



rights, voice, protection, & opportunities

A POLICY RESPONSE TO THE INFORMAL ECONOMY

THE NEED FOR INFORMED POLICY ON THE INFORMAL ECONOMY

Contrary to the predictions of many economists, the informal economy is growing in both developing and developed countries and taking on new forms. Yet outdated and inaccurate views of the informal economy abound: some observers view informal workers as a nuisance to be eliminated or contained, while others see them as a vulnerable group to be assisted through social policies, and still others see them as dynamic entrepreneurs to be freed from cumbersome government regulations. Responding to one or another of these contradictory views, policy makers tend to overreact to the informal economy, trying either to discourage it altogether or to promote it as a solution to economic stagnation. Given the size, resilience, and diversity of the informal economy, it is important that governments develop context-specific policies that recognise its size, contribution, and composition in different locales or industries. While informal work arrangements need appropriate regulations, policies towards the informal economy should aim to increase the productivity and improve the working conditions of those who work in it. Besides government, a number of other social actors can intervene to promote the interests of informal workers including: employers and companies; trade unions and cooperatives; non-governmental and community-based organisations; consumers and the public; informal workers and their families.

WHAT IS THE INFORMAL ECONOMY?

The informal economy is comprised of the self-employed in informal enterprises (i.e. small unregistered or unincorporated enterprises) and/or paid workers in informal jobs (i.e. without worker benefits or social protection):

- **self-employed in informal enterprises include: owner operators, own account workers, and unpaid family workers**
- **paid workers in informal jobs include: employees of informal enterprises, domestic workers, casual or day labourers, unprotected temporary or part-time workers, industrial outworkers (including homeworkers), and unregistered or undeclared workers**

The informal economy is characterised by the precarious nature of work: workers in informal enterprises and informal jobs are generally not covered by social security or labour legislation.

As a result, the earnings of those who work in the informal economy are lower, on average, than of those who work in the formal economy. And, yet, the informal and formal parts of the total economy are systemically linked through production relations (e.g. informal enterprises supply goods or services to formal firms) or employment relations (e.g. formal firms employ workers under informal employment contracts). Also, those who work in the informal economy make significant economic contributions. In brief, the informal economy is closely tied to the formal economy and to the economy as a whole.

HOW SIGNIFICANT IS THE INFORMAL ECONOMY?

Although small farmers and agricultural labourers are part of the informal economy, many countries count them separately in their statistics. This leads to an underestimation of the informal economy.

Even outside of agriculture the size and contribution of the informal economy is very significant around the world.

size of the informal economy

- **Informal employment comprises one-half to three-quarters of non-agricultural employment in developing countries.**
- **Three categories of non-standard or atypical work — self-employment, part-time and temporary work — comprise 30 per cent of overall employment in 15 European countries and 25 per cent of total employment in the United States. Although not all self-employed persons or part-time and temporary workers are informally employed, the majority receive few (if any) employment-based benefits or protection.**

composition of the informal economy

- **Self-employment represents nearly one-third of all non-agricultural employment worldwide.**
- **Self-employment represents a greater share of informal employment (outside of agriculture) than wage employment in all developing regions.**
- **Informal wage employment is also significant, representing 30 to 40 per cent of informal employment (outside of agriculture) in developing regions.**

women and men in the informal economy

- **Informal employment is generally a larger source of employment for women than for men in the developing world.**
- **Women are particularly overrepresented in low-paid informal or non-standard jobs. Although fewer women than men are in the labour force, women represent 80 per cent or more of homeworkers (industrial outworkers who work at home) in many developing countries and 60 per cent or more of part-time workers in all OECD countries reporting data.**

contribution of the informal economy

- The contribution of informal enterprises (outside of agriculture) to total non-agricultural GDP averages from just under 30 per cent in Northern Africa and Latin America to just over 30 per cent in Asia to just over 40 per cent in Sub-Saharan Africa. These figures do not include the contribution of informal wage workers to GDP.

KEY GOALS FOR A SUPPORTIVE POLICY APPROACH TOWARDS INFORMAL WORKERS

The goals of a supportive policy approach should be to increase the rights, voice, protection, and opportunities of informal workers, as follows:

- **Recognition of the rights of informal workers to be covered by core labour standards and labour legislation**
- **Promotion of organisation of informal workers and the representation of informal worker organisations in relevant policy-making or negotiating forums**
- **Provision of social protection to informal workers by extending existing schemes or designing new schemes**
- **Promotion of opportunities for informal workers to increase their assets, productivity, and competitiveness through access to skills, credit, and markets**

The areas in which enlightened policy would improve the rights, voice, protection, and opportunities of those who work in the informal economy include: **labour legislation** (that guarantees, at a minimum, core labour rights to all informal workers); **social protection coverage** (that is provided either through existing and/or new schemes); **macro-economic policies** (that balance incentives, tax burdens, and statutory benefits between small and big businesses and between informal and formal workers); and, **urban regulations** (that are formulated through a process in which those who work in the informal economy have a voice).

INCREASING VISIBILITY AND VOICE

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 undercounted in official statistics. Until they are fully counted and valued in official labour force statistics and 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.

To gain representation and voice, workers in the informal economy need to be organised. Increasingly, around the world, informal workers are forming their own organisations or are joining local worker organisations. During the 1990s, three international alliances in support of informal worker organisations were established: two grassroots alliances of worker organisations — HomeNet (homebased worker organisations) and StreetNet (street vendor organisations); and one research policy network of researchers and activist — Women in Informal Employment: Globalizing and Organising (WIEGO). Together these global networks seek to increase the visibility and voice of those who work in the informal economy and to promote supportive policies for the informal workforce worldwide.

Guiding principles for a positive policy process on the informal economy

There is no universal policy prescription for the informal economy. However, the following guiding principles should be seen as essential aspects of a positive policy process:

It should be **participatory** and **inclusive** and allow for policies to be developed through consultation with informal workers and through consensus of relevant government departments, the organisations of informal workers, and other appropriate social actors. In order to have voice, those who work in the informal economy must be organised and their efforts to organise into trade unions and cooperatives at every level should be encouraged and supported.

It should be **context-specific** based on the reality of different categories of informal workers in specific locales and industries. It should recognise and support both the self-employed and paid workers in the informal economy. The lack of recognition and understanding of these two components of the informal economy often hinders the development of appropriate policy.

It should be based on an informed understanding of the **economic** importance of informal workers and serve to **mainstream** the concerns of the informal workforce in those institutions that deal with economic planning and development.

It should be **gender sensitive** taking into account the roles and responsibilities of women and men in the informal economy. Compared to men workers, women workers tend to be concentrated in the informal economy, to earn less, and to be less likely to have social protection or be organised. As a result, women workers in the informal economy have the greatest need for supportive policies.

ADDRESSING INFORMALITY, REDUCING POVERTY

Compared to those who work in the formal economy, informal workers — both self-employed and paid workers — are more likely to be deprived of secure work, workers' rights, social protection, and representation or voice. The self-employed in informal enterprises not only have to provide for their own protection but often face a competitive disadvantage vis-à-vis larger formal firms in capital and product markets. Informal wage workers also have to care for themselves as they receive few (if any) employer-sponsored benefits. Also, both groups receive little (if any) legal or social protection. Yet those who work in the informal economy often face greater exposure to work-related and other risks than those who work in the formal economy. As a result, a higher proportion of those working in the informal economy, compared to those working in the formal economy, are poor. Considered another way, the vast majority of the working poor earn their living in the informal economy.

The persistence and growth of informal employment is a key causal factor in the persistence of global poverty. Poverty alleviation programmes will not work unless they address the root causes of the poverty and insecurity of the vast majority of who work in the informal economy: notably, their lack of workers' rights, of protection, of organisation and representation, and of productive resources and opportunities. In sum, promoting the rights, protection, voice, and opportunities of those who work in the informal economy is the surest path to reducing poverty.