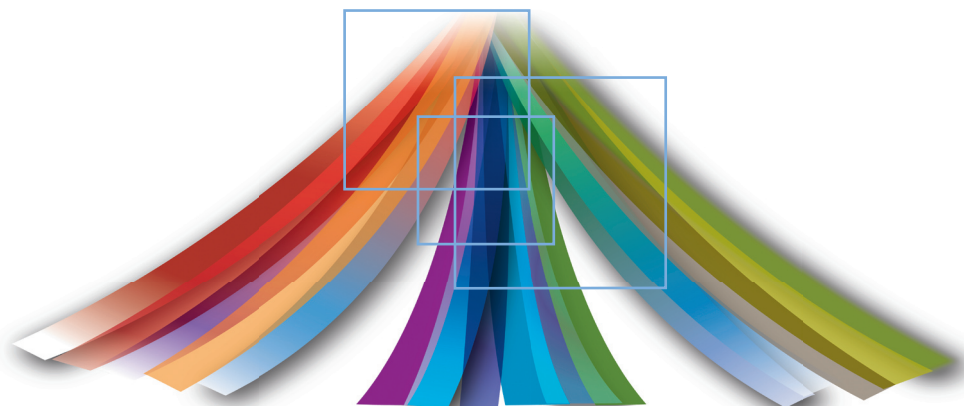


GLOBAL JOBS PACT POLICY BRIEFS



International
Labour
Organization



INCLUDING THE INFORMAL ECONOMY IN THE RECOVERY MEASURES

1. Executive summary

Prior to the 2008/2009 crisis hitting the world economy, a significant percentage of the global work force worked for and earned its livelihood in the “informal economy”¹. This percentage is highest in developing countries where it ranges from between 35 to 90 percent of all employment, but informality is also an issue of concern in developed economies with the rise of precarious, under protected and undeclared work forces. High exposure to risk combined with low or no social protection coverage places most informal economy workers in a very vulnerable situation. Not only is this damaging to the well-being of these workers and their families but it also constitutes, as a range of evidence shows, a severe constraint preventing households from increasing productivity, undertaking more speculative but profitable activities, reducing child labor and increasing investment in children’s health and education, or finding a route out of poverty.

Beyond the rise in unemployment levels, the global crisis is believed to have swollen the ranks of those working in informality through various transmission channels. Job losses in formal, mostly export-oriented industries, affected first and foremost precarious, temporary and part time employees who were the first to lose their jobs². In addition, the contraction of aggregate demand globally and in key sectors, where the informal economy is concentrated, such as in the construction, textiles, tourism and toy industries³, reduced the demand for micro-informal enterprises, sub-contracting

and daily wage labourers. While the media, official data, policy attention and recovery packages primarily target the regular and protected formal workers and employees, there is a real danger of increased informalization that will be harder to reverse. It is essential that measures for sustained recovery include the informal economy, prevent further growth of informalization and that the impact of the crisis on labour is monitored from a comprehensive perspective.

¹ The conclusions of the general discussion on the informal economy that took place during the International Labour Conference in 2002 indicate that 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” (paragraph 3).

² ILO: Tackling the Global Jobs Crisis: Recovery through Decent Work Policies Report of the Director-General, International Labour Conference, 98th Session, Geneva, 2009, p5

³ ILO: Employment Policies for Social Justice and Fair Globalization: Recurrent Item on Employment, Report VI, International Labour Conference, 99th Session, Geneva, 2010, p131

The Global Jobs Pact policy brief series is intended to inform readers of the relevance of the ILO’s technical areas of work in addressing economic downturns as well as assisting in sustainable economic recoveries. Each brief is an invitation to the reader to contact the ILO for additional information and support.

More briefs can be found and downloaded at <http://www.ilo.org/jobspact>



2. Description of the policy challenges

Decline in aggregate demand

- Informal workers and businesses, which are part of global value chains, are adversely affected by the decline in global demand and slumping commodity prices.
- Local demand and purchasing power of those local consumers, who make up the base of customers for many informal workers, especially street vendors and home-based producers, has declined.
- Reduced consumption and demand in both the local and export markets has led to decreased earnings for informal enterprises.

Job loss and transition to informality

- Skilled formal sector workers are moving into informal makeshift activities and facing more constrained working conditions.⁴
- Informal workers employed in formal establishments are losing their jobs and their employment contracts are becoming more informalized.
- Informal firms face increased competition from the new entrants to the informal sector (from the formal sector).

Declining incomes

- The larger informal economy generates substantial downward pressure on informal economy earnings.
- Most informal employees are already under-employed. Therefore, a fall in hourly wages may push informal employees to take up two or more informal jobs or to extend their working hours (if they are self-employed).

Returning migrants and declining remittances

- The crisis resulted in a high number of returning migrants re-entering the labour market.
- Returning migrants influence the evolution of the informal economy in sending countries through the decline in remittances.

- Through their direct and multiplier effects, remittances sustain demand and thus stimulate economic activity and generate employment. The rates of growth of remittances has declined, and in some countries so has the absolute volume.⁵
- In many countries, many recent rural urban migrants have returned, at least temporarily, to rural areas with increased reliance on family members thus further extending limited livelihoods.

Stress on social protection

- Only one-third of developing countries have provisions pertaining to informal sector workers or self-employed workers. However, effective social security coverage is even lower.
- With so many workers lacking adequate protection and the severe employment losses caused by the current crisis, greater pressure is put on the social protection system.

Coping strategies and risk of irreversible informalization

There is a common and dangerous misconception that the informal economy can easily serve as a “natural shock absorber” during economic crises. The truth is that the informal economy was already in a state of crisis before the onset of the global economic crisis.⁶ This is reflected in many indicators such as access to food and public goods, low wages, precarious working conditions and the steady and persistent growth of informality prior to the crisis.⁷ As a result of the global economic crisis, informal employment

⁴ ILO: Tackling the Global Jobs Crisis: Recovery through Decent Work Policies, Report of the Director-General, International Labour Conference, 98th Session, Geneva, 2009, p7

⁵ Awad, I. (2009) The global economic crisis and migrant workers: Impact and response. (International Labour Organization, Geneva) p31

⁶ ILO: Tackling the Global Jobs Crisis: Recovery through Decent Work Policies, Report of the Director-General, International Labour Conference, 98th Session, Geneva, 2009, p9

⁷ Ibid., p19



further increased in many parts of the world.⁸ Therefore, even though it is the case that the informal economy absorbs workers from the formal sector or returning migrants workers, it is critical to highlight that informal firms and workers are actually more adversely affected as they have no cushion (social protection) to fall back on and therefore have no option but to keep operating or working under increasingly difficult circumstances. Moreover, evidence from past crises suggests that not only does informality tend to increase immediately post-crisis, once workers have moved to informal employment it is difficult for them to return to regular employment. In some countries, infor-

mality returns to pre-crisis levels after two to three years, while other countries experience increased informality levels persisting even after five years. Therefore, it is problematic to perceive the informal economy as “resilient” and “flexible” to shocks. In fact, the informal economy is particularly vulnerable to crises and needs to be a specific target for recovery policy.

⁸ ILO: Tackling the Global Jobs Crisis: Recovery through Decent Work Policies, Report of the Director-General, International Labour Conference, 98th Session, Geneva, 2009, p19

3. Policy options to address the challenges

The 2009 Global Jobs Pact (GJP) calls for addressing the crisis impact on the informal economy. In the GJP, “...enhancing support to vulnerable women and men hit hard by the crisis including youth at risk, low-wage, low-skilled, informal economy and migrant workers”⁹ is set out as one of the main principles for promoting recovery and development. The risk of both long-term unemployment and increased informality are highlighted as major repercussions of the crisis. Therefore, the GJP stresses the need to include the informal economy in targeted employment programmes and other measures to help job seekers, and eventually to “... address informality to achieve the transition to formal employment”.¹⁰

In the light of the economic crisis, policies and programmes should come under the overarching umbrella of three broad goals:

- To prevent further informalization: a central target must be to prevent further expansion and deskilling, especially of the temporary, part-time and precarious employees in formal establishments, by including them in mitigation and recovery packages.
- Mitigating the costs in the short run, by scaling up existing social transfer and safety nets and local and community development schemes that have proven their effectiveness in rural and urban informal settings.
- To speed up recovery by stimulating demand and including the informal economy in the realm of fiscal stimulus packages and recovery programmes.

The following programmes and policies, included in the Global Jobs Pact, and implemented in several countries, serve to meet the three aforementioned goals:

Employment-intensive investment programmes (EIIP)

- Employment-intensive investment programmes generate employment and enhance long-term growth prospects, thereby speeding up economic recovery.
- Though EIIPs are a strong component of the majority of stimulus packages, it is important to specifically include the informal economy through involving small and medium size enterprises (SMEs) in EIIPs.
- Decentralizing public investment can result in smaller tenders that boost smaller enterprises and local economies (mitigating costs of the crisis for SMEs) and show benefits both in terms of speeding up implementation and raising the scale of job creation.¹¹

⁹ ILO: Tackling the Global Jobs Crisis: Recovery through Decent Work Policies Report of the Director-General, International Labour Conference, 98th Session, Geneva, 2009, p6

¹⁰ ILO: Tackling the Global Jobs Crisis: Recovery through Decent Work Policies Report of the Director-General, International Labour Conference, 98th Session, Geneva, 2009, p6

¹¹ ILO: Recovering from the Crisis: A Global Jobs Pact, Geneva, 2009, p7



Scaling up social protection

- Social protection schemes in developing countries typically only cover those in formal employment; additional measures are justified to provide income support and social protection to workers and families excluded from social security benefits.¹² Social protection can help those in the informal economy cope with the recession, especially where systems are already in place and can be quickly extended.
- An increase in expenditure and the move towards a universal social floor can act as a strong preventative force for informalization.

Targeted employment programmes: Extending cash transfer schemes

- Extending cash transfer schemes can, in the short run, ameliorate the condition of those in the informal economy and who are suffering because of the crisis. The Bolsa Família in Brazil is an example of a programme that reduces short-term poverty by direct cash transfers and fights long-term poverty and informality by increasing human capital among the poor through conditional cash transfers. During the crisis, spending was extended on the Bolsa Família enabling an additional 1.3 million families to receive cash transfers.

Targeted employment programmes: Employment guarantee schemes

- Well designed and targeted employment guarantee schemes can be effective in mitigating the crisis for those who are jobless and prevent a transition to informality.
- Mexico expanded its temporary employment programme in response to the crisis, resulting in the creation of over half a million jobs between January and July 2009.

Support to SMEs

- Informal micro and small enterprises are particularly vulnerable to loss of assets and market access during the

crisis. Most stimulus packages include specific measures for SMEs such as increasing access to finance, tax benefits, employment incentives, entrepreneurship and access to market opportunities.¹³ These measures are necessary to keep SMEs afloat during the crisis and can also help the transition towards formalization after recovery.

- It is also crucial to channel appropriate levels of investments into those sectors of the economy that improve productivity in the rural and urban informal economy.

This section highlights above key policy areas for addressing the crisis impact on the informal economy. However; they are not the only relevant ones as:

- The international labor standards provide a solid international basis for extending rights at work in the informal economy. In particular, the application in the informal economy of the ILO Declaration on Fundamental Principles and Rights at Work should be promoted without delay and by all possible means. Often, activities in the informal economy are inside the formal reach of labor laws but the workers are not covered in practice, because the laws are not applied or not enforced. One important reason for that is the weak capacity of labor administration, and in particular labor inspection, in many countries. However, traditional approaches to labor inspection may need to be adapted to the specific circumstances of the informal economy. It seems advisable to initiate innovative labor inspection approaches combining advisory and information services, public and private interventions, and incentives with prevention and enforcement procedures, to improve compliance.
- Strengthening the organization and representation of workers and entrepreneurs in the informal economy is an essential element of a strategy towards formalization, and the gateway towards realizing rights and accessing resources.

¹² ILO: Tackling the Global Jobs Crisis: Recovery through Decent Work Policies, Report of the Director-General, International Labour Conference, 98th Session, Geneva, 2009, p19

¹³ ILO: Tackling the Global Jobs Crisis: Recovery through Decent Work Policies, Report of the Director-General, International Labour Conference, 98th Session, Geneva, 2009, p8



4. Conclusions and recommendations

Policy directions for a sustainable recovery

If the economic recovery is not associated with a movement into better employment opportunities or an improvement in the conditions of employment in informal activities, then the impact of growth on poverty will be minimal. This issue is central to realizing decent work, as a global goal and for all workers; to achieving the Millennium Development Goals; and to promoting a fair globalization. It is against this background that the informal economy debate and possible strategies towards formalization are gaining new momentum at all levels and in all regions of the world.

In the long run, achieving a sustainable recovery, which is inclusive of the informal economy and adaptive to changing economic climates, requires a well informed, comprehensive and integrated strategy.

Comprehensive and integrated decent work strategy

The comprehensive and integrated strategy must include a range of policy areas that eliminates the negative aspects of informality, while preserving the significant job creation and income-generation potential of the informal economy and, promotes the protection and incorporation of workers and economic units in the informal economy into the mainstream economy.¹⁴ This integrated framework, as illustrated in the figure below, can serve as a diagnostic tool to analyse and monitor processes and determinants of informalization/formalization; encourage broad-based tripartite dialogue for assessing the impact of policies and, engage in dialogue and partnerships with other global actors and international institutions.¹⁵

DECENT WORK STRATEGIES FOR THE INFORMAL ECONOMY



Research and data

Interventions in the policy areas highlighted in the figure above can only be effectively implemented if policymakers have the necessary information about the informal economy that they are seeking to target and integrate. As the recent crisis has underscored once more, reliable, timely and regular data collection including on the informal economy, is essential to monitor fast evolving labour market situations and to speed up a sustainable recovery process.¹⁶ In the meantime, extensive use of existing data and information and initiatives that monitor the evolution of formal and informal employment on the road to recovery need to be supported.

¹⁴ ILO: Employment Policies for Social Justice and Fair Globalization: Recurrent Item on Employment, Report VI, International Labour Conference, 99th Session, Geneva, 2010, p133

¹⁵ ILO: Employment Policies for Social Justice and Fair Globalization: Recurrent Item on Employment, Report VI, International Labour Conference, 99th Session, Geneva, 2010, p134

¹⁶ ODI, 2009, The global financial crisis: Poverty and social protection, Evidence from 10 country case studies. (London: Overseas Development Institute, Briefing Paper 51, p4)



5. Further reading and resources

- ILO (2010) *Decent work and the informal economy: A resource guide*, web based document, forthcoming
- ILO (2010) *Work in the informal economy and policies to facilitate transition to formality* in Chapter 7 of *Employment Policies for Social Justice and Fair Globalization: Recurrent Item on Employment, Report VI*, International Labour Conference, 99th Session, Geneva
- ILO, (2009) *Tackling the Global Jobs Crisis: Recovery through Decent Work Policies*, Report of the Director-General, International Labour Conference, 98th Session, Geneva
- ILO and WTO (2009) *Globalization and Informal Jobs in Developing Countries*, Geneva
- ILO (2009) *The informal economy in Africa: Promoting transition to formality: Challenges and strategies*, Geneva
- ILO (2008) *Interregional Symposium on the Informal Economy - Enabling transition to formalization*, background papers and symposium report found on the website: http://webdev.ilo.org/emppolicy/what/events/lang--en/WCMS_125488/index.htm
- Baker, Judy (2009) *Responses to the Crisis: An Urban Perspective*, Washington: World Bank
- Horn, Zoe (2009) *No Cushion to Fall Back On: The Global Economic Crisis and Informal Workers*, Inclusive Cities