

**Employment Sector
2002**

Decent Work and the Informal Economy:

Abstracts of working papers

Foreword

As part of the preparatory work for the general discussion on the informal economy at the 90th International Labour Conference (ILC) in Geneva in June 2002, the International Labour Office, under the auspices of its Inter-Sectoral Task Force on the Informal Economy, commissioned a series of background papers. These included studies of regional trends, country level studies and thematic investigations. The purpose of the papers was to identify the latest data and trends in the evolution of the informal economy around the world. Some of these papers are being published under the present Employment Sector series on the informal economy, while those papers more particularly concerned with the issue of skills development are being published under the Informal Economy series of the InFocus Programme on Skills, Knowledge and Employability.¹ This compendium presents abstracts of the papers commissioned by the ILO in an attempt to make the main findings and conclusions available to the reader in a concise form in the main working languages of the Organisation. This compendium has been compiled by Andrea Singh, Josiane Capt and Joanna Jackson.

The abstracts have been organised according to the following topics:

? *Thematic reviews at the global level* that seek to examine the factors underlying the continuing growth of the informal economy, not only in developing countries but also in advanced countries and countries undergoing transition. Particular attention has been paid to the impact of globalization, liberalization, privatisation, migration, industrial reorganization and macro-economic policies prompting these trends.

? *Regional and country reports*: these attempt to shed light on the following aspects: (i) recent trends and statistics regarding the magnitude and growth of the informal economy; (ii) old and newly emerging factors leading to changes in the structure of the informal economy; (iii) the role of the informal economy in creating employment and/or absorbing retrenched workers; (iv) policies and programmes aimed at improving the situation of informal workers; (v) what the ILO and other key agencies are doing in this area; and (vi) practical examples of innovative approaches aimed at raising labour standards, employment, productivity, social protection and organisation and representation of businesses and workers in the informal economy.

? *Case studies on training and skill formation in the informal economy*: these review current policies and programmes that concern skills training for informal workers, and document interesting cases of formal and non-formal training programmes aimed at informal sector workers and enterprises.

? *Representation*: these papers show how the social partners can interact with and provide relevant services for workers and micro-entrepreneurs in the informal economy. They highlight the approaches and experiences of some employers' and workers' organisations that illustrate how these organisations can contribute to addressing the decent work deficits in the informal economy.

The reader will observe that nearly all of the papers in this series attempt to tackle the problem of conceptualising the informal sector. The development of a conceptual framework

¹ All papers are also being posted on the informal economy web site <http://www.ilo.org/infeco>.

for the International Labour Conference report was carried out at the same time as the production and finalization of the papers included in this series. As such it was not possible to agree in advance upon a single concept for use by the authors of these papers.

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Thematic reviews at the global level

“Globalization and the Informal Economy: How Global Trade and Investment Impact on the Working Poor”

by Marilyn Carr, Institute of Development Studies, Sussex,
and Martha Alter Chen, Harvard University

Global trade and investment patterns are having a dramatic impact on employment relations and work arrangements around the world, but there is no single measure of economic globalization for the global workforce. The impact can be both negative and positive and differs by context, by industry and trade, and by employment status. To date, the bias has been towards looking at the impact of globalization on formal wage work. This paper seeks to redress this bias by focussing on the impact of globalization on those who work in the informal economy, with a special emphasis on women workers and producers.

Official statistics indicate that the share of the informal economy in the non-agricultural workforce ranges from 55% in Latin America to 45 - 85% in different parts of Asia to nearly 80% in Africa. Not only is the informal economy large, it is also growing and promises to continue to do so. This is of concern since there is a link between working in the informal economy and being poor; the link being stronger for women than for men. A higher percentage of women workers than men worldwide work in the informal economy and women are under-represented in higher income levels in the informal economy (employer and self-employed).

Globalization tends to lead to shifts from secure to insecure forms of employment and to more precarious forms of self-employment, but it can also lead to new opportunities in the form of new jobs for wage workers and new markets for the self-employed. However, a collaborative effort on the part of grassroots organizations of those who work in the informal economy - along with sympathetic representatives of NGOs, research organizations, government, private sector and international development agencies - is needed to enable the most vulnerable segments of society to seize those opportunities. For this to happen, we need a much more detailed analysis of how globalization is affecting the employment arrangements and income sources of those who work in the informal economy. This paper seeks to pull together existing empirical evidence on globalization and the informal economy and to point out where gaps exist and further work is required.

Despite the heterogeneity of the informal economy, those who work within it can be grouped into three basic employment/work categories: (a) employer; (b) self-employed; and (c) wage worker (including employees in informal enterprises; casual workers; homeworkers; domestic workers; and factory workers without formal contracts). Globalization affects each of these categories in different ways. Employers and the self-employed have seen new markets in the North opening up for products such as shea butter and shrimps, but on the negative side, they are also facing competition from imported goods from other parts of the world. In the case of wage workers, globalization is increasing the numbers of informal wage workers. With the breakdown of a social contract between employers and employees, and the ‘race to the bottom’ as corporations move from country to country in search of lower wage rates, workers are subject to low wages, lack of benefits and lack of security.

Those involved in the informal economy are also affected depending on the type of work they do - and particularly whether they are in a sector that has expanding or declining markets, and whether or not they have control over the returns to their work. With increased globalization, many more producers/workers are integrated into global commodity chains in which they have little bargaining power. Global commodity chains which involve large numbers of informal producers/workers (and especially women) include ready-made garments, non-traditional agricultural exports, and non-timber forest products. In all cases, these chains are buyer-driven with importers and Northern retailers accounting for in excess of 90% of production costs while the millions of Southern producers/workers account for less than 10 percent. Interventions which can help to improve the situation of informal producers/workers include grassroots organizing, introduction of improved production technologies which can help to add value at the local level, and introduction of information and communications technologies and trade facilitation centres which can help local producers to circumvent numerous layers of middlemen and to link directly with global markets.

Finally, producers and workers in the informal economy are affected differently according to which region of the world they live in. In Asia, there has been export-led growth through which large numbers of jobs were created in labour intensive activities, particularly for women in garments for export. One of the most spectacular cases of female-led industrialization is that of Bangladesh. In 1978, there were four garment factories in the country. By 1995, there were 2,400 factories employing 1.2 million workers of whom 90% were women. The question that is asked is whether this is good or bad for women, as wages are low and working conditions are poor. In addition, with increased competition among countries for markets for labour-intensive products such as ready-made garments, cutting of labour costs and diversification into more capital-intensive products may have a negative impact on women workers.

In Africa, exports are still linked to primary commodities, the prices for which are in slow decline in world markets. Also, many traditional women's industries are in jeopardy because of cheap imports and the inflow of foreign corporations processing natural products for export. For example, thousands of women in the three countries surrounding Lake Victoria have lost their jobs in smoking and selling fish as a result of the establishment of 50 large fish processing factories, which export to Europe and Japan. One more positive trend in Africa is that of the promotion of non-traditional agricultural exports - primarily fruits, vegetables and cut flowers aimed at the European markets. These do offer some hope of increased incomes for women who represent about 90% of the workforce in this fast growing sector, but as with garments in Asia, working conditions need to be improved.

Non-traditional agricultural exports are also a fast growing sector in Latin America and the Caribbean, as is the 'modern' services sector. In several Caribbean islands, there are now many relatively prestigious and well-paid jobs for women in 'digiports' which focus, for example, on data entry for US airline companies. Women often represent 100% of the workforce in export zones.

Although more research is needed, there is nonetheless a considerable amount of information which can already be used to shape the policy agenda to assist producers/workers in the informal economy to maximize the positive aspects of globalization and to minimize the negative aspects. There are basically three key strategies which can be singled out as important to implement: (a) organizing at the local, national and global levels; (b) research

and statistical studies to document the number, contribution and working conditions of specific groups of informal economy producers/workers in specific sub-sectors and to assess the impact of globalization on them; and (c) action programmes (for example, establishing trade facilitation centres) to help informal producers/workers gain access to - and bargain effectively within - labour and product markets (both local and global).

“Supporting Workers in the Informal Economy: A Policy Framework”

by Martha Alter Chen, Harvard University,
Renana Jhabvala, Self-Employed Women’s Association (SEWA) India
and Frances Lund, University of Durban

The informal economy today accounts for a significant share of employment and output and is comprised of a remarkable range of informal work arrangements, both resilient old forms and emerging new forms. Despite predictions to the contrary, traditional forms of non-standard wage work (e.g. casual jobs) and self-employment (e.g. street-trading) have persisted or expanded and new forms of non-standard wage work (e.g. temporary and part-time) and self-employment (e.g. high-tech home-based work) have emerged. As a result, there has been a recent convergence of interest in the informal economy.

This paper provides a conceptual and normative framework - with promising examples - for developing an appropriate policy response to the informal economy. The paper begins with a discussion of the key aspects of the informal economy: its size and composition, its linkages with both poverty and growth, its legal status, and the risks and opportunities associated with it. The informal economy is comprised of two basic components: self-employment in informal enterprises, and wage employment in informal jobs. Official statistics indicate that the share of the informal economy in the non-agricultural workforce ranges from 55 per cent in Latin America to 45-85 per cent in Asia to nearly 80 per cent in Africa. There is a link between working in the informal economy and being poor and this link is stronger for women than men. Although average earnings in the informal economy are low, it contributes a significant share of gross domestic product (GDP) in many countries. While the processes of production and distribution in the informal economy are often irregular or even illegal, the goods and services produced by the informal economy are generally legal.

Despite their numbers and their contribution to the economy, most workers in the informal economy face greater risks and enjoy fewer opportunities than their counterparts in the formal economy. To begin with, informal workers face greater exposure to general risks such as illness, property loss, disability, old age, and death. Second, informal workers face greater work-related risks, such as less secure contracts, fewer benefits, and poorer working conditions for wage workers. The self-employed have less access to information and low bargaining power in capital or product. Third, those who work in the informal economy typically have fewer mechanisms for dealing with risk - that is, less access to formal sources of finance, labour protection, and social protection. Finally, informal wagedworkers enjoy fewer career opportunities than formal wagedworkers and informal entrepreneurs enjoy fewer market opportunities than formal entrepreneurs or businesses.

This paper seeks to provide a policy framework to guide policy makers in designing appropriate policies to help the informal workforce address risks and seize opportunities. Some orthodox economists might argue that government interventions lead to inefficiencies and distortions, that the informal economy will decline with economic growth, or that the informal economy is beyond the reach of the government. The paper is premised on the notion that the informal economy is here to stay and requires appropriate regulations, laws

and policies to correct biases in the existing regulatory, legal, and policy environment that favour formal enterprises and workers to the disadvantage of informal workers and enterprises.

The paper focuses on four functional areas of policy that directly or indirectly impact the informal economy: macro-economic policies; urban policies and regulations; labour standards and legislation; and social protection policies. It is widely assumed that the informal economy is not affected by or cannot be reached by mainstream economic policies. The paper makes the case that the informal economy has direct production, distribution, and service ties to the formal economy and is affected by the policies that govern the formal economy. Around the world, trade and industry policies are increasingly geared to foster international competitiveness: through trade liberalization and supply-side support to firms to increase their competitiveness. Most of the supply-side support measures – including, tax holidays, export licensing, technology upgrading schemes, and depreciation allowances – are aimed at large formal businesses, not small informal enterprises. In some cases, export-promotion policies have led to displacement of workers and erosion of employment relations; a shift of ownership base towards large businesses due to biases in licensing and the costs of mechanization; and a distribution of raw materials away from smaller, more labour-intensive units to larger, more capital-intensive units.

Few countries consider the impact of taxes on the informal workforce as either consumers or producers. To assure that personal, payroll, and corporate tax policies are progressive rather than regressive, the following questions need to be addressed: should informal workers who do not have assured work or who do not receive benefits be taxed at the same rate as formal workers who have regular contracts and receive benefits? Should income from self-employment be taxed as personal or corporate income, and at what rate? Should the payroll tax rate be the same for non-standard work as for equivalent standard employment? Governments should also consider the differential impact of their procurement and expenditure policies on formal versus informal enterprises and workers.

There is a range of urban policies and regulatory controls that impact on the informal workforce, including: land use or zoning policies; regulation and registration of businesses; provision of basic infrastructural facilities; and the establishment and governance of municipal markets. While local governments play the lead role in designing and enforcing such policies, formal businesses exercise a great deal of influence and power in determining where informal operators can operate. Through a consultative process, described in the paper, the local authorities in Durban, South Africa, have developed a policy framework for a regime of governance designed to promote the twin goals of orderly management of urban space and support to very small businesses.

There is growing recognition and concern worldwide that global integration privileges companies who can move easily and quickly across borders to the disadvantage of workers. This concern about the erosion - or informalisation - of employment relations has put the rights of informal workers on the international agenda. At a minimum, it is important to recognize that the core labour standards - around which there is a global consensus and a set of international conventions - are the rights of all workers, including informal workers. In addition, informal workers are demanding the right to a minimum wage, safe and healthy working conditions, reasonable working hours, severance notice and pay, and other worker's benefits. Many of these rights are also incorporated in existing international standards. The paper recommends that governments be encouraged to observe these international standards

even for their informal workforce. To illustrate how this might be done, the paper presents the recent recommendations of a National Labour Commission in India regarding how to amend existing labour laws to make them more positive towards women workers in the informal economy.

The growth in the numbers of people working informally means that millions of workers, worldwide, have never had access to formal mechanisms of social protection - such as health insurance, disability allowances, or retirement benefits - or are losing the comprehensive forms of protection they once had, through their place of employment or from the State, or a combination of the two. At the same time, a characteristic of informal work is that it carries high risks, both economical and physical. What is needed is political will (or pressure) and innovative thinking to identify mechanisms to reinforce or strengthen existing formal social security schemes; extend existing statutory provisions; extend private insurance schemes; and/or develop alternative mechanisms. The paper presents promising examples of each of these approaches.

In closing, the paper emphasizes several principles that should guide any policy development process. First, that the policy process should be context-specific, taking into account how history and earlier policies mold present opportunities and barriers. Second, that the policy process should be gender-sensitive, taking into account the relationship between men and women and their different positions in the economy. Third, that the policy approach should involve reforms of the institutions (and rules) that govern market transactions, market sites, commercial contracts, and industrial relations so as to incorporate the interests of informal workers. Finally, the paper recommends that those who work in the informal economy should be involved in the formulation of relevant policies. Ideally, this should be done through a democratic process involving representatives or organizations of informal workers.

“International Labour Standards and the Informal Sector: Developments and Dilemmas”

by Charlotta Schlyter
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The relation between the informal sector and international labour standards is a subject fraught with questions, two of the main ones being whether regulations designed for the formal sector can be in any way extended to the informal sector without stifling its further growth, and how, otherwise, persons working in the informal sector can be allowed to benefit from the protection offered by appropriate standards. This has been referred to as the *dilemma of the informal sector*.

In his 1991 report to the International Labour Conference, “The Dilemma of the Informal Sector” the Director-General gave it the following brief definition:

The dilemma, put simply, is whether to promote the informal sector as a provider of employment and incomes; or to seek to extend regulation and social protection to it and thereby possibly reduce its capacity to provide jobs and incomes for an ever-expanding labour force.

It must be questioned whether the mandate of the ILO as expressed through its Constitution will allow the organisation to treat this dilemma as a matter of “whether – or”. The overriding goal of social protection would seem to provide limits as to what kind of employment the ILO should be involved in creating. Moreover, by referring to the ILO Constitution we may conclude that the ILO is concerned with the subject of regulations only as it concerns or strongly relates to social protection. The application of a whole range of other regulatory instruments, such as tax measures, zoning laws and emission controls would then be a concern to the ILO only if we assume that they cannot be seen in isolation from regulations concerning social protection.

The task of the ILO would appear to be finding how it can contribute to the creation of safer and better jobs in the informal sector while proposing ways of extending, as far as possible, social protection to its workers whether by regulation or other means.

Over the years, the ability of the ILO to promote social protection has been strengthened through the formulation, adoption and application of a large number of international labour standards. Although, undeniably, many of the ILO’s Conventions and Recommendations have been conceived with the formal sector in mind, this is by no means the case for all of these standards. There is fairly limited guidance available as to whether and how various labour standards can be said to apply to the informal sector. Informal sector workers are only rarely referred to in the actual texts of ILO Conventions and Recommendations, either to exclude or include their application to such workers.

¹ An earlier version of this paper was prepared by the author in 1996 when she was an official at the ILO Geneva.

However, there are a few exceptions to this general rule. For example, the need for carefully extending social protection to the informal sector has been expressed through the **Employment Policy (Supplementary Provisions) Recommendation, 1984 (No 169)**. Further, some indications as to the applicability of various standards to the informal sector can be sought in the comments directed to countries by the ILO supervisory bodies, in particular the Committee of Experts. For example, both the Conference Committee on the Application of ILO Conventions and Recommendations and the Committee of Experts have on numerous occasions reminded countries of the obligation under the **Employment Policy Convention, 1964 (No. 122)** of consulting representatives in the informal sector on employment policy matters. Clearly, the initiation of such a dialogue between the authorities and representatives of the informal sector is instrumental to the gradual extension of social protection to the informal sector.

There are a few categories of standards for which it would be difficult to accept a gradual extension to the informal sector. In the first place, this is true for the eight fundamental human rights Conventions on freedom of association, forced labour, discrimination and child labour. These standards are fundamental to the well-being of workers, and the human rights they aim to protect should be enjoyed by workers independently of where they operate. Indeed, some of these instruments aim at practices which are more commonly found in the informal sector. For example, the recent **Worst Forms of Child Labour Convention, 1999 (No. 182)** aims at the prevention of exploitative practices which take place predominantly in the informal sector.

Another area of importance to the life and well-being of informal sector workers is the maintenance of certain standards as regards occupational health and safety. Apart from extended labour inspection in some form, this will require efforts aimed at disseminating information on safer practices. Although in most countries it would be unrealistic in the shorter term to apply the same standards on social security which operate in the formal sector to the informal sector, attempts should also be made to apply basic principles enshrined in the Conventions dealing with such issues to the informal sector.

In sum, the paper attempts to explore how the informal sector should be approached in the light of the mandate of the ILO and considers general issues in relation to international labour standards and the informal sector. The paper also provides a thorough review of the application of each major category of labour standards to the informal sector, through the examination of the texts of these instruments as well as the comments made by the ILO supervisory bodies. The conclusions of the study point towards the need for the ILO to assist countries in developing ways of extending social protection to the informal sector. More guidance from the ILO supervisory bodies would help clarify the role of international labour standards in this process.

Regional and country papers

“The Informal Sector in Asia from the Decent Work Perspective”

by Nurul Amin, Professor, School of Environment,
Resources and Development, Asian Institute of Technology, Bangkok

Public policy and actions on the informal sector in the Asian region are reviewed in this study under the themes of: (i) fundamental principles and rights; (ii) entrepreneurship and enterprise development; (iii) access to skills; (iv) expansion of micro-credit; (v) social protection; (vi) occupational safety; (vii) organization and representation; and (viii) physical integration. Overall, the review suggests four discernible developments: (i) the decent work paradigm is paving the way in overcoming the dilemma centering the sector; (ii) this allows a shift of focus from enterprise to labour issues; (iii) this is facilitating determination of deficits associated with work in the informal economy; and (iv) consequently, the direction of necessary public policy and actions is getting sharper in turning informal work into decent work.

Lack of solid legal status and incomplete, if not total lack of, institutional coverage, regulation, control or state support are common denominators of the informal sector in Asia, mostly for lack of financial and human resources. In operational terms the sector is officially defined, in most instances, to include enterprises below a certain size of employment (most often below 10 persons). In such measures, national non-agricultural employment is usually used as the base. If extended to include the agricultural sector, the size of the informal sector can rise to over 90 per cent of total national employment as in India, Bangladesh and Nepal. By employment status or labour categories, the size of the informal sector labour force (counting the own-account workers, unpaid family labour and hired labour employed by the informal sector enterprises), in many countries, varies between 50-60 per cent of total non-agricultural or urban employment. By all measures, South Asian countries reflect an increasing trend in the size of the informal sector. In Southeast Asia, a declining trend has been observed, with a large decline in Thailand during the economic boom but some increase again since the recession. In East Asia, the informal sector has become smaller (e.g., 18% in Japan and 30% in Taiwan) with the exception of China where it is increasing.

Heterogeneity of the informal sector is an important issue. In the first instance, it might appear that no meaningful policy interventions can be made for such a diverse entity. On careful examination, however, a meaningful classification (or classifications) of the informal sector is possible. From an employment status viewpoint, the informal sector labour force is comprised of employers, own-account workers, wage workers, unpaid family labour and piece-rate workers. From an industrial classification viewpoint, it is comprised of trade, service, manufacturing, construction and transportation. The informal sector can also be divided between urban and rural. From a zoning viewpoint, the informal sector is comprised of those located in a proper business location and home-based enterprises, including homeworkers. Classification according to migratory status (i.e., native, recent migrants and long-term migrants) is also useful. Finally, it is important to classify the informal sector from the standpoint of income and employment enhancing potential (which is crucial for determining the scope for advancement or upward mobility). From this latter perspective, the informal sector is comprised of enterprises/work with a growing market demand that reflects high-income elasticity of demand (e.g., tourism services) and those with low-income elasticity of demand (e.g., rickshaw services). Alternatively, these two groups have been denoted

respectively as the dynamic/modern informal sector and marginal/survivalist groups. This is already quite an extensive classification of the informal sector, yet other useful distinctions may be needed for specific purposes. The point is that the much discussed “heterogeneity” of the informal sector should not stop one from disaggregating the sector for analytical as well as policy intervention purposes.

The early debate on the informal sector was marked by intense discussions on the role of the informal sector in the development process. In the optimistic view, the sector was seen as a reservoir of indigenous entrepreneurs, technology and skills. Its role in the generation of employment, efficient utilization of scarce resources and expansion of non-agricultural employment - offering an urban foothold to the society’s disadvantaged, providing income opportunities to the urban poor, supplying basic goods and services at affordable prices, and stimulating innovation and adaptation of technology - has inspired many analysts, policy makers and development practitioners to view the sector sympathetically. Those who have rejected this view claim that the informal sector is dependent on the formal sector and cannot serve as a basis for employment growth, capital accumulation or development. Rather, the sector was seen as a source of labour exploitation within the sector, and indirectly by creating a downward pressure on the formal sector wages through provision of low-wage goods and by maintaining a reserve army of unemployed.

In the current debate, some optimists highlight the sector’s role in stimulating the growth of the market economy and dynamism, keeping down urbanization costs, contributing to the city’s competitiveness, promoting recycling through buying and selling of wastes, creating a flexible labour market, and absorbing the retrenched labour of the formal sector affected by liberalization of trade regimes and structural adjustment policies. Others reject this view and claim that informal sector labour has become a convenient means of pursuing the global agenda of privatization, liberalization and destruction of local industries. Thousands of formal sector jobs have disappeared in most developing countries. The consequent expansion of unprotected, low-income and flexible labour has given rise to high levels of insecurity for all work and more work for women and children.

Until recently the labour supply of the informal sector in the cities of Asian developing countries was predominantly linked to the flow of rural to urban migration, and its demand was influenced by the need for low-cost goods and services. The history of occupations and locations of slum dwellers in Tokyo, Seoul, Singapore, Kuala Lumpur and Bangkok, i.e., the Asian cities where slums have either disappeared or significantly shrunk, shows that slum dwellers’ work was essential in servicing the low-income workers who lived in those slums. Because of this role, the informal sector’s growth or decline were essentially linked to the growth of the formal sector. But, because of huge surplus labour in the rural-agricultural economies of Asia, the supply of job seekers has always tended to exceed the demand for workers in the formal sector. Since the expansion of the market economy and the opening up of new opportunities, cities in developing Asian countries are no longer primarily the seat of either government administration and their employees, or employees of the government-protected and pampered private sector. Asian cities are now cities of business opportunities. This is particularly evident in the Asian mega-cities. The financial crisis of the mid 1990s that led to economic recession, however, has considerably eroded this vibrancy.

The disappearance of thousands of public sector jobs due to closure of inefficient and uncompetitive industries and businesses created a totally new labour market situation for the informal sector in the 1980s and 1990s. Positively seen, the “informalization” of the formal

sector is an attempt to make use of cheap labour and indigenous resources. But what about the excess of the market, particularly at a point when the basic labour supply is still one of large surplus because of a huge population base and its continued growth in much of Asia? Millions are moving to the Chinese cities from their rural hinterlands. The political environment is one of greater freedom and unprecedented market opportunity. The “floating population” is quickly creating its own work in large Chinese city streets and dumpsites. Similarly, millions are drawn to the Indian cities because of earning opportunities created by the liberalization policy. Other South Asian cities are in a similar situation. Whereas the precarious element in informality has been glaringly present for long in the fold of informal activities in the cities of South Asia, it has now started to surface in the cities of China in East Asia, and in those of Vietnam, Laos and Cambodia in Southeast Asia. In the cities of other Southeast Asian countries, some of which experienced rapid economic growth during the mid 1980s to the mid 1990s, many of the precarious jobs had started to disappear, but there are now signs of restoration, if not an increase, of various forms of precarious work in the informal sector.

The Asian experience with the informal sector indicates that its size and content are determined by the robustness of economic growth on the demand side and on the supply side by the magnitude of the rural labour surplus and the pace of its release arising from an increase in agricultural productivity and growth of non-farm activities. On the supply side, a new phenomenon is that of downsizing the formal sector. This is particularly evident in the relatively educated informal sector labour force in countries such as Mongolia, Vietnam and China, many of whom joined the informal sector after losing their formal sector jobs.

The built-in resilience of the informal sector also makes it vulnerable on two fronts: (a) from the labour standpoint, unprotected employment; and (b) from the market standpoint, an extremely competitive sector (e.g., cut-throat competition among thousands of petty traders, rickshaw drivers and unskilled construction workers). In terms of competition, the informal sector is in a double disadvantage: it is faced with a perfectly competitive market situation as sellers, and with a monopsonistic market-like situation in some instances, on the buyer side, as is the case of subcontracting relations between the piece-rate workers (numerous) and their contractors (few). It is these vulnerabilities that make the informal sector a strong candidate for social protection and targeted social and economic programmes.

Throughout the region, the participation of women in the labour force has been on the rise, although their participation in the agricultural sector has been consistently declining. Most of the labour released by the agricultural sector, however, is joining the service sector. Often the service sector jobs denote low productivity informal work. Again, this is also the case for the men, but women end up in the lowest-paying and most hazardous occupations, e.g., domestic service, waste picking, brick-breaking work in construction sites (more common in the South Asian countries) and piece-rate homework. Overall, women’s presence in the informal sector appears to be higher in Southeast and East Asia than in South Asia. However, the difference may not be as large as it appears because many informal sector surveys do not include maids and piece-rate homeworkers who may be hidden in the South Asian countries for cultural reasons.

The work of children in the informal sector is a major concern. The presence of children in the labour force of the East and Southeast Asian countries is very limited. In contrast, it is widespread in the South Asian countries. This suggests an association between level of economic development and work of children. Children also tend to work in low-

paying and hazardous occupations: waste-picking, domestic work, apprenticeship and casual labour. Many efforts by UN agencies, donor communities, governments, trade unions and NGOs are underway to eliminate children from such hazardous work.

The review of public policy and actions that are underway to improve the situation found the following:

Rights: The region has been profoundly affected in recent years by the inherent cycles of the capitalist market system. East and Southeast Asian countries have seen a tight labour market during the economic boom that led to significant reduction of the informal sector, but financial collapse in 1997 and economic recession have swept away many gains accrued to the labouring poor. However, the flourishing of democracy and freedom throughout Asia has allowed progress in ratifying work-related rights conventions by national governments. With regard to the informal sector, for example, gains have been accrued from the ILO's partnerships with local NGOs through its International Programme on the Elimination of Child Labour (IPEC). The Indian Supreme Court's verdict upholding hawkers' rights has greatly influenced hawkers' approach to city authorities in the region.

Enterprise development: Numerous pilot projects and programmes have long been in place for 'slum upgrading' and promoting 'small and cottage industries'. However, few benefits have flowed from all this to people working in the informal sector. In recent years, micro- and small enterprise (MSE) development programmes have been undertaken in many countries with the assistance of the donor community and UN agencies, including the ILO. For enterprise development, micro-credit and technology upgrading have been two key instruments. Although this assistance has enabled some informal enterprises to become upwardly mobile, the informal sector's core group – survivalist, own-account workers - is still largely overlooked in MSE projects.

Training: Two valuable lessons on training are: (1) training for the informal sector needs to focus on facilitating occupational and upward mobility; and (2) education and training are needed for children working in the informal sector and for the children of parents who work in the informal sector. Parents value education and training, but are realistic. They are not thinking of their own training since they cannot afford the time. However, they are forward-looking and want education and training for their children. Harsh realities often force children to work in the informal sector. Education and training programmes for these children are necessary to stop the inter-generational transfer of poverty.

Credit: Valuable experience has been gained in credit supply, e.g., group formations to serve as collateral. This innovation works in the rural areas and can reach millions as shown by the Grameen Bank experience. The non-permanent nature of the urban informal sector workplaces and residences may be a problem for micro-credit institutions in the urban sector. SEWA's all-round activities in Indian cities have created a new momentum concerning the urban informal sector workers' varied needs – including but not just provision of credit. Proshikha and, more recently, BRAC in Bangladesh have also moved into micro-credit for the urban working poor. In Thailand, a Bank for the Urban Poor, modeled after the Grameen Bank, is being established. Thus, the urban poor's credit needs are being taken seriously in some Asian countries.

Social security: In the less-developed Asian countries, state-run social security coverage is largely limited to government employees and a small segment of the private sector. Most of

the private sector workforce is unprotected. Although the minimum wage law (which most countries do have) officially applies to the private sector, redundancy payment or pension/provident fund provisions are rare. Few state or employer-sponsored social protection measures exist for the informal sector. This vacuum, to an extent, is still taken care of by the traditional support system in the case of the rural-agricultural labour force, whereas in the case of the urban informal sector labour force, the vacuum is being filled in part by NGOs, but on a limited scale. In this respect, India seems to be much better placed due to its rich heritage of social and labour movements. SEWA's work security insurance, health care and child care services, and the reproductive and child health programmes of the Working Women's Forum stand out in this respect. Some Southeast Asian countries are moving to a comprehensive social protection measure provision by the State, particularly in South Korea and Thailand. Indonesia has set up a programme to mitigate the effects of the economic crisis on the poor. The specific objectives are to (a) protect access by vulnerable groups to essential social services, especially education and health, (b) maintain the quality of social services provided to the poor, and (c) initiate sustainable policy reforms related to the provision of key social services. In China, however, social protection measures of the State are rapidly shrinking. However, its Ministry of Labour and Social Security is presently devising a new labour protection and security system to deal with the emergence of the informal sector.

Occupational hazards: Despite known occupational hazards and health risks associated with some informal work (e.g., work in the waste dumpsites and metal workshops without protective gear), many workers appear to be unaware of or uninterested in taking necessary actions to eliminate or reduce hazards. One Manila survey reports that for 90 per cent of informal workers, occupational safety and health risks are not a priority concern. This may be a reflection of the combined effects of poverty and a lack of awareness. Several regional projects of the ILO are in place in Asia to change this unacceptable situation. These include Work Improvement in Small Enterprises (WISE) and Improve Your Business (IYB). A recently concluded three-year WISE project in the Philippines led to many improvements. By working with organizations in Malaysia, Nepal and the Philippines, IYB projects have developed and tested methodologies for healthy enterprise development in the informal sector. A manual on Improve Your Work Environment and Business (IWEB) has also been developed. Another ILO project covering Indonesia, the Philippines and Thailand promoted improved working conditions for women engaged in piecework at home.

Organization and representation: One of many paradoxical trends in today's world is that, simultaneous to the spread of democracy and human freedom, workers all over the world have been losing work-related rights because of weaknesses in the working class movement related to the growing strength of the capitalist market system. Unionization has been falling across all countries in Asia. It is unclear whether this is the cause or effect of "casualization" and "informalization" of labour, which is creating a more "flexible labour market." Against this background, organizing and unionizing the informal sector has assumed importance. In the developing countries of Asia, the trend is towards organizing the informal sector into trade-based organizations. In most instances, they have been assisted by community-based organizations or NGOs. Some of these organizations, however, bear a trade union movement legacy, such as SEWA in India. The organizational structure of wage labour and the variety of informal labour groups, however, call for a unionization approach. An innovative approach and dedication to the cause are necessary for organizing these labour groups since they are difficult to locate and often do not work in proximity to one another.

Physical integration: In order to assist men and women working in the informal sector, a fundamental requirement is to ensure their 'right to work', which is frequently denied by authorities. The predominant reason cited is the non-official status of the work and their location in unauthorized places. The source of this conflict lies in not appreciating that "cities are places primarily for earning". Failure of the cities to allocate small space for informal sector workers - often all that is required is no more than a 2x2m space - denotes essentially a denial of 'right to work'. A few cities have positive attitudes and successful projects which suggest that accommodation of the informal sector is not only possible, it can indeed create a 'win-win' situation; allocating space enables the informal sector to do business in better working conditions and simultaneously allows the city authorities to collect user fees for the allocated space and to provide services with cost recovery.

Urban planning exercises (i.e., zoning, land-use planning, master plan, etc.), largely based on the western urban experience (in which there was no informal sector of the present magnitude in Asian cities), have hurt informal labour both at worksites and in their living places because of slum and hawker eviction policies. Also, a typical employer-employee relation is not common in the case of the informal sector and therefore social protection policies of advanced countries are neither relevant nor affordable to the developing countries of Asia. This calls for an innovative approach in extending social protection to the informal sector labour force. Overcoming insecurity is also particularly relevant for the informal sector. Informal sector workers essentially live day-to-day even when they have been doing the same work for years. Income may not always be too low (e.g., cash earning of a rickshaw driver may sometimes be better than an office-going, low-paid employee or a wage worker in a factory), but institutions offering social and financial services corresponding to daily and fluctuating incomes have not come into existence.

The decent work approach to policy intervention and public action towards the informal sector should address the most serious problems of informal sector work: poor working conditions marked by long, hard hours of work in hot and humid weather without access to water and sanitation. Decent work also requires ensuring a minimum income so that decent living is possible. However, income from informal work for most of the sector's labour allows only for dwelling in slum and squatter settlements, which have limited access to basic urban services. Hence, poverty, the informal sector and slum living have become intertwined.

Public policy and actions for reducing decent work deficits need to be target-specific, occupation-specific, employment status-specific, women-specific and child labour-specific. For example, for hawkers and street traders, provision of physical accommodation to conduct their business can go a long way in reducing harassment and improving their working conditions. Reduction of harassment of rickshaw drivers can also be made a priority. For waste pickers, one priority action programme could be to arrange provision of protective gear so that occupational safety and health risks can be reduced. For domestic service workers, ways and means need to be found to reduce crude forms of labour exploitation. Construction workers are also vulnerable to labour exploitation and occupational hazards. Although the apprenticeship system in the informal sector workshops and repair service shops serve as a good means for imparting skills, interventions are necessary so that this system does not serve as a mechanism for labour exploitation or the use of child labour.

“Decent Work in the Informal Sector: Latin America”

by Jim Thomas, London School of Economics

The focus of this study is on decent work (including basic labour rights, employment opportunities and social protection) in an urban context and, in particular, on the urban informal sector. This is because there is a higher degree of urbanisation in Latin America compared to other regions. In 1990, 71% of the population lived in urban areas, with Guatemala having the lowest figure (39%) and Venezuela the highest (90%). Research on the informal sector has concentrated on urban areas and very few studies have been done on the rural informal sector.

Statistics are presented showing that during the 1990s, employment in the urban informal sector grew in most Latin American countries. Overall the urban informal sector grew from 52% in 1990 to approximately 57% in 1996 with a corresponding fall in the urban formal sector. The growth in the urban informal sector was distributed between roughly equal increases in the percentages of independent workers and small firms. Much of the expansion was through higher labour market participation by women both in the service sector and as own-account workers.

The report uses the three criteria recommended by the 15th International Conference of Labour Statisticians (ICLS) to distinguish informal sector enterprises: (i) non-registration of the enterprise; (ii) small size in terms of number of employees (usually maximum 5 to 10); and (iii) non-registration of the employees of the enterprise. The argument is made to exempt domestic servants and homeworkers from an enterprise-based definition, as well as professionals and small high technology enterprises, but acknowledges that available statistics do not always allow this distinction to be made. The distinction between “informality” and “illegality” is also challenged pointing to degrees of legality along a continuum from informality to formality. In addition, it is argued that in the 1970s, there seemed to be a clear dichotomy between the formal and informal sectors, which simplified policy discussions about the process of “formalization”, but major changes in recent years have blurred the historic distinction, most notably the “informalization” of the formal sector. Major causes include the increased pace of globalization, structural adjustment and privatisation of state-owned enterprises.

However, changes and trends in the individual countries differed considerably. For example in Chile, Colombia and Panama there was little or no change in the size of the urban informal sector between 1990 and 1997. During the same period Bolivia, Ecuador and Honduras showed some cyclical variation whilst Argentina, Brazil, Costa Rica, Mexico, Paraguay, Peru and Venezuela experienced upward trends.

Accompanying these trends were other relevant reflections of the impact of globalization, structural adjustment and privatisation. For instance, the debt crisis of the 1980s and recovery of the 1990s through structural adjustment programmes dramatically freed up capital to move around the world and the removal of trade barriers lessened government controls and increased the intensity of trade flows, international investment and changes in the location of export production. The region, as a whole, experienced a long

period of economic growth in the 1990s, a decline in inflation and technological progress – but also the phenomenon of “jobless growth”.

Labour market reform was also addressed in many countries, including legislation to make it easier to dismiss workers and to keep temporary workers for longer periods without making social security contributions. Consequently, there was a decrease in trade union coverage and influence over conditions of work. The percentage of urban formal sector workers with permanent versus temporary or no contracts declined dramatically between 1990 and 1998 in most countries for which such data are available, leading to a loss of employment security and benefits.

Average real earnings also fell for formal sector workers between 1990 and 1998 and rose only slightly for minimum wage rates, but both went down significantly in real terms using 1980 as the index base. Open unemployment grew, being higher for women than for men, and for young workers (between 15 and 24 years old). Underemployment is also a major problem in some countries.

Review of workforce participation rates for five Andean countries found that between 1980 and 1997, the participation rates of men either fell or remained unchanged, whereas the rates for women rose in all of the countries. Data on 12 Latin American countries in 1998 showed that, except for Colombia, a higher percentage of women than men work in the urban informal sector. The vast majority of domestic workers are women. The percentage of women workers in the service sector in 1999 ranged from 73% in Honduras to 90% in Argentina, the majority in commerce and services.

Due to the high levels of unemployment among youth, young people are also disproportionately found to be working informally. By the end of the decade, 57 per cent of those involved in non-agricultural work in the age group 15-19 years, were to be found in the informal sector. There are also approximately 17.5 million children between the ages of 5 and 14 working in Latin America and the Caribbean. Of these, 67 per cent are boys and 33 per cent girls. Internal migrants and immigrants also find work largely in the informal sector.

Globalization in the 1990's had the effect of increasing informality in the labour market in two ways. There has been **top down** informality, through the removal of labour market protection, creation of more part-time jobs and a decline in trade union coverage. The phenomenon of **jobless growth**, whereby economies can achieve significant growth in real output without generating employment in the formal sector, has led to an increase in **bottom up** informality: many or most of those coming into the labour market now have to find jobs in the urban informal sector, which therefore expands both absolutely and proportionally. The effects of these changes in the labour market are examined for the urban informal sector as a whole and also for a number of vulnerable groups such as women, child workers, disabled persons and immigrants. These vulnerable groups face similar “decent work deficits” as other informal sector workers, namely, lack of control over earnings and working conditions; low levels of education and training; lack of access to credit; lack of representation; and lack of social protection. In addition, they suffer from a higher degree of discrimination and exploitation.

Previously the urban informal sector consisted largely of own-account workers and small enterprises, while the public sector and those in medium to large enterprises comprised the urban formal sector. The typical urban formal sector worker was male, working full time

in manufacturing, was a trade union member and enjoyed a high degree of job protection and social security. This has changed dramatically and a clear distinction between formal and informal workers is no longer easily made. Today the typical worker in the urban informal sector is more likely to be in the service sector, and could easily be a part-time working female or someone on a short-term contract. For those working in the urban formal sector, trade union membership has declined and many workers now have to make private contributions to social security programmes.

The study also examines capital flows between the urban formal and urban informal sectors. Financial capital normally flows from the urban formal sector to the urban informal sector and this is also the case with physical capital (such as machinery), which has become obsolete for the urban formal sector and is incorporated into the urban informal sector. Human capital moves in both directions.

The study further distinguishes between forward and backward economic linkages. Backward linkages refer to the extent to which those operating in the urban informal sector obtain inputs from the urban formal sector, in the form of raw materials, intermediate products or final goods. There are generally very strong backward linkages between the two sectors except for some types of personal services. Forward linkages relate to outputs from the urban informal sector used by the urban formal sector. These can take the form of intermediary goods or final goods. One of the most important forms of forward linkage is sub-contracting. One of the main benefits to the urban formal sector from sub-contracting is not having to be responsible for working conditions in the urban informal sector. There is no need to ensure that workers in the urban informal sector receive a minimum wage or social security and other fringe benefits. Furthermore, whilst working with a relatively small, stable work force, changes in market demand can nevertheless be quickly responded to by either increasing or decreasing the sub-contracting. But subcontracting can also offer the opportunity of expanding market access to micro-enterprises, enhancing standards of quality control (thereby increasing efficiency and competitiveness of small firms) and the possibility of addressing decent work deficits through a value chain approach.

The role of organisations in reducing decent work deficits is examined, ranging from the ILO and other institutions (both national and international), governments, NGOs (both national and international) to grass-roots organisations. Two institutions of particular importance in addressing decent work deficits, it is argued, are trade unions and the Church in the Latin American setting.

It is suggested that governments may find it difficult to enforce legislation resulting from ratification of ILO Conventions. Therefore, they may achieve more concrete results through, for example, training programmes. Trade unions need to work on how to reach workers who are increasingly working informally and thus are often lacking in the employee status that traditional trade union intervention requires. Trade unions may have to consider working with other organisations (such as grass-roots organisations or NGOs) that have contacts with target groups in the urban informal sector and can act as intermediary links.

Grass-roots organisations and NGOs are useful for considerably more than just operating as intermediary links, however, and this point is clearly illustrated in a description of the activities of ACCION International. ACCION is a micro-credit provider in Latin America and its activities are based on the Grameen Bank model. It is associated with 18 micro-credit programmes in 13 Latin American countries and has an active portfolio of loans

amounting to over US \$274 million, with over 460,000 clients averaging about US\$ 600 per loan.

The potential use of public opinion and the internet in addressing decent work deficits is also discussed. Many NGOs are dependent on their ability to tap into public opinion positively in order to generate regular contributions for their activities. The internet provides them with unique opportunities to publicise their work. In addition, the internet eases the communication process, allowing different organisations to exchange information and find partners for their activities.

The paper includes case studies illustrating how different organisations have worked to reduce the decent work deficits discussed in the paper. A number of innovations are noted, such as the need to include the younger siblings of child workers in programmes to reduce child labour, in order to protect them from the same fate. It is argued that good results were often obtained when different organisations acted in unison. Further, it appears crucial that those who are to be helped actively participate in the process.

The conclusions indicate there is a need to encourage greater representation of workers in the informal economy, though not necessarily through conventional trade union coverage, and to negotiate increases in the minimum wage. In nearly every country, the real value of the minimum wage has fallen significantly between 1980 and 1999. The high levels of youth unemployment suggest that there should be a serious investment of resources in education and training for this group, as increases in human capital would have a pay-off over a considerable period.

“The Informal Sector in Sub-Saharan Africa”

by Pat Horn, StreetNet, Durban, South Africa
Shirin Motala (freelance development worker) and
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Statistics from sub-Saharan Africa on the informal economy, when accessible, are difficult to compare as they have often not been derived from a consistent definition. However, some estimates have been made and, according to these, the informal economy in sub-Saharan Africa accounts for between 40 to 60 per cent of urban employment. In 1990, 21 per cent of sub-Saharan Africa’s 227 million labour force was working in the informal economy.

The informal economy encompasses many different kinds of economic activity including home-based work, street vendors, entrepreneurs who employ other workers, self-employed and casual workers whose work is seasonal or who work in out-sourced industries. However, in enterprise-based surveys, home-based workers, street vendors and informal workers in the formal economy are often overlooked.

In order to have reliable indicators about the growth of employment in the informal economy and to gain better information about enterprises or locations where workers in the informal economy perform their operations, labour market surveys’ methodology needs to be improved. Informal workers should first be identified through a household survey, and enterprises would then be tracked down through these workers.

This study provides information on 13 sub-Saharan African countries. The general trends in the region indicate:

- a decline or stagnation of formal employment opportunities;
- an increase in informal sector activities in the region, in some cases playing a more important role in a country’s labour market than the formal sector; and
- the informal economy is making an important contribution to GDP.

A large part, in many cases the majority, of the female non-agricultural labour force is in the informal economy. The gender gap in income appears to be high in the informal economy: women are under-represented in higher-income activities and over-represented in low-income activities. Most women in the informal economy are self-employed, casual or subcontracted workers, or unpaid workers in family enterprises. Relatively few are employers who hire paid workers.

The paper argues that globalization is affecting children’s rights and that there is a risk of more children being drawn into the labour market, especially in the informal economy. To eradicate harmful forms of child labour, a reduction in poverty is necessary. Other vulnerable groups whose problems and needs are raised are migrants and people with disabilities.

The formal and informal economies are interconnected in at least two ways. There are forward linkages (to markets beyond the informal economy) and backward linkages (in the form of inputs from outside the informal economy). Some studies have found that the formal

economy is dependent on the informal economy as a source of goods and services and also as a market for its produce.

It is argued that growing linkages have led to an informalisation of work in the formal economy as a means to enhance the profit of firms. Reflecting this concern, there is a growing body of research focussing on value chains. Value chains comprise the full range of activities and stakeholders who are involved in bringing a product from conception all the way through until it reaches the final consumer. It is evident that stakeholders in the informal economy play a significant role in many value chains.

Not enough is known yet about the impact of globalisation on the informal economy. However, from the perspective of survivalists in the informal economy, the process has been very biased towards privileging powerful economic entities like multi-national corporations, but not women or small enterprises.

A number of potential negative impacts of globalization on the informal economy are mentioned. These include lay-offs, drops in real wages, lack of public services, rise in school dropouts, rise in human rights violations, rise in crime and civil unrest. Unions view globalization as putting pressure on workers' incomes and causing rights and social protection to be compromised.

Ways in which to support informal workers are proposed and case studies are presented. One of the four case studies presented is an UMASIDA initiative. UMASIDA is a ki-Swahili abbreviation which, translated into English, means "Health care community fund for the informal sector in Dar-es-Salaam". The initiative is a spin-off from an ILO/UNDP project from 1995-96 that experimented with the provision of integrated services for the urban informal sector in Bogota, Dar-es-Salaam and Manila.

The UMASIDA scheme in Tanzania not only provides credit and training in finance, production, management and marketing, but also social services such as access to health care as well as safety and health measures. One of the rationales for having taken this approach is that social services are considered to have an impact on productivity.

Another case study presented in the paper is on the Durban Metropolitan Local Government in South Africa. Since the end of apartheid, South African local governments have gained important responsibilities for promoting local economic development and facilitating participatory governance. The "Informal Economy Policy" demonstrates how the Durban Metro has embraced these responsibilities. According to a four-city comparative study on local governments' approach to street trading, Durban stood out as the city which was doing most to ensure that street traders were incorporated into city-planning processes.

However, the initial narrow focus on street traders resulted in other categories of informal workers not benefiting from initiatives. Therefore in 1999, Durban Metro established a Technical Task Team to work on proposals for developing a policy framework to inform local government support to the informal economy. The Council also willingly allocated resources for the policy process, allowing for data gathering, information dissemination and consultation between the Council and a wide range of stakeholders. A particular effort was made to ensure that concerns of more marginalized stakeholders were heard and that compromises were negotiated rather than imposed.

The policy developed reflects five significant shifts in thinking:

- Recognition that the informal economy is not just a mechanism for alleviating poverty but has a critical role to play in Durban's economic development.
- The policy values all kinds of work. Street traders and home-based workers also need support services taking into account their different needs and circumstances.
- Durban's economy is viewed holistically. The formal and informal economies are seen as complementary and interdependent rather than competitors.
- The policy recognizes the value of organizations of workers in the informal economy and sets out a capacity-building programme.
- Finally, innovative strategies have been suggested for facilitating the implementation of the policy framework. These include: area-based management, pilot projects to test new ideas and approaches and also ensuring active stakeholder participation in planning, decision-making and self-regulation.

Another proposal is to encourage governments to support more relevant forms of vocational training. The informal apprenticeship system, as is practised by *juakali* operators in Kenya, has proven to be effective in the transfer of skills in the informal economy. Provision of micro credit is also considered a potentially beneficial initiative. Governments have often aimed interventions at developing the informal economy by targeting micro and small enterprises. However, the effectiveness of these initiatives is not well documented.

Lack of social security is a significant problem for those in the informal economy as many of these workers are not able or willing to contribute a relatively high percentage of their incomes to access such benefits. Their more immediate priority needs concern health and education. As governments can no longer guarantee free access to health care, many working people have begun to organize their own access to such services.

The informal economy is often referred to as the unorganised sector, but that is not an entirely accurate description. There are many examples of workers in the informal economy organising. However, these organisations are generally very fragile and seldom manage to pursue any long-term development or political objectives. Some examples of trade union types of organisations do exist and some informal sector organisations do have strong links with the trade union movement. Organisations of workers in the informal economy are more likely to survive when they are membership-based with clearly defined objectives so that members can see tangible benefits from being collectively organised.

The report identifies the future challenge for the informal economy as the need to change the basis on which national taxation, national expenditure and global markets operate. The report also identifies areas in which further research is required, including:

- sectoral breakdowns of the activities in which informal workers are involved;
- urban and rural disaggregation of data;
- gender disaggregation of data in order to determine the nature and extent of women's involvement and contribution to the informal economy;
- disaggregate income levels in the informal sector by type of work and gender ;
- impact of globalization on the informal economy;
- nature of linkages between the formal and informal sectors; and
- contribution of the informal economy to the GDP.

“The Informal Sector in Francophone Black Africa”²

by Soulye Kante, Consultant

This report presents a synthesis of studies by several economists and sociologists. It addresses definition problems, notably the difficulty to agree on the importance and limits of the informal sector, to evaluate its magnitude and size, its human and material potential, and the absence of reliable and exhaustive statistics. It presents data on informal activities and their variations according to the countries studied, and it analyses the segmentation and the heterogeneity of the informal sector, the flexibility of its operating modes and the nature of the links between the formal and informal sectors. It seeks to show the incidence of globalization, macro-economic and structural adjustment policies on the informal economy, notably the devaluation of the CFA Franc in 1994. This report also reviews other causes of **informalisation** of the economy, in particular the very high number of school dropouts, the absence of job perspectives for graduates, the influence of international economic migration and the impact of new information and communication technologies. This review is complemented by the description of a few practical examples of initiatives aimed at raising social standards, increasing employment and improving productivity in the informal sector.

The profile and dynamics of the informal sector vary according to countries. Informal activities cover most of agricultural activities and the greater part of urban commercial activities, transport, services, crafts and even often small manufacturing industries. There is a constant mobility between the different sectors of activities and between different trades depending on the economic situation and the needs of the moment. For example, a worker might leave the micro-enterprise which employed him and set up his own business, thereby becoming an independent micro-entrepreneur; also, one person might have several jobs at the same time. In rural areas, there are many small farmers who complement their agricultural activities with seasonal and non-seasonal non-agricultural jobs, most often in towns, along with rural exodus.

In the last decade of the twentieth century, the informal sector increased its contribution to the economy to almost three-quarters of the non-agricultural workforce in Sub-Saharan Africa, against more than two-thirds a decade earlier. In the eight countries of the Economic and Monetary Union of West Africa (Benin, Burkina Faso, Guinea-Bissau, Ivory Coast, Mali, Niger, Senegal and Togo), the informal sector would represent, according to national definitions, between one quarter and one half of Gross Domestic Product. In general, the growth of the informal sector has been more extensive than intensive, i.e. the number of economic units tends to grow, whereas employment within them grows very little. Most often these are individual enterprises which employ at most one person in commercial activities. Production and services are less represented, but they create on average more jobs per economic unit.

In Francophone Africa, women are among those most affected by the economic crisis. This results in increased feminisation of poverty, aggravated by discrimination in the access of women to education, employment, health care and accommodation. Thus, the situation of

² “Le secteur informel en Afrique noire francophone”.

women in the informal sector is more precarious than that of men, notably in terms of income and social protection.

There are numerous links between the formal and informal sectors as regards supplies, financing, workforce and sub-contracting flows. For example, workforce movements are more important from the formal to the informal sector. This is essentially due to the fact that the majority of those workers made redundant by the public and private formal enterprises, by necessity, move into the informal sector. The same applies to those who have dropped out of the conventional education system and to graduates who do not succeed to find a job in the modern sector. Inversely, flows from the informal to the formal sector are not very developed. However, it is not rare that apprentices find qualified jobs in the modern sector after completing their training.

The attitude of governments and institutions vis-à-vis the informal sector has changed. The initial will to limit its expansion has given way to a certain tolerance, even to a willingness to support it. Globally, there is a large consensus on the necessity to improve the incomes and productivity of the informal sector, in order to fight poverty and to bring the economic and employment conditions of the informal sector closer to those of the formal sector. State interventions and the motivations which have inspired them revolve around the following three approaches:

1. Congo, Ivory Coast and Gabon have opted for a voluntarist approach based on the industrialisation of the economy, in order to promote within the most promising craft industries a model of small and medium enterprises based on the emergence of the upper fringe of micro-enterprises. This model has proved to be inadapted to the characteristics and needs of small crafts workshops and, more generally, of the great majority of micro- and small enterprises.
2. Burkina Faso, Mali, Senegal and Togo have adopted an approach encouraging the integration of the crafts sector to the economy as a whole and the normalization of its relations with the State. This approach later focused on the creation of an environment enabling the enhancement of the potential inherent to crafts industries. However, the quasi-totality of the implementation mechanisms proved to be equally ill-adapted to the needs of micro-enterprises.
3. Benin, Mauritania, Niger and Rwanda have opted for a model of endogenous and auto-centered development, based on the valorization of natural, material and human resources in various productive sectors and on a participative approach.

The coherence and efficiency of each of these approaches have been particularly undermined by the great diversity of government authorities, the absence of inter-ministry coordination and the lack of human and financial means. The improvement of the institutional and regulatory environment remains, however, one of the priorities of some governments. The creation of one-stop shops for enterprises is an instrument that has been put into place in some countries. The formulation of an overall policy for the development of micro-enterprises also features among the projects under way. The promotion of informal enterprises also implies lifting a large number of exclusion mechanisms, notably those endorsed by the Investment Code as well as the Code on Government Procurement that should open up to micro and small enterprises.

From the point of view of workers' rights, freedom is guaranteed everywhere and all forms of discrimination are prohibited and sanctioned by law. But the quasi-unanimous affirmation of these great principles is not reflected in the level of ratification and application of ILO Conventions by States. The most notable progress is in the field of elimination of child labour. In 1992, the ILO launched the International Programme on the Elimination of Child Labour and adopted Convention No. 182 (1999) which constitutes a new instrument to fight the worst forms of child labour. As an example, in Senegal, the IPEC programme is being implemented along the following four components:

1. Institutional development policies: legislation, basic education and training, research, partnership with employers, trade unions, NGOs and the media, organizational support to groups of child workers and their families;
2. Direct action in favour of the children within the framework of projects implemented by government and non-governmental organizations. From 1998 to 2001, 12,000 apprentices, 2,200 maids, 28,000 pupils and 300 street children have been involved in training, information, improvement of living and working conditions, and apprenticeship.
3. Awareness-raising in French and in national languages. A film on children's work has been produced and broadcast, as well as three TV documentaries on maids, apprentices and children picking waste. Moreover, in the space of two years, five national awareness-raising campaigns have been launched, in partnership with the media, employers, trade unions and working women;
4. Coordination: creation of a national network of stakeholders, which comprises notably two organisations of working children, five trade unions, 36 employers' organizations affiliated to the National Council of Employers, 11 NGOs and 35 representatives of the public, private, national and regional media.

As for training, the classical structures of vocational training are expensive and their teaching is not adapted to total or partial illiterates. As a general rule, the formal supply of vocational training is characterised by its inadequacy to the needs. By stressing the initial training, a scholarly approach is privileged to the detriment of artisans already engaged in the world of work and who mostly need skills up-grading and in-service training. Traditional apprenticeship still constitutes the most widespread form of transmission of competencies in the informal sector. But apprenticeship is increasingly ill-adapted to the needs. It has difficulties because of the lack of apprenticeship places, the insufficient qualifications of the master craftsmen and their incapacity to transmit theoretical notions to the apprentices; not to mention the total absence of structured pedagogical progress in the training curriculum. A reform of the vocational training system is under way in Benin, Burkina Faso, Ivory Coast, Niger, Mali, Rwanda and Senegal. As far as the latter country is concerned, the report presents an interesting experience, that of the National Centre for Professional Qualification (CNQP). It is a public training institution with a tripartite governing body, comprising representatives of the State, the employers and the workers. The organisation of training cycles is based on a strategy of management and maîtrise of the principle of alternating attendance between the Centre and enterprises, in order to adequate training to employment. This Centre not only offers initial training but also skills up-grading. In Senegal, graduates of this Centre constitute a pool of potential entrepreneurs in the crafts sector, where they create

viable micro-, small- and sometimes medium-sized enterprises, while contributing to the improvement of competencies.

In addition to vocational training, business management training for micro-enterprises is particularly important in the informal economy. Thus, within the ILO regional programme “Start and Improve Your Business”, an effort to adapt the training tools has been made to take into account the specificity and the importance of the population of informal micro-entrepreneurs. The impact study carried out in 2001 showed that 83% of the beneficiaries improved their profits.

From the financial viewpoint, the tontines have enabled numerous persons in the informal sector, particularly women, to finance their activities or various social events. Likewise, they have given several economic groupings the opportunity to constitute a personal contribution allowing them to obtain financing from programmes supporting the informal sector. In black Africa, the tontine is a traditional self-help mechanism which encourages saving in order to carry out economic or social projects. The tontine is essentially characterized by the tacit agreement between the members to maintain relationships of trust, without any formal contract. However, with the need to have access to more substantial funds in order to implement economic and social activities on a larger scale, mutual saving and credit banks have been set up to overcome the limits of the tontines. Over the past years, these funds and mutual fund societies have expanded rapidly in most African countries. They illustrate the will of public authorities to improve the financing conditions of the informal sector. The mutual credit and saving funds actually constitute a formal financing framework for informal activities. They manage to mobilize substantial savings and to give credits adapted to the needs with appropriate forms of guarantee.

With respect to social protection, health care is undoubtedly a crucial need. Africa’s francophone countries south of the Sahara have changed from free health care for all to a contributive system. About 90% of working age people have no social protection. With respect to hygiene and security in the work place, African States do not have sufficient human and logistic means to perform regular controls. Generally, only formal sector enterprises are controlled. Informal activities are generally only controlled for hygiene, notably food vending stalls and catering activities.

As for organisation and representation issues, actors of the informal sector are involved in the creation of organisations which are increasingly representative of their material and moral interests. They also attempt to make policy proposals and improve their say in negotiations with policy makers. In this respect, hundreds of associations supported by bilateral and multilateral cooperation, social partners and NGOs have been created in West Africa over the last 20 years. Among these are the National Federation of Artisans of Mali, set up with ILO support in the 1980s, and the National Federation of Artisans of Benin (FENAB), created in 1993, which groups 200 artisans’ associations with more than 30,000 active members in all trades. FENAB assists and provides services to member associations in the fields of training, marketing and the creation and management of mutual credit and saving funds to finance micro-enterprises. FENAB actively participates in governmental consultations on the elaboration of a Code for Artisans. Numerous artisans’ associations in the region have regrouped in a network, the Confederation of Artisans of West Africa, created in 1998. The ILO’s integrated programme for a Competitive Craft Sector through Transfers and Exchanges (PACTE) provides support to this Confederation. PACTE aims at strengthening artisans’ organizations, as well as building the capacity of various support

structures and public services which are in charge of the promotion of craft sector in the eight member countries of UEMOA, as well as in Guinea, Cape Verde and Mauritania. The objective of this programme is to build an efficient partnership between the sector's stakeholders in order to define and implement strategies of reinforcement of the competitiveness of craft industries, improve working conditions and incomes and improve the environment of crafts enterprises in terms of regulations and support. PACTE's scope of intervention includes information, exchange of experience, micro-finance, organisation and social protection.

One of the main consequences of rapid urbanization in Africa is the proliferation of slum areas, which in Dakar represent up to 45% of the total settlement. It is in these populous, insalubrious, under-equipped and poor areas that the great majority of the working population of the informal sector live and work. Confronted with these problems, some African States have decided, within the framework of their urbanization policy, to designate spaces reserved for the informal micro-enterprises, notably by creating areas devoted to crafts or other space viabilisation programmes. As an example, the Government of Senegal has initiated, with the support of German cooperation, a restructuration and land regularisation programme in Dalifort, an area in Dakar which extends over 16 hectares and has 7,000 permanent residents. The project, whose implementation implies the participation of different stakeholders (the State, local authorities, NGOs and community associations) aims at reducing, and even eradicating, irregular occupations through prior planning of living or working areas in places of concerted planning. The principal achievements include the organisation of the beneficiaries of residential plots into an Economic Interest Grouping; the restructuration of the area through the creation of basic infrastructure and community equipment (access roads, water supply, electrification, creation of an elementary school and a health care post, an individual and semi-collective drainage system, and a market); land-securing allowing the concerned populations to acquire plots at preferential prices (US\$ 4 per square metre against US\$ 40 on the land market); improvement and transformation of dwellings (solid constructions have increased from 7 to 48%); the involvement of women (11% of heads of households have become property owners) in income-generating activities. However, it should be noted that these programmes do not always manage to avoid land speculation.

To conclude, the report presents a number of recommendations. In Francophone Black African countries, strategies for the promotion of decent work should favour concerted and integrated approaches and avoid trying to formalise the informal sector at any price, and even less to informalise the formal sector. It is rather a question of finding adequate regulation authorities, applying the same legal norms and principles, but with some tolerances and practices taking into account the specificities of informal activities and, more particularly, the situation of women who are numerous in precarious survival activities. Discriminated against and a minority in formal employment, women are a majority in the informal sector where they are, however, essentially confined to badly paid and not very productive activities. Although they constitute a vulnerable group, they are sufficiently motivated and mobilized and must be the target of particular solicitude in development strategies. Last, the report recommends a reform of the legal system to eliminate restrictions and administrative complexities of current procedures and integrate all workers within a new legality to be defined, within the framework of a social dialogue involving organisations created by stakeholders of the informal sector themselves, or chosen to represent them.

“Decent Work in the Informal Sector: CEE/CIS³ region”

by Bettina Musiolek, Consultant

The report discusses key factors, characteristics, variations and forms of informality, as well as policies applied in or proposed for the region. It uses a work- and employment-based approach. Informality⁴ is attributed to legitimate work or employment that fail to meet socially-accepted employment norms – i.e., a wage that covers basic needs, social security coverage, an established employment-relationship and occupational health and safety. The report suggests a differentiation between work as such and the conditions under which it is being performed. Informal work is seen as the problem, not the informal worker.

Formality and informality in transitional societies are inevitably a mixture of existing and new patterns; in the region, they are mixtures of features typical of developed and developing economies. They can only be understood in their unique transitional nature that defies a simple comparison with the phenomena in other countries. Informal employment is - maybe more than in any other region - by no means a distinct entity. There is no clear boundary between a “formal”, “organised” and an “informal”, “unorganised” sector.

The “explosion” of informality in the region has developed in two waves. In the early 1990s, a fierce economic, financial and social crisis followed the “shock” of transition. De-industrialisation and de-agriculturalisation of the economies created a situation of widespread unemployment within a few years. There was a devaluation of the currencies and often hyperinflation which subsequently eroded purchasing power of wages and introduced poverty to a majority of the population. The UNDP has called this change the “most acute poverty and welfare reversal in the world”. Privatisation has frequently resulted in depriving formal sector workers of their rights. New owners often ignored existing collective bargaining agreements. Furthermore, privatisation often led to closures or redundancies. For these reasons, people were forced to look for income alternatives in informal and subsistence activities.

Since the late 1990s, transition processes have converged more intensively with globalization and EU-integration. Factors that cause more informal and non-standard employment worldwide have also become increasingly relevant in the region. Globalization is commonly related to the search for more flexible forms of labour to sustain a competitive edge. Labour markets have been deregulated, the mobility of capital increased and global commodity chains have been restructured. The region has become a preferred target for production relocation, outsourcing, subcontracting and assembly production and outward processing trade for Western European companies and markets. All these processes have commonly been linked with an increase in informal work arrangements.

Globalization pressures add to transition problems. The dramatic downsizing of the public sector and social services, for example, has been seen as an inevitable result of both

³ The abbreviation CEE/CIS (Central and Eastern Europe, the Commonwealth of Independent States and the Baltic States) stands for Central European countries, the Baltic (Poland is sometimes considered a Baltic state and sometimes subsumed under CEE) and other former Soviet republics including the Central Asian, the Balkans/Southeast Europe including former Yugoslavian countries and Albania.

⁴ This perspective excludes illegal (in terms of penal code) activities such as trafficking in women.

globalization and transition. However, the deteriorated performance of social services has contributed to the weak commitment of employers and employees to pay taxes and make statutory social security contributions. This has gender impacts; the CEE/CIS region may be the only region in the world where there has been a considerable increase in women's household and reproductive workload while their participation in the labour market remains high.

The near absence of a critical public to raise issues of deteriorating working and living conditions contributes further to a weak respect for social and labour regulation in the region. Under the economic, financial and social impacts of transition, globalization and EU-accession, governments are reluctant to effectively enforce social and labour codes that are generally well developed in the region. Local and foreign employers and clients take advantage of this weak implementation.

The economic recovery in terms of GDP growth that occurred in some countries did not lead to a decrease in informal employment, nor absorb the unemployed. Women did not benefit substantially from this recovery. They are increasingly confronted with both discrimination in recruitment and employment and a re-introduction of conservative family roles in many countries of the region. For example, sexual harassment at work and discrimination against female entrepreneurs by creditors, customers or suppliers are reported. Thus, women are less likely to get well-protected and well-remunerated employment in the emerging private sector, but are more likely to work in informal arrangements well below their generally high levels of formal education. Women are also more likely to be subject to violations of labour rights.

Countries of the region can be roughly grouped into two clusters:

1. Countries where there is a serious mixture of over-regulation and absence of regulation, yet where there are socially accepted standards that favour formalised patterns. The share of the informal economy in GDP and employment is estimated at 30 - 50%; and
2. Countries that are dominated by a comprehensive "informal regulation" such as Russia; in these countries, over-regulation (as formal regulation) is undermined by "informal regulation". The share of informal arrangements in GDP and employment amounts to 50 - 70%.

Typical forms of informal employment throughout the region are:

- Multiple job-holding that combines employment in the remaining public and social sectors with other activities because of the low wages or non-payment of salaries. A common strategy for women in these situations is to seek self-employment as private tutors, translators, consultants/assistants to foreign organisations or companies. Men tend to find self-employment in technical services or consultancy. These include high as well as low-income activities.

- "Classical" informal economy activities such as cross-border suitcase trade, street-vending and home-based production of goods or services for local markets. These activities are highly gender-segregated.

- Migrant labour in seasonal, temporary or other casual, sub-standard employment in West Europe, mainly in Italy and Germany (e.g., domestic work, construction, agriculture).

- Subcontracting and particularly assembly production arrangements⁵ within global supply chains. This is one of the most important areas of informal employment and can take place in home-based, micro-enterprise-based or factory-based locations. Typical sectors are garment, footwear and food processing. Apparel constitutes the highest share of exports of many countries in the region and the EU is the major importer. Usual aspects of informality in this sector include absence of labour contracts and weak labour organisation or collective bargaining.⁶ Moreover, workers are often “officially” paid the legal minimum wage (that usually does not cover basic needs) while for anything extra they work off the books.

Foreign clients engage in subcontracting arrangements in the region *because* of the lack of enforcement of basic labour rights, which enables them to exercise high production and labour flexibility. Women’s wages are seen as supplementary according to conventional “breadwinner” patterns, even though the social reality in the region contradicts this sharply.⁷ The fact that legal minimum wages in the region are well below a living wage constitutes one of the heaviest downward pressures on living conditions and on decent work. In addition, EU trade regulations facilitate the assembly production pattern by favouring re-imports in terms of customs and tariffs.

Subcontracting (particularly assembly) arrangements are highly mobile and fragile with low profit margins and high dependency on the client. This results in the weak bargaining power of local producers/suppliers vis-a-vis multinational enterprises. Whereas in other world regions, some countries have managed to attract more full-package production and improved positions within global commodity chains, the CEE/CIS countries witness an opposite trend of down-grading supply chains with only the assembly operations taking part there.

It is argued that informal employment is clearly subsidising the formal economy and that formal and informal employment can only be understood in terms of their mutual linkages.

In terms of *strategies*, the report goes beyond the usual focus on evasion of taxes or social contributions that leads to a simplistic policy dichotomy - whether or not to tighten legal enforcement or to raise taxes. High levels of informality suggest that major policies and legal and institutional frameworks may not correspond with the socio-economic realities, such as people’s strategies to cope with poverty. This is not to say that institutions and regulatory frameworks do not exist and function. The interlinkages between legal and economic relations, between regulations and their *de facto* impact need to be better understood in order to devise meaningful strategies for formalisation and decent work that would not be detrimental to the employees involved.

⁵ Among the terms used in the international discourse on global commodity/value/ supply chains for assembly arrangements are "Outward Processing Trade", "Cut-Make-Trim" (German: "Passive Lohnveredelung"). In the region, the terms "Lohnsystem" (Lohn = German for wage) or "Ishleme" (Turkish for embroidery, but names any assembly production) are used.

⁶ Among the estimated 10,000 garment production shops in Romania, only a few dozen are organised by trade unions.

⁷ Trade unions estimate that 60% of women workers in the sector are single mothers or the sole family “breadwinner”.

Organisations to represent employees/workers in the informal economy are crucial to formulating strategies. In the region, only such a few representative organisations exist. Awareness is growing among trade unions that are present in the formal sector. However, informal employment still creates a challenge to the labour movement around the world and trade unions in this region could learn from organisational efforts by other networks and organisations active in the informal economy.

The concept of an employment-based approach to decent work and the informal economy also needs to be operationalised in terms of the concrete labour standards. For workers in garment and sportswear supply chains, a set of labour standards derived from basic ILO Conventions has been developed⁸ that is widely accepted by labour and multi-stakeholder initiatives worldwide. The importance of global supply chains for the region and the prevalence of informal work arrangements suggest that strategies for promoting decent work should and can use a supply chain approach. As practised by multi-stakeholder initiatives in the garment sector⁹, these strategies should comply with the following requirements:

1. Certain labour standards must be implemented and verified for *all workers* who are involved in the production of goods or services regardless of their legal relationship to the marketing company, i.e. the entire supply chain including home-based seamstresses under subcontracting arrangements must be covered.
2. The verification of these standards must be *independent*, that is, ensured through the inclusion of different stakeholders such as trade unions, NGOs, employers' and sectoral organisations and governmental institutions.
3. Multinational marketing companies must develop their own *social management systems* according to accepted best practices to ensure the implementation of labour standards in their entire supply chain.

⁸ It comprises the core ILO Conventions and additionally the right to a living wage, a maximum weekly working time and overtime, the right to an established employment relationship and decent occupational health and safety - as stipulated in ILO Conventions.

⁹ Such as the Dutch Fair Wear Foundation.

“Towards Decent Work in the Informal Sector: The Case of Egypt”

by Alia El Mahdi,
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The informal sector is defined as including enterprises that do not abide by the rules and regulations for operating on a formal basis such as acquiring a business license, commercial/industrial registration and keeping regular books of accounts. Informal workers are waged workers who work without contract or social security coverage. In Egypt it is estimated that the majority (82%) of micro and small enterprises are informal enterprises. Among all waged workers, 35% are informal, but proportionately more men (39%) than women (17%) are informal. It is estimated that informal units alone generate more than 5 million work opportunities. However, informal workers can be found in private formal sector companies as well as in government and state-owned enterprises, and not just in informal enterprises.

The structural transformation of the Egyptian economy is reflected in changes in the labour market. Beginning in 1964, by law the State assumed responsibility for hiring all university and secondary school graduates in government offices or state-owned enterprises. However, this system was dismantled in 1978 in order to increase efficiency and reduce excess workers. Up to the early nineties, the public sector remained the main employer (59% of paid workers were public sector employees) until implementation of the Economic Reform and Structural Adjustment Programme (ERSAP) began. Fiscal policy decisions to reduce the wage bill and cut the budget deficit meant that new graduates had to seek job opportunities in the private sector. These changes occurred against a backdrop of a recessionary economic environment. Since the informal sector, which has always existed in Egypt, is able to generate sustainable growth in employment at relatively low cost per job created, many of the new job seekers ended up in informal employment or enterprises along with those with little or no education.

Several other factors have contributed to the growth of the informal economy as well. Employment in agricultural activities declined from 48% in 1976 to 31% in 1996 while recent years have seen a clear trend of diminishing rural to urban migration. Small and informal enterprises have hence been growing in rural areas, particularly those of male entrepreneurs. The regulatory and institutional environment is also not conducive to formalization. It could take up to a year to fulfil all of the requirements for licenses and permits involving as many as ten different ministries and public bodies. Clearly owners of very small and micro enterprises cannot afford the time, expense and opportunity cost this would entail. Those entrepreneurs with little or no education may not even be aware of the complex requirements for becoming more formal. However, they are at a clear disadvantage when it comes to access to capital for investment as even the micro-credit institutions and social funds that have been established around the country require evidence of registration and numerous other documents such that only formal enterprises have access to micro credit. The Government also lacks the institutional capacity to support, monitor and inspect the millions of micro and small enterprises around the country, even less so in rural than in urban areas. A survey in Greater Cairo found that only 15% of the workers had a contract of employment and social security coverage. A recent practice is for workers who sign contracts at recruitment to be asked at the

same time to sign letters of resignation that can be activated when their employers deem it necessary. This ensures flexibility, but voids provision of the law.

There are significant gender differences in both the formal and informal sector. Women are more likely than men to be unemployed (20% compared to 7% for men). In the formal sector the government and state-owned enterprises are the most important job providers for women as there is a clear bias against hiring women in the private sector. A substantial percentage of workers (22%) in small businesses are unpaid family workers, presumably mainly women and children. Among waged workers, women earn considerably less than men on the whole. Informality is higher in the male workforce (39%) compared to the female workforce (17%). The chances of a woman becoming self-employed or an employer are less (6%) than for men (29%). For those women who do start a business in the formal sector, the Greater Cairo survey found that literally all of them were given money by their spouse, whereas in the informal sector, nearly half (41%) used money that was inherited and 26% money from their spouse. For men in the formal sector, 48% used inherited money and 29% money saved from previous work, whereas it was the reverse in the informal sector. Women tend to be from higher age brackets than men in both the formal and informal sector.

Entrepreneurs and workers in the informal economy in Egypt have little access to credit, social security, health insurance or training. Only a meagre percentage (6%) were offered technical or training assistance from the numerous agencies and NGOs working in Egypt. One of the main providers of technical assistance proved to be machine suppliers. Employers' organisations, business associations and trade unions focus their energies on formal sector enterprises. Some government programmes, however, such as the Productive Family Scheme have managed to reach large numbers of people with training and marketing services, especially in rural and poor neighbourhoods.

The complexity of the constraints facing micro and small entrepreneurs suggests that a variety of actors and stakeholders are required. A high degree of participation and coordination among these actors would be needed to develop relevant and effective policies to support this sector. These policies should reflect the needs and priorities of the informal sector. The initial intervention should as far as possible be feasible and relatively free of institutional conflicts to ensure success and pave the road for other more difficult ones to follow.

“Decent Work and the Informal Sector in Brazil”

by Marcelo Cortes Neri,
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In Brazil, formal employment usually implies that the worker is an employee who has a card (signed employment booklet). This makes the employee eligible for social security and protection under labour legislation. Informal employment in Brazil is understood to imply that the worker is an employee, but without a card. That means that the employment relationship is not registered with the Ministry of Labour. Another way of measuring informality is through social security rates.

In Brazil, just under 60 per cent of the economically active population (15-65 years old) are working in the informal sector: 23.4% are self-employed, 11.2% are unpaid employees, 11.1% are private sector employees without card, 7.6% are domestic servants and 6.5% are agricultural workers.

There are other aspects to informality related to multiple dimensions of job quality. The basis used for guiding policy interventions depends on which aspect of informality one wishes to address. For example, lowering job precariousness, decreasing occupational risks and increasing the degree of social protection. This report statistically gauges various aspects of informal sector activities in Brazil over the past two decades. The purpose is to provide useful information for policy makers who wish to assist those holding “indecent” jobs.

Some of the key statistical findings of the paper are summarized below:

Social security

The rate of social security evasion in the private sector amounted to 62% in 1999 against 52.8% found in 1985. The rate of informality is higher for women (66%) than for men (59%). The highest levels of evasion among industrial sectors are found in agriculture (90%) and construction (72%). Finally, in spatial terms, the highest levels of evasion are found among workers in rural areas (86%) and in the Northeast region (82%).

Occupational stability (risk)

Informal employees are less likely to stay in their present employment (63.1%) than formal employees who have a probability of around 90%. The self-employed and employers are in an intermediary position with staying probabilities equal to 75.6% and 77.3%, respectively.

Health status

Employees with a card (86.1%) are more likely to perceive their health status as good or very good than self-employed (71.2%), employees without card (83.4%), agricultural workers (78.5%), domestic servants (75.7%) and unpaid workers (72.1%).

Access to health services

Access to private health services is much higher for employees with a card (42.9%) than among the self-employed (15.3%), employees without card (16.3%), agricultural workers (18.4%), domestic servants (15.9%) and unpaid workers (24.3%). The reported quality of services among those who have a private health plan does not differ greatly.

Professional associations membership

A first set of social capital indicators is related to enrolment rates in trade unions and professional association activities. In metropolitan areas, there is an inverse relationship between membership rates in such organisations and informality (43.3% for formal employees and 14.5% for both informal employees and the self-employed).

Dealing with new technologies

The requirements for new technical skills imposed by the information age require capital. Formal technical education and access to new equipment where one can *learn by doing* are considered valuable assets. About 15.1% of formal employees against 10% for both informal employees and the self-employed did a technical course equivalent to a high school degree. The perceived need to regularly use new equipment in work varied from 33.2% for formal employees to 18.7% for informal employees, and 15.7% for the self-employed.

Linkages between the formal and informal sectors

The main finding is that labour laws affect not only the regulated sector, but the "unregulated" sector as well. In most cases, the consequences of legislation on wages, hours, and payment practices are also tangible in the informal labour market. The main difference between informal and formal employment is that the former escapes payroll taxes, in particular social security contributions.

“A Profile of Informal Employment: The Case of Georgia”

by Sabine Bernabé, London School of Economics

This paper provides a profile of informal employment in the Republic of Georgia based on the analysis of the Georgia Labour Force Survey data (1998, 1999). A brief review of the literature reveals that there is no consensus worldwide over what constitutes the informal sector. The term has been used differently in developing, Western industrialised, centrally planned and transition countries. However, in *transition countries*, not only has the term been interpreted differently, but also there has been no real discussion on what constitutes the informal sector; each individual piece of research has simply used the term to define its own area of interest. Thus the ‘informal’ (or ‘underground’, ‘unofficial’, ‘shadow’, etc.) economy has included an extremely wide spectrum of activities, from tax evasion, corruption, money laundering and organised crime to bribery, subsistence farming, barter, petty trade, and the stealing of state property.

The paper argues for the need to distinguish between small-scale income and employment-generating activities, which are undertaken to meet basic needs in the absence of formal employment opportunities and formal social safety nets, from those which are deliberately concealed from the authorities for the purpose of evading taxes or not complying with certain regulations. Not only is this distinction important because these two sets of activities raise different policy issues, but it is also important in order to ensure that policies aimed at ‘eradicating’ the informal sector (to improve public finance or law and order, for instance) do not have damaging implications for livelihoods, while raising no additional income.

The paper builds on the conceptual frameworks of Bernabé (2002) and Hussmanns (2001),¹⁰ which isolate ‘informal’ from ‘underground’ activities and provide a structure for the analysis of informal employment. In particular, they enable the distinction between *employment in the informal sector* (as defined by the 1993 ‘Resolution Concerning Statistics of Employment in the Informal Sector’)¹¹ which only includes employment in household enterprises with certain characteristics, and *total informal employment*, which includes all informal employment regardless of the type of unit in which it takes place. Within this framework, the paper adopts a typology of informal employment which includes: (1) own-account workers and employers in household enterprises; (2) (unpaid) contributing family workers; (3) non-regular employees; and (4) others employed casually, temporarily or seasonally.

The results show that *the majority of the Georgian labour force is informally employed*. *Total informal employment* accounted for just over half of total employment in 1999, while *employment in the informal sector* accounted for over one quarter. The results also reveal *a dual dimension to employment* in Georgia. On the one hand, there is a formal,

¹⁰ Bernabé, Sabine. 2002. "Informal Employment in Countries in Transition: A Conceptual Framework." *CASE paper 56*.

Hussmanns, Ralf. 2001. "Informal Sector and Informal Employment: Elements of a Conceptual Framework." ILO, Geneva.

¹¹ ILO. 1993. "Resolution Concerning Statistics of Employment in the Informal Sector." ILO, Geneva.

state, largely urban sector, which employs the majority of paid-employees, while on the other, there is an informal, private, largely rural sector, comprised mostly of self-employed and contributing family workers. More importantly, the findings show that ***there is almost no formal private sector employment***. Almost three quarters of private sector employment is informal, and the little formal private sector employment that exists is concentrated almost exclusively in small-plot agricultural production. This seriously questions the success of the transition process and of the labour market models, which predicted that privatisation and restructuring would result in the creation of a private sector labour market similar to that of western market economies.

Moreover, the paper finds that although the level of educational attainment of the Georgian labour force as a whole is higher than the European average, there is evidence that ***the labour force is quickly losing its skills***. One third of those with higher education are either self-employed in small-plot agriculture or working in low-skilled, precarious, informal jobs. This suggests that the lack of formal employment opportunities, below-subsistence wages, and the absence of social security may be pushing workers into informal employment. Indeed other results also suggest that ***informal employment may be providing a social safety net***. First, almost half of the population aged 65 and over is employed and three quarters works informally. Given the extremely low pensions and the persistent payment arrears, this suggests that *pensioners* may engage in informal work to survive. Second, informal employment rates are particularly high in Georgia's poorer regions and amongst its ethnic minorities. In Samegrelo and Guria, two of the regions which have suffered the sharpest economic collapse since the beginning of transition, three quarters of the employed work informally. In Samtsxe-Javakheti and Kvemo Kartli, two of Georgia's traditionally poorer regions where most ethnic minorities are concentrated, more than 60% of employment is informal. Finally, the paper also finds considerable differences between regions in the trends of informal employment over time. Similar patterns have been observed with unemployment and poverty rates further suggesting that informal employment could be a coping strategy in response to increases in unemployment or falls in income. However additional research is needed to determine whether a relationship exists between informal employment, poverty and unemployment.

Although preliminary, this paper's findings have some implications for public policy. In particular, they highlight the need for formal private sector development; for employment programmes which focus on training, retraining and re-integration of skilled workforce into formal jobs; for an improvement in the state of public finances to ensure that wages, pensions and other benefits are adequate and paid on time; for creating a more efficient and targeted social security system, which ensures the protection of the most vulnerable, and; for a regional focus in public policy to reverse what appears to be a growth in inter-regional inequality.

“Good Practice Study in Shanghai: Employment Services for the Informal Economy”

by Jude Howell,
Institute of Development Studies, University of Sussex

In many so-called developing countries the informal economy is an important source of employment. Its precise contribution to national economies is difficult to estimate as most countries do not collect statistics on the informal economy. In the absence of any comprehensive social security system, it provides an essential means for generating some income, albeit at a low level. Nevertheless, the informal economy is also criticised for its poor employment conditions. As the informal economy is not covered by employment laws and regulations, working practices often fall short of legal requirements, resulting in long hours, insecure employment, and often unhealthy, unsafe and unprotected working environments.

Although the activities of the informal economy have continued to exist in China since 1949, the concept of the informal economy (*fei zhenggui jingji*) is new. Until 1978, the ideological emphasis upon state and collective ownership sharply limited the scope for the private and informal economy. In the wake of reforms in 1978, the role of the private economy expanded rapidly, particularly in the 1990s. With the intensification of state enterprise reform from the mid-1990s onwards, and subsequent mass redundancies, the Chinese Government has taken increasing interest in the informal economy as a means to address the issue of unemployment. Shanghai municipal government has proceeded furthest in creating a favourable policy and regulatory environment for promoting the informal economy, and is considered to be a pioneering model for the development of the informal economy in China.

This paper provides a case study of the Shanghai model of the informal economy. It starts by providing an historical background to the development of the informal economy in the People’s Republic of China. It then focuses on the case of Shanghai, which has promoted the development of the informal economy as a way of dealing with rising unemployment. The Shanghai municipal government coined the term ‘informal labour organisation’ to describe those individual ventures and small enterprises established through its special policies and measures to encourage the informal economy and to distinguish such ventures from both the registered self-employed and private companies. By September 2001, over 14,364 informal labour organisations had been established in Shanghai. The report then outlines the specific set of facilitating policies and measures adopted by the Shanghai municipal government to promote the informal sector. These policies and measures include the extension of basic social insurance to employers and employees in informal labour organisations; training opportunities for employers and employees in the informal economy in subjects such as business start-up, business theory, and technical skills such as hair-dressing, TV repair and domestic household work; preferential tax policies exempting informal labour organisations from local taxes and non-statutory social insurance contribution payments for three years; entitlement to contribute to risk insurance; assistance with obtaining credit; the establishment of public works programmes; creation of a voluntary network of experts to assist informal labour organisations; and the “4050” project, targeted at laid-off workers over 40 and 50 years old. The paper provides detailed case studies of informal enterprises in

Shanghai, drawing upon interviews with employers and employees. It also considers some of the key challenges facing the informal economy in China. These include issues of management capacity, support systems, training infrastructure, policy environment, access to credit and employee representation.

Case studies on training and skill formation

“Training for Work in the Informal Sector: New Evidence from Kenya, Tanzania and Uganda”

by Hans Christiaan Haan, Consultant

This study aims to review the changes that have taken place over the past 15 years with regard to the training needs of informal micro and small enterprises (MSEs) and the provision of training by the public and private sectors in Kenya, Tanzania and Uganda. The informal sector has been expanding in all of these countries since the beginning of the 1970s. There is little detailed information on the training needs of informal sector operators, except that few of them have followed any formal or non-formal training. Circumstantial evidence, however, strongly points to the need for increased skills development, together with the upgrading of technologies used in the sector and product design to increase productivity.

On the supply side, the vocational education and training system is in a state of crisis. It has generally proven to be incapable of responding to the changing needs of the labour market. It serves only an infinitely small section of the total population in need of skills development, and even so many of its graduates do not succeed in finding employment upon completion of training. All three countries are now in the process of restructuring their training institutions and reformulating their training policies. In Tanzania and Uganda, a new Vocational Education and Training Authority (VETA) has been set up, which is specifically charged with the coordination and provision of support to public and private sector training providers. The VETAs have enacted a training levy from which relevant training programmes will be funded in the future.

Training providers do not appear to have changed their practices in the past 15 years. They offer training in a small range of conventional trades, paying little or no attention to business skills. Especially for girls/women, the choice is very limited and mostly consists of textile and a few other traditional trades. Moreover, the existing training capacity is almost exclusively dedicated to pre-employment training for young school leavers and does not serve those already working in the informal sector. In any case, the total training capacity is depressingly small in relation to the enormous and still growing needs.

The training providers in the public sector suffer from inflexible and inadequate training curricula, sub-standard infrastructure and lack of qualified and motivated training staff. They value examination grades over employment results. They have few links with the local business community, leading to a lack of opportunities for practical training and post-training employment. In the wake of structural adjustment programmes, their budgets generally have been reduced, which in turn makes it even more difficult to change and upgrade their training programmes. The non-profit private training providers, mostly church-based organisations, do not usually differ fundamentally from public ones in their approach. However, there are some non-government training providers, usually NGOs of recent origin, which have initiated interesting MSE support activities that also include skills training (for instance, the Product Design and Development Centre, Gatsby Kenya and ApproTEC in Kenya, or the Uganda Gatsby Trust). The main question concerning the activities of these organisations refers to the sustainability of their services, as they are now at least partially funded by international donors. For-profit training providers have mushroomed in East Africa in recent years, especially in business skills training (from computer competences to business plan writing,

market research, etc.). Only very few are engaged in technical skills development. But undeniably the traditional apprenticeship system, although not well developed in Eastern Africa, is the most important source of technical and business skills for those working in the informal MSE sector.

One of the more remarkable findings of the present study is that very little is actually known about the fate of the training graduates and thus of the usefulness of the skills imparted. Training courses are not based on pre-training skills needs assessments; nor is the post-training impact tracked through tracer studies. In any case, the training results in terms of employable skills appear to be low.

Budgets for vocational training have been shrinking in the past decade. At the same time, most vocational training centres have maintained their high cost structure with centre-based, long-duration training courses. To compensate for the loss of funding from other sources and to cover rising training costs, virtually all of them have introduced and gradually increased training fees. However, there is a general feeling that training fees are at their maximum and possibly already too high for the majority of the target group, whose purchasing power has been hard hit by worsening economic conditions. Therefore, vocational training centres need to drastically reduce their training unit costs by changing their delivery mode.

The paper presents a number of case studies, some of them highlighting interesting innovations being introduced in the vocational training systems of Kenya, Tanzania and Uganda.

In Kenya, the World Bank training voucher scheme, for all its deficiencies, has shown that informal sector operators are interested in short, well-focussed and relevant training. The example of the SITE project for upgrading apprenticeship training shows that there is ample scope to make apprenticeship training more effective. The UNIDO project to train and organise informal sector operators as trainers and even MSE business counsellors yields interesting experiences in building up training and support capacity within the informal sector.

The VETA/ILO/GTZ pilot programme of training for the informal sector in Tanzania is expected to build the capacity of a national, autonomous vocational training body to coordinate and support public and private sector training providers with programmes geared towards the informal sector. The programme is developing new approaches and training delivery modalities.

In Uganda private for-profit training providers have been encouraged to enter the field of technical training.

In conclusion, in view of the tremendous expansion of the informal sector, many changes are required. The study recommends further research on the training needs of informal sector operators, taking into consideration the segmentation of the informal sector. Pilot activities are needed in the area of training cost recovery. Tailor-made and demand-led services, a business-like service delivery, a more prominent role for private training providers and the principle of cost-sharing clearly also hold importance for skills training for the informal sector. With respect to cost sharing, a balanced approach is recommended. In the case of pre-employment training, for example, one can expect that poor youth most likely do

not have savings or access to capital (except from family and friends), and in view of low-cost or even free general education it could be argued that minimal fees ensuring a clear commitment to skills development would suffice.

Finally, the paper recommends the adaptation of new information and communication technologies such as training and counselling via the internet, post-training business counselling via e-mail, and dissemination of technological and market information. All this would facilitate low-cost training delivery to a wide variety of informal sector operators, especially in the rural areas.

“Training and Skill Formation for Decent Work in the Informal Sector: Case Studies from South India”

by Amit Mitra, Consultant

This paper analyses the approaches to training taken by five NGOs in South India in the context of an economy characterised by the sheer magnitude of the informal sector, and draws some lessons on how training interventions should be designed to create a suitable learning environment that supports an effective use and absorption of skills by informal workers, whether as individuals or as members of communities.

The first part of the study presents data on the informal sector in India, as well as data on education and training. It shows that the majority of workers do not possess marketable skills in the sense that they cannot get regular employment or incomes from their skill base. The study also reviews the training system more generally in India and notes that vocational training is often equated with technical training/education, geared towards the formal sector. There is a strong urban bias, a very marked gender division of training and curricula, and the training system is highly centralised. The upper castes and classes benefit most from the system as very often the lower castes and classes experience strong economic or other barriers to entry into some of the courses. But it is also noted that much of the training provided by the formal training institutions is for skills which are not much in demand. Curricula have not been revised for many years and are therefore not attuned to current market requirements. Some revision has taken place recently, but a lot remains to be done. One reason for the lack of attention to market requirements is the lack of involvement by the industry in the management of the training institutions.

The five NGO interventions that were chosen from the Southern States cover a broad spectrum of the kinds of training being provided to informal workers and to those likely to enter the informal sector. These NGOs were SKIP, GOODWILL, MEADOW, MAYA and the DHAN Foundation.

Two of the case studies selected, SKIP and GOODWILL, follow a traditional approach to training, concentrating more on vocational training. These interventions experience problems similar to those of the formal training system, including that of obsolescence, lack of market sensitivity and treating training as a one-time affair. One of the interventions, MEADOW, represents that of a group of women collaborating with a large private sector enterprise, in which the objective of the training is exclusively employment. Although successful in providing employment, this intervention has its limitations, especially that of being over-dependent on one firm. Efforts though are underway to break out of this. As for MAYA, it combines training for employment - vocational training - with training for empowerment. DHAN's training, on the other hand, concentrates on empowerment.

The lessons that can be derived from the case studies are all the more important under the present conditions of globalization and liberalisation and the magnitude of the informal sector in India. It is imperative, however, to think of issues of scale in considering any model of intervention.

The paper stresses the critical role of skill/capacity enhancement in the attainment of decent work. Since empowerment is one of the components of decent work, education and training should aim not only at employment, but also at the empowerment of informal workers. Therefore training/skill-building in the informal sector needs to be seen as an enabling device. This means that along with technical/vocational skills (which need to be updated continuously) other important capacities such as social and negotiation skills, as well as the basic knowledge required to survive in an increasingly competitive world need to be built up. Similarly, training also needs to build up capabilities to shift from one vocation to another in order to attain the freedom to make choices without losing status. Another of these skills relates to working in groups and teams. Success stories from the lowest end of the informal sector show that this often provides a means to upgrade skills. Building up ways to access information about the latest trends in the market and the demand for particular skills contribute to the empowerment of the workers. The MEADOW experience illustrates this process.

The intervention package needs to be worked out in a rights framework, including gender and child rights, where the community organisations are of paramount importance as the implementers, monitors and evaluators of the skill-building packages. The human resource building aspects, especially the basic human skills, are of critical importance. The overall purpose of training should be to create an enabling environment where the community and hence the individuals get empowered and can exercise their rights, including the right to decent work. Addressing gender and other forms of social inequity (e.g. caste, ethnicity) should be a part of this.

As the experiences of DHAN and MAYA show, training for empowerment, building social and negotiating skills as well as skills to enhance productivity cannot be a one-time affair. Such skills/training processes for empowerment need to be owned by the community and over time. The role of the external agent should become progressively marginal. This begins with building up the self-image and confidence of the community.

Given the heterogeneity of the informal sector, there is a wide range of training needs. The skill-building package would have to be different for producers, traders and service providers, and developed on the assumption of near total illiteracy. For all the segments of the informal sector, training in marketing and establishing linkages is a must. The role of various interventionists, including the government, is critical in all this. Training can be either formal or informal, but should be systematised.

With respect to pedagogy, trainers should play a facilitative role, to enable the community to learn on its own and from each other. Highly skilled resource persons are required, who constantly upgrade their own skills, but these people have to be accountable to the community. The pedagogy of this training process stresses co-learning and sharing with peers, which brings about crucial linkages and contacts with markets and the supply chain. The members of the communities have to be involved in setting the agenda, according to their needs.

Finally the author points to two critical constraints which, unless taken care of from the very beginning, can more than anything else, derail the efforts. These are the barriers of gender and caste inequity. Even DHAN has had to face problems on both scores. This necessitates a deeper understanding of gender and caste equations of the informal sector, in a disaggregated way. The Government has the greatest role to play in promoting these

concerns. This means it has to prioritise capacity building in the informal sector and play an enabling role.

“Vocational Training for the Informal Sector in Colombia”¹²

by Jaime Ramírez-Guerrero, Consultant

This study presents some statistics on the size and evolution of the urban informal sector in Colombia and a general review of the policies and programmes developed in recent years in the field of training for workers and/or productive units in the informal sector.

The concept of the informal sector has lost force in employment and training policies in Colombia, and has been replaced by the concept of the micro-enterprise. Thus, State action is concentrated on programmes for the development of micro-enterprises and for the training and retraining of newly unemployed workers, as well as on emergency employment creation programmes in the context of anti-poverty policies.

The study analyses the two types of training that are the most relevant for the informal sector: (i) non-formal training, developed mainly by private institutions (both profit and not-for-profit) that either support micro-enterprises or respond to a demand arising mainly as a result of the growing number of young people who drop out of the education system; and (ii) training provided by the National Apprenticeship Service (SENA), which contributed important resources in the 1970s and the 1980s to the implementation of programmes oriented towards the informal sector, generating important lessons on intervention strategies and methodologies. However, since the mid-1990s, SENA has decided to concentrate its activities in the modern sector of the economy. Training activities with a social focus concentrate on retraining for the newly unemployed or on crash courses for young people looking for their first job, almost always with an occupational emphasis.

The study examines two areas of special significance in Colombian efforts with regard to training for the informal sector: support for micro-enterprises, implemented in the framework of the National Plan for Development of the Micro-enterprise (PNDM), and support for street-vendors, mostly initiated by local governments. In both cases, the analysis emphasizes the policy and institutional aspects of the training programmes, as well as the tensions between focused and global intervention strategies from the perspective of the diversity of the informal sector. Two cases have been documented as reference material.

PNDM concentrates its training efforts on two fronts: small business management training on the one hand, and vocational training and services related to technological development on the other hand. In fact, the ‘survivalist’ micro-enterprises, a category that includes those that are most typically informal, receive a package of services focussing on micro-credit, in which the training function is reduced to guidance on the operating mechanism for credit and its systems of mutual guarantee.

PNDM’s coverage has been significant in absolute terms, although it has only reached just under 10% of micro-enterprises.

¹² “La capacitación laboral para el sector informal en Colombia”

This programme was also implemented in the rural area through the Project to Support the Development of Rural Micro-enterprises (PADEMÉR). Training in PADEMÉR takes place in the framework of the Technological Services to Rural Micro-enterprises strategy, which aims to increase competitiveness and productivity. However, this programme applied methodologies and technological packages that were not suited to the specific demands and needs of rural micro-enterprises. Adjustments have recently been made, the results of which are still not known.

The study draws attention to a fundamental ambiguity in the policies of support for micro-enterprises: this is the emphasis placed on their alleged potential to create employment, in spite of much intuitive and evaluative evidence that indicates that their most significant effect is the stabilization and improvement of spontaneously generated informal employment. However, it should be noted that one of the most interesting impacts of the PNDM and of other programmes with a social focus, such as training for unemployed young people and their integration into the labour market, is that these have given rise to a large number of NGOs (and even profit-making training providers) that have strengths and possibilities that can be used to provide training services to socially disadvantaged groups.

Apart from the activities taking place within the PNDM, the only area of action of any significance in the field of training for the informal sector is that which is repeatedly carried out in large cities as part of the relocation programmes for street-vendors. With political and administrative decentralization, local authorities are playing a growing role in this respect. In these types of programmes, which are generally designed and implemented under considerable political pressure to achieve immediate results, training tends to become a ritual offer, hastily designed and implemented and simplistically oriented towards “making formal micro-enterprises out of informal ones”. As a result, the relocation programmes often tend to convert training into a service that is out of context, isolated and without follow-up.

To conclude, the study draws attention to the need for training programmes directed towards the informal sector to be carefully focused on, and designed for, the different groups in the population.

“Informal Sector Training in Jamaica: An Assessment”

by Andrea M. Miller-Stennett, Director,
Research and Statistics, Ministry of Labour, Jamaica

While there is no consensus regarding the definition of the “informal sector”, there is agreement that the sector consists of very small-scale producers and distributors of goods and services, and independent, self-employed persons in urban and rural areas of developing countries. Informal sector activities also include activities that are often carried out without formal approval from the authorities and are, therefore, “outside” the legal and regulatory frameworks.

Conservative estimates have put the size of the informal economy in Jamaica at approximately 35 per cent of GDP in recent years. In recognition of the significant contribution of the micro and small businesses, the Government of Jamaica has sought to promote the development of these enterprises through the provision of training, financial assistance and technical assistance.

This paper focuses on a small selection of non-formal training providers: the Jamaica Productivity Centre (JAMPRO), the National Development Foundation of Jamaica, the Entrepreneurial Centre at the University of Technology of Jamaica, the Workforce Development Consortium (WFDC) and the HEART Trust/NTA.

The author has highlighted a number of elements that strengthen a programme of skills development and knowledge transfer:

- *Market driven training.* Before training is undertaken, the demand for a particular product should be evaluated. Whether this demand will be sustained and whether there is any potential for expansion of the market should also be explored. The training must be linked to post-training income generation.
- *Institution-assisted choice of training.* Clients will not always be aware of all the options that could meet their needs. JAMPRO’s skills audit merits highlighting as a method of determining clients training needs, as is the evaluation of literacy and numeracy skills practiced at WFDC.
- *Hands on training.* Trainees must get as much hands on training as is possible. One example is the “work experience” included in WFDC’s Home Management Programme.
- *Training time and location flexibility.* In order to achieve the best results, training must be flexible in terms of time and location. Many in the informal sector are unable to access training programmes as these are not held at times and venues that are convenient.
- *Post-training support.* In order for training to make a difference, post-training and/or financial support must also be provided. This may take the form of product development, or assistance with business re-engineering aimed at improving

productivity. It is also useful to monitor the business in its initial stage of development.

- *An entrepreneurial approach.* To ensure that individuals are capable of operating their businesses successfully, an entrepreneurial approach is necessary. All training under the SKILLS 2000 programme is characterized by this approach.

There is a fragmented approach towards the provision of training for the informal sector. A more coordinated approach is needed in the future. The Government of Jamaica has been implementing programmes and policies aimed at enhancing the viability of the informal sector. However, it seems that these programmes are not achieving the outcomes desired. This is in part due to the inadequacy of post-training institutional support and financial assistance. Frequently trainees do not have the facilities or resources required for self-employment. This indicates the need for training initiatives to be complemented by other inputs.

The paper concludes that there is no substitute for a good primary education system and care should be taken to preserve and expand the quality and quantity of schooling at this level in Jamaica.

“Skill Training in the Informal Sector in China”

by the Research Group of the Department of Training and
Employment, Ministry of Labour and Social Security,
Peoples’ Republic of China

The focus of this report is on skills development, but it also provides background information on the informal sector and its developments in China.

State-owned enterprises laid off some 15 million workers between 1995-1999. Meantime the urban private sector and self-employment have created around 12 million jobs. As the informal sector is closely associated with private businesses and self-employment, one can surmise that employment in the informal sector has witnessed rapid expansion.

The informal sector refers to own-account workers, household-based micro-enterprises and other micro-enterprises engaging in activities with very little legal restrictions on their operations and with very little capital. In addition there are some other special categories of workers or enterprises considered informal by local authorities, an example being the “informal labour organisations” in Shanghai.

In general, the informal sector is characterized by unstable activities that are often operating at the margin of laws and regulations. Informal employment refers mainly to insecure and unstable jobs. Workers in the informal sector often do not have stable incomes and are not covered by social security. Those to be found in the informal sector include urban laid-off employees, the unemployed and school dropouts. Constraints to this group include low levels of skills and competence, poor job quality and lack of sustainable development potential.

There are, however, exceptions to the low skill, low capital generalisation of the informal sector. In recent years a new group of highly qualified individuals has emerged. They are capable of using the latest information and telecommunications technologies to their advantage. They tend to be well paid but do not necessarily enjoy social protection.

At the policy level, the informal sector is not the object of targeted long-term policy planning or integrated measures.

In terms of providing training for the informal sector, the authors of the study recommend strengthening vocational training to raise the level of skills. Market and competition awareness and business start-up competence would also be valuable skills to promote in the informal sector.

Only a fraction of workers in the informal economy go through training in formal training institutions. One of the major problems with many training programmes and methodologies is that they are based on the needs of the formal sector. Training is not only expensive, it is rigid and does not meet the needs of those in the informal sector. In particular, the system does not fit with the long working days of the informal sector.

A number of training initiatives are described in the paper, for instance, the Re-employment Training Programme in which, by the end of 2000, 13.6 million laid-off workers received training, 65 per cent of whom were re-employed. Thirty cities are participating in the Business Start-up Training Pilot Program and 30,000 individuals had attended courses by the end of 2000. Of these 61.6 per cent have started their own businesses.

Another initiative, the MOL/ILO Project on Strategic Approaches towards Employment Promotion, targets rural redundant workers. Its aims include:

- Capacity building in labour and employment service offices.
- Coordinating activities between the various agencies.
- Support to the economic activities of the participating rural households with the objectives of creating jobs and increasing household income.

The project uses micro-loans as a means of supporting low-income households to be self-employed. It encourages people to form partnerships in starting small businesses. The applicants receive vocational training and assistance in making a business plan. A flexible skills training approach is used and includes the following features:

- Being responsive to what rural households need in terms of vocational training and methods that make the learning process as easy as possible.
- Training is provided close to where participants live.
- Theory and practical work are combined in the training.
- Training and employment support are combined.

In the course of three years, the project has provided training to 13,000 participants, of whom at least 10,000 are estimated to have found a job.

The paper concludes that the various programs, including the re-employment training programme and business start-up training programmes, have all generated positive effects on many levels by raising workers' vocational skills and increasing job opportunities. In the future, it is suggested that multiple and flexible employment forms should be explored. Informal workers should be given special attention, in particular their vocational skills, business start-up capacity and adaptability to market demands.

“Training in the Informal Sector of Belarus”

by Yuri Vesselov, Consultant

This paper presents the major characteristics of the informal sector of Belarus, especially the involvement of the unemployed and socially unprotected population in informal entrepreneurial activities. Data are based on the System of National Accounts. Special emphasis is given to the small business sub-sector. The paper also profiles unemployment (including hidden unemployment) and self-employment and their relationship with the informal sector.

The paper devotes special attention to the training of the unemployed population. The role of the national education system as well as the national and local authorities in the administration and organisation of vocational training activities for the unemployed population is described. In particular, the Employment Committee of the Ministry of Labour and its local units play a significant role in the formulation and implementation of self-employment initiatives and job-creation programmes. On the basis of various data, an assessment is made of the effectiveness of the existing vocational training activities for the unemployed population.

The methodology used in the UNDP/ILO project entitled “Poverty prevention through self-employment and income generation” is described in great detail. This project is based on the premises that self-employment requires skills and qualifications to be productive and to generate sustainable incomes. This is how the project puts strong emphasis on training programmes, using a modular training approach. Furthermore, the project links training to financial assistance programmes and to post-training business support services.

Vocational training, small-business management training, financial assistance and business-support services are provided through local poverty prevention programmes.

The application of modern information technologies and distant computer training as well as an individual approach to vocational training are described.

“Skills Training in the Informal Sector of North-Western Region of Russia (St. Petersburg and Leningrad Region)”

by Liudmila I. Velichko and Gortenzia M. Romanenkova, Consultants

This paper presents seven brief case studies related to the training for the unemployed and those workers already in the informal sector.

A definition of the informal sector in the Russian Federation is provided whereby the informal sector covers all economic activities which are deliberately concealed from the authorities in order to minimize costs and avoid taxes. The paper estimates that 615,000 people are employed in the informal sector of St. Petersburg accounting for 26.3% of the employed workforce. Furthermore, over a million people in St. Petersburg and up to 500,000 people in Leningrad region move between the formal and informal sectors. These include the unemployed, part-time workers and those on leave without pay, refugees and involuntary migrants, marginal population groups with incomes below subsistence level, people with extra jobs, teenagers and students. Out of these, the paper estimates that at least 114,000 persons need training.

As Russia evolved into a market economy, the educational system had to be reorganised too. Training and retraining of the adult population became an imperative. In the North-West region of Russia vocational training and retraining is provided by a large number of training institutions (totalling 1,365 in St. Petersburg alone). The system comprises state institutions as well as non-governmental institutions commissioned by the employment service to train unemployed adults on a fee-paying basis. In addition, there is a series of specialised institutes of further training and refresher courses in enterprises. None of them distinguishes between the formal and the informal sectors. However, a training infrastructure targeted specifically to the needs of actual and potential workers of the informal sector is now emerging in the private sector.

Analysis of the training situation for informal sector workers showed that the current training system is ineffective and does not meet the labour market demand. Very few training providers use modern methods and the majority of teaching staff require skills upgrading. However, many of those willing to undertake a refresher course lack the necessary means. There is a pressing need for expanded and diversified training opportunities and a higher quality of training.

The paper also insists on the need for skills development to be integrated with other tools for the promotion of micro and small enterprises. In this regard, many training centres use the “business incubator” approach to help their trainees set up their own enterprise.

The paper stresses that the North-West region of Russia has the capacity to improve and increase its supply of training to informal sector workers. But this implies the coordination of efforts from all training providers. To address some of the problems identified, a proposal is put forward by the paper to establish a Training and Advisory Centre for Vocational Training for the Informal Sector.

“Skills Training in the Informal Sector in the Philippines”

by Rosanna A. Urdaneta, Chief, Community-based Training and Enterprise Development Division, Office of Non-Formal Technical and Vocational Education and Training, Manila

The Asian crisis and the ensuing economic reforms and restructuring have resulted in decreasing opportunities for formal employment. As a consequence, there have been a growing acceptance and awareness of the important social and economic role of the informal sector in the Philippines' economy. Hence it is argued that deliberate policies, programmes and support structures should be put in place to secure a supportive environment for informal micro-enterprises.

The paper focuses on four themes:

1. An assessment of the external environment of the informal sector and a description of the factors causing unemployment, underemployment and poverty.
2. A profile of the informal sector, the nature of the activities and operations within it, and the needs and requirements of informal sector enterprises.
3. Case studies illustrating the role of training in supporting informal micro-enterprises.
4. Recommendations regarding macro-level policies and programme-level strategies for skills development that could contribute to the enhancement of the informal sector's productivity.

In spite of its growing significance, the informal sector still remains marginalised in terms of policies and programmes, particularly with respect to education and training. Education programmes tend to promote the concept of wage employment rather than entrepreneurship. Many vocational training initiatives focus on supply rather than demand which result in a mismatch between the qualifications individuals possess and those required by the labour market. Some of the training programmes are designed for small and medium enterprises rather than micro-enterprises that are considered by many private service providers as being too risky for business. Hence micro-enterprises often do not receive the training support they need.

Most of the initiatives mentioned in the paper focus on self-employment and entrepreneurship development. Umbrella projects described include WEED (Women Workers Employment and Entrepreneurship Development) and PRESEED (Promotion of Rural Employment through Self-Employment and Entrepreneurship Development).

The cases presented in more details show how skills training interventions and the organisation of informal micro-enterprises can add value and result in the strengthening of these enterprises. The examples chosen all begun with a sound area assessment and promoted empowerment.

In the recommendations, the author proposes an integrated approach to skills development for micro-enterprise development that will:

- ? Combine productivity enhancement with the improvement of working conditions and social protection;
- ? Take an area-based approach;
- \$ Promote the organisation of informal micro-enterprises and encourage empowerment and capacity-building;
- \$ Consider the linkages within a sub-sector as conducive to forming common facilities for capital formation, raw-material sourcing, production and marketing; and
- \$ Encourage the pooling of government resources and NGO efforts.

Representation

“Federation of Trade Unions of Macedonia and the Informal Sector”

by Liljana Jankulovska,
Federation of Trade Unions of Macedonia¹³

The informal sector has become an integral part of each country in the Central and Eastern European countries in transition. The Republic of Macedonia (Macedonia) is no exception. Other expressions commonly used to describe the informal sector include “informal economy” and “shadow economy”. The informal sector includes legal activities but also illegal ones, such as drug smuggling, illegal financial transactions, and prostitution, among others, which have had an indisputable influence on undermining the existing legal regulations.

Macedonia has the highest unemployment rate in Europe. On the basis of data provided by administrative sources (the Bureau of Payment Operations and the National Employment Bureau), and workforce surveys from the Bureau of Statistics for Macedonia, a number of observations can be made. Since the transition began in 1990, the number of formally employed persons has more than halved, from 470,000 to a little over 220,000 in the year 2000. Of those officially unemployed, estimates of which ranged from 32% to 43% of the workforce, 45% were women and 55% were men. Nearly three fourths (72%) are under the age of 40, meaning that the most productive and creative part of the workforce is unemployed. There are also ethnic differences. For example, ethnic Macedonians comprise 84% of the workforce, but 68% of the unemployed, whereas Albanians comprise 10% of the workforce, but 20% of the unemployed. Those with less education and skills experience rates of up to 47%, whereas those with higher education experience only 2-3% unemployment.

Since people must survive somehow, it is not surprising that there is considerable “black employment”. The principal goal of the “shadow economy” is evasion of taxation and labour legislation in order to maximize profits. The main reasons people resort to “black employment” are the inability to find formal employment, poverty, low family income and salaries and the need to survive. The emergence and expansion of the informal sector is due to many complex reasons: transition and implementation of the market economy; privatisation; incomplete enforcement of laws and labour legislation; non-payment of taxes and contributions; low and late payment of salaries; bankruptcies and redundancies; and desire for higher profits by enterprise owners. According to the Federation of Trade Unions of Macedonia, the number of workers in the informal sector who have been working for months or years without an employment contract is more than 150,000.

An indicator of the deepening poverty is the finding that in 1999, most living expenditures (44%) were earmarked for food, while expenditures for shoes and clothing, household equipment, and educational, cultural and leisure decreased. The informal sector has thus become a source of income without which a large portion of the population would not be able to survive. A third of the workers in the country are paid late or not at all. With 50% of the unemployed being under the age of 30, their only alternatives are employment in

¹³ The ILO did not commission this paper. The translation into English was supported with a view to presenting the perspective of trade unions which are grappling with the problems of economic transition, but lack adequate statistics and definitions, and have inappropriate legal and institutional frameworks to address the problems posed by a growing informal economy.

the informal sector, emigration or poverty. Informal employment is found in trade, the textile and leather industry, catering, tourism, craftsmanship, local transportation, agriculture, and servicing businesses. It has also started appearing in health care, at State ministries and other governmental bodies, and in public enterprises. Most often, employment of these workers is done through youth cooperatives.

Working hours are usually not fixed; they work on Sundays; holiday leave is often out of the question; no contributions or taxes are paid from the salary, which is paid in cash; and workers are not covered by health care or pension benefits. Workers who are legally employed and sign a contract of employment are often at the same time required to sign a termination of work statement, which allows the employers to fire them at their discretion.

The position of the Federation of Trade Unions of Macedonia is that there must be a debate between social partners on unemployment and the informal sector, and on finding joint measures and activities for resolving the problems posed by unemployment and the informal sector. Measures that should be taken include the development of a national employment programme; regulation of the informal sector in compliance with legal regulations; legal recognition of informal work, with the possibility of paying taxes and contributions retroactively; improved environment for self-employment; and active inspection controls to prevent and eradicate informal employment.

“Workers’ Education and the Organisation and Representation of Workers in the Informal Economy”

by Dave Spooner, International Federation of Workers’ Education Association (IFWEA)

This discussion paper is an exploration of the potential for workers' education to contribute to the decent work strategy for the informal economy. It is based on the experience of IFWEA affiliates and partner organisations.

The term *workers’ education* refers to programmes of adult learning associated with, or originating from, trade unions, co-operative movements, political parties associated with organised labour or social movements.

Workers' education is primarily an organising tool. Education strategies should be designed to promote and defend the rights of workers in the informal economy and to promote their effective organisation and representation. In its best tradition, the process of organisation is inherently democratic. As such provision of workers’ education for workers in informal employment should involve the active engagement and participation of the workers and/or their representatives in the design, management and delivery of education programmes.

The nature of the informal economy, and the conditions faced by workers within it, demand a targeted approach. Programme design has to be flexible, informal and highly responsive to participants’ needs. Education activities need to be located in a wide variety of settings and held at times that do not interfere with participants’ economic activities. The relatively high proportion of women in the informal economy demands an approach that is highly gender-sensitive.

Extremes of poor working conditions and poverty necessitate innovative and imaginative approaches to ensure sustainability. Experience suggests that programmes must offer the skills needed to improve workers’ livelihoods, and also those skills required to improve collective economic well-being such as co-operative development and promotion of access to social security and insurance.

There is considerable scope for the inclusion of the informal economy perspective in a number of initiatives such as training programmes for trade union negotiators and codes of conduct developed with employers.

Although workers’ education organisations are independent of employers and governments (as distinct from government training institutions, for example), there is a range of other institutions and organisations that are capable of and appropriate to assisting in this area. Large-scale education programmes will require a long-term partnership between informal economy workers, the International Confederation of Free Trade Unions, IFWEA affiliates and other agencies, such as the International Co-operative Alliance.

Emphasis should be on support for transnational co-operation and mutual support, and for programmes that strengthen the local educational capacity of the informal employment workers' organisations themselves.

“Federation of Kenya Employers: Case Study”

by Charles O. Nyangute, Senior Management Consultant,
Federation of Kenya Employers

The Federation of Kenya Employers (FKE) was established in 1959. It has a broad-based membership of small, medium and large enterprises. Out of a total of 3,000 members, 549 members employ 1-20 employees (micro enterprises), while 503 members employ 21-50 employees (small enterprises). Currently, FKE acts as secretariat to eight trade associations and has as affiliate members seven independent trade associations.

FKE began getting involved in micro and small-scale activities in 1989 when there were signs of rising levels of unemployment due to a reduction in private sector formal employment. Formal sector employment dropped from 42% in 1985 to 19% in 1998, and informal sector employment rose from 38% to 67% in the same time period. A national survey carried out in 1999 found that there are about 1.3 million micro and small enterprises in Kenya employing close to 2.3 million people. In view of the fact that over a third of FKE's membership was comprised of micro and small enterprises, FKE saw the potential of increasing its membership from the informal sector.

FKE uses the national definition of informal enterprises as those employing 1-10 employees and which are largely outside the system of government benefits and regulations. FKE interventions have been designed to target specific sub-sectors, for example enterprises engaged in building construction, metal fabrication and machining, and food processing. Business start-ups have been promoted in dairying, baking, school hot-lunch catering, and food kiosks and restaurants. FKE has also established Business Service Centres, sponsored study tours to India and provided training to 780 entrepreneurs.

Since 1995, FKE has advocated numerous policies aimed at creating a more enabling environment for the sustainability and growth of micro and small enterprises. Close to 90 percent of the proposals have either been implemented or are under serious discussion between the Government and other stakeholders, though implementation of policies remains an issue. FKE has advocated assistance to MSEs in the following four areas:

- Market research and information with an emphasis on providing information services; establishing collaboration between large, small and medium-sized enterprises, especially in areas of production of goods and services; and arranging marketing channels and/or developing potential markets;
- Rationalizing business operations through research and development of new products, modernization and renovation of production facilities, and improvements in production technology;
- Acquiring and securing production resources and technology through formation and accumulation of capital; acquisition of land, plant-building equipment, business sites and business information; personnel training and upgrading the quality of labour; and
- Setting up MSE development funds to be financed through allocations from the Treasury, other specialized funds, and international donor funding.

Taking stock of the last 10 years of experience in working with MSEs, FKE has concluded that small and informal sector enterprises have considerable potential for creating sustainable jobs and employment. Employers' organisations can become strategic partners in policy advocacy for micro and small enterprises, but such policies need to be well researched and proper communication mechanisms put into place. Business development services have to be based on continuous needs assessments if they are to have meaningful impact since both the economic environment and the needs of entrepreneurs change over time. The informal sector, they believe, will continue to be marginalized if explicit and coherent pro-business regulations are lacking. Viable networking arrangements are crucial for employers' organisations to create any significant impact through informal sector programmes and services. Informal sector associations can become affiliate members of employers' organisations to maximize communication and participation in policy advocacy, programmes and services. FKE has found that development partners are willing to collaborate with employers' organisations as long as they are focused, transparent and prudent in the manner in which they implement programmes.

“Initiatives aimed at the promotion of quality jobs and the improvement of productivity in the informal sector: A case study in Senegal”

by Youssoufa Wade,
President of the Employers National Council of Senegal

This study describes an initiative of the Employers National Council of Senegal (CNP) aimed at reinforcing the linkages between the formal and informal sectors, and improving the capacity of the informal sector in the metallurgical, mechanics and automotive industries to organize itself. The long-term objective of this initiative is to create decent and sustainable jobs, notably by facilitating upgrading from the informal to the modern sector, by promoting hygiene and safety in the workplace, and by making social protection more widely available. Within the context of globalization and increasing competition, these developments should make it possible for enterprises to increase their productivity.

In the short term, the rationale behind this support is to strengthen a network of informal micro-enterprises likely to become subcontractors of formal sector enterprises needing maintenance operations and production equipment repairs. This initiative includes:

CNP support for the creation of the National Association of Metallurgy, Mechanical and Automotive Professionals, known as PROMECABILE. This association comprises some 13,000 professionals, 58,000 apprentices and almost 15,000 child apprentices in several regions of Senegal.

The CNP seeks to build the capacities of PROMECABILE, the main focus being training. Thus, 15 pilot workshops have received support to improve apprenticeship; to this end, programmes have been developed which are adapted to specific target groups, determined by age factors, professional categories, and where they are based. Moreover, PROMECABILE receives technical assistance from a large maintenance company to further train foremen, which can only have positive effects on quality of apprenticeship.

Industrial sub-contracting agreements have been reached, for example, in naval construction and maintenance of diesel motors. This also contributes to the enhancement of informal micro-enterprises in these sub-sectors.

CNP members have been encouraged to enlist their workers in social security institutions and to create health insurance schemes. An appropriate contributory system still remains to be put into place.

The CNP tries to encourage informal micro-enterprises to comply with regulations and work toward formalisation. The aim is to work toward PROMECABILE becoming a member of the Employers National Council.

Improve the working conditions of child apprentices. For many parents, placing their children in apprenticeship is, on the one hand, a response to failure at school and, on the other hand, a source of additional income. However, once they start their apprenticeship, children no longer get parental attention. To remedy this situation, the CNP has established a

partnership with PROMECABILE to create the National Association for Parents of Apprentices in the metallurgical, mechanics and automotive sectors. The objective is to improve the conditions of apprenticeship, and especially to set up a suitable system of social protection for child apprentices. This activity also aims at promoting an enterprise culture and teaches child apprentices to make savings as they represent potential future entrepreneurs.

List of Employment Sector Papers on the Informal Economy

1. "Globalization and the Informal Economy: How Global Trade and Investment Impact on the Working Poor", by Marilyn Carr and Martha Alter Chen.
2. "Supporting workers in the Informal Economy: A Policy Framework", by Martha Alter Chen, Renana Jhabvala and Frances Lund.
3. "International Labour Standards and the Informal Sector: Developments and Dilemmas", by Charlotta Schlyter.