

“Towards a more comprehensive model of change for the informal economy: an ILO perspective”

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1. Introduction

In the context of globalization and major changes in the world of work, the issue of the informal economy reveals to be one of the most difficult to fully understand. It is clear that nowadays it is a reality in almost all developing countries and many developed countries as well. Moreover, contrary to many opinions prevailing two decades ago, it is growing. It has been said that “it is deceptively simple and extraordinarily complex: trivial in its daily manifestations but it is able to subvert the political and economic stability of a country”² (Portes, 1994). These paradoxes fully reveal its difficulties: how to define and measure it, how to address the main challenges that it poses to policy makers and to other agents in labour markets in terms of concrete policies towards it.

This paper does not concentrate on the definition of the informal economy and how to measure it. After briefly describing the concept and adopting a definition, it summarizes the process leading to the development of a “model of change” for the informal economy discussed across the different ILO sectors and units through a participatory process facilitated by the ILO Department of Policy Integration. After defining what a “model of change” is and its basic foundations, the paper describes its different components and reveals a set of possible actions to achieve the desired goals. This revealed several interesting features: the great complexity of the problem, the richness of possible concrete policies and the importance of integrating different aspects in them, instead of only focusing on one particular aspect. It is not only an employment issue, nor only a social protection one, but simultaneously it requires both aspects to be considered when dealing with it. It is connected not only to rights’ issues but also to social dialogue, voice and representation. No sound analysis of the informal economy can do without jointly analyzing all these important aspects in connection.

2. The informal economy in the era of globalization

According to the Conclusions adopted by the International Labour Conference in 2002, “*the term “informal economy” refers to all economic activities by workers and economic units that are- in law or in practice- not covered or insufficiently covered by formal arrangements. Their activities are not included in the law, which means that they are operating outside the formal reach of the law; or they are not covered in practice, which means that –although they are operating within the formal reach of the law, the law is not applied or not enforced; or the law discourages compliance because it is inappropriate, burdensome, or imposes excessive costs*”.³ It has been also said that the informal economy “is unregulated by the institutions of society, in a legal and social environment in which similar activities are

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² “The informal economy and its paradoxes” in Smelser, N. and R. Swedberg, eds, Handbook of Economic Sociology pp. 426-449, Princeton University Press 1995.

³ “Conclusions concerning decent work and the Informal Economy” adopted by the International Labour Conference at its 90th Session, Geneva 2002, reproduced from ILC, Provisional Record, No. 25.

regulated.” (Portes et al.).⁴ This definition acknowledges that the informal activities and jobs are not part of only an economic sector, but it spreads over all activities, in the urban and rural areas. Its components can be described as unrecognized, unprotected or unregulated in both production and employment relationships. That is the main reason of preferring the term “informal economy” to the previously used “informal sector”.⁵

There are many regions where the concept has been used and studied for a long time: Africa and Latin America have a long history of quantifying, studying and developing policies towards the “informal sector”.

Keith Hart carried out a study in Kenya for the ILO (1972) and he is often quoted as having studied the informal sector for the first time. According to him, it was increasingly connected with urban poverty although he also accepts the existence of some hidden potential in this sector in terms of entrepreneurship. Its main characteristics were: easy entry and low entry costs, usually in family-owned enterprises, small scale, labour-intensive production using outdated technologies and the existence of non regulated and competitive markets.

Afterwards, V. Tokman extensively studied the informal sector in Latin America. There, the bulk of employment creation relied for a long time in the informal sector. Tokman developed his theory on the informal sector while being managing the PREALC, an ILO program in the region. He thought that, despite of its low levels of productivity and investment, the informal sector had played an important role of stability, having been a refuge from unemployment and poverty.

Departing from this point, the PREALC group in Latin America understands that the informal economy is also linked to underemployment and excluded segment of labour markets. The most interesting feature is the structural heterogeneity of the informal sector vis à vis the modern one, with important differences in wages and returns to invested capital between them but coexisting in the economy. According to PREALC, the unit of analysis was the economic production unit, focusing its attention in the promotion of small and medium enterprises, through access to credit, training, enhancing entrepreneurship, among other policies.

De Soto recognized the growing importance of the informal sector but revealed a completely different opinion on what were the roots of informality. He thought that the informal economy was the reaction to rigidities in the labour markets, and to the obstacles that the entrepreneurs usually found when trying to develop an economic business. He thought that the informal economy (“the other path”) proved to be the real capitalist forces unleashed when freed from the State’s regulatory frameworks, hindering and thwarting all initiatives and preventing all innovation from flourishing. The vision of De Soto has been very influential throughout the world.

⁴ Portes, Alejandro, Castells, Manuel & Benton, Lauren A., (eds) (1989) “The Informal Economy: Studies in Advanced and Less Developed Countries”. Baltimore and London, John Hopkins University Press.

⁵ There are also other forms of referring to the informal economy, each highlighting a specific aspect: “underground”, “unregistered”, “shadow”, “grey” economy. It is explicitly distinguished from criminal or illegal activities. The majority of participants (workers and economic units) works in the production of legal goods and services, even when they are not part of the registration of administrative records, especially those of the tax administration. The concept of the informal economy does not encompass criminal or illegal activities. It is recognized that these activities should be repressed by the administration.

Feige (1990) recognizes that the “underground” economy consists of the following components: illegal economy (production and distribution of products and services forbidden by law), non declared economy (evading tax codes), non registered economy (non observed by national accounts) and informal economy (all economic activities ignoring the cost of law enforcement, ignoring royalties, property rights, labour contracts, social security systems, among others).

According to Portes, the international division of labour entailed flexibility and decentralization in developed economies, subcontracting within their borders and in developing countries in search of lower production costs. This brought about weaker labour relationships and unions. As for him, the informal economy encompasses all unprotected workers and self employed. Participating in the informal sector implies absence of protection but not necessarily all unprotected workers works in the informality. All its components would be some kind of “hidden workers working for the formal sector”.

Maloney (2004) studies different Latin American countries and he concludes that the informal economy is extremely heterogeneous and contains both voluntary and involuntary members, usually regarded as a disadvantaged sector, segmented by government’s or the unions’ interventions in the wage setting process in the formal sector. He assumes that it is anti-cyclical: in downturns it expands to absorb displaced, but it also should be stated that there are also movements among sectors: a downturn can be an incentive to seek accrued benefits in the informal economy through tax evasion, among other aspects. He thinks that the voluntary membership, principally connected with informal micro-entrepreneurs is the main part of the informal economy in the countries he studied and usually is not attached to poverty and vulnerability. He thinks that the core of the informal sector is “the unregulated, developing country analogue of the voluntary entrepreneurial small firm sector found in advanced countries, rather than the residual comprised of disadvantaged workers rationed out of good jobs”.⁶ Interestingly enough, he also found that in Mexico he found an “interesting paradox of a relatively flexible labour market accompanied by a very large informal sector” (Maloney, 2004) contradicting some views correlating rigidities in labour markets and the growth of the informal economy.

This author thinks that the fact that being informal is, to a larger extent, voluntarily does not imply absence of poverty. He finds that it proves to be something desirable for many workers (it would be the optimal decision taking their skills and the level of labour productivity prevailing in the country). Finally, he also finds that even when neither the government nor the unions impose rigidities to labour markets, there is still strong evidence of segmentation.

As it can be seen from only this small sample of opinions, the concept is not defined uniformly. On the contrary, a wide variety of approaches can be found in the academia and in international organizations. We will base on the 2002 ILC Conclusions since this was the departing part in the process of developing a model of change for the informal economy.

What is clear is that, structural adjustments in developing countries during the 80s, acute economic and financial crisis in the 80s and 90s, have brought new forms of work and many tensions in labour markets, especially in terms of increase of decent work deficits and poverty. Moreover, trade openness and globalization in general has been changing the characteristics of labour, by affecting certain groups and promoting growth in others, by de-localization and outsourcing different activities and economic activities, turning global

⁶ W. Maloney (2004) « Informality Revisited », “World Development” Vol. 32. No. 7 pp.1159-1178.

markets more complex and difficult to handle. The informal economy now permeates all the economic structure: it ranges from the survival arrangement of a street vendor in New Delhi, to the informal micro-enterprise that sells its production to a formal firm which, in turn, is part of a value chain connected with external markets.

One important issue to agree is that the heterogeneity of the components can be misleading at the hour of deciding for a plan of action by a local or national policy maker or even for the development community. The coexistence of quite different participants within one category is very difficult to handle. Imagine a free rider firm or individual choosing to evade taxations in order to get higher rents taking advantage of a weak rule of law or labour inspection, along with the most vulnerable worker lacking the necessary skills to cope with the impact of globalization or retrenched from a major restructuring of the economy or the street vendor in search of any occupation which may allow him to have an income. These situations are quite different: while the first could be dealt with by enforcing laws and inspection procedures, trying to formalize these activities in order to establish an equitable system where taxes, the second situation should be addressed by a poverty alleviation policy, trying to enhance the situation of the worker within the informal economy, not pursuing a fast formalization. If the differences are not taken into account the risk of failure is high.

During the 2002 ILC, the workers, the employers and the governments discussed extensively which strategy the ILO should follow in the future as for the informal economy. It was alleged that the informal economy had a large entrepreneurial, innovation potential, had had the capacity to absorb surplus labour (easing unemployment) and could be seen as a provider of goods and services at affordable prices, especially to the poor. It was also a means of having an income, prevented crime, allowed on-the-job training to some workers entering the market. On the other hand, the workers and units in the informal economy do not pay taxes, even when they use public infrastructure paid by others, they are outside the regulatory framework, they lack social protection and respect to laws and regulations, they usually show: low wages, low productivity, unstable employment, harassment, unsafe conditions of work, disguised employment status, child labour. It usually challenges governments and they do not know much about its mechanisms since it endangers any economic and labour policies that the governments would like to adopt.

After the 2002 ILC, the Office has been developing a strategic framework departing from the fact that the new approach on the informal economy is based on decent work (rights, employment, social protection and social dialogue aspects) deficits. However, the concept of the informal economy is widely recognized as being extremely heterogeneous. There is a wide variety of workers and economic units that can be included in the definition and with very different patterns. This variety demands different answers and policies. It is impossible to intervene and advocate for one only strategy. The need for a coherent framework addressing different situations is a must.

The other key issue is that is widely recognized that the concept is not a dichotomy *but a continuum* of relationships. The strategic framework adopted in 2003 has accepted that “it depicts a continuum of production and employment relations. It does away with the idea that there are distinct formal and informal “sectors” without direct links and instead stresses that there are linkages, gray areas and independencies between formal and informal activities”⁷ That being said, it is also true that the relationships between formal and informal activities

⁷ L.Lim (2003) « Highlights of the ILC Conclusions » ,presentation to the Turin Workshop on “Follow-up to the ILC Conclusions on Decent Work and the Informal economy” Turin (mimeo).

have been always present in the debate. For example, the PREALC group was very active in studying the relationships of competence, subordination and coordination between formal and informal activities. The importance of the idea of the continuum is that it acknowledges the great variety of components, stressing the idea of having differentiated answers.

The strategic framework developed after the Conference, highlights five key aspects to promote decent work in the informal economy: governance, macro policies, representation and voice, market enhancement and productive employment, and, finally, the need for addressing vulnerabilities by improving working conditions. These five milestones cover a wide variety of aspects, as it is necessary when facing such a heterogeneous concept.

The roots of the causes of the existence of the informal economy are very wide as well and this paper will not pretend to cover all, but to concentrate on possible courses of action to address the problem. However, some considerations are necessary and the strategic framework can be useful as a helpful tool, although some additional problems can be identified. Within the ILO and academia, as well as in the development community, the issue of the informal economy is usually linked, either to negative connotations or to a means of creating employment and reducing poverty.

The presence of the informal economy can be explained several times by the absence of good governance at the international, national and local level. This is noteworthy in several cases, where corruption is present in local and national authorities and even in some other members of the society participating in the world of work. The absence of the rule of law and adequate legal frameworks or enforcement is obviously associated with bad governance. In some cases, the violation of core rights like fundamental rights (like freedom of association), property rights or even human rights, by governments, fosters the growth in the informal economy. There is a high correlation between informality and the existence of bad governance, particularly in less developed countries. The lack of a good government, which cannot provide proper services can be identified as a key element in promoting informality and not adherence to laws, as well as tax evasion.

Other aspects like the lack of economic opportunities in formal markets, bad environment to business and inadequate education and training systems can push people into informal activities. The presence of over-regulation in all markets, including labour markets, is often cited as an important cause to informality, as it was said before, but this is not clear since there have been a wide experience of reducing controls and implementing more flexible labour markets, together with privatization of social security systems and this have led to more unemployment and instability, along with a increasing informal economy. The Asian Development Bank has recently acknowledged this fact by saying that “overall, labour market rigidities are not to be blamed for poor labour market outcomes”⁸ based on research in a number of Asian countries.

The problems arising in the informal economy are very interesting but their various dimensions and interlinks make the analysis very complex and difficult if the ultimate goal is to develop concrete actions towards having better conditions of work in the economy as a whole, pursuing more and better jobs, where decent work is present, paying special attention to

⁸ Asian Development Bank, « Labour markets in Asia : promoting full, productive and decent employment ». Manila, 2005 cited in A. Trebilcock (2005) “Using development approaches to address the challenge of the informal economy for Labour Law” (Bellagio, 2005) (mimeo).

gender issues –since women are a great share of the informal economy, and to the need to accomplish the fundamental principles and rights at work (freedom of association and collective bargaining, elimination of child labour, abolition of forced labour and elimination of any form of discrimination

The role of the ILO as an organization, its constituents, and other possible national and international partners is crucial to enhance the conditions of work in the informal economy. Despite the fact that a strategic framework has been developed (based on the five dimensions), the need to ground the actual possibilities to accomplish the goals (once they are defined) has been regarded as a need in order to guide the future activities and programmes at the field level. The goal is very difficult to achieve by only one organization, and even worse by only one sector or unit. The need for coordinating actions within the ILO and between the ILO and other institutions and partners at the local and global level is one of the most challenging problems to be addressed by the development community.

3. From prejudging to empirical evidence: observing the unobserved

We will not focus this paper on the statistical aspects of the informal economy. The last 2002 ILC agreed in not getting stuck in statistical definitions. The last 2003 ICLS has discussed extensively the main aspects of the informal employment component of the informal economy from the statistical point of view. Even when it is necessary to focus on action plan and possible outcome tree, it should be mentioned that there is need for reaching agreements on definitions and ways of capturing concepts through statistics. There have been several achievements on this ground: the Delhi group, devoted to informal economy statistics, the studies in Kenya in the 70s and in Latin America by PREALC in the 80s have tried several methodologies to capture the informal economy in quantitative ways. OECD methodologies focus on the “underground” and “non-registered”, the ILO has been advising the national statistical agencies for a long period (Husmanns, 2004) (ILO, 2004)⁹.

Other approaches to measurement in the informal economy focus on macroeconomic estimations (Feige, Schneider, Tanzi)

There is a growing need for data and empirical- based elements to identify specific good practices, the correlation between actions and outcomes, the assessment of the actions taken, finding the links between key issues and their relation to decent work deficits in the informal economy, to poverty issues, to governance issues, to economic and social aspects, among others. As the informal economy entails a wide variety of concepts, there are many actors involved (not necessarily only the ILO constituents, but also civil society and the development community), there are often contaminated by ideological positions, the need for a proper quantification and sound empirical findings to identify causal or stable relationships between variables. Moreover, the need for a proper country-specific and time-specific analysis can be judged as urgent if good outcomes are pursued.

4. What is a model of change and how it was applied to the informal economy

As part of the follow up activities of the 2002 ILC, a set of four field projects dealing specifically with the informal economy were funded by DFID. The ILO Policy Integration

⁹ Please refer to Ralf Husmanns (2004) “Measuring the informal economy: from employment in the informal sector to informal employment”. WP No. 53, Policy Integration Department, Bureau of Statistics, and ILO (2004) “Employment in the informal economy in the Republic of Moldova” WP no. 41, , Policy Integration Department, Bureau of Statistics

developed a knowledge-sharing project dealing with the informal economy, bearing in mind that the topic is a cross cutting issue with different aspects to be taken into account.

The model of change is a tool ¹⁰that maps out how policies or initiatives plan to get from a present situation (status quo) to the goal or “vision of success”. It is a visual picture of how the actions would bring about changes, in the form of an outcome tree, illustrating a series of outcomes at various levels and providing a sense of the complex linkages elaborated through a cause-and-effect logic. Within the ILO, the IPEC program has based its action plan on a similar tool quite successfully. It has been agreed¹¹ that the model of change is not a blueprint and is not something that it can be implemented per se. It is not static. It is not only a model but also a methodology designed with the special purpose of triggering thoughts and associations ensuring sound causal chains. Its main objectives are: to provide the big picture, to enable a flexible framework, to identify how strategies are interrelated, to help in identifying alliances and gaps in the model, to document the analytical knowledge, to help in testing hypothesis and impact assessments.

The methodology was developed in a participatory way to include a large number of technical and political thinking across the sectors, units, field offices and headquarters. It was carried out not only with the purpose of enhancing the knowledge on the informal economy as such but also as a way of share knowledge and raise awareness on the topic by the office.

Linking with the previous section, a sound model of change for the informal economy would make hypothesis based in the field experience, and balanced with other partners’ experiences, search for concrete examples and good/bad practices to learn from, make the necessary inferences towards the universe of the problem, identifying the time/place where it was applied, elaborate on the cost-benefit of each intervention, the necessary partnerships and its scope. This process should use empirical evidence in order to support the ultimate goal.

5. Basic assumptions and background

The report VI of the 2002 ILC identified an immediate, short/medium and longer term strategy to address the root causes of the informal economy. The immediate term objective was “to reduce deficits for those currently in the informal economy”, the short and medium objective was “to promote legal and policy frameworks conducive to upgrading jobs, and enabling workers and employers to move from informal to formal decent work” and, finally, the longer term strategy would be “to create protected, recognized and decent work for all workers”.

The Model of Change is an outcome tree where different levels of goals are defined at the very beginning. It implies changes to be done to correct or act upon one existing situation. It is based on assumptions. The main assumptions are the concepts already described in previous sections. It is important though, to emphasize on its heterogeneity and its interrelations with the decent work agenda. It is a crosscutting concept. The method is not a finished product, but an on-going process in the ILO, possibly extending to other organizations (for example, through policy coherence initiatives at the global level).

6. Main goals

¹⁰ For a complete conceptual note on models of change the following link can be consulted: <http://ctb.ku.edu/tools/developframework/index.jsp>

¹¹ P. Wichmand’s presentation on the Model of change on IPEC, Turin August 2004.

The main goals can be traced to the 2002 ILC conclusions but also to the decent work agenda¹². As the first stage of a model of change implies the definition of an ultimate goal to be achieved, several possibilities were discussed: to have only one economy, to achieve equity and rights for all, to have growth with equity and decent work, to enhance living conditions for all, to have decent lives for all, to eliminate decent work deficits in the informal economy, in conjunction with other barriers to decent work that could be identified.

Other possibilities could be identified such as: achieve steady growth in productivity and employability, achieve employment growth in the formal economy, achieve the MDG, specially the indicator referred to poverty (halving the poverty figures in 2015), achieve a complete respect of labour rights.

Finally, the goal was to reduce poverty through decent work for all (rights, employment, social protection and social dialogue). The way to achieve it would be by moving women and men up to the continuum to decent work. This process should be led by the ILO, in partnership or alliances with governments, employers and their organizations, workers' organizations, and their alliances with civil society. Partnerships with other development agencies and the rest of the development community have been also identified.

7. Brief description of the three pillars

What actions need to be taken on the informal economy in order to reduce poverty?

The pillars are just a way of identifying the possible steps towards the goal, considering a sort of ladder where different situations are present. They are not independent. On the contrary, a whole network of interrelationships between them can be identified (see annex).

The first pillar is "*addressing the needs of those in the informal economy*": means that the existence of a correlation between poverty and informality is accepted as present in a good share of the informal economy. Survival strategies linked to macro and microeconomic factors push different groups into informal conditions of work. They are often involuntary attitudes: the search for making a living or earn an income drives these workers to recur to informal an unprotected work. Having said that, the need for social policies to address vulnerabilities in the participants (self-employed, micro-enterprises, workers), linked with poverty alleviation programs is noteworthy. The need to eliminate the decent work deficits within the informal economy entails an active role of different actors pursuing these goals, and not only market forces assigning outcomes.

The second pillar is "*how to increase formalization*": the objective is to facilitate a progressive movement towards increased formalization of work. The acceptance of "free riders" who voluntarily try to evade labour costs or taxes, hunting for lower costs and using unfair competition is also accepted as participants in the informal economy. Besides, some groups of self-employed, tired of an excessive burden of bureaucracies in creating enterprises and of absence of good governance are often tempted to engage in informal activities. This pillar accepts that there is an urgent need to move up into formality to achieve better quality in jobs and eradicate the worst aspects of work, present in the informal economy. States should recover lost revenues from evaded taxes or non-registered economic activities to have the necessary budget to provide assistance to the most vulnerable groups. Formal enterprises

¹² Working out of Poverty; Decent Work agenda

should not face unfair competition by the informal economy. Sound incentives to formalization should be imagined and implemented.

Finally, the third pillar addresses “*the preventive aspects related with informality*”. It is not only necessary to move into formality, but also to prevent a slide from formality to informality. This is one of the key aspects to be able to promote and maintain decent work throughout the world of work towards a unified economy, without segmentation.

8. Towards eliminating decent work deficits in the informal economy

In this part, the basic assumption is that there is a need for upgrading the informal economy not destroying it, since the complete repression would bring about a worsening in living conditions of the participants. However, a need for upgrading these situations is necessary.

The pillar also acknowledges that the prerequisite of having a good strategy should be a sound macroeconomic and social situation at the national level, achieved by consensus in the country, with active participation of social partners. This leaves aside unhealthy non-funded distributional policies, irresponsible indebtedness, fiscal or monetary policies.

The main outcomes to be achieved can be identified as:

- a) Employment components included in poverty reduction policies
- b) Higher and secure incomes through better competencies for employability are assured
- c) The hard core of poor participants are upgraded out of poverty
- d) Workers and operators in the informal economy achieve representation and voice
- e) Better conditions of work are achieved by: eliminating child labour, avoiding corruption and harassment, improving OSH, avoiding gender, race, ethnic, HIV/AIDS discrimination.

Assuming that, in this stratum, poverty is the lion’s share of the informal economy, it is accepted that there is a need for policies with resources and cost-effective strategies to eliminate decent work deficits covering a wide range of aspects:

- a) The first and foremost: employment creation policies (Active labour market policies, infrastructure works, a need to support entrepreneurship, creation of employment targeted to low-skilled workers).
- b) Increase of competencies for employability through basic education and vocational training in the informal economy. Adequate information of changing patterns in markets, strengthening of national institutions to assure a correct focus on training, with active participation of constituents.
- c) Improvement of work-related health systems, specifically to address OSH problems in the informal economy. Provision of basic social protection systems fostered by the formal economy and the State in its regulatory role. Establishing good health systems.
- d) Poverty alleviation programs, targeting vulnerable groups like women, low-skilled young and elderly, retrenched workers (from downsizing, privatization processes, state reform, changing in international markets, outsourcing, de-localization, financial crisis, migrations, etc.). Assuring more stable incomes and prevention of inequality as a feature, since the workers can rely on incomes to invest in human capital to achieve better levels in productivity and employability.

- e) Helping informal economy operators and firms to access critical resources and services. This aspect should be facilitated by constituents since formal enterprises can facilitate information on how to create a firm or on entrepreneurship skills (management, basic accounting, finance, credit and market access), the state should foster information, compensating policies facilitating the gradual incorporation to the mainstream economy.
- f) Creating dialogue mechanisms, functioning locally and nationally: pushing the IE as a priority in national policies, incorporating other organizations representing informal economy workers and employers in alliances with existing formal social partners, gain greater awareness of the importance of the informal economy.
- g) National strategies in Poverty Reduction Strategies and National action plans incorporating concrete actions towards better conditions in the informal economy workers and firms in the urban and rural sector.
- h) Promoting governance at the national and local level, in the State, the local authorities and the formal social partners, as a key element to address. Combating harassment, enhance and adapt sound regulatory frameworks and strengthen labour inspection procedures seem to be reasonable as possible actions. The States should suppress the worse forms of work: child labour, gender, ethnic and race discrimination, human trafficking and bonded-labour, by implementing and controlling the necessary conventions and by strong labour inspection.

9. Increase in formalization

As it was already described, in this pillar of the model of change the objective of formalizing the informal units and workers is developed.

Outcome 1: Necessary incentives and other mechanisms making formalization more affordable and appealing to informal economy workers and economic units are created. This should be carried out by:

- Promotion and implementation of effective social protection systems, safe working conditions
- Public policies delivering quality services in return for taxes: involving constituents, improve business environment, punish “free riders” in the big business and in the formal sector, simplifying the costs and procedures to open a business, provide exemptions and special treatment to encourage formalization in vulnerable groups, provide a transparent tax system, without corruption, providing quality in education, health care, security and other aspects in terms of public goods. There is a need to have enforcement of contracts.
- Facilitating market access linked to formality

Outcome 2 : Social protection mechanisms and services for the informal economy workers and units are created and/or strengthened (India, specially to women in the informal agriculture)

- Inclusion of labour protection and social security against risks of old age, sickness, pregnancy and pensions. The need for a minimum protection by the state is highlighted targeted to the poorest groups. It is recognized that receding states are not

be able to extend this protection to all. It has been suggested the establishing of a global social trust to cover the informal economy workers.

- Development of a knowledge base on community-based social protection mechanisms
- Federation of community-based social protection mechanisms and services created and supported
- Development of management tools for community based social protection mechanisms.
- Reduction of OSH risks by strengthening governments and constituents' capacities to prevent them.
- Creation of agreements between formal social partners and informal economy participants to fund non contributory mechanisms of social protection depending of a gradual entrance to formality
- Other mechanisms: by establishing mechanisms of representation, the informal workers and firms can think of creating cooperatives or other types of associations, closer to formality.

Outcome 3: Policies and legal frameworks facilitating appropriate formalization are developed and implemented. Although there is a debate about how it is possible for the ILO to talk of decent work in the informal economy, when decent work had to be within the law by definition, while the informal economy is not covered by law regulations, the principle of reality is applied: the informal economy should be facilitated to enter into formality.

- Revision of labour law (dispute, resolution and prevention services) to remove barriers to workers and entrepreneurs wishing to join the formal economy, fostering freedom of association of member-based associations.
- Development and application of ILO instruments promoting and supporting the policy and legal reform process. Adapting and enforcing regulatory frameworks (rights and standards, OSH, effective enforcement of appropriate laws).
- Strengthening of management capacities of Ministries of Labour and related national and local institutions in its inspection capacities and its links to other key Ministries like Finance, Trade and similar.
- Member-based informal economy associations created and involved in social dialogue with governments and the other constituents in relation to development, implementation and monitoring of policies, as well as labour law revisions.
- Need for extending social security to all workers.
- Increase in capacities of social partners in relation to the informal economy.
- The role of workers' associations could be: to foster democratic organizations, to promote participation of women, to encourage training and to raise awareness on rights and discrimination, as well as to provide attractive services to prospective adherents: legal assistance, insurance, credit, health care, among others.
- Strengthening of abilities of informal economy unions or cooperatives, or promoting formal unions' willingness to amend their constitutions to cover informal economy workers.
- Facilitate the access to courts and legal advice.
- Increase of the awareness about the benefits of greater formalization.
- Addressing governance issues like corruption, rule of law, need to control the enforcement of core labour standards, harassment, to help local and national governments in enforcing regulations.
- Promoting corporate social responsibility in firms is also highly desirable.

- The need for strengthening statistical capacities is also recommended in order to face increasing demand for information and awareness rising.
- Strengthening of national statistical capacities
- Improvement of the coverage of informal economy workers and economic units in official statistics on a regular basis to raise awareness of its features and possible timely actions.
- Provision of adequate funds to the national strengthening of Ministries of labour and national agencies provided by governments and donor agencies

Outcome 4: Opportunities for productivity and market enhancement are achieved.

- Need for a stable macroeconomic environment with sound economic policies framed with a proper long term social policies to making it sustainable
- Identification of sectors participating in value chains where the informal economy units could participate actively by entering into the mainstream economy. Low skilled and low technologies can be upgraded.
- Availability of access to traditional and alternative forms of financial services
- Access to guarantees, micro-credit, markets information to informal economy units and individuals.
- Removing barriers to establishing formal businesses.
- Facilitating the access to markets and technologies (rise in productivity and quality, equality of opportunities, networking)
- Respecting and establishment of rights to property (women, among others).
- Facilitating physical and financial assets ownership, through appropriate credit policies and through establishing associations or cooperatives to help in the process.
- Improvement in access to technologies and increase in their utilization
- Availability of mediation/arbitration mechanisms for informal economy units
- Encouragement of entrepreneurship through special training, rewards to creativity and access to credit. It has been noticed that the informal economy units and workers often have a large entrepreneurship potential and capacities (De Soto, employers' delegation to the ILO 2002 ILC).
- Productivity-enhancing training available and implemented for informal economy workers and units based on basic education
- Enhancing of vocational training systems (adaptability to labour markets needs, competencies certification for workers in informal and formal economy). There is a need to having updated information on skills demanded by rising sectors and to foreseeing receding sectors so as to adopt timely interventions to cope with the future unemployed. Immigrants should be able to participate in these activities.

10. Preventing

It is not only necessary to enhance the situation of the participants in the informal economy and to gradually formalize the informal, but also to prevent people from falling into informality. The main goal is to reduce this problem with different outcomes and strategies associated. In this pillar the need for partnerships is crucial. It will not be only the ILO or even its constituents the only responsible for keeping low levels of informality.

Outcome 1: Economic growth with equity and stable macro economic and social policies is established through policy coherence and an explicit goal of decent jobs creation. This outcome can be achieved in several ways like:

- a) Facilitating the access to capital and credit to be used in normal formal economic activities
- b) Establishing a sound fiscal policy encouraging formal economy jobs. This is done through transparency in its mechanisms and the provision of services of quality in return to taxation (infrastructure, public goods, security aspects, sound judicial systems).
- c) Promotion of a better policy coherence at the national and local level
- d) Macroeconomic policies at global levels support job creation and provide support through effective safety nets
- e) Reducing trade barriers by developed countries usually implies fostering the creation of new jobs in the developing world. There is a need for advocacy looking for a fair process leading to openness in trade, should be carried out by governments.
- f) Creating an investment friendly environment
- g) Reduction of barriers and bureaucratic procedures in dealing with justice or administrative offices in the State or at the local level.
- h) Development of export-growth strategies promoting the creation of good quality jobs.
- i) The state should help formal economic units to access markets by supporting them in promotion and marketing.
- j) Better understanding of the informal economy issues and how they affect productivity and market enhancement
- k) Making available quality and quantitative research/indicators

Outcome 2: Fewer decent work formal jobs are destroyed, despite major changes in labour markets both in developing and developed countries. The hectic changes in the patterns of work and the process of globalization can bring about processes of creation/destruction of work. The need to develop labour policies focusing on avoiding major ruptures is a big challenge.

- a) It is necessary to addressing emerging problems like outsourcing, subcontracting, home work, value production chains with a constructive position, looking for opportunities and preventing the possible harmful effects with adequate microeconomic policies.
- b) Fostering and improving knowledge of new trends and access to new technologies, new products, services and emerging markets
- c) Development of a preventive policy vis à vis retrenchments and major changes in international trade or finances, like in the textiles sector, where the phasing out of the MFA affected millions of jobs in many countries. The prevention of crisis through early warning systems and the monitoring of labour conditions and labour markets to prevent major financial or economic crisis, would be desirable. The financial crisis in Argentina during 2001/02 caused a big deterioration of the labour conditions with a steep fall in decent work.
- d) Establishing a better information system to monitor the economic outcomes.

Outcome 3: Rights promoting equitable access respected to foster decent work in the formal economy. This outcome is closely related to those in the other pillars. However, the emphasis

is placed more on prevention aspects since the participants of this pillar are supposed to be in the formal economy.

- a) Need for securing of property rights and assets of the poor
- b) Extension and improvement of social protection systems. The units and workers should be aware that their contributions would benefit their own future and not be lost in bad administration.
- c) Elimination of all sorts of discrimination (gender, race, ethnicity, HIV/AIDS).
- d) Respect to voice and representation, especially caring for freedom of association.
- e) Strengthening of employers organizations, unions and cooperatives in order to provide guidance to its members
- f) Effective safety nets (unemployment insurance, severance payment, etc.) with special care for dangers in its implementation and avoiding possible negative impacts on job creation and incentives). The different dangers in implementing these benefits should not prevent governments from putting them in practice, since there are several techniques to avoid unwanted flaws.
- g) Reduction of barriers restricting access to formal employment (availability of childcare, reduction in transport costs, etc.)

Outcome 4: Skills and productivity of workers increased. It is also linked to the previous outcome in the first pillar.

- a) Improvement in the quality of basic and secondary education, caring for equity but assuring access and quality control.
- b) Extension of the relevant skills and upgrading training systems provided to all workers

Outcome 5: Reduced number of job seekers

- a) Facilitation of school-to-work transitions to avoid youth unemployment generating frustration in new entrants.
- b) Addressing migration problems (rural/urban and international movements) facilitating special policies towards skilled and non-skilled migration, promoting focalized immigration in areas where it may be needed
- c) Better ALMP with proper information systems to facilitate the process of job search reaching both formal and informal workers.
- d) Provision of adequate unemployment insurance caring for negative incentives in its formulation

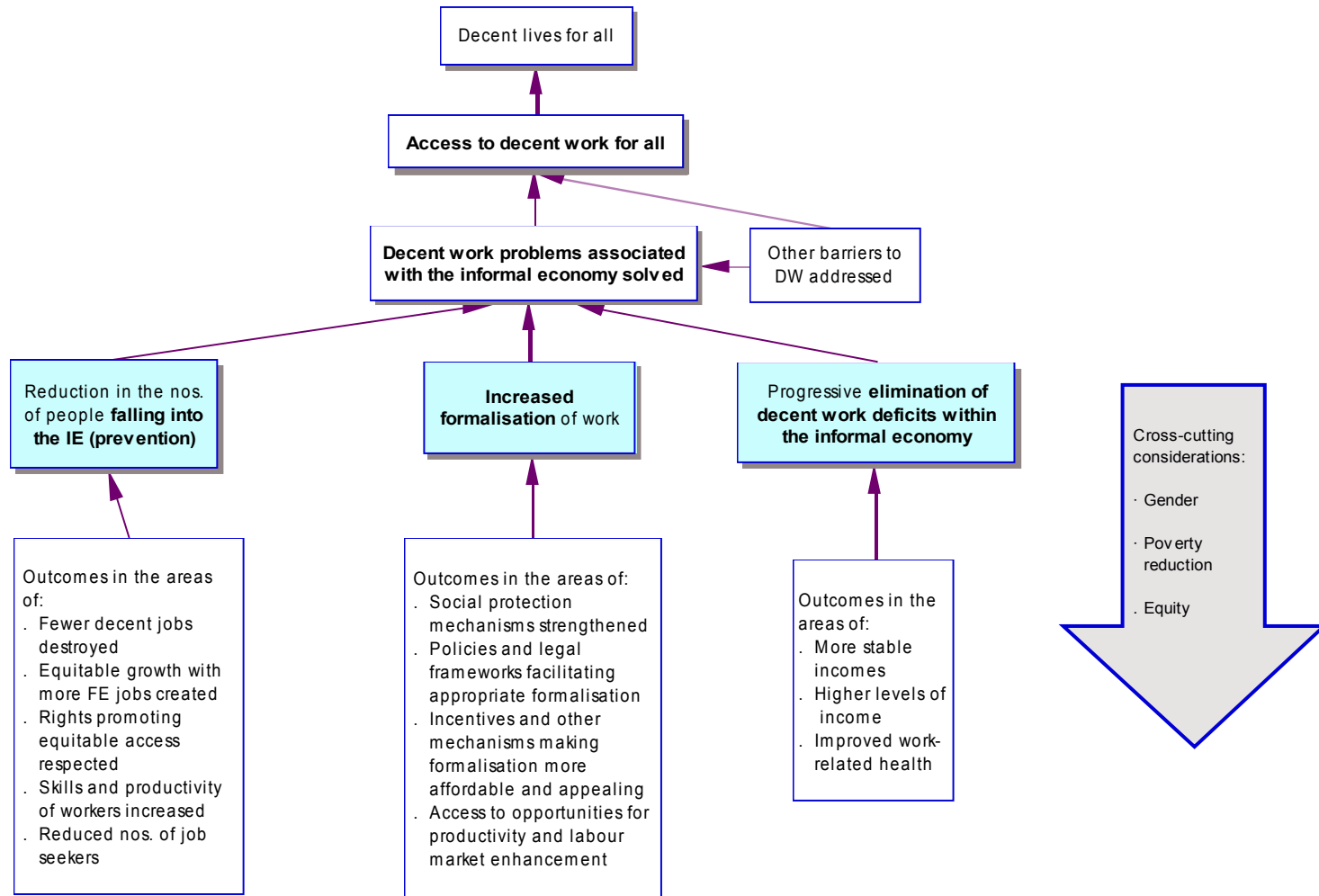
11. Future steps

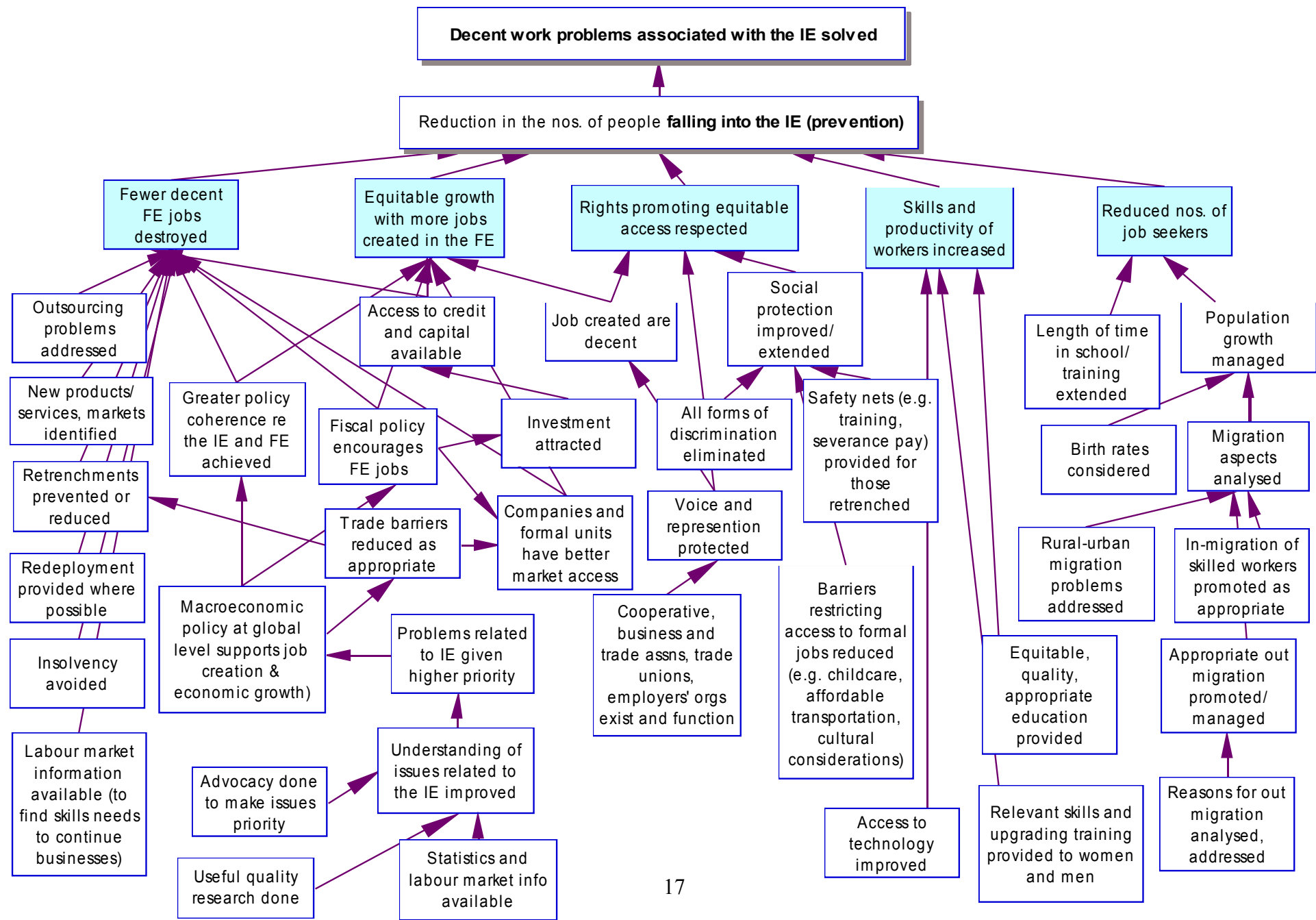
The model of change, as it was said previously, is not a finished product and it is only a tool to feature the big picture and identify the actual possibilities at the policy level by identifying outcomes and actions. The tool has proved to be very useful as a means of sharing knowledge on the informal economy, within the ILO. Knowledge sharing on the informal economy has been trying to be incorporated in the ILO through various knowledge sharing techniques: data banks on applied work in various aspects of the informal economy, development of a community of practice on the informal economy, knowledge fair showing the wide experience of applied work in the field, establishing of a working group on the informal economy cross-sector.

The developing the model of change for the informal economy in the context of poverty reduction proved to be an attractive way of getting technical expertise and field experience together and provoke discussion throughout the organization. However, there are major tasks ahead:

- a) Identification of concrete field experience where good practices have proved to be useful to overcome identified problems (this was initiated by the knowledge fair on the Informal economy during the 2005 ILC).
- b) Compiling useful tools already developed in the ILO in different places.
- c) Identification of gaps and missing links in the Model of change.
- d) Support to statistical capacities at the national levels to measure the different aspects of the informal economy. Advances in the definition of informal employment have been achieved, and several examples on statistical measurement of the informal economy can be shown. However, there is a need to strengthen national statistical agencies to enable them to capture the main characteristics of the informal economy, with the different components. This implies agreeing on a common definition flexible enough to adapt to local conditions.
- e) The main strategies outlined in the paper involves ILO's active involving but also the urgent need to establish partnerships, not only with its constituents and the development community, but also with other organizations which can be a way to improve conditions in the informal economy such as some international NGOs, member based organizations at the local level and others. The inclusion of the topic in the Policy coherence initiative, along with dissemination with academia could be helpful in achieving its goals.

ANNEX - Overview Theory-of-Change Model for Addressing Problems Associated with the Informal Economy





Theory-of-Change Model for Increased Formalisation of Work

