

Resolution and Conclusions concerning decent work and the informal economy

International Labour Conference, June 2002

Resolution concerning decent work and the informal economy

The General Conference of the International Labour Organization, meeting in its 90th Session, 2002,

Having undertaken a general discussion on the basis of Report VI, *Decent work and the informal economy*,

1. Adopts the following conclusions;
2. Invites the Governing Body to give due consideration to them in planning future action on reducing decent work deficits in the informal economy and to request the Director-General to take them into account both when preparing the Programme and Budget for the 2004-05 biennium and in allocating such resources as may be available during the 2002-03 biennium.

Conclusions concerning decent work and the informal economy

1. Recognizing the commitment of the ILO and its constituents to making decent work a reality for all workers and employers, the Governing Body of the International Labour Office invited the International Labour Conference to address the issue of the informal economy. The commitment to decent work is anchored in the Declaration of Philadelphia's affirmation of the right of everyone to "conditions of freedom and dignity, of economic security and equal opportunity". We now seek to address the multitude of workers and enterprises who are often not recognized and protected under legal and regulatory frameworks and who are characterized by a high degree of vulnerability and poverty, and to redress these decent work deficits.
2. The promotion of decent work for all workers, women and men, irrespective of where they work, requires a broad strategy: realizing fundamental principles and rights at work; creating greater and better employment and income opportunities; extending social protection; and promoting social dialogue. These dimensions of decent work reinforce each other and comprise an integrated poverty reduction strategy. The challenge of reducing decent work deficits is greatest where work is performed outside the scope or application of the legal and institutional frameworks. In the world today, a majority of people work in the informal economy – because most of them are unable to find other jobs or start businesses in the formal economy.
3. Although there is no universally accurate or accepted description or definition, there is a broad understanding that the term "informal economy" accommodates considerable diversity in terms of workers, enterprises and entrepreneurs with identifiable characteristics. They experience specific disadvantages and problems that vary in intensity across national, rural, and urban contexts. The term "informal economy" is preferable to "informal sector" because the workers and enterprises in question do not fall within any one sector of economic activity, but cut across many sectors. However, the term "informal economy" tends to downplay the linkages, grey areas and interdependencies between formal and informal activities. The term "informal economy" refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements. Their activities are not included in the law, which means that they are operating outside the formal reach of the law; or they are not covered in practice, which means that – although they are operating within the formal reach of the law, the law is not applied or not enforced; or the law discourages compliance because it is inappropriate, burdensome, or imposes excessive costs. The ILO's work needs to take into account the conceptual difficulties arising from this considerable diversity.
4. Workers in the informal economy include both wage workers and own-account workers. Most own-account workers are as insecure and vulnerable as wage workers and move from

one situation to the other. Because they lack protection, rights and representation, these workers often remain trapped in poverty.

5. In some countries, the term “informal economy” refers to the private sector. In some other countries, the term is considered synonymous with the “underground”, “shadow” or “grey” economy. However, the majority of workers and enterprises in the informal economy produce legal goods and services, albeit sometimes not in conformity with procedural legal requirements, for example where there is non-compliance with registration requirements or immigration formalities. These activities should be distinguished from criminal and illegal activities, such as production and smuggling of illegal drugs, as they are the subject of criminal law, and are not appropriate for regulation or protection under labour or commercial law. There also may be grey areas where the economic activity involves characteristics of both the formal and informal economy, for instance when formal workers are provided with undeclared remuneration, or when there are groups of workers in formal enterprises whose wages and working conditions are typical of those existing in informality.
6. The informal economy absorbs workers who would otherwise be without work or income, especially in developing countries that have a large and rapidly growing labour force, for example in countries where workers are made redundant following structural adjustment programmes. Most people enter the informal economy not by choice but out of a need to survive. Especially in circumstances of high unemployment, underemployment and poverty, the informal economy has significant job and income generation potential because of the relative ease of entry and low requirements for education, skills, technology and capital, but the jobs thus created often fail to meet the criteria of decent work. The informal economy also helps to meet the needs of poor consumers by providing accessible and low-priced goods and services.
7. Workers and economic units in the informal economy can have a large entrepreneurial potential. Workers in the informal economy also have a reservoir of skills. Many people working in the informal economy have real business acumen, creativity, dynamism and innovation, and such potential could flourish if certain obstacles could be removed. The informal economy could also serve as an incubator for business potential and an opportunity for on-the-job skills acquisition. In this sense, it can be a transitional base for accessibility and graduation to the formal economy, if effective strategies are put in place.
8. In many countries, both developing and industrialized, there are linkages between changes in the organization of work and the growth of the informal economy. Workers and economic units are increasingly engaged in flexible work arrangements, including outsourcing and subcontracting; some are found at the periphery of the core enterprise or at the lowest end of the production chain, and have decent work deficits.
9. The decent work deficits are most pronounced in the informal economy. From the perspective of unprotected workers, the negative aspects of work in the informal economy far outweigh its positive aspects. Workers in the informal economy are not recognized, registered, regulated or protected under labour legislation and social protection, for example when their employment status is ambiguous, and are therefore not able to enjoy, exercise or defend their fundamental rights. Since they are normally not organized, they have little or no collective representation vis-à-vis employers or public authorities. Work in the informal economy is often characterized by small or undefined workplaces, unsafe and unhealthy working conditions, low levels of skills and productivity, low or irregular incomes, long working hours and lack of access to information, markets, finance, training and technology. Workers in the informal economy may be characterized by varying degrees of dependency and vulnerability.

- 10.** Although most at risk and therefore most in need, most workers in the informal economy have little or no social protection and receive little or no social security, either from their employer or from the government. Beyond traditional social security coverage, workers in the informal economy are without social protection in such areas as education, skill building, training, health care and childcare, which are particularly important for women workers. The lack of social protection is a critical aspect of the social exclusion of workers in the informal economy.
- 11.** While some people in the informal economy earn incomes that are higher than those of workers in the formal economy, workers and economic units in the informal economy are generally characterized by poverty, leading to powerlessness, exclusion, and vulnerability. Most workers and economic units in the informal economy do not enjoy secure property rights, which thus deprives them access to both capital and credit. They have difficulty accessing the legal and judicial system to enforce contracts, and have limited or no access to public infrastructure and benefits. They are vulnerable to harassment, including sexual harassment, and other forms of exploitation and abuse, including corruption and bribery. Women, young persons, migrants and older workers are especially vulnerable to the most serious decent work deficits in the informal economy. Characteristically, child workers and bonded labourers are found in the informal economy.
- 12.** Unregistered and unregulated enterprises often do not pay taxes, and benefits and entitlements to workers, thus posing unfair competition to other enterprises. Also workers and economic units in the informal economy do not always contribute to the tax system, although often because of their poverty. These situations may deprive the government of public revenue thereby limiting government's ability to extend social services.
- 13.** To promote decent work, it is necessary to eliminate the negative aspects of informality while at the same time ensuring that opportunities for livelihood and entrepreneurship are not destroyed, and promoting the protection and incorporation of workers and economic units in the informal economy into the mainstream economy. Continued progress towards recognized, protected decent work will only be possible by identifying and addressing the underlying causes of informality and the barriers to entry into the economic and social mainstream.
- 14.** Informality is principally a governance issue. The growth of the informal economy can often be traced to inappropriate, ineffective, misguided or badly implemented macroeconomic and social policies, often developed without tripartite consultation; the lack of conducive legal and institutional frameworks; and the lack of good governance for proper and effective implementation of policies and laws. Macroeconomic policies, including structural adjustment, economic restructuring and privatization policies, where not sufficiently employment-focused, have reduced jobs or not created adequate new jobs in the formal economy. A lack of high and sustainable economic growth inhibits the capacity of governments to facilitate the transition from the informal to the formal economy, through the creation of more jobs in the mainstream economy. Many countries do not have explicit employment creation and business development policies; they treat job quantity and quality as a residual rather than as a necessary factor of economic development.
- 15.** In appropriate circumstances, trade, investment and technology can offer developing and transition countries opportunities to reduce the gap that separates them from advanced industrialized countries, and can create good jobs. However, the problem is that the current globalization processes are not sufficiently inclusive or fair; the benefits are not reaching enough people, especially those most in need. Globalization lays bare poor governance. Trade, without export subsidies that distort the market, without unfair practices or the application of unilateral measures, would help living standards to be raised and conditions

of employment to be improved in developing countries, and would reduce decent work deficits in the informal economy.

- 16.** Since a defining characteristic of workers and enterprises in the informal economy is that they often are not recognized, regulated or protected by law, the legal and institutional frameworks of a country are key. The ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up and the core labour standards are as applicable in the informal as in the formal economy. But some workers are in the informal economy because national labour legislation does not adequately cover them or is not effectively enforced, in part because of the practical difficulties of labour inspection. Labour legislation often does not take into account the realities of modern organization of work. Inappropriate definitions of employees and workers may have the adverse effect of treating a worker as self-employed and outside the protection of labour legislation.
- 17.** Inappropriate legal and administrative frameworks that do not guarantee and protect freedom of association make it difficult for workers and employers to organize. Democratic, independent, membership-based organizations of wage workers, own-account workers, self-employed persons or employers in the informal economy are sometimes not allowed to operate under local or national legislation and are often unrecognized and excluded from or under-represented in social dialogue institutions and processes. Without organization and representation, those in the informal economy generally do not have access to a range of other rights at work. They are not able to pursue their employment interests through collective bargaining or to lobby policy-makers on issues such as access to infrastructure, property rights, taxation and social security. Women and youth, who make up the bulk of workers in the informal economy, are especially without representation and voice.
- 18.** Economic units operate in the informal economy mainly because inappropriate regulations and excessively high tax policies are responsible for excessive costs of formalization and because barriers to markets and the lack of access to market information, public services, insurance, technology and training exclude them from the benefits of formalization. High transaction and compliance costs are imposed on economic units by laws and regulations that are overly burdensome or involve dealing with corrupt or inefficient bureaucracies. The absence of an appropriate system of property rights and the titling of the assets of the poor prevents the generation of productive capital needed for business development.
- 19.** Informality can also be traced to a number of other socio-economic factors. Poverty prevents real opportunities and choices for decent and protected work. Low and irregular incomes and often the absence of public policies prevent people from investing in their education and skills needed to boost their own employability and productivity, and from making sustained contributions to social security schemes. Lack of education (primary and secondary) to function effectively in the formal economy, in addition to a lack of recognition of skills garnered in the informal economy, act as another barrier to entering the formal economy. The lack of livelihood opportunities in rural areas drives migrants into informal activities in urban areas or other countries. The HIV/AIDS pandemic – by illness, discrimination or loss of adult breadwinners – pushes families and communities into poverty and survival through informal work.
- 20.** The feminization of poverty and discrimination by gender, age, ethnicity or disability also mean that the most vulnerable and marginalized groups tend to end up in the informal economy. Women generally have to balance the triple responsibilities of breadwinning, domestic chores, and elder care and childcare. Women are also discriminated against in terms of access to education and training and other economic resources. Thus women are more likely than men to be in the informal economy.

- 21.** Since decent work deficits are often traceable to good governance deficits, the government has a primary role to play. Political will and commitment and the structures and mechanisms for proper governance are essential. Specific laws, policies and programmes to deal with the factors responsible for informality, to extend protection to all workers and to remove the barriers to entry into the mainstream economy will vary by country and circumstance. Their formulation and implementation should involve the social partners and the intended beneficiaries in the informal economy. Especially in countries struggling with abject poverty and with a large and rapidly growing labour force, measures should not restrict opportunities for those who have no other means of livelihood. However, it should not be a job at any price or under any circumstances.
- 22.** Legislation is an important instrument to address the all-important issue of recognition and protection for workers and employers in the informal economy. All workers, irrespective of employment status and place of work, should be able to enjoy, exercise and defend their rights as provided for in the ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up and the core labour standards. To ensure that labour legislation affords appropriate protection for all workers, governments should be encouraged to review how employment relationships have been evolving and to identify and adequately protect all workers. The elimination of child labour and bonded labour should be a priority goal.
- 23.** The informal economy provides an environment that allows child labour to thrive. Child labour is a key component of the informal economy. It undermines strategies for employment creation and poverty reduction, as well as education and training programmes and the development prospects of countries. Child labour also exists in industrialized countries. The eradication of child labour requires poverty reduction, good governance, effective enforcement, improved access to universal education and social protection. It requires commitment and cooperation between the social partners as part of the promotion of fundamental rights and the programme to transfer jobs from the informal to the economic mainstream. Key to the success of abolishing child labour is the creation of more quality jobs for adults.
- 24.** It is the responsibility of governments to provide an enabling framework at national and local levels to support representational rights. National legislation must guarantee and defend the freedom of all workers and employers, irrespective of where and how they work, to form and join organizations of their own choosing without fear of reprisal or intimidation. Obstacles to the recognition of legitimate, democratic, accessible, transparent and accountable membership-based organizations of workers and employers in the informal economy must be removed, so that they are able to participate in social dialogue structures and processes. Public authorities should include such organizations in public policy debates, and provide them access to the services and infrastructure they need to operate effectively and efficiently and protect them from harassment or unjustified or discriminatory eviction.
- 25.** Policies and programmes should focus on bringing marginalized workers and economic units into the economic and social mainstream, thereby reducing their vulnerability and exclusion. This means that programmes addressing the informal economy, such as provision of education, training, microfinance, etc., should be designed and implemented with the main objective of bringing workers or economic units in the informal economy into the mainstream, so that they are covered by the legal and institutional framework. Statistical and other research should be focused and designed to give effective support to these policies and programmes.
- 26.** Governments must provide the conducive macroeconomic, social, legal and political frameworks for the large-scale creation of sustainable, decent jobs and business

opportunities. Governments should adopt a dynamic approach to place decent employment at the centre of economic and social development policies and also to promote well-functioning labour markets and labour market institutions, including labour market information systems and credit institutions. To increase job quantity and quality, emphasis should be placed on investing in people, especially the most vulnerable – in their education, skills training, lifelong learning, health and safety – and encouraging their entrepreneurial initiative. Poverty reduction strategies, in particular the Poverty Reduction Strategy Papers (PRSPs), should specifically address the problems in the informal economy. The creation of decent jobs should be a measure of success for these strategies. In many developing countries, rural development and agricultural policies, including supportive legal frameworks for cooperatives, need to be enhanced and strengthened. Special attention should be given to the care responsibilities of women to enable them to make the transition from informal to formal employment more easily.

- 27.** A conducive policy and legal environment lowers the costs to establish and operate a business, including simplified registration and licensing procedures, appropriate rules and regulations, reasonable and fair taxation. It also increases the benefits of legal registration, facilitating access to commercial buyers, more favourable credit terms, legal protection, contract enforcement, access to technology, subsidies, foreign exchange and local and international markets. Besides, such policies discourage businesses in the formal economy from shifting into the informal economy. This helps new businesses to start and smaller businesses to enter the formal economy and to create new jobs, without lowering labour standards. This also increases state revenues.
- 28.** Another high priority is a coherent legal, judicial and financial framework for securing property rights to enable assets to be turned into productive capital through sale, lease or use as collateral. Reform of legislation regarding property rights should give special attention to gender inequalities in rights to own and control property.
- 29.** To address the needs of the poor and vulnerable in the informal economy, the conclusions concerning social security adopted by the 89th Session of the International Labour Conference in 2001 should be supported and implemented. Governments have a lead responsibility to extend the coverage of social security, in particular to groups in the informal economy which are currently excluded. Micro insurance and other community-based schemes are important but should be developed in ways that are consistent with the extension of national social security schemes. Policies and initiatives on the extension of coverage should be taken within the context of an integrated national social security strategy.
- 30.** The implementation and enforcement of rights and protections should be supported by improved systems of labour inspection and easy and rapid access to legal aid and the judicial system. There should also be provisions for cost-effective dispute resolution and contract enforcement. National governments and local authorities should promote efficient bureaucracies that are corruption and harassment free, are transparent and consistent in the application of rules and regulations, and that protect and enforce contractual obligations and respect the rights of workers and employers.
- 31.** An important objective for both employers' and workers' organizations is to extend representation throughout the informal economy. Workers and employers in informal activities may wish to join existing trade unions and employers' organizations, or they may want to form their own. Employers' and workers' organizations play a critical role in either strategy: extending membership and services to employers and workers in the informal economy, and encouraging and supporting the creation and development of new member-based, accessible, transparent, accountable and democratically managed representative organizations, including bringing them into social dialogue processes.

- 32.** Both employers' and workers' organizations can play an important advocacy role to draw attention to the underlying causes of informality and to galvanize action on the part of all tripartite partners to address them, and to remove the barriers to entry into mainstream economic and social activities. They can also lobby the public authorities for the creation of transparent institutions and the establishment of mechanisms for delivering and linking services to the informal economy. The innovative and effective strategies and good practices that employers' organizations and trade unions in different parts of the world have used to reach out to, recruit, organize or assist workers and enterprises in the informal economy should be more widely publicized and shared.
- 33.** Employers' organizations in collaboration with or through other relevant organizations or institutions could assist economic units operating in the informal economy in a number of important ways, including access to information which they would otherwise find difficult to obtain, such as on government regulations or market opportunities, and also access to finance, insurance, technology and other resources. They could extend business support and basic services for productivity improvement, entrepreneurship development, personnel management, accounting and the like. They could help develop a lobbying agenda specially geared to the needs of micro and small enterprises. Importantly, employers' organizations could act as the conduit for the establishment of links between informal enterprises and formal enterprises, the opportunities for which have increased due to globalization. They could also initiate activities adapted to the needs of the informal economy that can yield important results such as improved safety and health, improved labour-management cooperation or productivity enhancement.
- 34.** Trade unions can sensitize workers in the informal economy to the importance of having collective representation through education and outreach programmes. They can also make efforts to include workers in the informal economy in collective agreements. With women accounting for a majority in the informal economy, trade unions should create or adapt internal structures to promote the participation and representation of women and also to accommodate their specific needs. Trade unions can provide special services to workers in the informal economy, including information on their legal rights, educational and advocacy projects, legal aid, provision of medical insurance, credit and loan schemes and the establishment of cooperatives. These services should not, however, be regarded as a substitute for collective bargaining or as a way to absolve governments from their responsibilities. There is also a need to develop and promote positive strategies to combat discrimination of all forms, to which workers in the informal economy are particularly vulnerable.
- 35.** The ILO should draw upon its mandate, tripartite structure and expertise to address the problems associated with the informal economy. An approach based on decent work deficits has considerable merit and should be pursued. The ILO approach should reflect the diversity of situations and their underlying causes found in the informal economy. The approach should be comprehensive involving the promotion of rights, decent employment, social protection and social dialogue. The approach should focus on assisting member States in addressing governance, employment-generation and poverty-reduction issues. The ILO should take into account the conceptual difficulties arising from the considerable diversity in the informal economy.
- 36.** The efforts of the Office should:

 - a)* better address the needs of workers and economic units in the informal economy and they should be addressed throughout the Organization, including already existing policies and programmes;

- b)* strengthen its tripartite approach to all activities in this area and especially to ensure close consultation and active involvement of the Bureau for Workers' Activities and Bureau for Employers' Activities in all aspects of the work programme, in particular their design;
- c)* include an identifiable and highly visible programme of work with dedicated resources that is able to draw together relevant expertise including experts in workers' and employers' activities;
- d)* be linked logically and integrally to the ILO's major strategic objectives and InFocus programmes, for example the Decent Work Agenda, the Declaration on Fundamental Principles and Rights at Work and its Follow-up, the Global Employment Agenda, and upholding the overall goals of gender equality and poverty reduction; and be able to draw upon the multidisciplinary expertise and experience of all four technical sectors and operate effectively across all sectors and field structures. Linkages should also be made with major international initiatives, such as the Millennium Development Goals and the Youth Employment Network;
- e)* be organized in innovative and effective ways to focus the particular and/or combined expertise of specialists in labour law, eradication of the worst forms of child labour, equal opportunities, social aspects of globalization, labour inspection, social dialogue, social protection, micro and small enterprise development and employment policy, together with specialists in workers' and employers' activities, to deliver specifically designed strategies to address the identified causes and impacts of decent work deficits thus contributing to poverty reduction;
- f)* ensure that technical assistance activities seek to integrate workers and economic units in the informal economy into the mainstream economy and are designed to produce this result;
- g)* be reflected in the programme and regular budget and technical assistance priorities and supported by adequate regular budget and extra-budgetary resources.

37. Specific priority areas for the ILO's work programme and technical assistance should be to:

- a)* help member States to formulate and implement, in consultation with employers' and workers' organizations, national policies aimed at moving workers and economic units from the informal economy into the formal economy;
- b)* place special emphasis on removing obstacles to, including those in the legal and institutional framework, the realization of all the fundamental principles and rights at work;
- c)* identify the obstacles to application of the most relevant labour standards for workers in the informal economy and assist the tripartite constituents in developing laws, policies, and institutions that would implement these standards;
- d)* identify the legal and practical obstacles to formation of organizations of workers and employers in the informal economy and assist them to organize;

- e)* gather and disseminate examples and best-practice models of innovative and effective strategies used by employers' organizations and trade unions to reach out to, recruit and organize workers and economic units in the informal economy;
- f)* undertake programmes and policies aimed at creating decent jobs and education, skill-building and training opportunities to help workers and employers move into the formal economy;
- g)* target those areas of the informal economy where child labour is prevalent with the objective of assisting member States to design and implement policies and programmes to eradicate child labour;
- h)* apply the ILO's policies and programmes on enhancing employability, skills and training, productivity and entrepreneurship to help meet the massive demand for jobs and livelihoods in ways that respect labour standards and enable entry into the economic and social mainstream;
- i)* assist member States to develop appropriate and facilitating legal and regulatory frameworks to secure property rights and title assets, and to encourage and support the start-up and sustainable growth of enterprises and their transition from the informal to formal economy;
- j)* mainstream the issues concerning and solutions to the challenges often presented by the informal economy in poverty reduction strategies, in particular the Poverty Reduction Strategy Papers (PRSPs);
- k)* promote the renewed campaign agreed at the International Labour Conference in 2001 to improve and extend social security coverage to all those in need of social protection, especially those in the informal economy, inter alia, through the development and piloting of innovative ideas, such as the Global Social Trust;
- l)* address discrimination in the informal economy and ensure that policies and programmes specifically target the most vulnerable, in particular women, young first time jobseekers, older retrenched workers, migrants and those afflicted with or affected by HIV/AIDS;
- m)* develop greater understanding of the relationship between the informal economy and the feminization of work, and identify and implement strategies to ensure that women have equal opportunities to enter and enjoy decent work;
- n)* assist member States to collect, analyse and disseminate consistent, disaggregated statistics on the size, composition and contribution of the informal economy that will help enable identification of specific groups of workers and economic units and their problems in the informal economy and that will inform the formulation of appropriate policies and programmes;
- o)* expand the knowledge base on governance issues in the informal economy and solutions and good practices for dealing with these issues;
- p)* collect and disseminate information on transitions made to the mainstream economy, how such transitions were facilitated, and key success factors;

- q)* take the lead role in working with other relevant institutions whose expertise could complement that of the ILO in addressing the issues in the informal economy;
- r)* include work with other international organizations including United Nations and Bretton Woods institutions, promoting dialogue to avoid duplication, identify and share expertise, while the ILO itself takes the lead role.

