent had more than two occupations in the “unofficial sector”. Only a very small percentage of these persons were self-employed for reasons of tax evasion; they were predominantly working without a legal contract on a less-than-permanent basis. Most such jobs were occasional and poorly paid, practised by individuals rather than businesses. In Bucharest, where there were more job opportunities and reasonable unemployment benefits were paid regularly, there was less incentive to engage in informal activities. In rural areas where, despite the recent land distribution, welfare benefits were low and unemployment high, the motivation to engage in informal activities was high for reasons of survival. In addition, ownership of land above a certain size means that the person is considered as economically active and cannot apply for unemployment benefits.

In *Poland*, however, a special labour force survey on the “hidden economy” (unregistered labour) conducted in 1998 found that only 5 per cent of the population aged 15 years and older were active in the hidden economy. Unregistered activity was more common among men than women. Compared to a similar survey carried out in 1995, when the share of persons engaged in informal activities was 8 per cent of the workforce, there has been a fall in unregistered labour. This decline is mainly attributed to a general improvement in the labour market during this period and to the opening up of more job opportunities in the formal economy. There was also an improvement in labour and other legislation, and in the institutional mechanisms for enforcement.

¹² A. Pippidi; S. Ionita and D. Mandruta: *In the shadows Informal economy and the survival strategies of the unemployed in the Romanian transition*. Working Papers in Public Policy No.18, (Romania; Romanian Centre for Public Policy, 2000).

In the *Russian Federation*, estimates of persons involved in the informal economy vary enormously. According to one estimate, up to 5 per cent of the total employed work informally as their main activity, while another 10 per cent regularly perform second jobs, both formal and informal and around one-third do so occasionally.¹³ The All-Russia Centre for Public Opinion Research (VTsIOM) conducted a special survey that found 11.6 per cent of the employed population engaged in informal employment as their main activity.¹⁴ Other Russian estimates of secondary, usually casual, unregistered employment, range from 35 to 90 per cent of the employed population. In general, it can be said that unregistered labour is much higher in the countries of the Commonwealth of Independent States (CIS) than in Central European countries, and there is little evidence of its decline.

Asia

In Asia, the share of informal workers ranged from 45 to 85 per cent of non-agricultural employment and from 40 to 60 per cent of urban employment.¹⁵ In parts of *East Asia*, namely Japan, the Republic of Korea, Singapore, Hong Kong, China, the informal economy declined as manufacturing and industry expanded and created jobs in the formal economy. Increasing emphasis on education and training enabled the labour force to keep up with the growing demand for more skilled workers. As this demand

¹³ S. Clarke: *making ends meet in a non-monetary market economy*. Centre for Comparative labour Studies, University of Warwick, Nov. 1998).

¹⁴ Reference to this survey is made in the Employment Programme 1998-2000 of the Ministry of Labour and Social Development of the Russian Federation.

¹⁵ J. Charms, cited at WIEGO Second Annual Meeting, 22-24 May 2000, Cambridge, Massachusetts.

increased, social protection was expanded, wages rose and working conditions improved. One of the consequences was the need to identify cheaper sources of labour for the more repetitive and labour-intensive manufacturing industries such as ready-made apparel, toys and electronics. During the 1980s and 1990s, a lot of this type of manufacturing shifted, first to South East Asia and then also to South Asia, with much of the sourcing done by companies still based in Japan, the Republic of Korea, China and Hong Kong.

One estimate in Thailand based on labour force surveys found that the informal economy declined from 60 to 57 per cent of total employment in Bangkok between 1980 and 1994 when there was an economic boom, but by 1999 it had climbed back to 60 per cent as an after-effect of the economic recession that started in 1997.¹⁶ It is likely that similar fluctuations in the size of the informal economy took place in other affected South-East Asian countries as well. Changes in the composition of the informal sector have also been noted. During the economic boom period, there was an increase in the number of micro- and small enterprises, reflecting growing markets and demand for goods and services. In fact, a study in Yogyakarta, Indonesia, found that the informal economy grew faster during periods of economic prosperity than during economic recession, mainly owing to increased opportunities and the ability of informal enterprises to respond to new market opportunities without encountering the bureaucratic procedures and business practices that constrain firms in the formal economy in responding to market signals and increased demand.¹⁷ When an economy is in decline, however, there is an increase in “survivalist” economic activities, reflecting the cushioning role of the informal economy in

¹⁶ A.T.M. Nurul Amin: *The informal sector in Asia from the decent work perspective*, background paper prepared for this report, Oct. 2001.

¹⁷ A.T.M. Nural Amin: *The role of informal sector through the stages of development and cycles of economic growth: The Asia evidence*, paper presented at the ILO Technical Workshop on Old and New Facets of Informality, Geneva, 2 Mar. 2001, p. 19.

periods of economic crisis; such expansion entails marginalization of activity, and labour characterized by low productivity, low incomes and low standards of living.¹⁸

The case of *China* is particularly interesting because the informal economy was considered to be non-existent at the height of the command economy, when every worker was guaranteed a job by the State. But with the economic reforms of the 1990s, in particular the restructuring of state enterprises, which involved large-scale retrenchments, increasing pressure on the labour market and rising unemployment, growing rural labour surplus and massive rural-to-urban migration, the State has developed policies actively promoting the informal sector, defined as small-scale economically active units that are outside the category of legal entities. The sector consists of: (a) small or micro-enterprises, which are normally private enterprises; (b) household-based workshops involved in simple production and service activities; and (c) independent service providers. The workers in the informal sector are mainly urban laid-off employees and the unemployed, school drop-outs, surplus workers in enterprises that have cut back operations, retirees, rural migrant workers and persons working individually or with partners in non-agricultural production in rural areas. With informal jobs, many of these people are better off than they were before in terms of income. For example, according to a survey conducted by the All-China Federation of Trade Unions (ACFTU) of laid-off workers in ten cities and one county who found new jobs, about 65.7 per cent had higher incomes than before they were laid off. The statistics indicate that between 1996 and 1999, while employment in state-owned enterprises and collectives fell by 28 per cent, employment in urban private enterprises increased by 70 per cent and self-employment and those working for the self-employed increased by 41 per cent. These changes were particularly striking for female workers, whose employment in private and “self-employed” businesses increased by 71 per cent. According to estimates, some 70 million persons are now working in the informal sector.

¹⁸ Ibid, p.14.

Employment in the informal sector has grown most rapidly in Shanghai, where “informal employment assignment agencies/intermediaries” have burgeoned. In 1999, there were some 8,835 such agencies providing services such as household nursing and goods delivery. About 7,820 of them have survived and employ some 104,000 workers.¹⁹

A recent report,²⁰ based on information from surveys, secondary research, key informants, case studies and focus groups, provides some valuable insights into the informal economy in *Mongolia*. For example, more than a third of the informal operators interviewed identified low consumer purchasing power as a major problem. Over a third cited the lack of an enabling business environment and legal and regulatory obstacles, including corruption and lack of proper governance and transparency in the enforcement of regulations (see box 2.1). The most common complaint related to the lack of financial capital. More than 80 per cent relied on their own or family savings, 11 per cent borrowed from individuals and very few used pawnshop operators or bank loans. Other sources of start-up capital include the “suitcase trade” (bringing goods from other countries back for sale in Mongolia), revolving credit and overseas remittances. Several informal workers highlighted the importance of organizing to protect their interests and rights. Those in the informal economy also appear to have developed a number of strategies for dealing with risk and uncertainty, including using labour-intensive methods of production to cut costs; engaging in multiple activities (most workers, whether in urban or rural areas, have more than one job); selling a wide variety of products and frequently changing these to meet shifting market demand; efforts to make their products unique; ensuring that they have

¹⁹ Research Group of the Department of Training and Employment, Ministry of labour and Social Security, china: *A research report on skill training in the informal sector in China*, unpublished paper prepared for the ILO, 2001, (see also box 6.3 in Chapter VI of this report).

²⁰ E. Morris: *The informal sector in Mongolia: Profiles, needs, and strategies* (Bangkok, ILO East Asia Multidisciplinary Advisory Team, 2001).

business locations that attract the most customers (which sometimes requires using connections or paying bribes); combining seasonal jobs with other work; entering into networking arrangements.

Box 2.1. Taxes, fines and fees for the informal economy in Mongolia

- The police harass us home-made food vendors. We're only fighting to live and survive.
- I sell soap, detergents and shampoo in the market, but the Narantuul Market Administration works with a lot of bureaucracy. They hassle us by demanding hygiene certificates and record books. Whenever something happens, they rush to fine us and threaten to confiscate our goods and storage. They're very tough on us.
- I've opened an ice cream shop. The main difficulty we face is the bureaucratic hierarchy for licences and permits.
- My job is to sell fruit and vegetables on the street. Of course, I bribed the authority to get a good location.
- Together with my family, we sell girls' clothes, hair accessories and fashion jewellery purchased in Beijing. How much duty we pay in bringing goods from China depends solely on the customs officer of the day.
- I import spare car parts from Russia and the customs officer requires us to pay a bribe every time we cross the border.
- I do all types of shoe repair. Very often low-ranking policemen come and fine me without any reason. If I'm busy with other customers they threaten to fine or hit me. Some of them don't even pay for the services provided.
- I have permission from the Market Administration to sell flour. I have to give a sample of the flour to the hygiene authority each time it arrives so I can get permission to sell it. I also pay a daily tax. I really don't understand what this tax is for.
- After I retired from the army I set up a pawnshop. The greatest difficulty in getting started was obtaining the licence. So far I haven't faced many problems. But the district authorities sometimes visit us to collect contributions. They don't give us any idea about where the money goes.
- Although I received a pension as a retired medical doctor, I couldn't make ends meet so I started a credit service. I went through lengthy and bureaucratic procedures to get the business started. This included obtaining a business registration and a company seal, which involved various payments. Though it's not clear what these payments are for, to me they're just for the sale of paper.

Source: Excerpts from case study interviews, ILO/UNDP, Support Services for Policy and Programme Development, (SPPD) on the informal sector in Mongolia, cited in E. Morris: *The informal sector in Mongolia: Profiles, needs, and strategies*, (Bangkok, ILO East Asia Multidisciplinary Advisory Team, 2001). p. 41.

Advanced industrialized countries

Even in the *advanced economies of Europe and North America*, processes are at work creating growth in different segments of the informal economy. Studies²¹ show that

²¹ M. Leonard: *Invisible work, invisible workers: The informal economy in Europe and the US* (Basingstoke Kingdom, Macmillan, 1998) and idem: "Coping strategies in developed and developing societies: The workings of the informal economy", in *Journal of International Development*, Vol. 12, No. 8, Nov. 2000.

burdensome state regulation often provides an incentive for tax evasion, welfare benefit abuse and other activities aimed at earning invisible income. The increasing emphasis on flexible specialization has also eased the way for the introduction of non-standard forms of employment, although, as explained in Chapter I, not all forms of flexible work are “informal”.

In 1998, the European Commission adopted a Communication on Undeclared Work,²² which is defined as “paid activities that are lawful as regards their nature but not declared to the public authorities”. It estimated that such activity accounts for between 7 and 16 per cent of the European Union’s GDP – an equivalent of 10 million to 28 million jobs or 7 to 19 per cent of total declared employment. The Commission identified the factors contributing to the existence of undeclared work as; high taxes and social security contributions; legislation poorly adapted to new types of work; the weight of administrative procedures for registering certain jobs or restrictions, on access to certain occupations; the presence of a large number of small and medium-sized enterprises in the industrial fabric; firms in declining sectors using undeclared labour as a means to survive in a competitive market; and cultural acceptance – participation in the informal economy is often perceived as an exchange of services that need not be declared.

Although it is difficult to assess the precise extent of the underground economy (especially since the definition differs between Member States), the Communication divides the Member States into the following main groups. In the first group, the level of underground activity is relatively low at around 5 per cent of GDP; this includes the Scandinavian countries, Ireland, Austria and the Netherlands. At the other extreme, Italy

²² European Commission: *Communication of the Commission on Undeclared Work* (Brussels), COM (98)-219. See also European Industrial relations Observatory On-line: “Commission targets undeclared work”, <http://www.eiro.eurofound.ie/1998/04/Feature/EU9804197F.html>.

and Greece have underground economies exceeding 20 per cent of GDP. Other Member States lie between these two extremes. In the Scandinavian countries, the Netherlands, Belgium and the United Kingdom, undeclared work tends to be performed by young, skilled males, whereas illegal immigrants are perceived to be a big problem in France, Germany and Austria (although the data suggest that they are not the dominant group in the underground economy). In Southern Europe, undeclared workers tend to be young people, women working home workers and illegal immigrants. See table 2.2 for a breakdown of the principal characteristics of undeclared work by Member States.

The underground economy in the European Union Member States

Country	(% of GDP)	Principal characteristics of undeclared work
Austria	4-7	1/10 of all persons of working age engaged in some form of undeclared work; 40% in construction and crafts, 16% in other trade and industrial enterprises, 16% in services, 13% in entertainment and 15% in other trades and services.
Belgium	2-21	Mainly carried out by young, semi- or low-skilled males. Sectors most affected are catering, retail trade, construction, textiles, transport, household services and agriculture.
Denmark	3-7	Carried out by skilled and unskilled workers, as well as by students, mostly in the private services sector (babysitting, cleaning) and in construction.
Finland	2-4	Mainly skilled young men working in construction, hotels/catering, retail trade and real estate services.
France	4-14	Nationals as well as legal and illegal immigrants involved; up to 60% in the service sector (mainly hotels and catering) and 27% in construction.
Germany	4-14	Mainly carried out by illegal immigrants and those already in declared employment. Main sectors are construction, hotels and catering, transport and road haulage, cleaning and cultural activities.
Greece	29-35	Mainly legal and illegal immigrants but also pensioners, students and home-based women workers. Main sectors are textiles, tourism, transport and household services.
Ireland	5-10	Students and those already engaged in official economy, mainly in construction and distribution.
Italy	20-26	Mainly carried out by youth, women and pensioners in agriculture, construction, private services and textiles.
Luxembourg	n.a.	Some undeclared work in the construction sector.
Netherlands	5-14	Skilled workers with two jobs in hotels and catering, taxi and courier services, metal industry and clothing industry.
Portugal	n.a.	Mainly illegal immigrants and women in textiles, retail trade and

		construction.
Spain	10-23	Young workers, women and skilled workers in agriculture and services, including private services.
Sweden	4-7	Mostly carried out by self-employed or skilled males in private services, catering and cleaning.
United Kingdom	7-13	Men and skilled workers in construction, street markets and hotels and catering.

Note: n.a.: not available.

Source: European Industrial Relations Observatory On-line: "Commission targets undeclared work".
<http://www.eiro.eurofound.ie/1998/04/Feature/EU9804197F.html>.

In the *United States*, forms of informal employment are increasingly observed in sectors such as electronics and garment manufacturing, where workers from Latin America and Asia, especially women, are often employed under sweatshop conditions.²³ Other forms of flexible work have also been growing and changing the nature of labour markets in the United States and Canada, as well as in other member states of the organization for Economic Co-operation and Development (OECD). These have new implications for employment relationships and appropriate coverage by labour and social protection legislation. For example, in addition to the growth of temporary and part-time employment, firms have been contracting out the employment function by turning to private employment agencies, leading to a significant increase in the number of agency workers (in Canada, the number of persons employed by temporary work agencies tripled in the 1980s). Teleworking has also been increasing rapidly (one study in 1994 estimated that there were 7 million teleworkers in the United States and forecast that this would increase to 25 million by 2000).²⁴ There is also a relatively small but significant group of "consultants" who "are typically operating outside the mainstream regulatory system, so

²³ United Nations: *1999 World Survey on the role of women in development: Globalization, gender and work* (New York, 1999), p. 23.

²⁴ See G. Standing: *Global labour flexibility: Seeking distributive justice* (Basingstoke, Macmillan; New York, St. Martin's Press, 1999), pp. 105-112.

that their employment is not impeded by it” – but they cannot be considered as, or compared to, other informal workers in that they are actually self-employed with niche skills, including management consulting, and they typically have individualized contracts tailored to the needs of the firm and their capacities.²⁵

As the most advanced industrialized nation in Asia, it would be expected that *Japan* would have only a small informal economy. However, there are some indications that it is more widespread than would be expected. The 1995 Population Census, for example, found that out of 64 million employed persons, 8 per cent were self-employed without any employees, 7 per cent were family workers and less than 1 per cent were persons engaged in home handicrafts. The vast majority engaged in family work (82 per cent of all family workers) and home handicrafts (94 per cent of all home workers) were women. Family workers were primarily concentrated in agriculture, the wholesale and retail trade and catering. Annual surveys, however, indicate that home work steadily declined from 1995 to 1999.

Child labour in the informal economy

Any effort to map the informal economy cannot ignore the presence of child labour. Most cases of child labour are to be found in the informal economy, often in the most hidden and hazardous forms of work, including forced labour and slavery. Children are the most vulnerable to all the negative aspects of informality. Of the estimated 211 million working children in the world between the ages of 5 and 14 years, at least 111 million are involved in hazardous and exploitative work.²⁶ Sub-Saharan Africa has the highest relative

²⁵ Ibid: p. 107.

²⁶ Figures provided by ILO/IPEC

number of working children: roughly 29 per cent of children in the 5 to 14 age group are working. The comparable figures for Asia and Latin America are 19 and 16 per cent respectively. In absolute figures, Asia has the largest numbers of working children. Child labour also exists in industrialized countries. In southern European countries, for example, child workers are found in seasonal activities, street trading, small workshops and home-based work. Child labour is also emerging in several Central and Eastern European and Central Asian transition economies.

The number of working children tends to increase in times of economic crisis. For example, poor Indonesian families attempted to adjust to the financial crisis of the second half of the 1990s by using more child labour. A much higher share of children and youth were engaged in agricultural work in 1998 than in the previous year, although their employment in non-agricultural work in construction, trade and manufacturing fell. But perhaps the most striking example of the informalization of work as a consequence of the economic crisis was the increase in work performed on the street, primarily at busy intersections in larger cities. It was estimated that the number of street children increased from between 10,000 and 15,000 prior to the crisis to around 50,000 by mid-1998, one third of whom were believed to be located in Jakarta and surrounding districts.²⁷

Among the 211 million child workers, about 102 million are girls, who tend to be more vulnerable than boys to start working at an earlier age, be paid less for the same work, work longer hours and in hidden and unregulated sectors where they are particularly vulnerable to exploitation and abuse, including child prostitution, slavery, sale and trafficking, debt bondage and serfdom. Although available data show that more boys than girls work, the number of working girls may be underestimated by many statistical surveys

²⁷ C. Manning: *The economic crisis and child labour in Indonesia*, ILO/IPEC Working Paper, 2000 (Geneva, ILO/IPEC, 2000), p. 21.

that do not take into account the often substantial non-economic activities carried out in and around the household. Girls often have to drop out of school so that their parents can go to work or to take care of younger children or sick or disabled members of the household. If such work were taken into account, the number of girls at work could even exceed that of boys.

One of the most visible forms of child work in the informal economy takes place on the streets, particularly of large cities. The number of street children has been increasing in the past decade in places experiencing armed conflict, such as Freetown in Sierra Leone and Monrovia in Liberia, in sub-Saharan Africa as a result of the HIV/AIDS pandemic and in the cities of South-East Asia as a result of the economic crisis of the late 1990s. Many children pursue activities such as begging, thieving and other petty crimes but many more wash cars, shine shoes, hawk, deliver goods and perform other jobs in the street to obtain the means of daily survival for themselves and sometimes their families.²⁸

Other forms of child labour in the informal economy include family or home-based work (domestic work, subcontracted piecework); manufacturing (from fireworks to matches to clothing and furniture); brick-making, stone carving, weaving; hard physical work such as scavenging, construction and commercial agriculture; and even prostitution and drug trafficking.

Existing data reveal, that the incidence of child labour is on average twice as high in rural as in the urban areas. The vast majority of child workers are engaged in agricultural and related activities, and rural children, particularly girls, tend to begin economic activity at an early age, some as young as five years.

²⁸ See M. Ueda: *Desk review of IPEC Action Programmes on the Worst Forms of Child Labour: Street Working Children (1992-2000)* (Geneva, ILO/IPEC, Sep. 2000) draft.

The factors shaping and reshaping the informal economy

The above examples reflect the tremendous heterogeneity in the informal economy and suggest that there are important forces at work that are expanding the size and changing many of the characteristics of the informal economy and linking the informal and formal economies – and these forces are seldom gender-neutral. This section highlights some of the main forces at work, with the aim of showing that they are the “interaction of multiple economic, political, institutional and sociological factors. This conclusion is at odds with the analysis attributing the existence of the informal sector to a single cause (with the law as the main determining factor)”.²⁹ Subsequent chapters of the report address these underlying causes of informality.

Legal and institutional frameworks

Given that informality has often been described as those activities outside or on the margins of the law, it is essential to examine the legal and institutional framework in a country. Three types of legislation and regulations are important: commercial or business regulations governing the establishment and operation of enterprises; the laws pertaining to property rights, which could affect the ability to transform assets into productive capital; and labour legislation governing employment relationships and the rights and protection of workers. What needs to be understood is whether existing laws and institutions are poorly or well designed in terms of their influence on the costs and benefits to enterprises and workers of becoming and staying formal or informal. “More emphasis needs to be placed

²⁹ C. Maldonado: “The informal sector: Legalization or laissez-faire?”, in *International Labour Review* (Geneva), Vol. 134, No. 6, 1995, p. 727.

on an analysis, from the perspective of persons trying to develop a small enterprise, of the costs of and the barriers to being regulated; and, from the perspective of wage workers hired under informal contracts with no protection, of the costs to them when their employers avoid labour regulations”.³⁰ This is attempted in Chapters III and VI.

Formal economic activities are more likely in an environment which is conducive to investment and business and in which compliance with regulations is not prohibitively costly. Informality is often the response of operators who are unable to comply with difficult, irrelevant or prohibitive rules and regulations or who do not have access to market institutions. The rules and regulations that impact on economic activities determine transaction costs. “Where such rules and regulations are cost effective, are predictable and provide the requisite business information, people are more likely to conform to and pay for them. Rules which are poorly designed, are burdensome and involve dealing with corrupt and inefficient bureaucracies increase transaction costs, discourage compliance, impede economic participation and encourage endemic corruption, thus preventing entrepreneurs from participation in the formal economy”.³¹ Transaction costs can include: obtaining a license to conduct a business; acquisition of title to land or acquiring a lease; access to credit facilities; enforcement of contracts and access to the law; obtaining telecommunication, electricity and other utilities such as water; familiarization and compliance with a mass of laws and regulations; obtaining information on, and access to, raw materials, prices, potential customers and sources of supplies and goods and services;

³⁰ M.A. Chen, R. Jhabvala and F. Lund: *Supporting workers in the informal economy: A policy framework*, background paper prepared for this report (Nov. 2001), p. 12

³¹ S. de Silva: *The informal economy: Issues and challenges*, draft paper, 2001.

labour and social charges; and tax costs.³² Research shows that these costs are often well beyond the capacity of small enterprises and potential entrepreneurs.

Simplifying business rules and procedures and reducing transaction costs would promote entrepreneurship and facilitate formalization. Simplifying laws and regulations does not mean total deregulation. It is important to remember that laws do not only constrain entrepreneurship and formalization, they can also play a facilitating or enabling role and serve to enforce fundamental principles and rights. An enabling legal system can offer security, incentives, safeguards and protections, limit liabilities, provide rules of succession and allow debt conversion. Informal enterprises at present do not have access to these enabling laws and therefore do not enjoy the benefits enjoyed by formal enterprises.

Laws governing property rights and titling of the assets of the poor have also been identified as a cause of informality in several developing countries. The research conducted by Hernando de Soto and the Institute for Liberty and Democracy (ILD) that he created in Peru argues convincingly that the poor do hold assets but these represent “dead capital” because they are held in forms not recognized by the legal system and hence cannot be used to generate productive capital that the poor can use for formal economic activities.³³

When enterprises are outside the legal and regulatory framework, so too are their workers, who then do not enjoy the protection of the law. Workers may also be informal because current labour legislation does not cover or has not been applied to their “non-

³² *ibid.*

³³ *Economic Reform Today*: “Securing property rights: The foundation of markets” an interview with Hernando de Soto by the Center for International Private Enterprise, <http://www.cipe.org/erte19/desoto.php3>, 20 Dec. 2001. See also H. de Soto: *The mystery of capital: Why capitalism triumphs in the West and fails everywhere else* (New York, Basic Books, 2000)

regular” or atypical employment status. In many countries, labour legislation is designed to protect “employees” rather than “workers” and to apply only where there are clear employer-employee relationships. Reforms of labour legislation have not kept pace with the kinds of changes in work organization associated with flexible specialization and global chains (described below).

The institutional structures and procedures at national and local levels also play a crucial role in encouraging formality or informality – they determine how laws and regulations are implemented, the transaction costs of compliance with legislation and regulations, and access to markets, information, resources and technology. Strong and efficient institutions that are not corrupt, that offer equitable access to all potential clients, that are transparent and consistent in the application of rules and regulations, that protect and enforce contractual obligations and that respect the rights of workers would encourage greater compliance with both business and labour regulations and promote decent work for all.

Better understanding of the institutional inefficiencies, including identification of the specific institutional structures and procedures that place constraints on formalization, could facilitate the reform of such institutions. It is also important to understand the extra-legal institutions, norms and procedures regulating the activities of workers and enterprises in the informal economy. Some of these informal institutions and norms may be more “democratic” than those in the formal economy, and it would be useful to build upon their strengths and accessibility.

Economic growth, employment creation and the informal economy

One of the key factors explaining the informal economy is related to patterns of economic growth. Some countries have experienced little or no growth in recent decades,

while others have concentrated on capital-intensive growth, resulting in “jobless growth”. In both contexts, not enough jobs are created for all those seeking work, forcing people to find employment or to create their own work in the informal economy. Many developing countries have adopted policies favouring foreign investment, large companies and manufacturing industries and have neglected the agricultural sector – but most of their population is still in rural areas and still largely dependent on agriculture. In countries experiencing “high-tech” growth, the demand for high skills relegates most of those without such skills to the informal economy. On the other hand, in some countries or industries there can be “growth from below”, where micro-and small enterprises are very dynamic and create more jobs than the formal economy.

In this context, the ILO’s Global Agenda for Employment³⁴ is critical. To meet the challenge of creating 1 billion productive jobs in the next decade, the Global Agenda for Employment places productive employment at the heart of economic and social policies, and calls for the coordination of employment policy at global and national levels. By effectively harnessing the forces of change (namely trade, finance and investment, technologies, entrepreneurship and patterns of production and consumption) and managing change well (through skills development, promoting social protection and occupational safety and health, active labour market policies, appropriate investment and tax policies and social dialogue), more and better jobs should be created, with enhanced potential for economic growth. The need for people to opt for poor-quality jobs in the informal economy would then be greatly reduced. Currently, most people enter the informal economy because they cannot find employment in the formal economy and cannot afford to be openly unemployed. The critical issue of creation of quality jobs in the formal economy that provide protected and decent employment is addressed in Chapter VI.

³⁴ ILO: *A Global Agenda for Employment discussion paper* (Geneva, 2001). See also idem: *A global agenda for employment: Summary*, Global Employment Forum, Geneva, 1-3 Nov. 2001.

It is also worth remembering that the informal economy contributes to economic growth in at least two ways. First, the output and the low wages of informal workers assist the growth of industries, including key export industries, in many countries. Second, the output of informal enterprises also contributes to economic growth. Recent attempts to estimate the contribution of the informal economy to GDP put the contribution at between 7 and 38 per cent of total GDP in 14 countries in sub-Saharan Africa, between 16 and 32 per cent in Asia and 12 and 13 per cent in Mexico.³⁵ In India, the National Council of Applied Economics Research calculated that the informal economy – termed the “unorganized sector” – generates about 62 per cent of GDP, 50 per cent of gross national savings and 40 per cent of national exports.

Economic restructuring, economic crisis and the informal economy

Another set of factors has to do with economic adjustment related to economic reforms or economic crises. It is now widely acknowledged that the stabilization and structural adjustment policies of the 1980s and 1990s, which in many countries resulted in growing poverty, unemployment and underemployment, contributed to the spread of the informal economy. The main authors of these policies, the international financial institutions, are therefore now emphasizing poverty eradication and sustainable development, although they still fail to give adequate attention to the employment implications of their policies.

The financial crisis in the second half of the 1990s in many Asian economies was also an important underlying factor. ILO research showed the informal economy expanded

³⁵ M.A. Chen, R. Jhabvala and F. Lund, *op. cit.*, pp. 14-15. The estimates were made by J. Charmes with support from the United Nations Statistics Division.

under the impact of the financial crisis, which reversed the previous gains of the working poor resulting from the tight labour market situation created by the rapid economic growth of earlier years in the East and South-East Asian countries. The swelling of the informal economy during the financial crisis reflects the “growth of more marginal economic activities and involvement of increased number of workers with lower average productivity and income”.³⁶ In Thailand, for instance, during the economic boom period, it was productive informal activities, such as furniture making, that grew and there were fewer Thais available to work as domestic workers or waste pickers. But with the economic recession, it was these lower-end activities that resurfaced.

Especially in the transition economies, but elsewhere as well, economic restructuring and the downsizing of enterprises left many retrenched workers with little choice but to move into the informal economy. For instance, the restructuring of state-owned enterprises in China, where some 9 million workers were laid off in urban areas, has been an important reason behind government policies to promote flexible informal employment as the most important means of solving employment pressures.

In many developing countries, wages in the public sector are insufficient to support a family, and workers (or family members) are forced to supplement their incomes by finding work in the informal economy. This is a widespread pattern in Africa,³⁷ but is not limited to the developing countries. Unemployed persons in transition countries and even in developed countries are often not able to get by on unemployment benefits, if they are

³⁶ A.T.M. Nurul Amin: *The informal sector in Asia from the decent work perspective*, op.cit.

³⁷ A.M. Tripp: *Changing the rules: The politics of liberalization and the urban informal economy in Tanzania* (Berkeley and Los Angeles, University of California Press, 1997).

available, and people have to supplement this income from a variety of informal activities or barter, taking care to avoid formal recognition that might lead to a loss of entitlements.³⁸

Poverty and the informal economy

Being poor means not being able to afford to be openly unemployed and almost any job may seem to be better than no job. Hence, increasing poverty is one of the underlying reasons for the growth of the informal economy. However, the links between working informally and being poor are not always simple. On the one hand, not all jobs in the informal economy yield paltry incomes. The background studies prepared for this report indicate that many in the informal economy, especially the self-employed, in fact earn more than unskilled or low-skilled workers in the formal economy. There is much innovation and many dynamic growth-oriented segments in the informal economy, some of which require considerable knowledge and skills. One of these is the fast-growing information and communications technology (ICT) sector in the large cities of India.³⁹ On the other hand, being in the formal economy is no guarantee of escaping poverty. Sadly, many formal workers break out of extreme poverty, especially in developing and transition

³⁸ M. Leonard: *Invisible work, op. cit.*; and idem: "Coping strategies in developed and developing societies", See also K. Gërkhani: "*Politico-economic institutions and the informal sector: A spontaneous free-market in Albania*", discussion paper, Amsterdam and the University of Amsterdam *Report of the Technical Workshop on Old and New Facets of Informality*, in Geneva, 2 mar. 2001.

³⁹ N. Kumar: *New technology-based small service enterprises and employment: The case of software and related services industry*, paper presented at the ILO-SAAT Technical Workshop on Strategic Job Creation in the Urban Informal Sector in India, Surajkund, Haryana, India, Feb. 2000.

countries where remuneration in civil service and state-owned enterprises may not constitute a living wage.

However, there is no denying that it is poverty that forces most people to take up unattractive jobs in the informal economy, and the low incomes that such jobs yield create a vicious cycle of poverty. On the whole, average incomes in the informal economy are much lower than in the formal economy. The working poor are concentrated in the informal economy, and especially in rural areas. Seventy-five per cent of poor people in developing countries live in rural areas and engage in activities which, for the most part, lie outside the bounds of the formal organized economy, whether in agriculture or in rural non-farm activities.⁴⁰ This is why policies to address the informal economy and at the same time to reduce poverty cannot afford to ignore rural agriculture.

The pattern throughout the world appears to be the same: informal incomes decline along the range of employment status, from employer to self-employed and own-account workers to informal and casual wage workers to industrial outworkers or home workers. The link between working in the informal economy and being poor is stronger for women than for men. Not only do a higher percentage of women than men work in the informal economy, women are concentrated in the lower-income segments, working in survival activities or as casual wage workers or home workers. In the higher-income segments of the informal economy, women tend to be engaged in smaller-scale operations with less growth potential compared to those performed by men.

The close links between poverty and the informal economy mean that measures to deal with the problems of the informal economy and to provide decent work for those currently engaged in it would also help to eradicate poverty. Conversely, effective poverty eradication policies would go a long way towards enabling those currently in the informal

⁴⁰ ILO: *A global agenda for employment: Summary*, op. cit., p. 6.

economy to move up the continuum to more productive, protected and decent work. For example, as described earlier, the ILO Global Agenda for Employment emphasizes that appropriate national and international policies that harness and manage well the forces of change can ensure that economic growth, productive employment and poverty reduction can all move in the same positive direction. Another example is the three-pronged strategy for attacking poverty proposed in the *World Development Report 2000/2001*,⁴¹ which includes many elements of the decent work approach presented in this report.

Demographic factors and the informal economy

If we are trying to understand the growth of the informal economy, we cannot ignore demographic trends. Especially in developing countries, the growth of the informal economy is linked to issues of surplus labour; it is therefore important to have background information on the size and growth of the labour force, the education and skills of those entering the labour market, rural-urban migration and the rate of urbanization. Female labour force participation has been increasing faster than that of men in almost all parts of the world in recent decades. Both out of choice and out of necessity, more and more women have been entering the labour force, but they very often end up in jobs at the lower end of the informal economy – because they tend to be less well equipped in terms of

⁴¹ World Bank: *World Development Report 2000/2001: Attacking poverty* (New York, Oxford University Press, 2001). The three-pronged strategy is based on promoting opportunity (for jobs, credit, roads, electricity, markets for the produce of the poor, and the schools, water, sanitation and health services that underpin the health and skills essential for work); facilitating empowerment (through changes in governance that make public administration, legal institutions and public service delivery more efficient and accountable to the poor and through strengthening the participation of poor people in decision-making); and enhancing security (to reduce vulnerability to various forms of insecurity and to help the poor in risk management).

education and training, have less access to resources, still face various forms of direct and indirect discrimination and bear the brunt of family responsibilities. Women are much more likely than men to leave and re-enter the labour force at different times over their life cycle, but because they do not have access to lifelong learning, they often end up in informal jobs.

In many countries, an important contributory factor is escalating rural-urban migration. Migrants in search of often non-existent formal jobs end up in the informal economy. In China, for example, the Government has identified the large number of rural-to-urban migrants (some 60 million) as an important reason for the need to create jobs in the informal economy. Of course, at the same time, there are policy implications for improving conditions in rural areas so as to stem the massive flows to urban areas. In many countries, the agricultural sector has been relatively neglected in the globalization drive. In fact, high levels of agricultural subsidies in the developed countries may be a contributing factor to rural poverty in the developing countries.

The evidence from developed countries also shows that cross-border migrants, especially those who have recently arrived in the country and do not speak the language, or women who are dependents of the primary migrant, tend to concentrate in the informal economy because there are few other jobs open to them. The regional patterns for Latin America described above also highlighted the movement of cross-border migrants into informal, temporary or seasonal jobs. Illegal migrants are most likely to be found in sweatshops in the informal economy or in jobs where they do not come to the attention of the public authorities and therefore are most vulnerable to exploitation and abuse.

As mentioned above, the HIV/AIDS pandemic has had devastating effects on families and social support structures especially in Africa, and surviving family members, including children, may have no other option but to seek informal work to survive. Often it is the oldest and youngest family members who are left, and they are the ones most likely to lack

skills or resources. Attention should therefore be given not only to people living with HIV/AIDS, but also to their family members.

Globalization and the informal economy

Globalization has often been cited as a major reason for the proliferation of the informal economy. The inference tends to be negative – that globalization is to blame. However, this can be misleading and is not helpful, especially for policy purposes. What is more useful is to determine how the different globalization processes affect employment opportunities and the welfare of workers – there can be both positive and negative impacts, and much will hinge on domestic and international policies.

First, the various globalization processes should be distinguished: trade and the expansion in the volume and variety of cross-border transactions in goods and services; foreign direct investment (FDI) and a dramatic increase in international capital flows; the rapid and widespread diffusion of technology; and international labour migration. These globalization processes have changed the boundaries of markets, increased global integration and heightened competitive pressures.

On the positive side, globalization has led to new opportunities in terms of new jobs for wage workers and new markets for the self-employed. In some developing countries, the share of transnational corporations' (TNCs') affiliates in host country employment is very large; for example, affiliate-based employment in the manufacturing sector exceeded 40 per cent in countries such as Malaysia, Singapore and Sri Lanka.⁴² In particular, export

⁴² United Nations Conference on Trade and Development: *Expert Meeting on Mainstreaming Gender in Order to Promote Opportunities: note by the UNCTAD Secretariat*, Trade and

processing zones (EPZs) have opened up, previously unavailable wage employment opportunities on the large scale for women workers. In Bangladesh, for example, although employment in EPZs does not offer particularly favourable working conditions, it is generally still a better alternative for women than urban informal employment or agricultural employment. It has also been noted that where FDI stock represents greenfield investment, new employment opportunities have been created and labour force participation rates have increased in several large FDI recipient economies, especially in South, East and South-East Asia.⁴³ In the production of high-end, technology-intensive products, where TNCs need to retain skilled workers or are concerned about protecting their reputation and brand name, employment conditions tend to be decent. But in industries where there is strong global competition for markets or where standardized mass consumption goods are produced, TNCs may not offer particularly favourable working conditions and may exploit women workers. However, the same is true of domestically owned firms in both developing and developed countries.

Where the informal economy is linked to globalization, it is often because a developing country has been excluded from integration into the global economy. It is the failure or inability of countries to participate in globalization processes (whether because of their own domestic policies or because of international barriers), rather than globalization per se, that contributes to preventing these countries from benefiting from trade, investments and technology.⁴⁴ Of course, it is also true that the pressure of global competition and technological advances have increasingly led TNCs to subcontract or

Development Board, Commission on Enterprise, Business facilitation and Development, Geneva, 14-16 Nov. 2001 (TD/B/COM.3/EM.14/2), p. 4.

⁴³ *ibid.*, p. 5.

⁴⁴ See S. de Silva: *Is globalization the reason for national socio-economic problems?* (Geneva; ILO, 2001), Ch. 3.

outsource the production of components and inputs to first-, second- and third-tier suppliers, many of whom are in micro-enterprises or are home-based in the informal economy in developing countries (see the next subsection on global chains).

The anti-globalization movement has focused attention on the downsides to globalization, which have been borne mainly by those in the informal economy. Anti-globalization groups point out, for instance, that globalization tends to work in favour of capital, especially companies, that can move quickly and easily across borders and to disadvantage workers, especially lower-skilled workers who cannot migrate easily or at all. Globalization also tends to benefit large companies which can have access to new technologies and capture new markets quickly and easily to the disadvantage of micro and small entrepreneurs. There can be no greater contrast in terms of market access, power and competitiveness, than that between the woman who produces clothes at home for local markets and the brand-name retail firm that markets fashion clothes in the United States or Europe. The existing inequality between large and informal enterprises is often reinforced when governments offer incentive packages to increase international competitiveness. This is because most incentive packages target primarily large formal businesses and sometimes small and medium-sized businesses, but seldom micro-enterprises.

The impact of global competition also encourages formal firms to shift formal wage workers to informal employment arrangements without minimum wages, assured work or benefits, and to encourage informal units to switch from semi-permanent contracts with their workers to piece rate or casual work arrangements also without assured work, minimum wages or benefits. Globalization also often leads to shifts from secure self-employment to more precarious self-employment, as producers and traders lose their market niche. With these shifts, as more and more men enter the informal economy, women tend to be pushed to the lowest-income end of the informal economy, often as industrial outworkers or petty traders.

Whether in fact globalization leads to decent work or to decent work gaps in the informal economy will hinge very much on government policies. For example, many governments provide incentives to attract foreign investors, but unless the policy mix is correct, capital-intensive investments may not create new jobs (resulting in “jobless growth”) and may even lead to downsizing or retrenchment (i.e. job loss). Investors looking for cheap rather than skilled and productive labour would tend to foster informality. Supply-side support provided by the government to enhance competitiveness in global markets, for example through incentives or subsidies for export promotion, technology upgrading, tax holidays and so on, are normally biased in favour of larger industrial enterprises and may not only prevent smaller enterprises from developing their potential or gaining access to global markets, but may also lead to the displacement of informal operators and workers. In Sri Lanka, export promotion policies in favour of the coir industry led to a shift in the supply of coconut husks to mechanized units owned by men with access to credit, away from manual units owned by women with little access to credit. In South Africa, where the Government has used supply-side measures as policy instruments to promote the country’s international competitiveness, restructuring of labour-intensive industries, such as the clothing industry, led to massive formal job losses for women, many of whom had to find alternative work as home workers in the clothing industry or had to go into other types of informal work.⁴⁵

These examples illustrate why the ILO’s Decent Work Agenda calls for “a balanced and integrated approach to sustainable development and growth in the global economy in which economic, social and environmental goals can be achieved together”.⁴⁶

⁴⁵ M.A. Chen; R. Jhabvala, and F. Lund, op. cit., p. 24

⁴⁶ ILO: *Reducing the decent work deficit: A global challenge*, Report of the Director-General, International Labour Conference, 89th Session, Geneva, 2001, p. 14.

Flexible specialization and global chains

The recent expansion of the informal economy has been linked not only to the *capacity* of formal firms to absorb labour but also to their *willingness* to do so.⁴⁷ Instead of production using a regular workforce based in a single large registered factory or workplace, more and more firms are decentralizing production and organizing work along the lines of “flexible specialization” i.e. forming smaller, more flexible specialized production units, some of which remain unregistered or informal. As part of cost-cutting measures and efforts to enhance competitiveness, firms are increasingly operating with a small core of wage employees with regular terms and conditions (formal employment) based in a fixed formal workplace and a growing periphery of “non-standard” or “atypical” and often informal workers in different types of workplaces scattered over different locations. These measures often include outsourcing or subcontracting and a shift away from regular employment relationships to more flexible and informal employment relationships. There are also triangular relationships involving workers, user enterprises and temporary work agencies. On the one hand, the shift to informal employment relationships complicates the issue of dependence – it is less obvious who the “boss” of these workers is and who, therefore, is ultimately accountable for these “disguised wage employees”. On the other hand, the individualization of employment relationships makes collective representation of workers’ interests much more difficult.

A global variation of flexible specialization is the rapid growth in cross-border commodity and value chains in which the final producer in many cases is in the informal economy in developing countries and, increasingly, in transition countries. A large share of the workforce in key export industries work under informal arrangements, including those

⁴⁷ M.A. Chen, R. Jhabvala and F. Lund, op. cit. p. 2.

producing garments, textiles, sport shoes and electronics. In export garment manufacturing, for example, the degrees of informality range from women workers in the factories of Bangladesh who labour under conditions of almost total non-compliance with the Factories Act, to sweatshops exploiting local and sometimes migrant labour in Los Angeles, Bulgaria or Indonesia, to home workers in the Philippines who embroider baby clothes for top-end markets in New York as “disguised wage workers” in multi-layered systems of subcontracting. Because it is highly labour-intensive, the garment industry is possibly the most widespread example of a buyer-led global commodity chain. Because the great majority (estimated at over 80 per cent) of garment workers are women who are often poor and desperately in need of an income, they are among those most vulnerable to exploitation. In fashion-oriented apparel chains, many large retailers and brand companies have literally moved out of manufacturing to concentrate only on design and marketing. They now subcontract or outsource manufacturing to local firms that may subcontract to middlemen, who further subcontract to own-account producers and home workers.⁴⁸

Production of items for export such as garments, sports shoes and electronics equipment is carried out mainly in urban areas or in zones located near transport facilities such as airports or seaports. However, globalization has also made major inroads into rural areas, sometimes in the remotest areas. Extensive value chains often link forest workers who collect non-timber forest products in many developing countries to international markets.⁴⁹ These products include essential oils, medicinal plants, gum arabic, rattan, natural honey, brazil and other edible nuts, mushrooms, neem, and shea and other types of wild nuts and seeds which produce oils that can be used for cooking, skin care and other purposes. It is estimated that there are now 150 such non-timber forest products of major

⁴⁸ M. Carr and M.A. Chen: *Globalization and the informal economy: How good trade and investment impact on the working poor*, background paper prepared for this report, 2001.

⁴⁹ *Ibid.*, p. 14.

significance in international trade, involving millions of workers and producers. One study of shea nut collection in West Africa found that its final product, shea butter, was sold to European consumers at 84 times the price paid to the forest collectors.⁵⁰

In the agricultural sectors of Latin America and Africa, the last decade has brought tremendous growth in the production of non-traditional agricultural exports, primarily fruits, vegetables and cut flowers for the European and North American markets. The global value chains for these products are buyer-driven and basically controlled by a handful of major supermarket chains in Europe and North America. It is estimated that women comprise about 80 per cent of the workforce in this fast-growing sector. This is a labour-intensive industry, where women often work on large-scale “factory farms” for very low wages and in poor working conditions. The extensive use of pesticides can adversely affect their physical and mental health, as it places them at risk for nausea, depression and giving birth to babies with birth defects.

It is important to recall that developing and transition countries are not just the producers in commodity chains leading to markets in the developed countries. They also constitute an important market for goods and services from the developed world. One of the most visible manifestations of this is the widespread trade in second-hand clothing on the streets and in the open-air markets of developing countries. The collection of second-hand clothing is a major activity of charitable organizations in developed countries (who also offer certification for purposes of tax exemption to donors). Clothing is then sorted, cleaned, baled and sold to the highest bidder by weight. Depending on the destination, it may be sorted a second time before being loaded by the ton into containers for shipment to developing countries. Once the bales reach the destination, they may either be auctioned or delivered to subcontractors who then sell or distribute them to different internal

⁵⁰ Ibid.

destinations. At the street level, one study in Kenya found that women and men traders specialize in different types of clothing and that women generally earn substantially less than men.⁵¹ On the one hand, the infusion of cheap second-hand clothing into the market almost always has a negative impact on local textile industries, garment producers and tailoring as a trade in these countries. On the other hand, large numbers of jobs are created in the informal economy, where prices for the clothing are so low that almost everyone can afford to have decent clothing. The trade-offs between the number of jobs destroyed and jobs created have yet to be studied, but on the whole one could say that the process amounts to deskilling, since the jobs lost require higher skills than the jobs in street trading that have been created.

The links between the formal and informal economies

Global commodity and value chains are clear examples of how the formal and informal economies are linked across the borders of many countries, influencing decent work for workers depending on which segment of the chain they are in. The lower down the chain, the more likely employment relationships are to be informal and the larger the decent work gaps. But it is not only in the case of global chains involving cross-border relationships internationally and subcontracting relationships nationally that the formal and informal economies are linked.

Even in more traditional activities, links can be traced. For example, in an ILO study of waste picking in Pune (India), the process of recycling was traced from the waste

⁵¹ P.K. Rono: *Women's and men's second-hand clothes businesses in two secondary towns in Kenya* (Nairobi, Institute for Development Studies, University of Nairobi, 1998), p. 30.

pickers to the traders to the wholesalers to the large recycling plants in the formal sector.⁵² The study notes that almost all scrap trade establishments are registered under the Bombay Shops and Establishments Act, 1948. The Act provides for a wide range of benefits and entitlements for workers, such as hours of work, paid leave, maternity benefits, etc. The study found, however, that only male workers benefit from any of the provisions, i.e. minimum wage, but receive only half pay for a weekly holiday and enjoy few other benefits. The study argues that an implicit employer-employee relationship exists between the scrap traders and scrap collectors, and therefore scrap collectors should also benefit from existing labour legislation.

There are also both direct and indirect linkages between informal workers and formal businesses, given that the informal economy includes the full range of “non-standard” wage employment that flexible specialization has given rise to, such as sweatshop production, home workers, industrial outworkers, temporary and part-time work and unregistered workers. Seen from this perspective, the informal economy includes many disguised wage employees – who may not even be aware of who their ultimate “boss” is, but who are clearly dependent on someone for the inputs, equipment, work location and sale of the final products – and that someone has certain responsibilities for ensuring decent work for such workers.

It is clear from the above that most segments of the informal economy have direct or indirect production, trade or service links with the formal economy. There are the women forced to work from their homes under subcontracting arrangements because the employer will not hire them under more secure work arrangements, the workers in a sweatshop producing garments for lead firms on the other side of the world, the street vendors selling

⁵² Poornima Chikarmane, Madha Deshpande Lakshmi Narayan: *Study of scrap collectors, scrap traders and recycling enterprises in Pune*, draft report prepared for the ILO, New Delhi, 2001.

on commission for formal firms, or even the janitor who cleans the offices of formal firms under a subcontracting arrangement. There are also informal providers of food, transport and clothing at affordable prices and other basic services such as garbage collection and street cleaning for workers in the formal economy.

The important policy issue is not whether informal wage workers or informal units have direct ties with the formal economy – clearly, they do – but whether those ties are benign, exploitative or mutually beneficial. The policy concern is to enhance the positive linkages and to ensure that there is decent work all along the continuum.

