



## FIRST ITEM ON THE AGENDA

**Employment and social protection  
in the informal sector****ILO activities concerning the urban informal sector:  
Thematic evaluation****Contents**

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## Introduction

1. In the recent past the ILO has carried out a large amount of research and technical cooperation activities relating to the informal sector and has provided extensive policy advice. The results of this work have greatly influenced the analysis, design and implementation of policies at the country level. There is also widespread international recognition of the value of this work, which over the years has improved understanding of the characteristics and functioning of the sector. Given the current compelling issues deriving from the increasing proliferation of precarious forms of employment in most countries, the Office felt that the time was ripe to take stock of the additional knowledge and experience and to draw conclusions and recommendations for future policy orientations and programme priorities.
2. For this purpose a thematic evaluation was carried out, providing a synthesis of the ILO's work in the urban informal sector,<sup>1</sup> covering both regular budget and extra-budgetary activities. The study reviews the accumulated knowledge and experience within the ILO and assesses the implementation of the strategies that have been developed to address specific problem areas. It also assesses the impact of the application of these strategies and examines the important lessons learnt and potential areas for future work. A list of the ILO documents, reports and publications reviewed is available on request.
3. This paper offers a summary of the thematic evaluation report. The outcome of its discussion by the Committee will provide guidance in further defining various work items at the start of the Programme and Budget for 2000-01.
4. Following the renewed emphasis placed by the Director-General on the quantity and quality of jobs, as reflected in the concept of decent work,<sup>2</sup> the results of the evaluation have already proven useful for the preparation of programme proposals by several technical units. The informal sector is in fact a focus of attention in the Programme and Budget for 2000-01, which includes a separate operational objective to guide ILO future action. The strategy outlined in the programme and budget states that –

... the inclusion of informal enterprises in national development programmes will be effectively promoted. This will be based on interventions in a range of fields, including ... establishing and strengthening associations of informal sector workers, which provide an effective vehicle for advocacy, social protection and community initiatives. Policy advice and support will help to identify and remove legal, fiscal and administrative barriers preventing the inclusion of informal sector operators in the modern economy. This will be supplemented by the creation of closer linkages between informal and modern enterprises, for example through innovative subcontracting arrangements and the development of more efficient intermediaries in production chains. In these activities employment creation and poverty reduction will be combined with the improvement of social protection and safety and health and the promotion of

<sup>1</sup> *A thematic evaluation of the urban informal sector: ILO actions and perspectives*, Evaluation Unit (PROG/EVAL), Bureau of Programming and Management, July 1999.

<sup>2</sup> ILO, *Decent work*, Report of the Director-General, International Labour Conference, 87th Session, 1999.

gender equality, using the innovative methodologies developed in pilot activities mainly in Africa, the Americas and Asia.<sup>3</sup>

5. Several InFocus programmes have incorporated a line of action reaching out to the informal sector, in particular the InFocus Programmes on Skills, Knowledge and Employability; Boosting Employment through Small Enterprise Development; Socio-Economic Security; SafeWork; and Strengthening Social Dialogue.

## I. Myths and challenges of the informal sector

6. The results of the ILO's substantial work have not only brought about a better understanding of the structure and functioning of the informal sector, but have also helped to demystify three commonly held beliefs that have influenced and even introduced bias into the work of many analysts. These are –
  - that all people engaged in informal activities are poor;
  - that the sector is unorganized and unstructured;
  - that informal activities are illegal.
7. Many informal sector operators and workers are indeed poor, but available empirical evidence has shown that the informal sector as a whole is not synonymous with poverty. It has a highly heterogeneous structure: the very poor are engaged in subsistence activities at the bottom of the ladder, while at the top there are some very profitable economic ventures. In many cases those active in the latter earn incomes well above the minimum wage in the formal sector of the economy.
8. As far as the second myth is concerned, case studies have shown that informal sector activities are far from being unorganized or unstructured. The urban informal sector has its own mechanisms and networks of financial services, training, marketing, welfare schemes and social safety nets. These rely largely on traditional, kinship, neighbourhood, occupational and family ties, and these have proven effective and durable. Secondly, while the bulk of informal sector workers are engaged in own-account activities – run by individuals with or without the participation of unpaid family workers – the sector also includes micro- and small-scale enterprises, largely in manufacturing, which hire workers on a continuous basis and often have operating links with formal sector enterprises. In most cases, such links take the form of subcontracting arrangements.
9. As regards the third myth, it has become clear that the illegal situation in which many informal sector workers may find themselves is due to the non-applicability of existing regulations to the economic conditions of informal sector activities and lack of knowledge of the regulations, rather than to any outright desire to circumvent the law. Moreover, most of the subsistence and micro-businesses operate at the periphery of or beyond the law because of the unaffordable costs that compliance with existing regulations would impose on their economic activities, putting at stake their ultimate survival.

<sup>3</sup> *Programme and Budget proposals for 2000-01*, Vol. 1, "Strategy and orientation", GB.274/PFA/9/1, para. 66.

10. The concept of the informal sector has figured significantly in the debate on employment issues and development policies over the past three decades. With the phenomenal expansion of the urban informal sector in recent years, national and international concern about its role and functioning in the urban economy has increased even more.
11. Is promoting employment in the informal sector or in micro-businesses an adequate way to combat unemployment and underemployment? To what extent can the informal sector continue to absorb excess labour from rural areas and from the formal sector? Does the informal sector hold the key to future economic growth and to job creation? Is supporting the informal sector reinforcing the creation of unprotected forms of employment? Is the informal sector a haven for cheap labour?
12. These are some of the burning questions posed today. Despite the inadequacy of most answers to these questions, the predominant response at national and international levels has been to target financial and technical assistance to urban informal sector economic activities, especially micro-enterprises and small producers, and to adapt policies that encourage and support self-employment, micro-entrepreneurship and the urban informal sector as a whole.
13. Since its adoption by the ILO in the early 1970s, the concept of the informal sector has been applied to analyse the employment situation and policy options in most developing countries. A large proportion of the economically active population of these countries finds an income-generating source in economic activities outside the formal or modern sector of the economy. With the restructuring and rationalization of the public sector and the deregulation of labour markets in the private sector, the informal sector phenomena have also assumed significant proportions in many developed countries. Displaced workers from both the public and private sectors are forced to seek or create work opportunities in the informal sector. In most cases these opportunities are of lower quality than the majority of modern sector jobs. The ILO has always been concerned with both the quantity and the quality of jobs. These aspects have now become the focus of renewed attention following the introduction of the concept of “decent work” contained in the Report of the Director-General to the International Labour Conference in 1999.

## II. Policy issues and options

14. From a review of approaches and strategies concerning the urban informal sector, the study identifies eight key areas of priority action –
  - measuring the informal sector;
  - enhancing the micro-entrepreneur’s potential;
  - the creation of and capacity-building among informal sector organizations;
  - infrastructure, job creation and living conditions;
  - reforming training policies and systems;
  - enhancing workers’ social protection;
  - reforming legal frameworks;
  - assessing macroeconomic policies.

- 15.** Based on increased knowledge of the structure, scope and dynamics of informal sector activities, the ILO has been able to develop approaches and measures concerning the main policy areas in support of the urban informal sector. The priority concerns for ILO action were defined in the Director-General's Report to the International Labour Conference in 1991.<sup>4</sup> The general aims of each priority area of action can be summarized as follows:
- to enhance the productive potential of the informal sector, and hence its employment- and income-generating capacity;
  - to improve the welfare of the poorest groups;
  - to establish an appropriate regulatory framework, including the adoption of adequate forms of social protection and regulations;
  - to improve the organization of informal sector producers and workers.
- 16.** These goals are interrelated and should be pursued simultaneously. The first relates primarily to activities that have the potential to create economic growth and employment. The second would cover activities aimed at improving the employment and working conditions of those engaged in precarious jobs. The two other goals cover activities associated with the development of the institutional support required by informal sector groups and their capacity to organize themselves.
- 17.** Another important milestone in the work of the ILO on the urban informal sector has been the interdepartmental project on the urban informal sector (INTERDEP), which was launched in the 1994-95 biennium. Through this project the ILO catalysed interest and efforts among the social partners, at the national and international levels, to carry out long-term programmes for the urban informal sector using a multidisciplinary and integrated approach. Furthermore, the INTERDEP project resulted in new, concrete programme initiatives within the ILO, such as projects on social security and occupational safety and health specifically directed at the informal sector.
- 18.** The predominant approach in the ILO's work on the urban informal sector has been to emphasize the growing role of the informal sector as a source of employment and income for significant numbers of workers. Emphasis is hence placed on protecting and enhancing the income- and employment-generating potential of the informal sector, and making it capable of offering better working conditions and protection for workers. These priority issues have in fact been at the centre of the strategic policy options on poverty alleviation developed as a result of the research and operational activities of the ILO's World Employment Programme (WEP).
- 19.** Linked to the approach of enhancing the income- and employment-generating capacity of the informal sector is the promotion of the sector's productive potential. If the goal is to create employment and raise incomes, strategies should seek to remove or reduce existing constraints (access to credit, education, new technology, equipment and markets) in order to increase productivity. One type of activity to pursue would be to actively support policy and institutional reform aimed at improving access for informal sector workers to the required inputs.

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<sup>4</sup> *The dilemma of the informal sector*, Report of the Director-General, International Labour Conference, 78th Session, 1991.

20. The ILO has also been substantially involved in the support of structural changes at the national level in cooperation with local authorities. Extensive work has been done on awareness raising, policy guidance, drafting legislation and capacity-building, etc. However, it is widely recognized that not all informal sector activities have growth potential, that the sector is highly heterogeneous, with different segments having different possibilities for expansion, and that, in fact, the largest part of the sector consists in precarious activities in pursuit of survival. Therefore, such strategies would only be effective for a small proportion (estimated at some 20 per cent) of the informal sector working population.
21. The ILO enterprise development programme on the informal sector recognizes this fact and notes that a strategic choice must be made when defining objectives, actions and instruments –
- to support survival activities whose potential for economic growth is very limited, but on the other hand, their alleviating effects on poverty are indispensable;
  - to enable a limited number of micro-enterprises to accumulate capital through substantial productivity gains.
22. As regards the issue of non-compliance with business and labour laws in the informal sector, the Director-General's Report to the Conference in 1991 argues for the progressive application of labour laws and standards, beginning with the most viable enterprises. However, the fundamental requirement should be to ensure compliance with basic human rights concerning freedom of association, freedom from forced labour and child labour and freedom from discrimination.<sup>5</sup>
23. Workers' protection as a goal has moved to the forefront of the ILO's work on the urban informal sector since the Director-General's 1991 Report and the INTERDEP project. The development of practical guides and innovative measures, instead of legal protection and law enforcement, has been the preferred line of action to improve working and employment conditions through enhanced occupational safety and health and social security coverage.
24. Another approach to the employment issues in the informal sector looks outside the sector. This is the promotion of employment-intensive infrastructure policies in urban areas. This approach is, first, a job-creation response to rising urban poverty levels, declining employment opportunities in the modern private and public sectors, and the phenomenal expansion of the urban informal sector.

### III. Past work

25. A detailed review of approaches to and strategies concerning the informal sector, within the identified seven key areas of priority action, follows below.

<sup>5</sup> The *ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up*, adopted by the International Labour Conference at its 86th Session in 1998.

## 1. Measuring the informal sector

26. Action on the urban informal sector requires knowledge of the scope and structure of the informal sector, and therefore requires systematic data collection and analysis.
27. Most national statistics systems are designed in such a way that they could not adequately capture or describe the economic or employment structure of the informal sector.
28. Within the framework of WEP-related activities, several pilot surveys of the informal sector were carried out in various countries. Based on the outcome of this work, statistical methodologies were later developed to redefine national accounts and to permit special surveys. In 1987, following a request by the Fourteenth International Conference of Labour Statisticians (ICLS), the ILO undertook to develop international guidelines on the statistical measurement of the informal sector. The resolution concerning statistics of employment in the informal sector was adopted by the 15th ICLS in 1993, providing the first and so far the only internationally approved technical guidelines for the development of statistics on the informal sector. The guidelines aimed at facilitating the task of national statistical agencies in developing definitions, classifications and methods of data collection on the informal sector suited to particular national conditions. The guidelines are also designed to reduce unnecessary differences between the informal sector statistics of different countries and thus improve international comparability.
29. The next logical step, after the development of the statistical guidelines, was to build national capacity to apply those guidelines. In addition to a number of individual projects aimed at national capacity-building, a module on informal statistics was developed and has become a standard component of most training courses given by the ILO Bureau of Statistics to labour statisticians.
30. ILO capacity-building projects have resulted in the use of an informal sector module attached to the occupational household survey questionnaires in several countries. The main idea is to identify informal sector units through the household survey, for which a special informal sector questionnaire is subsequently applied within a separate “enterprise” survey. The informal sector survey in Dar es Salaam in 1995-96 drew on experience and lessons learnt and used the staff trained during the first United Republic of Tanzania nationwide survey of the informal sector of 1990-91. The Addis Ababa Plan of Action for Statistical Development in Africa in the 1990s included the informal sector among the priority areas for future statistical programmes.
31. On the whole, more than 60 countries have already started to collect and publish data on employment and other characteristics of the informal sector. The fact that many of these surveys were launched after 1993 suggests that the institutionalization of the guidelines can be attributed to the 15th ICLS resolution and the provision of technical guidance for the development of informal sector statistics.
32. However, a review of experience in collecting statistical data on the informal sector has revealed that there are problems with regard to the international comparability of data on account of the substantial amount of flexibility that the 15th ICLS guidelines allow to countries in defining and measuring the informal sector.
33. Important lessons learnt from the informal sector surveys carried out in 1995-96 in Dar es Salaam, Manila and Bogotá under the umbrella of the INTERDEP project can be summarized as follows:



- mixed household and enterprise surveys methodology proved to have many advantages over labour force surveys and establishment surveys, as labour force surveys cannot provide information on productivity or income generation, while establishment surveys tend to capture only the visible enterprises;
  - due to the substantial seasonal variations in the level of activities, data collection should be spread over a reasonably long period;
  - intensive dissemination of information about the survey through informal sector organizations could reduce the survey's non-response rates among informal sector operators and workers;
  - hope for future assistance was a factor which motivated many informal sector operators to answer survey questions;
  - lack of proper follow-up action shatters the expectations raised: as a consequence, non-response rates are likely to increase in future surveys;
  - whenever possible, survey results should be used as a basis for the design and implementation of support action programmes and technical cooperation projects.
34. The fact that the 15th ICLS resolution was endorsed by the UN Statistical Commission in 1993 and that the UN Economic and Social Council has adopted the revised System of National Accounts (SNA, 1993), which includes the definition of the informal sector adopted by the 15th ICLS, clearly demonstrates that the relevance of the ICLS guidelines to areas beyond employment statistics.
35. In response to a request by the 15th ICLS, the ILO undertook to produce a manual that would synthesize the lessons learnt from various informal sector surveys and provide more detailed guidelines on methodological alternatives in different national contexts. A first review of current practices in several member States was submitted by the Office to the 16th ICLS (October 1998).

## 2. Enhancing the micro-entrepreneur's potential

36. The predominant approach in the ILO for small enterprise development focuses on unleashing the latent potential of the informal sector to provide income and create jobs. Inherent deficiencies in capital, management skills and technology, unequal access to factor and product markets, as well as restrictive regulatory frameworks, have been cited as the primary obstacles involved. In order to overcome these constraints, especially unequal access to credit, many micro-entrepreneurs voluntarily choose to enter into various kinds of subcontracting arrangements. This is often the case in particular with women, who choose to operate out of their homes. This dependency enhances the vulnerability of those in the sector, as the subcontracting relationships are in many cases not governed by any regulations.
37. Targeted support strategies have therefore aimed at improving access to credit, technology, training and marketing in order to strengthen the productive capacity of micro-entrepreneurs, small producers and artisans. At the grass-roots level, the predominant

strategy in this regard has been the creation of group-based self-reliance schemes.<sup>6</sup> At the national and regional level, the strategies of the 1980s and 1990s may be grouped as follows:

- strengthening of national programmes and institutions to target support services more effectively to the informal sector (at the national and regional levels);
- building and strengthening alliances and networks among small producers' and micro-entrepreneurs' organizations at the national and regional levels and national targeted programmes at the regional level.

**(a) Setting-up an institutional framework of targeted support**

- 38.** Strategies for building an institutional framework of targeted support consist in strengthening the effectiveness of national programmes targeted at micro-enterprises and informal sector units. This modality involves action at the national level and the design of general policies and strategies for the development of the target sector.
- 39.** As regards access to credit and finance, action at the macro-level aim at linking informal group-based mutual credit schemes to the commercial banking system.
- 40.** The effectiveness of such programmes strongly depends on their targeting mechanism, that is, how the target group is defined and selected, and, in the end, actually reached by the programmes. Given that the informal sector is highly heterogeneous, selective targeting is even more critical and difficult in informal sector programmes than in other targeted programmes.
- 41.** The above can be illustrated with the examples of PRONAMYPE and PASI.<sup>7</sup> An improved targeting mechanism resulted in more loans to the poorer and more vulnerable segments of the target sector. Project evaluations and special studies clearly show that the impact of providing more loans to the most vulnerable groups resulted in tangible improvements in incomes, productivity and employment. Around 80 per cent of the PASI beneficiaries declared increased profits and incomes, sales went up by 10-50 per cent among the self-employed, the number of hours worked per week increased and interruptions in production due to lack of capital strongly declined, pointing to a general consolidation and stabilization of jobs. Investments in fixed assets increased in 12 per cent of the cases. Various forms of organizations among the beneficiaries were created along different lines according to economic sector, occupation, geographical area, gender, etc. As regards PRONAMYPE, a survey covering 33 per cent of the beneficiary micro-enterprises observed positive economic changes. The survey specifically pointed to: (a) an increase in the number of clients among 80 per cent of the enterprises; (b) an increase in incomes among 81 per cent of beneficiaries; (c) an increase in production volume ranging from 83 to 100 per cent; and (d) a 13 per cent increase in the number of working hours, indicating

<sup>6</sup> This strategy is described in more detail in the section concerning creation and capacity-building of informal sector organizations.

<sup>7</sup> ILO projects provided assistance to PRONAMYPE (*Programa Nacional de Apoyo a la Micro y Pequeña Empresa*), a component of Costa Rica's 1990-94 national development plan, "Sustained Development with Social Justice" (*Desarrollo Sostenido con Justicia Social*), and to PASI (*Programa de Apoyo al Sector Informal*), a component of Hon duras' national social compensation programme set up in 1990.

better utilization of the capacity of workshops and resources. Furthermore, acquisition of better equipment was noted in 44 per cent of the enterprises.

42. The sustainability of the economic benefits resulting from targeted programmes will partly be determined by the effectiveness of the network of support institutions assisting the target population and, equally importantly, by the successful implementation of specific complementary national policies aimed at creating an improved environment to stimulate the growth and expansion of micro-enterprises.
43. In order to assess the effectiveness of the network of support institutions, the criterion is whether their technical capacity and performance improved as a result of the technical assistance provided to them within the framework of the strategies adopted. Existing information from evaluations of institutional capacity-building projects is however inadequate and does not provide sufficiently solid evidence of the final outcome of rendered assistance.
44. Most projects dealing with the informal sector are designed to promote and reorient long-term national policies in favour of the informal sector. Two institutional factors facilitate the policy reform process:
  - alliances of micro- and small entrepreneurs at the national and regional level that enhance their capacity to negotiate with policy-makers;
  - the institutionalization of the programmes which began as temporary or emergency social programmes.
45. The first factor is discussed in more detail below. With regard to the second, the concerns to be taken into consideration are the legal framework that would be appropriate for the permanent structure; its role in relation to other policy-making bodies and line ministries dealing with the informal sector; and financial autonomy, since many programmes rely heavily on external funding.

**(b) Building networks and alliances**

46. The second form of institutional support strategies that have emerged from ILO action are concerned with setting up and developing networks and alliances among informal sector producers and workers, and among governmental and non-governmental institutions concerned with the informal sector. These strategies have been developed in response to the following developments:
  - the evolution and expansion of grass-roots organizations and their increasing need for consolidation;
  - the multiplicity of programmes, institutions and NGOs and the growing need for coordination;
  - the increasing demand for technical assistance to develop strategies and methodologies.
47. The primary functions of such networks is often the exchange and dissemination of information, the consolidation of experience, the harmonization of concepts, strategies and methodologies, and coordinating activities.

48. One example is PROMICRO.<sup>8</sup> One component of this project aimed at the establishment of national and regional committees of organizations of micro-entrepreneurs and a regional forum for national programmes. PROMICRO played an important role in the creation of national committees of micro-entrepreneurs in Belize, Costa Rica, El Salvador, Honduras, Nicaragua and Panama and in the establishment of the Committee of Micro-entrepreneurs of Central America (COCEMI), which represents the six national committees of micro-entrepreneurs. Another example is the subregional project to assist women homeworkers in Asia<sup>9</sup> which supported the creation of a national organization of homeworkers in the Philippines, and a network of homeworkers in Chiang Mai, Thailand.
49. Evaluations of these projects found that the national organization of homeworkers in the Philippines (PATAMABA) had, since its creation, been involved by the Philippine Government in consultative mechanisms on policy issues concerning or affecting homeworkers (such as social security). The homeworkers' network in Chiang Mai (HOMENET) channelled business, technical and financial services from formal institutions to homeworkers' groups more systematically. The COCEMI and six national committees of micro-entrepreneurs in Central America have contributed to a process of recognition of micro-entrepreneurs as social actors by governments and the formal private sector in the region.
50. One possible issue regarding the creation of national and regional committees of micro-entrepreneurs is the degree to which they represent the sector as a whole. The example of COCEMI in Central America shows that the national associations of micro-entrepreneurs only cover a very small percentage of the actual number of informal sector workers.
51. With more dynamic cross-fertilization of ideas and experience, facilitated by networks and exchanges of experience and information, it is expected that strategies and policies for the informal sector would also be improved, be more effective and sustainable.

#### **IV. Creation and capacity-building of informal sector organizations**

52. The creation and strengthening of informal sector organizations is a strategy that consists in creating and supporting group-based self-reliance schemes among informal sector producers, traders and others economically active in the informal sector. This approach comprises the following:
- the gradual mobilization of participants' own financial, technical and human resources to encourage autonomy;
  - stimulating participants' desire for improvement and to reaffirm their social identity;
  - building and strengthening organizations of small producers and micro-entrepreneurs;
  - institutional recognition and representation of participants at higher levels.

<sup>8</sup> Subregional programme for the promotion of support organizations, structures and programmes for micro-enterprises in Central America.

<sup>9</sup> RAS/91/M14/DAN: "Women workers in the new putting-out system in Thailand, Indonesia and the Philippines".

53. The participatory, organizational approach adopted by projects makes the project processes and benefits more sustainable, since the target population are trained to undertake and manage development initiatives by themselves. Thus, the level of self-management capability possessed by the organizations created is a major factor determining their long-term institutional stability. In the projects reviewed for this evaluation, small producers' organizations showed increasing capacity to sustain credit schemes and common facility workshops and to negotiate with other social actors as a result of the projects.
54. Another major issue affecting sustainability is the income-generating possibilities for the business organizations created. Since many of them rely on external subsidies resulting from local government or project support, they are not sustainable once such external assistance is withdrawn. Alternative sources of income have proven difficult to find or insufficient (membership fees, service fees, commercial ventures). This problem is further aggravated by the fact that the business organizations created lack any links with formal sector institutions, which is essential to ensure effective resource mobilization and influence policy decisions.
55. Potential solutions are being tested by various projects at present, such as the participation of associations in the provision of public or social services to their members (the latter referring mainly to mutual health insurance schemes).
56. Lastly, organizational sustainability is influenced by the legal and institutional status of such organizations. But the issue of which legal and institutional framework would be the most enhancing has not yet been adequately analysed.
57. The likelihood that project processes and outcomes will be sustained after project completion also depends on the wider economic and policy environment. This calls for action at the macroeconomic, institutional and policy levels, so as to complement action at the grass-roots level.
58. The ILO projects in Mali, Togo, Rwanda, Benin and Burkina Faso show that the success of mutual savings and loan associations, facilitating access to financial resources, is linked to a combination of social solidarity and economic efficiency (the quality of services, the return on members' savings and the control of costs). In the long term, in order to consolidate and sustain the institutional position of mutual credit associations, relations with the formal financial system have to be established. In Rwanda, for example, the KORA confederation of craftsmen's associations used their combined savings to set up a bank connected with the People's Banks in 1986. As demonstrated by the project in Burkina Faso, members' savings may be used as collateral (rather than direct finance) in order to obtain access to resources from the formal financial system. However, banks are generally reluctant to serve low-income users, even when they are organized. A parallel reform of the banking systems to adapt them to the needs and circumstances of small poor borrowers is necessary. At the end of the preparatory phase of the Burkina Faso project in early 1995, the main problems faced by the credit scheme were the small loan amounts granted by banks, long banking approval procedures, the very short period for reimbursement, and the high fee for screening or assessing loan applications.
59. Another issue is the potential role of the ILO's traditional partners – workers' and employers' organizations – to work with informal sector organizations. This aspect has

only recently been addressed. The “World Labour Report on industrial relations”<sup>10</sup> specifically points out the necessity and the growing willingness of many workers’ organizations to cooperate with the growing number of informal sector workers.

## **1. Infrastructure, job creation and living conditions**

- 60.** The ILO has developed and promoted an employment-intensive, local resources-based approach to infrastructure programmes for employment generation. Experience has demonstrated that infrastructure works providing services to communities lend themselves well to employment generation through labour-intensive methods. In addition to employment creation, infrastructure works have a huge potential for improving the living conditions and thereby the working conditions for informal sector workers.
- 61.** The approach was extended for the first time to urban areas in the late 1980’s. Since 1989 the ILO has set up a subprogramme to pursue this modality of action. A combination of means of action is being used:
- applied research and studies to explore and determine policy issues and opportunities for developing the approach in actual country situations;
  - pilot projects to further elaborate the modality of action, and show how the approach works;
  - technical cooperation projects, advisory services and seminars to replicate best practice, build national capacities and assist in formulating employment-intensive investment policies.
- 62.** The employment-intensive approach for infrastructure works advocates the adoption of a community-based strategy in minor works, whereby on-site infrastructure can be community executed, partly on a self-help basis rather than by full payment of wages. The strategy has enabled community initiatives to play an active role. The community, through a community-based organization or committee, identifies local needs in terms of infrastructure, mobilizes human and financial resources from the community, and negotiates contracts for the execution of urban works with the appropriate public authorities.
- 63.** Experience from projects shows that construction works undertaken within this framework are generally of good quality, productivity is high and construction methods are cost-effective. Furthermore, it was found that infrastructure upgrading directly improves the living and working environment by improving the physical and business environment and welfare, while enhancing self-esteem and pride in one’s own achievements.
- 64.** Despite the successful socio-economic results of the projects, the created infrastructure was difficult to sustain after completion of the projects. Community participation in construction – in terms of unpaid labour – had been effectively mobilized, but community capacity was too low to ensure sustainability.
- 65.** The projects also showed that the potential positive impact of infrastructure upgrading on sales, through improved accessibility and visibility, was impeded by other more pressing

<sup>10</sup> *World Labour Report 1997-98: Industrial Relations, democracy and social stability*, ILO, Geneva, 1997.

constraints faced by informal entrepreneurs such as lack of working capital, skills training and limited access to markets. This calls for an integrated approach, where infrastructure upgrading is complemented by action easing other supply constraints.

- 66.** Lessons on technical issues can also be drawn from the projects. The assessment of a community's capacity to carry out the work is critical in determining the extent of community participation and the need for external technical support. The socio-economic context of the priority infrastructure initiative selected by a community could be critical to the success of the project, and should therefore be examined carefully.
- 67.** Research findings have identified the following problems affecting the use of labour in the construction sector –
- training institutions equip specialists and technicians to use only capital-intensive technology based on non-local resources;
  - bidding and contracting procedures exclude small-scale and informal contractors, and favour large capital-intensive contractors.
- 68.** These findings underline the importance of action at the policy and institutional levels – in parallel with pilot work on the ground – to promote the employment-intensive infrastructure approach to job creation and the improvement of working and living conditions in urban areas.

## **2. Reforming training policies and systems**

- 69.** Three major strategies used to address the training needs of the urban informal sector have been explored and studied in greater depth:
- orienting existing training systems to provide small business and entrepreneurship skills;
  - development of new training methodologies more suitable to the sector (low-cost training inputs, special instructional methods for those with low literacy levels);
  - new training methodologies that build on existing means of acquisition and the transfer of skills in the informal sector, such as the traditional apprenticeship system.
- 70.** The following training issues and concerns pertaining to the informal sector have emerged from the outcomes of studies of training policies and systems, policy review missions, and technical advisory services:
- the heterogeneity of the informal sector requires the formulation of different training responses in order to effectively meet the range of training needs within the sector;
  - the occupational success and mobility of individuals, as well as the upgrading of technical skills, are closely linked to the possession of basic formal education;
  - gender discrimination in training systems is a major barrier to the development of women's employment and income-generating capacity;
  - formal training systems are unable to address the needs of the informal sector because of existing barriers such as –

- entry requirements are too high;
- courses are inflexible and standardized;
- courses are mainly relevant for employment in the formal sector;
- training methods are suitable for the literate population only;
- fees are too high;
- time schedule and location of training are inappropriate to the heavy workload of informal sector workers.

**71.** The traditional apprenticeship system has a good capacity to deliver training to the informal sector. However, to maximize its potential the following issues should be kept in mind and addressed:

- traditional apprenticeships are based on the technologies and ideas of previous generations;
- as a result of the traditional division of labour, fewer training opportunities exist for women;
- theoretical aspects are weak or absent on account of the nature of apprenticeships.

**72.** Reorienting training systems for the informal sector requires action at both the micro and macro levels. Specific measures at the micro level are mainly concerned with the development of methodologies to assess training needs, the delivery of training and the adjustment of the skills of trainers and other actors in the training system, as well as access to sources of financing. Macroeconomic measures are aimed at sensitizing national training authorities to the training needs of the informal sector, training those authorities in assessing the training needs of the informal sector, and adapting national training policies to reflect the prevailing needs of the sector.

**73.** As regards action at the microeconomic level, one method to make formal and non-formal training systems accessible and responsive to the informal sector is the “training-cum-production” method. This method uses actual production activities in structured vocational training programmes. Trainees earn while they learn; and part of the training costs are offset by income from sales. The training experience is supposed to cover a total production and business cycle, from design to sales and accounting. Experience from several projects shows that this training method is particularly effective in the transfer of skills involving new technology and modern equipment, and also when training low-income individuals who cannot afford to forego income for any appreciable period.

**74.** Another innovative training method is the extension of technical advice by mobile teams, usually the field extension staff of government departments and NGOs. They provide training in immediate work needs and assist individuals and small groups on-site at the workplace.

**75.** The community-based training approach requires participatory instruments and methodologies to assess training needs and opportunities. Training content, curricula and training materials are trainee-centred, and hence not standardized, requiring instructors to design and adapt training content on an ad hoc basis.



76. As regards traditional apprenticeship schemes, the following strategies to improve the quality of training have been identified and developed:

- complementary training for apprentices, covering theoretical aspects of trade, management, technology, and occupational safety and health;
- the extension of advisory services before, during and after apprenticeships, such as vocational guidance, information on apprenticeship conditions and available master craftsmen, and assistance in resolving complaints and disputes;
- providing support to master craftsmen in the improvement of apprenticeship methods, productivity at the workplace, improved products, training materials and exchanges with other master craftsmen.

77. Improvements in training activities at the micro level can only be effective and sustained if they are integrated into a national training policy framework. It is also crucial to ensure that training projects are not designed in isolation from other inputs necessary to the informal sector, such as access to credit, infrastructure and legislative or policy support, which are required for the successful utilization of the acquired skills.

### 3. Enhancing workers' social protection

78. Two policy areas for enhancing workers' social protection in the informal sector were identified by the Report of the Director-General to the Conference in 1991, namely occupational safety and health and social security.

#### (a) *Occupational safety and health (OSH)*

79. The problem of poor working environment in the informal sector has been commonly raised by researchers and surveys. As the bulk of urban informal sector workers live in poor areas, vulnerability to disease and poor health result from a combination of undesirable living and working conditions. To address the problem, ILO projects such as the INTERDEP project in Dar es Salaam, Manila and Bogotá and the subregional project for homeworkers in Asia, have through pilot projects experimented with group- and area-based strategies involving –

- the extension of OSH services by the public health care system;
- training individuals within the target group to identify OSH problems;
- emphasis on low-cost improvements in working conditions.

80. The implemented projects highlight several issues and directions for future action. The following are significant.

- The creation of new structures can be avoided. Within the community, there are resources and structures that can be used to carry out promotional, educational and preventive services (public health care centres, NGOs and the informal sector operators themselves). OSH training must hence be simple and practical.
- The public primary health care system at the community level has certain advantages over conventional labour inspection machinery, in particular its presence at local levels. Moreover, it is institutionalized, and operates nationwide. However, the inadequacy of public resources for basic social services is a real constraint, and it is

therefore uncertain whether promotional and educational health services will have a guaranteed place in the scheme of social services delivery.

- Use of the public health care system is only sustainable with the support of an appropriate national policy. There is also a need to ensure institutionalized training programmes for health workers that integrate OSH concerns, a clearer mandate for primary care units to deal with OSH, and effective collaboration between labour ministries and health ministries.
- Working and living conditions are inseparable for most informal sector workers. Poor infrastructure and lack of basic services result in poor working conditions. Lasting improvements in working conditions can be achieved primarily through better infrastructure and better basic services in poor urban areas. The role of local government agencies, which are responsible for investment in infrastructure and the delivery of basic services, is crucial here. Facilitating dialogue between local authorities, public health workers, NGOs concerned with health issues, and informal sector units and workers could help identify and promote priority improvements.
- Organization among informal sector workers helps to address problems concerning their working conditions, since they are able to take self-help initiatives, and the organization provides a link between the workers and the institutional structure that provides services.

**(b) Social security**

- 81.** The limitations faced in seeking to extend formal social security systems to workers and their families outside the formal sector are well documented. Informal sector workers cannot join formal national social security systems on a voluntary basis. Most are in categories of work that are excluded from formal systems. It is estimated that 75 per cent of all countries exclude workers in these categories. Many systems also exclude enterprises below a certain size, or exclude workers with earnings below a certain level.
- 82.** Existing ILO Conventions and Recommendations<sup>11</sup> provide concepts and standards for the formulation of social security policies. For the purpose of developing new approaches to social security and protection, a broader definition of social security has been adopted by the ILO's social security programme. The definition stipulates that households and individuals should be provided with benefits through public or collective arrangements so as to protect against low or declining living standards resulting from a number of basic risks and needs.
- 83.** Four major strategies have been identified by which social security can be extended to informal sector workers and their dependants. These involve –
- specially designed insurance schemes;
  - social assistance (health, nutrition and education services);
  - the extension and reform of formal sector social insurance;
  - innovative social security schemes.

<sup>11</sup> The Income Security Recommendation, 1944 (No. 67), the Medical Care Recommendation, 1994 (No. 69), and the Social Security (Minimum Standards) Convention, 1952 (No. 102).

- 84.** The difficulty with the first strategy is that to expand coverage generally requires many years and substantial financial resources. The weakness of the second strategy is that a sophisticated administration is required to effectively identify, screen and reach the target groups.
- 85.** Extensive research has been undertaken within the ILO on the extension and reform of formal sector social insurance. However, country case studies have shown that it is impossible to effectively reach out to the informal sector as a whole through the extension of formal sector insurance schemes. It has been estimated that only about 50 per cent of the target group can be reached with existing schemes.
- 86.** An alternative way of extending social security to the informal sector is through so-called innovative social security schemes. Most of these are group- and community-based or micro-insurance schemes aimed at providing or securing the basic needs of their members, including child care, mutual health funds, death benefit funds, and thrift savings schemes for emergencies. In some cases, groups or communities conclude a social contract with the public service: if the groups are providing improvements to local infrastructure, the public services provide social security to the group in question. In most cases, however, the groups seek the services of a local service provider for which they pay the costs out of the mutual contributions.
- 87.** Until 1996, only sporadic pilot projects were implemented in this field. Since then, and in particular since the establishment of the STEP<sup>12</sup> programme, the concept of micro-insurance is now being promoted and its potential is being demonstrated, mostly in Central and West Africa.
- 88.** The creation of group-based schemes has proven successful. But it should be noted that the schemes vary in the scope and magnitude of benefits and in the level of organization and management.
- 89.** Several studies have highlighted the following issues regarding the effectiveness of micro-insurance schemes established in Africa:
- in order to be successful, micro-insurance schemes must fulfil three conditions: they must be simple, affordable and located close to their members. In addition to their low cost, it is important for the schemes to be flexible enough to enable their affiliates to pay when they can on account of their fluctuating income;
  - it is important to base micro-insurance schemes on the specific priority needs of would-be beneficiaries and not on comprehensive packages;
  - micro-insurance schemes could improve their effectiveness by including waiting periods for new members, social controls to avoid abuses, co-payments or ceilings on the amounts of coverage, and some level of obligatory membership at the family, association or target-group level;
  - given the only recent appearance of such schemes however, their long-term sustainability could not be assessed;
  - the examples of medical aid societies created in South Africa and Zimbabwe can illustrate how micro-insurance schemes might grow in the future and scale up to

<sup>12</sup> Strategies and Tools against Social Exclusion and Poverty.

become larger organizations, and even, eventually, how they might participate in or coordinate their activities with compulsory social health insurance schemes. However, only little experience has been gathered in general about the replication of the schemes and the possibility of their aggregation into larger organizations.

#### **4. Reforming legal frameworks**

- 90.** If the productive potential of the urban informal sector is to be unleashed and workers' protection improved, an enabling and supportive legal and policy environment must exist.
- 91.** One issue arising in this context is non-compliance with laws and regulations governing business and employment in the informal sector. This is a problem for national and local governments, many of which are now caught between helping the sector to promote employment or alleviate poverty, and enforcing the law. How should this problem of non-compliance with the law be dealt with – by deregulation or by stricter enforcement?
- 92.** Much of the ILO's work in this field has been based on research. An approach based on this research suggests that regulations that protect the general interests of society or safeguard the absolute needs of the more vulnerable groups must be distinguished from laws, regulations and procedures that constitute a heavy administrative, bureaucratic and financial burden. The research has also pointed out that there is some overlap between informal, non-permanent forms of labour utilization and informal production units, because some small enterprises may have been created exclusively to increase labour flexibility and reduce labour costs, and are therefore dependent on parent firms for survival. In this case, new forms of regulation are called for because existing legal provisions are not applicable. For wage workers in the informal sector, however, the entire range of labour standards should in principle be applicable. This approach was reinforced in the Director-General's Report to the Conference of 1991, which advocated the progressive implementation of labour standards and laws in the informal sector, but without compromising standards concerning basic human rights and exploitative forms of employment.
- 93.** On the practical side, dialogue has been encouraged and organized by the ILO in order to enable the social partners and other institutional actors to identify the specific measures and reforms that may be adopted to address legal and regulatory constraints. With regard to the promotion of labour legislation, studies in general have shown that a prerequisite for the application of labour law is the existence of clearly defined employer-employee relations. Hence, labour law is not applicable in most segments of the informal sector, where self-employment and family labour prevail. To increase the chances for the application of labour legislation in the informal sector, the studies undertaken point to the following needs –
- to define and disaggregate the informal sector more precisely by activity, productivity level and employment status;
  - to improve understanding of the temporary nature of employment relations;
  - to examine the definition and role of family labour;
  - to make the necessary revisions of labour legislation in line with conditions in the informal sector.
- 94.** Regarding the regulations governing the establishment and operation of informal sector enterprises, studies and experience from projects have revealed that, alongside the low

degree of awareness of legal requirements and compliance, there is a strong positive correlation between the degree of legality and business performance. However, the obstacles are the tedious process of registration and the high cost of operating on a legal basis. Rules and regulations concerning the registration of enterprises and taxation should hence be streamlined, simplified and relaxed by the authorities to facilitate the growth and transformation of informal sector enterprises. Furthermore, one should avoid setting minimum requirements for incentives, such as advantageous duty rates on the import of equipment, export facilities and subsidies, or the possibility of tendering for government contracts.

95. There is also an urgent need to sensitize governments to the need to promote and enforce regulations governing subcontracting relationships between formal sector enterprises and informal sector operators. In recent years the number of subcontracting arrangements has increased, and their non-regulation has considerably increased the vulnerability of informal sector operators, particularly women.
96. Experience from projects also reveals that the provision of business sites, premises and infrastructure facilitates compliance with rules and regulations.
97. The ILO's direct experience in assisting governments to reform their legal and regulatory frameworks highlights one major feature: the process is long and complex. Many actors and institutions at national and local levels are involved. Some reforms have to be launched at the local level, others at higher levels. Social dialogue is necessary, and the informal sector itself must have a voice in the dialogue.

## 5. Assessing macroeconomic policies

98. The general conclusion drawn from the ILO's extensive research is that the main macroeconomic policies adopted by many countries in the framework of stabilization or structural adjustment programmes frequently intensified the informalization of the economy, with the informal sector becoming a safety valve rather than a productive sector.
99. An initial suggestion is hence to assess the impact on the level and structure of employment from a macroeconomic point of view. Secondly, the impact on labour markets – which also adjust during the process of transformation and restructuring – must be assessed. Thirdly, the analysis must also determine how specific population groups will be affected, particularly the most vulnerable.
100. The results of such analysis will enable policy-makers to anticipate any possible adverse social effects and should therefore be used in the design of macroeconomic policy packages for future structural adjustment programmes. The social costs of such programmes could be minimized, and the compensatory measures after implementation would not go beyond the normal social security or social welfare provisions. The main findings from ILO research can be summarized as follows.
101. It is widely acknowledged that most developing countries have created a bias in their policy framework in favour of the formal sector. Structural adjustment policies seem to have a negative effect on the informal sector to the extent that labour flows to the informal sector increase without any expansion in its productive capacity. Measures to reorient the production structure or influence the demand structure through fiscal or income distribution policies in favour of the formal sector should therefore be avoided, and the policy framework should at least be made neutral in its approach to the formal and informal sectors.

- 102.** There is a need to promote macroeconomic policies that stimulate growth in the urban economy as a whole. In the absence of such a balanced policy package the formal sector will be the main source of growth, leaving the informal sector as a mere safety valve.
- 103.** In growing economies one can expect, in the long term, that the real incomes of households will rise, and hence the demand for informal sector products and services will diminish. In these circumstances informal sector units will typically react by transforming their production capacity and moving closer to the formal sector. The policy goal should in this case be to accelerate this transformation process so that the sector can respond effectively to new opportunities arising out of socio-economic development.
- 104.** It seems equally important to forge complementary links between informal and formal sector firms through appropriate government policies. In pursuing these policies due attention needs to be paid to their unequal bargaining strength. Consequently, suitable provision must be made to ensure that contractual arrangements between them are fair, including subcontracting. This implies strengthening organizations of micro-enterprises and supporting them through appropriate legislation and regulations and their enforcement.

## **V. Future programme priorities and policy orientations**

- 105.** The conclusions and recommendations for the key areas of concern identified and discussed in this paper are summarized below.

### **1. Measurement of the informal sector**

- 106.** Major progress in the field of measurement of the informal sector has been achieved with the adoption of the 15th ICLS guidelines. It can be concluded that the guidelines have been effective in facilitating the tasks of national statistical agencies in carrying out informal sector surveys and thereby in the institutionalization of the guidelines. However, some problems still exist with regard to the international comparability of data.
- 107.** Careful monitoring and assessment is therefore needed in ongoing and future work on –
- operationalizing the guidelines for informal sector statistics in country-specific situations;
  - integrating the ICLS guidelines into national statistical systems;
  - strengthening national capacity for the collection and analysis of statistics on the urban informal sector;
  - improving the international comparability of informal sector statistics – one area requiring special attention is the analysis of data in terms of gender concerns.
- 108.** Lack of proper follow-up action on informal sector surveys is likely to reduce response rates in future surveys. Therefore, whenever possible, survey results should be utilized as a basis for the design and implementation of support action programmes and technical cooperation projects.

## **2. Enhancing the productive potential of informal sector entrepreneurs**

- 109.** As regards national targeted programmes, one might conclude that the capacity of national structures to reach the target groups and deliver services is critical in determining the effectiveness of the programmes. Two critical issues faced by national targeted programmes are financial viability and institutional sustainability. Another issue is whether and how these programmes are able to influence mainstream national policies and institutions so that they provide durable support to urban informal sector units.
- 110.** When a national targeted programme is implemented, special attention should hence be placed on –
- identifying and involving the target group;
  - assessing to what extent the target group has been reached by the programmes;
  - assessing the effectiveness of the programmes in terms of their impact on the target group;
  - ensuring that the institutional framework is sustainable;
  - ensuring that a national targeted programme is combined with measures aimed at influencing national policies for the creation of a stimulating environment for the growth and expansion of micro-enterprises.
- 111.** In order to tackle the issues facing the urban informal sector, the ILO must, in partnership with its constitutions, deal and collaborate with all the key actors concerned, such as local government authorities, public health departments, community-based organizations and other NGOs etc. At the same time, the strategies developed so far have hardly explored the potential role of trade unions and employers' organizations in enhancing the productive potential of the urban informal sector. The potential role of workers' and employers' organizations in addressing the problems pertaining to the informal sector should therefore be examined in greater depth.
- 112.** With regard to the building of networks and alliances, future work should examine how to expand the membership base of national and regional committees of micro-entrepreneurs so as to ensure that they remain representative of the sector as a whole.

## **3. Creation of informal sector organizations and capacity-building**

- 113.** Group-based, self-help strategies for the provision of training, marketing, technological and financial services were found appropriate in situations where formal institutions that normally provide such services were either non-existent or weak, or simply unprepared or unwilling to deal with economic units in the urban informal sector. While recognizing the relevance and effectiveness of group-based, self-help strategies, a few points must be noted. The effectiveness and sustainability of informal sector organizations is the end result of a large number of factors, both internal and external to projects. These include organizational processes, which build up group solidarity – self-management capability is critical. At the same time, the political and economic environment affects the organizational processes and the groups' productive activities. There are also limits to what self-help schemes can achieve on their own. Moreover, self-help schemes are rarely

financially self-reliant when projects end, requiring further support from institutions within the local and national community.

**114.** All future projects should therefore ensure that –

- adequate efforts and resources are utilized to strengthen the self-management capability of self-help reliance groups;
- links with external institutions are established in order to enable small producers and micro-entrepreneurs to expand resources and assets, obtain new or better technologies and secure access to services;
- national and local institutions and governments are committed to providing support to the self-help schemes after the actual end of the project;
- alternative income sources have been found for the organizations created in order to ensure their sustainability after the withdrawal of external assistance.

**115.** It is equally important to ensure that an assessment of group-based self-help strategies include their potential for creating more active, socially aware and relatively independent groups and alliances within the community and the urban informal sector. In this respect two organizational issues should be examined in greater depth:

- the choice of a legal and institutional framework for informal sector organizations, and how this determines their effectiveness and sustainability;
- the heterogeneity of the informal sector and, consequently, of their organizations, and how this affects organizational processes and the allocation of benefits among members.

#### **4. Job creation and improvement of conditions in the informal sector through infrastructure**

**116.** The ultimate success of the employment-intensive infrastructure programmes depends on the integration of employment-intensive policies into the mainstream infrastructure and investment policies of a country from local to national levels, so that job creation can occur on a large scale and be substantial. In addition to generating jobs, the potential of the employment-intensive infrastructure works approach to improving living and working conditions in the urban informal sector has been clearly demonstrated. As pointed out, living and working conditions are inseparable: significant and lasting improvements in working conditions are not possible without upgrading the physical environment of poor urban settlements.

**117.** However, in order to enhance the sustainability of activities to upgrade infrastructure, the possibilities for applying an integrated programme approach in such projects should be studied in greater depth, combining infrastructure upgrading with the easing of other supply constraints, such as lack of access to skills training, credit and markets.

#### **5. Training**

**118.** The ILO has made substantial efforts to examine training policy issues with regard to the urban informal sector. It has also developed innovative training methodologies for the informal sector.



119. Experience from projects points to the fact that training activities at the micro level need to be integrated into a national training policy framework if they are to be effective and sustainable. It is also important to ensure that training projects are not designed in isolation from other inputs necessary for viable informal sector units, such as access to credit, infrastructure and legislative or policy support, which are required for the successful utilization of the skills transferred.

## 6. Workers' protection

120. Pilot projects on improving OSH through group- and area-based strategies have demonstrated their potential. Project experience shows that the creation of new structures can be avoided, since existing structures lend themselves well to carrying out promotional, educational and preventive services, and they are present at the local level. One constraint, however, is the inadequacy of public resources for basic social services, and it is therefore uncertain whether promotional and educational health services will have a guaranteed place in the scheme of social services delivery. The organization of informal sector workers has proved effective in helping address problems concerning their working conditions.
121. The number of actual initiatives undertaken in the area of OSH is limited, and more practical experience of promoting OSH should therefore be generated and evaluated through group-based schemes and existing structures (NGOs, public health care centres and informal sector workers themselves).
122. With regard to social security, the establishment of group-based micro-insurance schemes has proven successful, although experience in projects shows that the schemes vary in the scope and magnitude of benefits and in the level of organization and management. Key factors for the success of micro-insurance schemes are simplicity, affordability and the location of the scheme close to its members. Since such schemes have mostly been created only recently, information on their long-term sustainability is insufficient. Future work should therefore examine under which conditions such structures can be sustained and replicated, as well as aggregated into larger organizations.

## 7. Reforming legal frameworks

123. Several studies have pointed out that, in order to successfully promote the extension of labour legislation to the informal sector, a better understanding is needed of the overall structure of the sector, identifying the different units comprising it and its functioning.
124. More pilot projects should therefore be undertaken on the application of existing legislation with a view to collecting and analysing the information forming the basis for the effective promotion of labour legislation for the informal sector.
125. As regards subcontracting arrangements between formal sector enterprises and informal sector operators, work should be initiated to identify the best form of regulations to govern subcontracting relationships. At the same time, governments should be sensitized to the need to identify informal activities in which existing rules and regulations cannot be applied, and which hence require specific customized provisions, as well as informal activities in which existing rules and regulations could be applied progressively. All projects in this field should give high priority to gender aspects, as women are most vulnerable for exploitation.

## 8. Assessing macroeconomic policies

- 126.** Substantial research has been carried out within the ILO to examine the processes that underline the surge of the urban informal sector (urbanization, rural-urban migration, capital-intensive industries, modernization of the public sector, globalization, etc.). At the same time, most of the ILO's work on the urban informal sector has been directed towards the end-result of the processes and not the processes themselves. The various aspects of the globalization process and, in particular, its consequences for the informal sector, should therefore be examined in order to explore and define the scope for ILO action.
- 127.** In view of the large share of the informal sector in many economies, growth policies should include the informal sector as a potential source of economic expansion. Growth-oriented macroeconomic policy packages should hence strike a balance between formal sector and informal sector policies.
- 128.** With regards to macroeconomic policies in general, and structural adjustment policies in particular, research on the impact of such policies on the informal sector should be continued in order to assess their adverse social consequences and minimize their potential negative impact. Capacity-building projects at the macro level should also be initiated aimed at sensitizing governments to the consequences of macroeconomic policy intervention for the informal sector.

## VI. Concluding remarks

- 129.** Initially, enhancing the productive and employment potential of the urban informal sector seems to have been the dominant concern of governments, the social partners, development institutions and international organizations. More recently, however, social protection issues in the informal sector have become the focus of attention in the current debate on the reform of social security schemes. The role of employers' and workers organizations in support of the informal sector has also begun to be examined in much greater depth.
- 130.** The ILO's International Symposium on Trade Unions and the Informal Sector (Geneva, 18-22 October 1999),<sup>13</sup> is an excellent example of such initiatives aimed at defining the way forward and the scope for ILO action. The focus of the meeting was on trade union strategies to organize informal sector workers, particularly women and young people, and better represent their interests. It was concluded that unions must do more to accommodate the needs of informal sector workers through specially tailored activities. It was therefore suggested that national trade union centres and affiliated organizations urgently review their own priorities, internal structures and resource allocation to determine whether sufficient attention is being devoted to the informal sector.
- 131.** Furthermore, the symposium recommended that the ILO's InFocus Programme on Promoting the Declaration on Fundamental Principles and Rights at Work should include activities specifically designed to remove obstacles to trade union organization in the informal sector and to extend the implementation of the other fundamental Conventions to this sector. Another suggestion was that the InFocus Programme on Skills, Knowledge and Employability should promote policies that reflect the specific needs of workers in informal sector activities. It may be noted that several recommendations made by the

<sup>13</sup> GB.277/STM/5.

symposium are consistent with the conclusions of this thematic evaluation report. One example is the symposium's recommendation that the extension of social protection to informal sector workers should be a major objective for the ILO.

**132.** The strategies developed and tested in the ILO's work on the urban informal sector demonstrate that no single line of action is sufficient because the problems are multiple and multifaceted. Moreover, the use of a multidisciplinary approach to address the problems and the policy options in the informal sector has proven valid. It has become clear that, within the ILO, multidisciplinary collaboration and concerted action must continue and be further encouraged.

**133.** Although the policy implications outlined in this paper are first and foremost of direct interest to the Office, ILO constituents and other partners in development will also find them relevant to their own action.

Geneva, 18 February 2000.



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