

Addressing Informality, Reducing Poverty

# *A Policy Response to the Informal Economy*





**AFRICA**

- The informal sector comprises over 70% of non-agricultural employment

**ASIA**

- The informal sector is responsible for:
- 50-80% of non-agricultural employment in South Asia
  - 30-50% of non-agricultural employment in many countries of South East Asia

**LATIN AMERICA AND CARIBBEAN**

- The informal economy is responsible for over 55% of non-agricultural employment

**EUROPE**

- Self-employment accounts for 24% of non-agricultural employment in Southern Europe and 10% in Western Europe

**NORTH AMERICA**

- Of total employment in Canada, self-employment accounts for nearly 18%; temporary employment for nearly 10%; and part-time employment for 11%
- Of total employment in the USA, self-employment accounts for nearly 8%; temporary employment for 2.5%; and part-time employment for nearly 18%



**Sources for statistics**

Canadian Policy Research Network. 1999. "Rethinking Employment Relationships" (Canada)

Charmes, Jacques. 1998, updated in 2000 "Informal Sector, Poverty and Gender: A Review of Empirical Evidence." (Africa, Latin America, Asia)

Charmes, Jacques. 2001. Calculations from official data (Europe)

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Contrary to the predictions of many economists, the informal economy is growing in both developing and developed countries and taking on new forms. Countries undergoing economic growth, economic restructuring, and economic crises have all experienced the expansion of the informal economy.

Globalisation of the economy and related processes—notably, the restructuring of production through sub-contracting chains and cost-cutting measures spurred by global competition—have led to new forms of informal work. Companies are reducing the number of full-time, long-term workers by shifting employment to more informal arrangements, including sub-contracting and outsourcing, resulting in fewer regular employees. All segments of the informal workforce—microentrepreneurs, the self-employed, as well as casual, sub-contract, temporary, and part-time workers—appear to be growing; and all segments are without social protection virtually everywhere. The informal economy is both traditional and modern and variously dynamic, resilient, and stagnant.

Governments often remain unaware of or hostile to the economic contributions of the informal economy and the problems faced by those who work in it. They show biases, favouring capital over labour as well as big companies over small enterprises. Governments need to develop innovative and supportive policies that recognise the contributions of this important part of the economy and its workforce, including their constraints and needs. Governments as well as the economy will benefit through the release of entrepreneurial energy and the improved well being of the workforce.

**What is the informal economy?**

The informal economy is known by many names and definitions. Since its "discovery" in Africa in the early 1970s, analysts have debated the "informality" of economic activities and the "informalisation" of labour markets. It is sometimes called the "traditional" economy, but many aspects of it are quite modern. It has been most widely known as the "informal sector". Here we use the term "informal economy" to get away from the idea that informality is confined to a specific sector of economic activity, to underline the links between the informal and formal parts of the economy, and to highlight the growing number of informal jobs as well as informal enterprises. The defining characteristic of the informal economy is the precarious nature of work: workers in informal enterprises and informal jobs are generally uncovered by social security or labour legislation.

**Important points about the informal economy**

- The informal economy is comprised of both self-employed persons and paid workers
- It is highly diverse
- Workers in the informal economy make significant contributions to the economy
- The informal and formal parts of the total economy are systemically linked
- Informality and poverty are closely related
- Informality and growth are also closely related

**Who is in it?**

All non-regular wage workers, both rural and urban, who work without minimum wages, assured work or benefits, and virtually all self-employed persons (except professionals and technicians) belong to the informal economy. Petty traders, small producers, microentrepreneurs, domestic workers, home-based workers, and casual labourers—including shoeshine boys, rickshaw pullers, home-based garment workers, home-based electronic workers, and street vendors—are all part of it. Some countries include small farmers and paid agricultural labourers in it.

**THE NEED FOR INFORMED POLICY: OLD AND NEW VIEWS**

Outdated views of the informal economy abound. Partly because of these inaccurate views, policy makers in many countries have reacted negatively to the informal economy, often trying to discourage it. However, given its scope and resilience, and the dynamism of many of its components, it is important that governments develop policies that encourage rather than restrict those who work in the informal economy.

THE OLD VIEW	THE NEW VIEW
The informal sector is the traditional economy that will wither away and die with modern, industrial growth.	The informal economy is increasing with modern, industrial growth—accounting for more than half of the new jobs in Latin America and 80 percent of new jobs in Africa. In India, more than 90 percent of the labour force is in it. It is a feature of economic transition as well as capitalist industrialisation.
It is only marginally productive.	Virtually everywhere the informal economy is efficient and resilient, creating jobs. It is a major provider of employment, goods and services for lower-income groups. It contributes significantly to GDP.
It exists separately from the formal economy.	It is linked to the formal economy—it produces for, trades with, distributes for, and provides services to the formal economy.
It represents a reserve pool of surplus labour.	Much of the recent rise in informality reflects the decline in formal employment associated with structural adjustment and global competition. It reflects not only the incapacity of formal firms to absorb labour, but also their unwillingness to do so.
Most of those in the sector are entrepreneurs of illegal and unregistered enterprises seeking to avoid regulation and taxation.	It should not be equated with the criminal or illegal economy. It is made up of non-standard wage workers as well as entrepreneurs and self-employed persons producing legal goods and services, albeit through irregular or unregulated means. Most entrepreneurs and the self-employed are amenable to, and would welcome, efforts to reduce barriers to registration and related transaction costs and to increase benefits from regulation. Most non-standard workers would also welcome more stable jobs and workers' rights.
Work in the informal economy is comprised mostly of survival activities and thus is not a subject for economic policy.	Informal enterprises include not only survival activities but also stable enterprises and dynamic growing businesses. All informal enterprises are affected by economic policies.
It is comprised mainly of unregistered businesses.	It is comprised not only of informal enterprises but also of informal jobs, including employees of informal firms, casual day labourers, and domestic workers as well as industrial outworkers and other non-standard workers in both informal and formal firms.
It is comprised mostly of street traders and very small-scale producers.	It is made up of a wide range of informal work arrangements—both “resilient old forms” and “emerging new ones” (temporary and part-time jobs plus home-based work for high tech industries). Its two basic segments are informal enterprises and informal jobs.
It is unregulated.	Some informal enterprises—such as street vendors—are highly regulated, so much so that regulations are impossible to enforce or comply with and are often not clear either to local authorities or to vendors. Regulations become a tool of harassment and control, not a way to encourage economic contributions of street vendors. On the other hand, the employers of most informal wage workers often seek to avoid complying with labour legislation.
Because it is unregulated and untaxed, many working in the informal sector are wealthy.	Average incomes are lower in the informal economy than in the formal economy. A higher percentage of people working in the informal economy are poor. Most of the wealthy in the informal economy are microentrepreneurs who hire others. The poorest are, typically, informal wage workers, especially industrial outworkers.
To regulate the informal economy is unnecessary interference with its workings.	In today's globalised economy, the active role of government is needed in the regulation of economic activities, including the informal economy. Clear rules and appropriate legislation are needed to regulate the relationship between governments, foreign investors, local enterprises, and the workforce.
Street traders are to blame for crime in the inner cities.	Criminals are a threat to the business interests of both formal and informal enterprises.
It does not contribute to economic growth.	It contributes substantially to the economy and needs to be encouraged and facilitated.

Given its broad heterogeneity, the informal economy can be best classified by employment status: employers, the self-employed, and wage workers form a pyramid of increasing numbers and declining incomes. Employers are the owner operators of informal enterprises that hire others. The self-employed include both own-account workers and contributing (but unpaid) family workers. Wage workers include employees of informal enterprises, casual workers without a fixed employer, domestic workers, industrial outworkers or homeworkers, temporary and part-time workers, and others. The conventional definitions of the informal sector that concentrate on enterprises miss out on the myriad of informal wage work arrangements.

**Why does the informal economy need policies of encouragement?**

Many countries already have policies that are targeted specifically at the informal economy. Sometimes these policies are punitive (eliminate it!), other times restrictive (contain it!) and, rarely, promotional (support it!). Even policies that are not directed at the informal economy affect it nonetheless. Given the economic contributions of the informal economy, its vitality, and its permanence, governments should be looking to develop policies that recognise its importance, restrict and regulate it where necessary (e.g. issuing permits), but mostly seek to increase the productivity and improve the working conditions of those who work in it.

Many of the self-employed who operate informal enterprises are hard-working entrepreneurs who use their own resources, labour-intensive technologies, and skills they acquired outside the formal education system. Governments should intervene to promote the productivity and growth of informal enterprises because their contributions to economic growth could be increased with the kinds of incentives that currently only formal enterprises get. Labour-intensive growth of informal enterprises is likely to create more jobs than capital-intensive growth of formal enterprises. It also costs much less to create jobs in the informal economy than in the formal economy, and informal enterprises are training grounds for entrepreneurs.

Most informal jobs are not covered by labour legislation or social protection. As a result, most informal wage workers do not enjoy secure contracts, minimum wages, worker benefits (such as paid sick leave or severance notice and pay), or social protection (for illness, disability, and old age). Moreover, many of the self-employed in the informal economy cannot afford to pay for their own health insurance or to subscribe to privatised pension schemes. Virtually all those working in the informal economy lack social protection.

**Why should governments intervene in the informal economy?**

Previously, many thought that there was no need to intervene because the informal economy was dying out. Others said that intervention would simply lead to distortions in otherwise efficiently operating informal markets (intervention would damage the sector's creativity and self reliance), while a third group felt that the sector was beyond the reach of government because those who worked in it sought to avoid regulation and taxation. However, economic trends show that the informal economy is here to stay. As a result, appropriate regulations, laws and policies are required that promote it and redress the biases in favour of the formal economy. Governments already intervene in markets, through their trade, industry and fiscal policies, with a bias towards large industries. They also need to intervene to support small-scale entrepreneurial activities and informal economy workers through training, credit, and marketing support. International labour conventions also mandate governments to intervene on behalf of all workers, including those who work in the informal economy.

It is important to distinguish between how policies and regulations affect informal enterprises as compared to how they affect informal employment relations. Consider, for example, the two types of homebased workers. Microentrepreneurs or own-account producers who work from their homes need different kinds of policy than sub-contract workers or industrial outworkers who work from their homes (called homeworkers).

#### ADDRESSING INFORMALITY, REDUCING POVERTY

- There are some 530 million working poor—earning under US\$ 1 a day—supporting the 1.2 billion people who live below the poverty line.
- The vast majority of the working poor earn their living in the informal economy
- Poverty alleviation programmes will not work unless they address the root causes of the low level and insecurity of incomes in the informal economy
- The root causes of low and insecure incomes in the informal economy include the lack of productive resources and opportunities, the lack of worker rights, the lack of social protection, and the lack of organisation and representation

#### INFORMALITY AND POVERTY

- Informality and poverty are closely linked—those working in the informal economy are more likely to be poor than those working in the formal economy
- Average incomes of both men and women are lower in the informal economy than in the formal economy
- Average incomes in the informal economy decline with employment status: they are highest for employers and the self-employed and lowest for casual wage workers and industrial outworkers
- There is a gender gap in earnings within the informal economy, and women are poorer than men in the informal economy
- This is because women are under-represented in the high-income employment statuses (notably, as employers) and over-represented in the low-income categories (e.g. as homeworkers)
- The growth of informal employment is a causal factor in the persistence of global poverty

- Own-account producers need economic policy interventions and microenterprise development programmes to increase their knowledge of, access to, and bargaining power in markets. They need to know about changes in multi-lateral policies (such as the decision of the European Union to permit the use of shea butter as a substitute for cocoa butter in sweets) and how they will impact demand. Otherwise, liberalisation of investment policies might lead to foreign companies, rather than local women producers, taking advantage of increased profits in this area.
- Homeworkers—who essentially do the work of factory workers without a factory—need labour rights, requiring policy intervention to govern and protect their employment relations. Informal wage workers are, in principle, covered by almost all international labour conventions. However, the internationally-recognised rights of informal workers are often not reflected in national labour law and, even if they are, are seldom enforced at the local level.

#### Reasons to intervene: equity, welfare, and efficiency

Principles of equity, poverty reduction, and efficiency all provide reasons for governments to intervene in the informal economy. Equity and welfare rationales for government intervention in the informal economy stem from the vulnerability of those in the sector. The increasing number of informal workers lack market power and adequate insurance against risk. As a result, those working in the informal economy are more likely to be poor than those working in the formal economy. The increasing informalisation of labour—in both developed and developing countries—can wipe out decades of social progress. Policy towards the informal economy can create a new contract between the state, business, organised labour, and other social actors (including organisations of informal workers and producers). Without addressing the employment needs, constraints, and vulnerabilities of those who work in the informal economy, efforts to reduce poverty will not succeed.

Progress towards decent working conditions for informal workers can also be conducive to equitable and sustainable growth. With the reduction of poverty and concomitant improvement in standards of health and education, workers in informal employment will become more efficient contributors to the national economy. Also, support to informal enterprises will lead to sustainable growth. As the informal economy is a major contributor to Gross Domestic Product (GDP) and to economic development in general, governments should intervene to promote productivity and growth of informal enterprises. As governments already intervene heavily in markets in favour of large industries and formal labour, intervention on behalf of the informal economy should not be singled out as distortionary.

Besides government, a number of other interest groups can intervene to promote the interests of informal workers. These include employers and companies, the private insurance industry, consumers and the public, trade unions and workers organisations, non-governmental organisations, community-based organisations, individuals, and families.

#### Essential aspects of a positive policy process on the informal economy

- It should be participatory and inclusive—consulting informal workers and their organisations, and involving as many different interest groups as possible.
  - It should allow for policies to be developed through consensus of appropriate government departments and interest groups, based on a shared understanding of the economic importance of informal workers.
- Throughout all policy development, gender analysis is needed. Within the informal economy, women tend to be the poorest of workers, and men are often their labour intermediaries or brokers. Women workers are the most likely to be without social protection and the least likely to be entrepreneurs. Given their isolation, they have the greatest need for information, training, credit, and social protection.

#### Some goals for a supportive policy towards the informal economy

- Recognition of the rights of informal workers to organise
- Representation of informal workers, producers and traders in relevant policy-making or negotiating forums
- Transformation of survivalist activities into more productive activities
- Transformation of informal jobs into more secure and protected jobs
- Development of simple institutional mechanisms dealing with informal enterprises or workers and integrating them with those dealing with formal enterprises or workers.

#### Virtually all policies affect the informal economy

In the past, interested policy makers have advocated some mix of the following policies for those who work in the informal economy: *social policies* to improve their health and education; *infrastructure and services* to improve their housing and living environment; *microfinance* and *enterprise development services* to increase the productivity of their enterprises; *bureaucratic and legal changes* to reduce the barriers—and related transaction costs—to registering their enterprises; and, more recently, *property rights* to give them the ability to transform their assets into liquid capital. Too few policy makers have considered how other areas of policies—economic policies, labour legislation, and social protection schemes—affect the informal economy.

Until recently, there was a widespread assumption that mainstream economic policies do not and cannot reach the informal economy. This is because many economists view the informal economy as comprised of either survival activities by the poor or illegal or (even) criminal activities by persons seeking to evade the law. Survival activities are thought to be a subject of social, not economic, concern. Many economists also feel that social ties and custom control informal activities, not economic policies. In the absence of appropriate economic policies, social ties and customs do govern some—not all—informal work arrangements. But informal norms and regulations cannot compensate for the lack of supportive public policies.

It is important to distinguish between illegal activities—that produce illegal goods and services—and informal activities—that produce legal goods and services. Admittedly, some informal entrepreneurs deliberately conceal their activities from public authorities to avoid taxes or compliance with bureaucratic procedures. However, most informal entrepreneurs are either not aware of the regulatory requirements or find them too cumbersome or costly to comply with. Moreover, in the case of informal wage workers, it is the employer—not the worker—who does not comply with labour legislation or pay payroll taxes. And many informal wage workers are employed by formal firms either directly or indirectly through sub-contract arrangements.

Clearly, a reappraisal of the impact of existing economic policies and the need for supportive economic policies is called for. This is because economic policies impact the process of redistribution between the formal and informal economy. Policy analysis needs to determine whether the informal economy shares in benefits from government expenditure and procurement policies. New methods for assessing government budgets—called social audits or people's budgets—can be used to assess the differential impacts of policies on the formal and informal economy. However, collection of budget data is made difficult because allocations affecting those who work in the informal economy may be the responsibility of many different government departments—such as Labour, Housing, Small Enterprise Development, and Public Health. There is a clear need for improved statistics on the informal economy.

#### Policy areas of particular concern

Four policy areas have particular impact on the informal economy. Macroeconomic policies, labour policies, urban regulations, and social protection measures are areas in which enlightened policy would improve the situation of those who work in the informal economy.

#### HOW GOVERNMENT BUDGETS IMPACT THE INFORMAL ECONOMY

New tools are available to assess the differential impact of government policies and budgets on the formal and informal economies. These include adaptations of approaches used in gender or people-centred budgets that have been done to assess the impact of government budgets on women, on the environment, and on the poor. These tools have been modified to analyse the differential impact of government policies on the formal and informal workforce in Durban, South Africa.

*In order to develop policy toward the informal economy, governments need to:*

- Understand the needs and interests of workers involved
  - Know how much and what kinds of assistance informal economy workers receive
- Budget analysis allows policy makers to know:*
- What kinds of goods and services government provides to both the informal and formal economy
  - Which government structures deal with the informal economy
  - How budgets calibrate with plans and needs
  - Whether national resources are allocated equitably to formal and informal economies

#### NEED FOR IMPROVED STATISTICS ON THE INFORMAL ECONOMY

- Data are needed on the size and composition of the informal workforce by industry or trade and by gender
- Data are needed on the savings, investment and consumption patterns of households that rely on informal enterprises and informal jobs and on the links between income from formal and informal sources

## MACROECONOMIC POLICIES

### FISCAL POLICIES AND THE INFORMAL ECONOMY

#### Public Spending

*Expenditures on skills development and enterprise development services:*

- Budget allocations for vocational skills training and non-formal education should be targeted to help informal wage workers, particularly those working as casual or contract labourers and homeworkers. Most skills-development programmes target formal wage workers.

- Budget allocations for business development services should be targeted to microenterprises, particularly those with five or fewer paid workers and those run by women. Most such programmes target small and medium-sized enterprises to the neglect of the vast majority of informal entrepreneurs.

#### Social expenditures:

- Government spending on social services and social protection should be targeted to workers in the informal economy, who represent the majority of workers in most developing countries and often the most disadvantaged workers in developed countries. Most statutory social security schemes exclude informal workers but informal workers have limited capacity to subscribe to privatised schemes.

#### Government procurement:

- Government policies on the procurement of goods and services should be modified to ensure that small and microenterprises can compete on an equal—if not stronger—footing with larger enterprises. Most government procurement policies are biased towards bids from large enterprises.

Present economic policy is strongly biased towards capital over labour, and big businesses over microenterprises. Appropriate economic policy on the informal economy should balance incentives, tax burdens and statutory benefits (e.g. unemployment insurance and pension funds) between big businesses and small, and between employers and informal workers.

Economic policies impact both the informal and the formal economy, but in different ways. Standard economic policies do not have the same effects on the informal economy, where responses are much more varied, as on the formal economy. The informal economy is very much affected by the things that economic policies regulate and impact such as the price of capital, labour, inputs, and outputs.

Trade and industry policy also provides incentives to large formal businesses to increase their international competitiveness from which small informal businesses in the same industry or sector do not benefit. These incentives—in terms of tax breaks, subsidies, and services—are unlikely to reach microbusinesses or the self-employed. For example, few microentrepreneurs and fewer still self-employed producers receive training or subsidies from the government or are invited to participate in export-promotion fairs. At their most negative, export-promotion policies can shift ownership away from small production units (often owned by women) to larger mechanised units (often owned by men). Proactive policy on the informal economy would shift the structure of aggregate demand, the prices of inputs and outputs, and the set of incentives and subsidies in favour of informal enterprises.

Economic policy also needs to consider those who work in the informal economy as consumers, not just as workers. While business organisations argue vocally for lower tax levels for businesses and high-income earners, those advocating for workers in informal employment have not yet tackled this as a priority issue. Progressive tax policy that would benefit informal workers includes lowering taxes on goods and services whose consumption constitutes a high fraction of their spending and on the forms of trade in which the poor are likely to be engaged. Given their poverty, workers in informal employment spend a higher percentage of their incomes on food than other workers and are particularly affected by flat value-added tax rates on basic food stuff. User fees for social services such as health care and education also hit poor workers hardest.

Governments need to recognise that formal institutions, such as those dealing with training and credit, stigmatise workers in the informal economy. Training and credit from formal sources tend to be administered by bureaucracies that are generally unfriendly to the poor, women, illiterates and semi-literates who predominate in the informal economy. Similar attitudes prevail in the private sector. Economic policy needs to address the disadvantages and vulnerability of the informal economy that derives from its lack of access to formal training and credit institutions.

Kenya and India each provide examples of governments enacting national economic policies to encourage the informal economy.

### Kenya and India: National Policies Encouraging the Informal Economy

#### Kenya—National Policy on the Informal Economy

Kenya has a significant place in the history of policy development for the informal economy. In Kenya, in 1972, a World Employment Programme mission of the International Labour Organization “discovered” the many small-scale industrial enterprises operating as innovative and productive centres of African trade. The realisation of the powerful development potential of the informal economy emerged from the ILO Mission’s observations and recommendations. The informal economy in Kenya came to be known as *jua kali* (hot sun), referring to the dynamic microenterprises of artisans and traders who worked under the hot sun. Recognising its links to economic prosperity, the Government of Kenya began to incorporate the informal economy into national economic policy. In 1986, policy makers detailed direct assistance to individuals and small businesses, including:

- Flexible credit schemes
- Encouragement of technical graduates to start their own businesses
- Encouragement of the sector to produce cheap alternatives to expensive imported items
- Promotion of co-operatives to access credit, group purchasing and marketing, information and assistance on new technologies
- Establishment of a task force to review policies to promote the informal economy

- Ways to encourage a culture of enterprise
  - Reorientation of training institutions to produce entrepreneurs and risk takers
  - Government subcontracting work to the *jua kali*
- These elements were incorporated into the national Development Plan 1989-1993. In 1989, with ILO and UNDP, the government and a wide variety of stakeholders produced a three-volume study entitled *A Strategy for Small Enterprise Development in Africa*, one of the most thorough attempts to implement strategies to encourage small enterprises and the *jua kali* world. The study said that government should not set up enterprises itself, but rather should facilitate private sector efforts. It advocated:
- Education in self-employment and entrepreneurship
  - Facilitation of credit to small-scale enterprises

These recommendations led to a policy on the informal economy in 1992, identifying the sector as having the greatest potential for employment creation. The policy produced an ambitious and comprehensive plan, including the establishment of a large number of institutions. Since then, the sector has benefited from measures specific to it, including introduction of entrepreneurship education and Small Business Centres, but also from economic policies including liberalisation of imports, relaxation of price controls and deregulation of interest rates.

Policy work in Kenya and the resulting research interest has revealed some important findings:

- The enormity of the sector. In 1993, it comprised 900,000 enterprises employing two million people.
- Undercounting of the rural informal economy. Many microenterprises are in rural areas.
- The important role of women who make up 46 percent of the sector’s entrepreneurs

The informal economy in Kenya still faces challenges. Many high-level policy makers continue to regard self-employment as “underdevelopment” and of low priority, not as a key sector in Kenya’s future. There is no coordinating body in government for the informal economy, which touches the lives of all Kenyans and is impacted by all policies related to rural development, industrialisation and urbanisation. *Jua kali* policy needs to be seen as an integral part of overall technology and industry policy. Moreover, the voice of its principal actors is absent: the *jua kali* themselves do not seem to have the opportunity to make recommendations for themselves.

#### India—Incentives for Artisan Production and the Small-Scale Sector

India has a rich tradition of handicrafts and artisanal production. Unlike other countries where industrialisation displaced most handicrafts, the Government of India has followed a deliberate policy to promote artisans for more than forty years. Most of the assistance has gone to master craftspeople who produce for both the domestic and international market. Government measures

to promote artisan production included setting up ministries for handicrafts, reserving raw materials and markets for designated products, undertaking research on designs and technologies, and providing special budgets and subsidies. When India liberalised its economic policies, many of its artisans were able to take advantage of global markets. The sector doubled in size from 1991 to 1998. Presently there are nearly ten million skilled craftspeople in the country, contributing \$5.6 billion to India’s GDP. The artisanal sector is also a major contributor to India’s export earnings.

In addition to promoting skilled crafts, in the 1970s India began to encourage small-scale industries. The policies took the form of preferential excise tax rates, easing of restrictive labour laws, and reservation of certain scarce market items. The small-scale sector subsequently grew at the expense of both large-scale and microindustries. Many of these policies are now being withdrawn, with a policy bias shifting back to large industry. However, over the last decade the government has introduced a targeted policy to promote and strengthen “small, tiny and village enterprises,” targeting cottage and village industries, handicraft artisans, *khadi* and handloom weavers. This policy includes help in acquiring technology, assistance to educated unemployed youth, and assurance of access to raw materials.

#### Revenue

Revenue is an area with substantial impact on those working in the informal economy. However, most analysis of the impact of government budgets looks exclusively at public spending, to the neglect of the differential impact of revenue generation (direct, indirect and corporate taxes) on workers in the informal economy.

#### Value-added Taxes:

- Value-added taxes affect those who work in the informal economy as both consumers and producers. Because they operate in highly competitive and price-sensitive markets, informal producers and traders often find it difficult to “pass on” the value-added tax to their customers.

Moreover, a flat rate value-added tax rate—especially on basic foodstuff—can be regressive for informal consumers because low-income households spend a larger proportion of their income on food—and earn a higher proportion of their income in the informal economy—than higher-income households.

#### Indirect Taxes:

- Street vendors in markets may be paying more in transaction costs (bribes, fees to shopkeepers to use toilets, store goods, etc.) than they would have paid in taxes. Cost-benefit analyses should be done from the perspective of street vendors.

#### Corporate Taxes:

- As part of export-promotion incentive packages, many countries lower the corporate income tax rate. Few microentrepreneurs and no self-employed producers pay corporate income taxes. They would, however, benefit from lower personal income tax rates.

**GLOBALISATION AND INFORMALISATION**

Many people have gained from globalisation. It opens opportunities for some better off people and affords first-time entry to the economy to many poor people. However, available evidence suggests that globalisation has served to erode or to informalise employment relations in the following ways:

- Workers receive lower wages and benefits because their bargaining power has eroded
- Workers pay a larger share of non-wage costs of improving work conditions and covering benefits
- Workers face greater instability and insecurity in terms of earnings and hours worked due to volatility in labour demand

The informal economy is where most jobs—but few workers’ rights—are to be found. Over eighty percent of workers in low-income countries, 40 percent of those in middle-income countries, and 15 percent of those in high-income countries are employed in the informal economy. In the past, the informal workforce was not organised by trade unions and not covered by national labour legislation. Today, informal workers and labour advocates around the world are demanding workers’ rights for all workers, including informal workers. Some of the impetus behind the demand for workers’ rights for the informal workforce relates to concerns about globalisation.

Globalisation privileges capital, which can move easily and quickly across borders, to the disadvantage of labour, which cannot. This strengthens the bargaining power of employers and weakens that of employees or workers who can be substituted for each other across borders. Another dimension of globalisation is the restructuring of production through subcontracting chains that reach across countries, often with lead firms in the industrialised countries putting out work to manufacturers in developing countries who, in turn, subcontract to sweatshops or homeworkers. This places seemingly insurmountable distance between workers at the lowest ends of these global production chains and their real employers in the lead firms.

**International Labour Standards**

Through the International Labour Organization, a system of international labour standards and labour conventions developed during the last century. Workers’ rights include core labour standards around which there is widespread international agreement and other basic rights. The core rights, encompassed in international conventions, include freedom of association and the right to collective bargaining; elimination of all forms of forced or compulsory labour; elimination of discrimination in respect of employment and occupation; and the effective abolition of child labour. At a minimum, these core rights, which apply to all workers, need to be extended and enforced for informal workers.

Other areas of basic rights include safe and healthy working conditions, reasonable working hours, severance notice and pay, paid sick leave and vacations, and retirement compensation. Some of these are incorporated in existing international standards and conventions and should, in principle, be extended to informal workers. Most ILO standards apply to all workers or, if targeted at workers in the formal economy, have explicit provisions for extension to other categories of workers. One ILO Convention—the 1996 Home Work Convention—focuses on a specific category of worker in the informal economy: homeworkers or industrial outworkers who work from their

homes. And two ILO Conventions—one on rural workers, the other on indigenous and tribal peoples—focuses on groups who are often in the informal economy. The long-standing commitment of the International Labour Organization (ILO) to protecting the rights of all workers irrespective of where they work was reinforced in 1998 when the International Labour Conference unanimously adopted a Declaration on Fundamental Principles and Rights at Work that applies to all those who work, regardless of their employment relationship. Most recently, the ILO has explicitly incorporated the informal economy in its policy framework called “Decent Work”.

**Decent Work and the Informal Economy**

In 1999, the Director General of the ILO formulated a vision of Decent Work for all workers. Under this framework, the gaps—or deficits—in decent work are seen to include:

- Absence of sufficient employment opportunities
- Inadequate social protection
- Denial of workers’ rights and benefits
- Exclusion from social dialogue

Reducing decent work deficits means, therefore, reducing the employment gap, improving the rights at work, providing social protection, and increasing the representation—or voice—of workers.

The ILO recognises that decent work deficits are more common in the informal economy than in the formal economy. Therefore, its concern for decent work applies to those working in the informal economy. Reflecting this concern, the Governing Body of the ILO voted to have a General Discussion on the Informal Economy at the International Labour Conference in June 2002.

**National Labour Legislation**

International labour standards need to be ratified and enforced by individual countries. In consultation with organisations of workers in the informal economy, national governments need to review how existing labour legislation can be extended to protect the rights of workers in the informal economy and whether additional labour legislation needs to be introduced to adequately protect the rights of the informal workforce. The Government of India recently undertook such a review (see pp.10-11).

Some countries have adopted progressive labour legislation that addresses the insecurity and disadvantages of specific categories of informal or non-standard wage workers, including homeworkers (Canada), temporary workers (France), and sweatshop workers (California).

*“The employers spend nothing. They should actually be paying homebased workers more than factory workers, since we bear these expenses.”*

Garment Makers Organiser, SEWA, Ahmedabad, India

**Convention on Homework**

As the number of homeworkers has increased globally, labour standards and collective bargaining have been bypassed, leading to unacceptable standards of work. The work of a number of activist organisations led to the elaboration of the only ILO Convention specifically targeted to the informal economy—the 1996 ILO Convention on Home Work (Convention no. 177), which sets out minimum standards for pay and working conditions for homeworkers. The related Recommendation,

also passed in 1996, details a full programme to improve the conditions of homeworkers. To date only Ireland and Finland have ratified the Convention, although several other countries are considering national legislation in line with the Convention and its Recommendation. The EU has encouraged its member states to consider ratification.

**Progressive Labour Legislation for Informal Workers**

**Homeworkers:** A law in Ontario, Canada, mandates that homeworkers should be paid a 10 percent premium on the minimum wage to compensate for the costs of production they have to bear by working at home.

**Temporary workers:** A law in France mandates that workers in what is called non-standard or temporary employment must receive the same wages as those doing the same work in regular employment, plus a premium at the end of their contract period because of the precarious nature of their work. French workers in this category are also covered by collective bargaining agreements and receive a number of benefits.

**Sweatshop garment workers:** A 1999 labour law in California, USA imposes a wage guarantee, provides an expedited process for recovering unpaid wages, and allows garment workers to bring court action against the manufacturers who subcontract to unregistered contractors.

The National Commission on Labour in India, set up in 1999, has been working on developing, implementing and enforcing national labour legislation on the unorganised sector, as India calls the informal economy. Unlike earlier labour commissions in India, which neglected the informal or unorganised workforce, this Commission decided to recognise informal workers and to formulate an umbrella legislation for the sector. Touring the country and holding hearings with both worker and employer organisations, the Commission focused on the country's changing economic environment, with particular regard to globalisation of the economy and liberalisation of trade and industry. It examined ways in which labour protection and welfare measures could apply in a flexible labour market. The Commission was also charged with improving the effectiveness of social security, occupational health and safety measures, and minimum wages, with attention to safeguarding women and handicapped workers. The study group on Women Workers and Child Labour, one of five study groups set up under the Commission, recommended broadening the definition of worker to accommodate more categories of informal workers, promoting equal pay for men and women workers, extending maternity coverage to many informal workers, and mandating the provision of child-care facilities in small and medium-scale enterprises. Some of the recommendations of this study group include concrete and comprehensive ideas of how to extend national labour legislation to cover informal women workers. The final report of the Commission is expected by the end of 2001.

## Proposed Labour Legislation on Informal Workers in India

### A. General Acts

#### 1. Minimum Wages Act

- Broaden definition of worker to accommodate more categories of informal workers
- Include piece rates, not just time rates, under minimum wage
- Set a common national minimum wage
- Authorise designated local civil society organisations in each state to hear and review complaints from workers

#### 2. Unprotected Manual Workers (Regulation of Employment and Welfare) Act, 1979 (Tamil Nadu)

- Enact similar acts in other states
- Expand coverage to include informal workers in the trades and industries covered by the Act
- Set up Boards in the various trades and industries to administer benefits
- Empower civil society organisations to identify informal workers, especially women, in the designated trades and industries

#### 3. Inter-State Migrant Workers Act

- Extend coverage to cover workers who have migrated on their own—not only those who were recruited through a contractor

### B. Equal Remuneration Act, 1975

The Equal Remuneration Act should be amended to promote equal remuneration between all workers—men and women, formal and informal, as follows:

- Extend application of Act to cover unequal remuneration not just within units/establishments but across units/establishments by occupational group, industry or sector, or region
- Replace clause “same work or work of a similar nature” by clause “work of equal value”
- Provide guidelines and mandate training for labour inspectors—e.g., to help them to identify discriminatory practices pertaining to the ERA
- Authorise greater role and more power to civil society organisations in the implementation of the provisions of the Act—e.g. a role in the setting of wages or the power to inspect premises

### C. Sector-Specific Acts

#### 1. Bidi (hand-rolled cigarettes) and Cigar Workers (Conditions of Employment) Act, 1996

- Include those who work under “sale-purchase” system in definition of “employee”
- Fix a National Minimum Wage for bidi rolling to be adopted by all states

#### 2. Building and Other Construction Workers (Regulation of Employment and Conditions of Service), 1996

- Extend the coverage of the Act to building projects involving costs below current minimum rupee value
- Extend the coverage of this Act to contractors and construction projects involving fewer than 10 workers
- Stipulate worker's record of number of days worked will be registered, to meet the stipulated “90 days of construction work” requirement, unless challenged and proven otherwise by the employer
- Extract levy from the contractor's construction budget at the time that they submit it to the necessary authority (e.g. Municipal Corporation) for approval

### D. Women-Specific Measures

#### 1. Maternity Benefit Act—coverage needs to be expanded:

- Expand sphere of this Act to cover:
  - Shops and establishments employing fewer than 10 employees
  - Informal workers who complete 180 days of work in a year
- Increase amount prescribed as medical bonus
- Increase authorised leave period from six weeks to eight weeks
- Authorise 15 days of paternity leave
- Extend maternity and paternity leave to employees who adopt a child of one year of age or less

#### 2. Industrial Disputes Act

- Include prohibitions against all forms of sexual harassment as per 1992 Order of the Supreme Court (W.P. CRL Nos: 666-70), including physical contact and advances; demand or request for sexual favours; sexually-coloured remarks; showing of pornography; and other unwelcome physical, verbal, or non-verbal conduct of a sexual nature
- Give proportionate representation to female employees in the Worker Committee

- Include scope for convening Private Conciliation Boards to facilitate speedy disposal of grievances filed by female employees

- Mandate separate Labour court to hear and decide the cases of female workers

#### 3. Workmen's Compensation Act, 1923

- Increase amount of compensation for women workers because of their dual work burden at home
- Empower Workmen's Compensation Commissioner to pass interim relief orders during the hearing of such cases
- Provide coverage for all female workers under medical insurance schemes

#### 4. Factories Act, 1948 (and other Acts—with child care provisions)

- Mandate provision of creches in all factories employing more than 10 workers (either men or women)

#### 5. Employees State Insurance Act 1948—cash benefit to insure women for pregnancy

- Extend coverage to units of 10 workers and to workers who earn less than Rs. 3000 monthly

### E. Advisory, Worker, and Tripartite Committees or Boards (mandated under most of these Acts)

- Empower and expand the activities of these institutions to review and regularise irregular tactics by employers, such as shifting from sub-contract to sale-purchase arrangements to avoid employer status
- Set time frames for such reviews and for revising standards, such as Minimum Wage
- Include at least one woman from all sides (employer, formal employees, informal workers, and government)
- Include representatives of trade unions of informal women workers and formal women workers
- Mandate appropriate levels of contribution from employers, employees, and state governments to help the Committees/Boards oversee implementation of benefits and services mandated under the various Acts

### Other Approaches to Promoting Labour Standards

In addition to—and reinforcing—the ratification and enforcement of existing international labour standards by countries, various approaches to promoting labour standards have been proposed. While none as yet predominates, they include:

- Adoption by companies, either voluntarily or under pressure from consumer groups, of verifiable codes of conduct (see Australian example, right).
- Monitoring of codes of conduct by independent monitors
- Establishing systematic competition between firms based upon their performance in the treatment of workers, making outstanding social performance a marketable and emulatable commodity.
- Transnational organising of workers in specific industries to advocate for and demand their rights
- Building regional consensus on minimum standards of work and, perhaps, regional inspectorates and courts to monitor and enforce them.

At a recent South Asia regional workshop on home-based workers, the participants—including government, NGO, and worker representatives from five countries in the region—drafted the Kathmandu Declaration and submitted it to the South Asia Association for Cooperation (see p.13). This Declaration and the process that led to it represent an important first step towards building a regional policy stance on homeworkers.

### The Homeworkers Code of Practice—Australia

In their work to organise homeworkers who make up the majority of the workforce in selected industries in Australia, the Textile, Clothing and Footwear Union (TCFUA) organised a consumer campaign to encourage retailers to sign up to a code of good practice for the employment of homeworkers. Homeworkers are defined as persons who sew products at home or in premises other than a registered factory. The trade union also won a binding industry-wide agreement on the terms and conditions of homeworker employment. A unit within the union monitors the situation of garment homeworkers and files cases against companies that fail to comply with the conditions of the agreement. TCFUA worked with consumer, church, community, and student groups to encourage signatories to the code of good practice.

Parties to the code agreement include the Union, the Council of Textile and Fashion Industries Ltd., the Australian Chamber of Manufacturers, and the Australian Business Chamber. The parties agreed that the homeworkers should be paid not less than the appropriate skill level rate used by the union. Manufacturers who comply are entitled to use an identifying logo. In purchase contracts retailers require their suppliers to comply. The agreement also covers the hours of work (not more than 76 hours in a fortnight), with no requirement to work on Saturday or Sunday unless the homeworker chooses to do so. The homeworkers are covered by workers compensation, and payments are made for them into a retirement pension fund. They also receive advance notice when work is no longer available for a period. The homeworkers are union members. The union, the manufacturers (through their licence payments), and the State and Commonwealth governments contribute to an education, publicity, and compliance fund on behalf of the agreement.

In 1996, TCFUA lobbying led to the passage of a federal law protecting pay and working conditions of outworkers. When a backlash tried to remove the legal protections for clothing outworkers, it was defeated in court in 1999. The same year the Union successfully pursued legal actions against a number of major textile companies that had been ignoring the federal law on clothing outworkers.

### Kathmandu Declaration on Women Workers in the Informal Sector, particularly homebased workers

Governments of four nations (India, Nepal, Pakistan and Sri Lanka), trade unions, non-governmental, community and international organisations, and research institutions from the four countries and Bangladesh met in Kathmandu, Nepal in October 2000 at the South Asian Regional Meeting on Women Workers in the Informal Sector: Creating an Enabling Environment and adopted the following declaration:

- **Whereas**, women workers in the informal sector, unorganised and agro-based sectors contribute significantly to the economic development of their respective countries, and acknowledging that home-based work has been growing rapidly worldwide due to globalisation and liberalisation, particularly in South Asia,
- **And whereas** available evidence suggests that homebased work is an important source of employment, especially for economically disadvantaged women,
- **And noting** that there are at least 50 million homebased workers in South Asia of whom around 80 percent are women, who carry out remunerative production and services in their own homes and include own account or self-employed workers as well as those who do work for contractors or employers at the piece-rates,
- **And whereas** such workers contribute significantly to the National Economy, these workers are mostly illiterate, invisible, unrepresented and voiceless, and are not generally incorporated in the National Development agendas.

Therefore, in order to bring these homebased workers into the national economic mainstream in accordance with the ILO Convention no. 177, this meeting recommends:

1. Formulation of a National Policy and a Plan of Action on Home-based Workers by the Governments of the South Asian Region, in consultation with the stakeholders, with the following components:
  - Minimum protection, including the right to organise, minimum remuneration, occupational health and safety, statutory social protection, maternity, child-care, skill development and literacy programmes.
  - Access to markets and economic resources including raw materials, marketing infrastructure, technology, credit, and information.
  - Social Funds for homebased workers, to provide insurance against risks of illness, death, old age, accidents, loss of livelihood, assets, and contingencies.
2. Incorporation into official statistics of baseline data regarding various categories of workers in the informal sector, in particular homebased workers, and their contribution to national economies.

The meeting urges the South Asia Association for Cooperation to address the issues of homebased workers in the region and take measures to enable them to deal with the risks and opportunities of globalisation by:

- Setting up a technical committee for informal sector workers and home-based workers to promote:
- National policies
  - Bilateral cooperation
  - Regional cooperation

Promoting increased integration of markets at the regional level so as to create more employment opportunities and including homebased products in the South Asian Free Trade Authority (SAFTA) priority list.

By the year 2010, more than half of the population in most developing countries will be urban. It is likely that the informal economy will account for the majority of the urban workforce in the developing world: it now accounts for 40 to 60 percent of urban employment in different developing countries.

Street vendors, who probably now represent a third of the urban informal workforce, are a major concern to urban policy makers. The major policy question is whether to restrict or to promote street vendors. Vendors seek the right to vend without harassment and to have regular selling spaces in places that customers frequent, storage facilities, and basic infrastructure such as water, shelter, and toilets. Policy regarding street vendors deals with zoning and space (places to vend, relocation), licences and registration (licences or ID cards afford freedom from harassment and protection from extortion from various sources), infrastructure, and services.

Urban informal economy policies should also address the situation of home-based workers, garbage and paper pickers, and informal transport workers. All urban informal workers are concerned with social services (health, education and childcare), law and order (protection and the ability to work steadily without disruptions), and the establishment of a negotiation framework and local appeals mechanism.

#### Regulation versus Deregulation

There is ongoing policy debate over regulation and deregulation of the informal sector, particularly of street vendors. However, even when deregulation is advocated, it is for small businesses, but not for street vendors or other informal entrepreneurs. In addition, all forms of regulation (labour, commercial and property) tend to get lumped together without distinction. The essential issue is not to make a choice between regulation and deregulation, but rather to formulate appropriate regulations through a process in which those to be regulated have a direct voice.

Negative attitudes towards the informal economy often impede rational policy analysis. Most informal economy entrepreneurs operating in the urban areas are thought to be unregulated or avoiding regulation. Many cannot get licences through no fault of their own. Street vendors have to bear many costs—both legitimate (permits, licences, site payments, storage, water, and toilet fees) as well as illegitimate ones (middlemen's fees, bribes and extortion). Many current "illegals" would be happy for a chance to get licences and leave behind their current existences based on extortion and fear. Many street vendors, when asked, clamour for the right to pay the relevant authority whatever revenue is required, because this would afford them recognition and legal status. However, they expect some services and other benefits for the payments they make and clear and transparent agreements about rights and responsibilities.

#### Appropriate Regulations

In order to realize the economic and social contributions of the urban informal economy and at the same time protect the rights of all citizens, urban policies and regulations could adopt the following principles:

- Regulate, but don't prohibit, street trade
- Decriminalise violations of street vending laws and regulations—move to a system of administrative control, rather than criminal control
- Regard licence fees as taxes entitling street vendors to material infrastructure for the improvement of their work environment (lighting, toilets, shelter, storage space, water)—which both they and the public want
- Ensure the participation of street vendors and other stakeholders in framing appropriate regulation

Recent efforts have been made in India, Kenya, and South Africa to frame appropriate regulations for street vendors (see pp. 15-16). The policy process in Durban, South Africa, is a particularly promising example of negotiated reforms involving all stakeholders, including street vendors themselves.

#### Regulating Street Vendors: Kenya, India and South Africa

##### India—National Policy Dialogue: From Removal to Effective Regulation

The National Alliance of Street Vendors in India (NASVI) was founded in 1998. With affiliates in 49 cities and 22 states, NASVI is a coalition of trade unions and voluntary organisations working to protect the rights and improve living conditions of hawkers and vendors. The alliance is lobbying the government to formulate a national policy on street vendors. The Alliance supports the establishment of committees including vendors and local authorities to settle disputes and discuss matters of common concern including guidelines for street vendors and hawkers.

In May 2001 the Indian Ministry of Urban Development and Poverty Alleviation together with NASVI and the Self Employed Women's Association (SEWA) organised a National Policy Dialogue workshop on street vendors and hawkers. Participants included national ministry and state government officials, municipal commissioners, judges, and vendors organisations from throughout India. In recognition of the vital and growing economic role of vendors, one third of whom are women, as well as the Indian Supreme Court's declaration of hawking as a fundamental right, the workshop mandated the formulation of national guidelines for street vendors and hawkers on the following principles:

- Local urban policies on street vendors should move from removal to effective regulation
- Legal recognition for street vendors through issuance of identity cards
- Reservation of a certain percentage of land for street vending
- Priority to women vendors in issuing permissions
- Provision of sanitary facilities
- Creation of discussion forums for resolution of issues between vendors associations and local bodies
- Establishment of vendor fees for usage of space
- Provision of credit and microfinance for vendors

The cities of Mumbai and Bangalore also issued declarations recognising the rights and responsibilities of street vendors, and the School of Planning and Architecture in Delhi has undertaken a study to include vendors in the master plan for New Delhi.

##### Kenya—City Studies and National Workshop

The Institute of Development Studies, University of Nairobi carried out a study in four Kenyan cities/towns of the policy and regulatory environment in which Kenyan street vendors operate and of existing street vendor organisations. Among the findings of the studies:

- In the absence of clear policies and regulations on street vendors, authorities rely on outdated regulations to harass and control vendors
- Most sites where vendors operate are devoid of basic services
- Most traders operate without licences and pay no fees for vending, but are coerced into paying bribes which exceed the likely costs of licences
- Clear requirements for vending and information on licencing fees and procedures are absent
- Much legislation governing street vendors is unknown either to hawkers or local authorities
- There are no clear guidelines on enforcement of existing regulations, giving rise to manipulation by enforcement offices
- Most vendors operate outside the law because outdated regulations are arduous and unrealistic
- Communication between vendors and urban authorities is poor
- Existing groupings of street vendors are very weak

The project recommended that:

- Urban authorities need to develop clear policies and regulations for street vendors and make them available to vendors in easy-to-understand form
- Communal sites with basic services should be set aside for vendors
- Mechanisms should be set up to resolve street traders' conflicts with shopkeepers
- To avoid possibilities of extortion, requirements for vending fees and licences and vending sites should be clear, and enforcement officers should wear uniforms
- If goods must be confiscated, procedures must be clear and transparent, and tribunals established to deal with disputes
- Local and national communication forums should be organised to improve vendor-authority communication
- To strengthen the capacity of vendor organisations to advocate for their members, umbrella associations should be established that can liaise with urban councils and national authorities

In March 2000, the Institute of Development Studies organised a national workshop of all stakeholders to work towards a national policy on street vendors.

## Regulating Street Vendors: Kenya, India and South Africa (continued)

### South Africa—Durban Policy Process

The experience of Durban, South Africa is an excellent example of policy making for the urban informal economy, from elaborating a vision for the role of the informal economy in the long-term economic plans for the city, to turning that vision into policy, and moving to setting up an implementation strategy with institutional structures.

Apartheid South Africa harshly over-regulated informal economy entrepreneurial activities of black South Africans. In 1994, with the advent of democratic government and Nelson Mandela as President, the new South African Constitution mandated local government to promote local economic development and adopt pro-poor urban policies emphasising participation and consultation.

In 1999, Durban embarked on a process of policy development to both support and control the informal economy. Early in the process the policy team adopted a shared vision of the role and importance of the informal economy as an important job creator and contributor to the city's economy, organically linked to the formal economy. They saw street traders as workers who were an integral part of the city's life and economy, not as survivalists or welfare cases. Research on informal trade sectors including clothing and accessories, traditional medicine, fruits and vegetables, supported the making of policy. The team consulted with poorer traders and their organisations. In workshops, mass meetings, and other settings, workers identified their priority needs and expressed their views on possible mechanisms for integrating the informal economy into local government structures.

The policy development process benefited from the existence of a number of pilot projects in urban renewal and health, through which officials learned the importance and cost-effectiveness of negotiated change. Some aspects of the policy and its implementation include:

- Simplification of registration costs for vendors and home-based workers, with incentives for registration
- Representation of informal trader organisations on planning and policy committees
- Provision of support to trader organisations (meeting places, legal advice, and secretarial help), using existing municipal assets
- City officials and traders working together to improve the image of the informal economy.

The establishment of an implementation team followed the eighteen-month policy development process. The South African economy is fragile, and local governments are under pressure to deliver on a number of fronts. Nevertheless, the policy process continues to build, including the strengthening of organisations of informal traders so that government has strong partners with whom to negotiate.

The Durban policy was ratified in December 2001.

## SOCIAL PROTECTION POLICY

Although they face a common set of core risks with those who work in the formal economy and usually bear more of the costs of production themselves, informal economy workers seldom receive social benefits from either their employer or their government. Indeed, some observers of the informal economy define informal employment as work not covered by social insurance programmes.

With the growth in the informal economy, there has been a concomitant growth in the number of workers without benefits. Most workers and entrepreneurs in the informal sector are without unemployment insurance, health insurance, and retirement or disability benefits. At the same time, their average incomes are lower than those in the formal economy.

In the past, governments ignored the social protection needs of those in the sector, feeling that family and community support did the job. However, informal insurance mechanisms are seldom adequate and never secure. At the same time, those who work in the informal economy probably face more hazards than other workers. If workers demand better security and protection, employers frequently respond by replacing them.

Both social arguments (for basic human rights) and economic arguments (increased productivity of workers in a secure setting) can be used to make the case for providing these benefits. Basic insurance, pensions and safety nets are needed to provide work-based security for workers who have been left out of social security schemes.

Social insurance for the informal economy may be most easily realised through schemes where workers contribute. Even very poor workers are willing and able to save, but they should not have to bear all the responsibility for protecting against risk and social provision. There are active roles for the state, the private sector, trade unions, and other civil society organisations in providing social protection for informal economy workers. The state can be involved by making financial contributions, managing the scheme, or delivering the benefits. Employers—including lead firms in subcontracting chains—can make financial contributions. When individual employers are unwilling to contribute, the total output of specific industries can be taxed (as is the case of *bidi* workers in India).

The private insurance industry or the government may be willing to negotiate with organised groups of informal workers (such as domestic or migrant workers) about shared contributions to insurance funds. Financing can be a combination of subscriber fees, employer contributions, and taxes on entire industries, grants, and government subsidies.

### Social Protection Schemes: Promising Examples

Throughout the world, but particularly in developing countries, there are a number of promising examples of social protection for informal workers. These include:

- A Mutual Health Insurance Scheme in Bolivia that covers basic health care services for its members, half of whom are informal economy workers excluded from other social security systems. The programme is run by an NGO and financed through member contributions and grants from development agencies.
- Mutual health insurance schemes for informal workers and producers in West Africa.
- Pensions for agricultural workers with below-poverty incomes have been introduced by the state of Kerala in India.
- The National Pension System in Japan that provides health and pension insurance for more than 90 percent of its people, including informal workers. Japan was a middle income country in the early 1960s when it introduced the system, which does not distinguish between the formal and informal economy or between self-employed workers and those in microenterprises.
- Extension of Portugal's statutory social security system to cover homebased embroiderers of Madeira for old age, disability, maternity, and sick days.

### BASIC PRINCIPLES OF SOCIAL PROTECTION SCHEMES FOR THE INFORMAL ECONOMY

- **Incremental schemes, providing a core set of provisions that can be expanded**
- **Participatory, involving the beneficiaries in design, implementation, and monitoring of the scheme**
- **Equitable financing, possibly from several sources, including government subsidies and employer contributions**
- **Decentralised, flexible and user-responsive**

*“Police will beat us, accusing us of selling stolen goods and taking bribes too. Sometimes, the municipal people will come and remove all our things in their van. Of course, we get back the clothes after paying fines, but even then, we suffer because all the goods get mixed up and we have to sort them out. Often, this starts a quarrel amongst ourselves.”*

**Used Clothes Vendor, SEWA, Ahmedabad, India**

## Social Insurance in India and Brazil

### India—Welfare Funds for Bidi Workers

A constraint that governments face in providing social protection to informal economy workers is the difficulty of identifying workers who work outside formal factory or other institutional settings. One solution to providing coverage for workers in the unorganised sector is through taxing not the employers but the revenue that the sector generates. Termed “welfare funds”, the funds raised from these levies are used on the welfare of the workers producing the taxed products.

India uses this system for the benefit of *bidi* producers who comprise a substantial number of the Indian informal economy workforce. Ninety percent of workers in the *bidi* industry are women. They are casual workers working for low wages, without access to fair credit, health insurance or social security. The Bidi Workers Welfare Act (1976) provides the national labour legislation that taxes the revenue generated by the sector (but not employers) to create a welfare fund administered by government. Taxes of 50 *paise* per 1000 *bidis* are levied.

The welfare fund operates hospitals and dispensaries, awards scholarships, and provides school supplies and uniforms. However, the expenditures are limited and do not cover standard aspects of social protection such as sickness, occupational injury, maternity, invalidity, old age, or survivors and unemployment coverage. Recently, welfare funds have been extended into group insurance for which the welfare fund pays half. The remainder is subsidised by the Life Insurance Corporation Insurance Scheme. Some 2.7 million workers are covered by the Bidi Welfare Fund. Nevertheless, estimates put the number of *bidi* workers at 4.3 million, underlining the problems in getting employers to issue ID cards.

### Brazil—Rural Social Insurance

Brazil provides an example, rare in Latin America, of a state-sponsored social protection programme for those outside the formal economy. Brazil’s Rural Social Insurance Programme is a non-contributory pension and disability programme for the rural poor, instituted following the 1988 Constitution that extended basic pension benefits to the old and disabled in informal rural employment. Under the programme, men over 60 and women over 55 who have worked in subsistence agriculture, fishing, and mining receive the equivalent of the minimum wage.

The programme has not only alleviated poverty but has also led to recipients moving from subsistence agriculture to sustainable household production. Ancillary social benefits include increased school enrolment among children in beneficiary households. Evaluators of this new scheme suggest that it has become a key instrument supporting rural development and agricultural policy.

## Social Protection for Casual Labourers and Homeworkers

### India—SEWA Integrated Social Security Scheme

Over 90 percent of India’s workers (including agricultural workers) are in the informal economy, with little, if any, statutory social security. Most are casual labourers, contract and piece-rate workers, and self-employed own-account workers. SEWA is a registered trade union with over 300,000 members across India, most of whom are street vendors, home-based workers, and labourers. Since its establishment in 1972, SEWA has focused on the employment, income, and financial security of low-income working women in the informal economy.

SEWA’s Integrated Social Security Programme is the largest comprehensive contributory social security scheme in India for informal economy workers, presently insuring more than 32,000 women workers. It covers health insurance, including a maternity component, life insurance and asset insurance. Subscription is voluntary for SEWA members, at a cost of US\$1.50 per year for the total insurance package and an additional fifteen cents for life insurance. The SEWA Bank handles membership and claims processing. Premiums can also be paid through mobile services.

The scheme is financed one-third through interest from a donor grant, one-third through direct contributions by women workers, and one-third through the Life Insurance Corporation of India and the Indian Ministry of Labour. The women’s contributions guarantee them a voice in the design and administration of the scheme. The tripartite contributions mirror the state, employer, and employee contributory structure of the statutory social insurance, except that the traditional responsibility of the employer has been assumed by the donor agency’s contribution. The premium structures, including lifetime, annual and monthly payments, are designed to suit different income groups among the very poor. SEWA is decentralising its operations to accommodate the large number of poor rural women who want to join the scheme.

SEWA has shown that it is possible to create schemes that are adaptable, replicable and profitable. SEWA’s scheme demonstrates that workers are willing to pay for insurance in increasing amounts, as long as the service is appropriately designed and sensitive to their needs. SEWA is looking to extend coverage to families (currently only women members are enrolled) and expand its health benefits. It is also trying to increase private sector and government participation.

### Southeast Asia—Policies for Homeworkers

Homeworkers, predominantly women, are among the largest and fastest growing categories of workers in the informal economy, but among the least visible in social equity policy. Bearing all risks of employment themselves, these women work virtually without social protection. Over the last decade a movement has been active to extend social protection to homeworkers in Southeast Asia through the development of policy in three areas: gaining statistical visibility and a political voice, alleviating their poverty and reducing their vulnerability. Work in the Philippines and Indonesia to institutionalise the enumeration of homeworkers in statistical surveys stalled with the Asian financial crisis of 1997. However, in Thailand the same crisis stimulated efforts to collect regular data on this category of workers. Most progress in alleviating poverty has been realised in the Philippines where two government departments have provided grants to homeworkers, particularly for entrepreneurial activities, and the Ministry of Labour and Employment has recognised the National Network of Homeworkers.

## CONCLUSION

### Increasing the Visibility and Voice of Informal Workers

To ensure that appropriate policies are put in place, the informal workforce needs to be visible to policy makers and have a voice in the policy process. Everywhere, around the world, the informal workforce is underenumerated in official statistics. Until they are fully counted and valued in official labour force statistics and in national accounts, policy makers will continue to underestimate the size and undervalue the contribution of the informal workforce. Efforts are currently underway to improve statistics on the size, composition, and contribution of the informal economy worldwide.

The informal workforce is also excluded from or underrepresented in the processes and institutions that make policies. To gain representation and voice, workers in the informal economy need to be organised. Although they were rarely organised in the past, the number of organisations of informal workers is growing, including village or neighbourhood associations, credit groups, trade unions, cooperatives, and labour organisations.

Some of these organisations, notably those working with women in the informal economy, are forming alliances at national, regional, and global levels. In the 1990s, three international alliances were established: one of homebased worker organisations (called HomeNet); another of street vendor organisations (called StreetNet); and a third of researchers and activists working on the informal economy (called Women in Informal Employment: Globalizing and Organizing—WIEGO). Together, these three alliances (and their members) constitute a growing international movement of the informal workforce with a particular, but not exclusive, focus on women.

The key objective in building these international alliances is to increase the visibility and voice of those who work in the informal economy and thereby to promote supportive policies for the informal workforce worldwide.

### Guiding Principles

There is no global or universal policy prescription for the informal economy. Instead, the guidelines and examples presented in this brochure can help develop a policy approach in different settings.

The guiding principles include:

- Adopting a context-specific approach. Local and national circumstances are the most important determinants of appropriate policy.
- Adopting a gendered approach. Relations between men and women, their different positions in the economy, and their access to and control of resources are crucial to understanding the informal economy. In the informal economy, a gendered approach is a pro-poor approach. Supporting women's work will, in effect, lead to support for poor households and poor children.
- Adopting a democratic and participatory approach. Those who work in the informal economy should be involved in the formulation of relevant policies. The inclusion of the voice of all stakeholders in making policy is crucial to its success. The input of informal workers and their organisations is essential, based on recognition of their right to organise.
- Mainstreaming informal economy governance. Institutions that govern the informal economy should be those dealing with economic planning and development. Locating governance in traffic, health, police, or social departments ignores its economic aspects.
- Promoting policies that recognise and support both informal enterprises/entrepreneurs and informal jobs/paid workers. The lack of recognition and understanding of these two components of the informal economy often hinders the development of appropriate policy.

Developing appropriate policy is never an easy task. However, with the involvement of the organisations that represent informal workers, particularly women, it is likely to succeed.



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**Gender and Youth Affairs Division  
Commonwealth Secretariat**  
Marlborough House  
Pall Mall  
London SW1Y 5HX  
UK  
phone: +44-207-747-6461  
fax: +44-207-930-1647  
email: gad@commonwealth.int  
websites:  
www.thecommonwealth.org  
www.thecommonwealth.org/gender  
www.youngcommonwealth.org



### Contact Information

#### Women in Informal Employment: Globalizing and Organizing (WIEGO)

Carr Center for Human Rights  
Kennedy School of Government  
Harvard University  
79 John F. Kennedy Street  
Cambridge, MA 02138  
USA  
phone: +1-617-495-7639  
fax: +1-617-496-2828  
email: wiego@ksg.harvard.edu  
website: www.wiego.org

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Production coordinated by  
Elena Patiño and Marais Canali

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*“People in informal work represent the largest concentration of needs without voice, the majority of the world economy”*

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