



POLICIES ON THE INFORMAL ECONOMY

A Global Review (RNSF 2018a)



Project reference:
EuropeAid/135649/DH/SER/MULTI

Funded by the European Union

Project implemented by:



In collaboration with





Policies on the informal economy: A global review

Research, Network and Support Facility

The **Research, Network and Support Facility** is a European Union-funded project to improve knowledge on ways to enhance the livelihoods of people in the Informal Economy and to increase the social inclusion of vulnerable groups. It is implemented by A.R.S. Progetti S.p.a. in a consortium with Lattanzio Advisory S.p.a. and AGRER S.A. N.V.

2018



This series

This is Volume 3 in a series of 9, produced by the Research, Network and Support Facility, a project funded by the European Commission and implemented by a consortium led by A.R.S. Progetti.

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|------------|---|
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Contents

IN THIS VOLUME	10
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SUMMARY OF POLICY DEBATES	12
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Relationship between the informal economy and other characteristics	12
Empirical vs normative approaches	12
International Labour Organization	14
European Union	14
Swedish International Development Agency	15
World Bank	15
Policy approaches	15
Taxation	15
Upgrading informal activities	16
Organising	16
Social protection	17
Enhancing technical and vocational skills	17
Finance	18
State vs non-state actors	18
References	19

I OVERVIEW OF APPROACHES TO THE INFORMAL ECONOMY	20
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1 Context descriptors	20
2 Empirical versus normative approaches to the informal economy	30
3 Explicit versus implicit focus on the informal economy	32
3.1 Implicit focus on the informal economy	32
3.2 Explicit focus on the informal economy and the ILO approach	36
3.3 Systematic normative approach to the informal economy by the ILO	36
4 Approaches of some donors and organisations	40
4.1 European Union	40
4.2 The World Bank	48
4.3 Swedish International Development Agency	56
5 Conclusions	57
6 References	58

II GENERAL APPROACHES TARGETING INFORMAL ECONOMY UNITS AND WORKERS	64
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1 Taxing informal activities	64
1.1 Conclusions	66
2 Upgrading informal activities within the value chain	67
2.1 Value chains and subcontracted outworkers	69
2.2 Value chains and informal sector microentrepreneurs and smallholders	70
2.3 Conclusions	77

3	Organising people dependent on the informal economy	78
3.1	Organising for the recognition of informal workers' rights	79
3.2	Organising communities to gain support	87
3.3	Recommendations.....	91
3.4	Conclusions	92
4	References	93
III	MAIN SECTORAL APPROACHES OF POLICIES DESIGNED TO TACKLE THE INFORMAL ECONOMY	98
1	Social protection	98
1.1	Variety of schemes: Social security, social assistance and safety nets	100
1.2	Variety of risks covered.....	108
1.3	Examples of national policies	110
1.4	Role and impact of projects and civil society in extending social protection	112
1.5	Back to taxation	115
1.6	Conclusions	116
2	Enhancing technical and vocational skills	117
2.1	Examples of national policies and actions from donors.....	119
2.2	Apprenticeships	120
2.3	Role and impact of projects and civil society in recognising informally acquired skills	121
2.4	Recommendations in the field of technical and vocational education and training	125
2.5	Conclusions	128
3	Finance	129
3.1	New actors and the institutionalisation of microfinance	130
3.2	Extension of microfinance and potential for growth	132
3.3	Youth and microfinance	136
3.4	Conclusions	136
4	References	136
IV	THE INFORMAL ECONOMY IN SUB-SAHARAN AFRICA	142
1	Importance of the informal economy	142
2	Major actors and initiatives.....	144
2.1	African Union	144
2.2	African Development Bank	147
2.3	Regional economic communities	148
3	Regional challenges and key policy areas of intervention	150
3.1	Inclusive growth, employment and decent work	150
3.2	Legal framework: labour legislation and taxation	151
3.3	Entrepreneurship, finance and skills development	153
3.4	Social protection	157
4	Integrated regional experiences toward formalization	160
	References.....	161

Tables

Table 1. Tax for sales activities, locations, services and other activities, Argentina 2010–2012.....	65
Table 2. Issues, challenges and counterparts in collective bargaining campaigns	86

Table 3. Typology of social safety nets	104
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Figures

Figure 1. Employment in the informal economy as a percentage of non-agricultural employment, 2010–14.	21
Figure 2. Employment in the informal economy and its share in non-agricultural employment, 2010–2014.	22
Figure 3. National variations in the measures of informality	23
Figure 4. National variations in the measures of informality: Pairwise scale	24
Figure 5. Relationship between employment in the informal economy and GDP per capita.....	26
Figure 6. Employment in the informal economy is positively related to poverty	28
Figure 7. Net payers and net receivers to the fiscal system by decile: Contributory pensions as deferred income	116

Boxes

Box 1. Reversing the rising tide of informality: Policy advice by Palmade and Anayiotos	28
Box 2. Poverty reduction in IMF operational frameworks.....	33
Box 3. Main goals of recent global agendas	34
Box 4. Failure of value-based approaches: The European social insurance model in the former Soviet bloc	36
Box 5. Guiding principles for the transition from informal to formal economy stipulated by Article II of ILO Recommendation 204	39
Box 6. Potential EU policy agenda based on the Decent Work Agenda	45
Box 7. Cooperative of potters of Katiola, Côte d'Ivoire	69
Box 8. Ethiopians Fighting Against Child Exploitative Labour	69
Box 9. Supporting value chains in Kassala, Sudan	71
Box 10. Soybean production in Malawi	73
Box 11. Market Access through Cooperative Action, Ghana	73
Box 12. Horticulture in Kosovo	75
Box 13. Business-to-business programme in Mali, Benin, China, Vietnam, Uganda, and Bangladesh.....	75
Box 14. Lead-firm model in Tanzania	76
Box 15. Honey production in Cambodia.....	76
Box 16. Recicladores in Colombia.....	81
Box 17. Waste pickers in Minas Gerais, Brazil	82
Box 18. Rap – Six steps	84
Box 19. Support to workers in the informal economy in Sao Paulo, Brazil.....	87
Box 20. Women in Action and Solidarity Against Poverty in Kyrgyzstan	89
Box 21. Support to Household Food Security and Livelihood of Vulnerable and Food Insecure Farming Families in Afghanistan	90
Box 22. Supporting the empowerment of artisans in Côte d'Ivoire and Togo.....	90
Box 23. Sustainable Development Goals: Social-protection-related targets.....	98
Box 24. BRAC's Targeting the Ultra-Poor Programme	105

Box 25. HARITA initiative.....	106
Box 26. Social protection floors.....	109
Box 27. Skills certification in Uganda	121
Box 28. BEP-STAR Project, Bangladesh	122
Box 29. Certificate of Qualification for Crafts in Benin.....	124
Box 30. Groups of savings and community solidarity in Côte d'Ivoire.....	130
Box 31. Supporting microfinance institutions to enhance the livelihoods of vulnerable people dependent on the informal economy.....	131
Box 32. Enterprise Development for Rural Families Programme, Kenya	132
Box 33. UNIDO support to credit facility in Iraq and Armenia.....	135

Acronyms

ACF International	Action Against Hunger International
Acumen	Acumen is the name of an agency that raises charitable donations to address poverty reduction
AEASA	Agricultural Economics Association of South Africa
Cap4Dev	Capacity for Development
CGAP	Consultative Group to Assist the Poor
CGIAR	Consultative Group for International Agricultural Research
CIAT	Centro Internacional de Agricultura Tropical
CIG	Common Interest Groups
CISDOCS	Computer Information Systems Documents (ILO)
DANIDA	Danish International Development Agency
DCI	Development Cooperation Instrument
DEW	Digital Early Warning
DFID	Department for International Development
EESE	Sustainable Enterprises
E-FACE	Ethiopians Fighting Against Child Exploitative Labor
EMLED	Empowering Municipalities through Local Economic Development
EC	European Commission
EU	European Union
EVAL Partners	Evaluation Partners
FAMOS	Service Quality Check for Supporting Female and Male Operated Small Enterprises
FAO	Food and Agriculture Organization
GP	Good practices
GSP	Group of Solidary Producers
HBW	Home Based Workers
IE	Informal Economy
IESF	Informal Economy Support Facility
IFI	International Financial Institution
IFPRI	International Food Policy Research Institute
IFRC	International Federation of Red Cross and Red Crescent
IIED	International Institute for Environment and Development
ILO	International Labour Organization
IMF	International Monetary Fund
ISAS	Institute of Southeast Asian Studies
IOM	International Organization for Migration
IT	Information Technologies
ITP	International Training Programme
IZA	Institute for the Study of Labor
KAP	Knowledge, Attitudes and Practices
LED	Local Economic Development
KTA	Knowledge Transfer Africa
LEDC	Local Economic Development Committee

LEDP	Local economic development plans
LIFT	Livelihood and Food Security Trust Fund
LL	Lessons learned
MDC	Municipal Economic Development Committee
MFO	Microfinance Opportunities
NRC	Norwegian Refugee Council
OCAT	Organizational Capacity Assessment Tool
ODA	Official Development Assistance
ODI	Overseas Development Institute
OPHI	Oxford Poverty and Human Development Initiative
OSH	Occupational Safety and Health
PO	Producer Organisations
PPP	Public-private partnerships
PRGF	Poverty Reduction Growth Facility
PRSP	Poverty Reduction Strategy Program
RNSF	Research, Network and Support Facility
SEWA	Self Employed Women's Association
SIDA	Swedish International Development Cooperation Agency
SIYB	Start and Improve Your Business
SWE	Small Water Enterprises
TAMKIN	Municipal Capacity Building and Service Delivery Program
ToT	Training of Trainers
TVET	Technical vocational education and training
TVET-R	Technical vocational education and training reform
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNIDO	United Nations Industrial Development Organization
VAT	Value Added Tax
VC	Value Chain
WBDB	World Bank "Doing Business" Index
WBGES	World Bank Business Environment Snapshots
WED	Women's entrepreneurship development
WELTHUNGERHILFE	German private organisation for development and humanitarian aid
WFP	World Food Programme
WIEGO	Women in Informal Employment Globalizing and Organising
WB	World Bank

IN THIS VOLUME

This report analyses the current situation of initiatives by the EU, other donors and countries in support of people whose livelihoods depend on the informal economy. This is Volume 3 in a series of volumes produced by the Research, Network and Support Facility. This volume focuses on the major orientations of policies designed to tackle (either to support or eliminate) the informal economy.

The preceding volume, RNSF 2017a, focuses on the terminology and definitions related to the informal economy and to basic questions concerning the informal economy, such as: “What is it? Where does it come from? How big is it? Why is it growing? How to tackle it?” (RNSF 2017a). The analysis deals with theories and concepts, basic definitions, as well as methods of data collection and measurement. RNSF 2017a also provides an overview of trends and characteristics of the informal economy, notably in terms of employment and contribution to GDP.

The present Volume is focused on a review of policies designed to tackle the informal economy with special reference to major actors in the field: governments, international organisations and donors.

Good practices and lessons referred to in this volume are extracted from four main sources:

- **33 EC-funded and completed projects** selected under the 2009 EC call for proposals, “Investing in People. Promoting social cohesion, employment and decent work. Support for social inclusion and social protection of workers in the informal economy and of vulnerable groups at community level”. These are analysed in **RNSF 2016a**.
- **202 documents**, including 171 mid-term, final and impact evaluations of projects focused on the informal economy that were funded and implemented by a number of development agencies, including the ILO, World Bank, USAID, DFID, the World Food Programme, the United Nations Industrial Development Organization and FAO. These are analysed in **RNSF 2016b**.
- **15 EC-funded projects** that were identified by RNSF through DEVCO (Unit B3) under various EC calls for proposals as relevant to the informal economy. They are analysed in **RNSF 2017c**.
- **15 EC-funded and on-going projects** that are partners of the RNSF project. These projects have been analysed and their good practices and lessons are presented in **RNSF 2018b**.

In the present volume we refer to these projects by their names, the name of their implementing agencies and the volume in this series.

The first section of this volume analyses the relationship between the informal economy and a number of context descriptors (such as the level of development, socio-political system, and region), with a special focus on the potential causality among these descriptors and the degree of informality. The existence of a causal relationship between the informal economy and other key characteristics could be used in policy formulation. We proceed to discussing normative versus empirical approaches to policy formulation. Finally, explicit versus implicit focus on the informal economy is illustrated.

The second section discusses the general or global approaches used in the framework of policies targeting the informal economy. These include taxing informal activities, upgrading informal activities within the value chain, and organising populations dependent on the informal economy.

Finally, the third section analyses three main sectoral approaches for policies targeting the informal economy to ensure the transition towards the formal economy. These include social protection, technical and vocational skills enhancement, and finance.

SUMMARY OF POLICY DEBATES

In many countries, the informal economy is big – in terms of employment and its contribution to GDP – and it is growing quickly. But the type of jobs it generates often leave much to be desired: many are poorly paid, insecure, exploitative or dangerous. And as part of the informal economy, they do not generate income for the state.

All these factors mean that governments cannot ignore the informal economy. They design policies to take advantage of the potential of economic activities in the informal sector, enhance the living conditions of workers, and regulate businesses. Encouraging the transition from the informal to the formal economy is on the agenda of many international agencies and governments.

Relationship between the informal economy and other characteristics

A basic question in designing such policies is the relationship between the informal economy and other national social and economic characteristics – and whether causal relationships exist between them. If so, adjusting outside aspects may influence the informal economy, making the policies more effective. In this volume we start by documenting the potential relationships between the informal economy and other aspects of the socio-economic context.

As our measure of the informal economy, we use employment in the informal economy as a proportion of total non-agricultural employment (Charmes 2017 in RNSF 2017a). Although large differences exist within continents, and even starker differences at the national level, the analysis clearly exhibits some systematic regional pattern. On the other hand there does not seem to be any systematic relationship between informality and the socio-economic typology defined by the “varieties of capitalism” concept. One can easily show that this popular, academically respected typology is not consistent with the observed degree of informality.

Most academic studies find that the extent of informality is significantly linked to poverty incidence and GDP/income level. However, the existence and direction of causality has not been adequately established. For example, some businesses may remain fully or partially informal in order to reduce their tax burden, wage bills, or costs of compliance with regulations. In such cases, lower poverty rates may not reduce the extent of informality. Rather, policies aimed at reducing such costs could be more effective. Plus, the burden of regulations is often blamed for pushing businesses and workers into the informal sector. However, most authors agree that deregulation can affect the informal economy only if accompanied by a number of other measures, notably appropriate enforcement.

For some individuals and businesses, being informal is not a necessity, but a rational choice. Therefore, some authors suggest that certain degree of enforcement may be more effective than merely dismantling the various barriers to formality. Similarly, empowering the people dependent on the informal economy by providing them with finance, skills and access to services may increase their income and productivity, and improve their living and working conditions, but does not necessarily imply that they will become parts of the formal economy.

Empirical vs normative approaches

Approaches towards informal economy can be divided into empirical and normative types.

- **Empirical** approaches are characterised by a value-neutral stance and focus on explaining the state of affairs through observation.
- **Normative** approaches are focused on the exploitation of values and on achieving a desirable situation postulated in terms of these values.

In order to formulate a certain value-based apparatus in relation to the informal economy, its value has to be assessed. Although the informal economy is largely perceived as a negative phenomenon, it also has many virtues. In particular, it has a large potential for employment, it uses human resources that are untapped by the formal sector due to various barriers, and it is the “employer of last resort” for the poor. Such features are often appreciated by stakeholders, including governments and international organisations. Acting on the informal economy is thus subject to various warnings and limitations.

Despite the plethora of analyses, there is no internationally accepted approach towards the informal economy. In the absence of a clear-cut technocratic solution to the problem of informality, governments and donors tend to shape their interventions according to normative approaches based on their priorities, values, and ideological orientations. Some governments may increase regulations, monitoring and enforcement to get the informal economy into the spotlight; others opt to decrease regulations in the hope of inducing a spontaneous formalisation of informal businesses. Similarly, some donors and international organisations may advise governments to deregulate, decrease administrative barriers and tax burden; others may advise them to introduce new social contributions or safety nets to cover the poor, and to improve monitoring and enforcement.

The informal economy can be addressed in explicit and implicit ways. The latter is achieved mainly in the framework of poverty reduction, which represents a major goal of the current global development frameworks. Other global goals that are closely related to the informal context include the reduction of inequality, support of social inclusion, provision of education and skills, support to governance, institution building and partnerships. Poverty alleviation occupies a central place among the implicit strategies tackling the informal economy. This is mainly due to two reasons:

- The significant relationship between the extent of informality and poverty at the national level.
- The fact that combating poverty has been at the centre of global international development frameworks for more than two decades.

Given that the phenomenon of poverty has strong links to the informal economy and to the developing world, those working on poverty reduction are constantly confronted with the informal economy and the challenges posed by informality.

Despite the increasing interest of governments and donors in reducing the informal economy, the International Labour Organization (ILO) is the only major international organisation to develop an official normative approach in this regard. It has adopted several key documents describing its position towards the informal economy and providing normative advice how to tackle it. For other organisations that lack such a comprehensive position towards the informal economy, policy formulation is usually provided by consultants whose views do not necessarily represent the institutional point of view. The lack of official standpoint on the informal economy is partially caused by the lack of unambiguous research that could inform and inspire the official positions. On the side of relevant key actors focused on securing livelihoods, voice and visibility to poor workers in the informal economy, WIEGO (Women in Informal Employment: Globalizing and Organizing) is an influent global network committed with

capacity building and raising awareness of informal workers, and advocating for local, national and international policies addressing informality.

Policy formulation is in practice guided mainly by the value orientation of the implementing agencies. **Rights-based approaches** stress the importance of inclusion, protection and empowerment of the people dependent on the informal economy, while **business-minded approaches** stress the importance of deregulation, business freedom and enabling environment. There seems to be a broad consensus that formalisation of the informal economy is desirable and that it can be achieved through a gradual process, which should be accompanied by safeguarding against the potential adverse effects on the wellbeing of the informal economy subjects.

International Labour Organization

Among the international institutions that focus explicitly on the informal economy, the ILO plays the role of global trendsetter, mainly due to its long-term experience in the field, as well as its progress in adopting normative documents (ILC Conclusion on the Informal Economy and Decent Work (ILO 2002), ILO Recommendation 204 on the transition from informal to formal economy (ILO 2015), etc.). Other major donors mainly use the following approaches:

- Treating the informal economy as a cross-cutting issue
- Mainstreaming the informal economy issues into all types of other interventions
- Covering the informal economy under other topical strategies (e.g. private sector development).

In general, the approaches are also underlined by the recent move from isolated projects to more complex sets of projects or programmes.

The ILO follows the rights-based approach to the informal economy and inspires interventions by many other donors and international organisations, including the European Union. This is mainly because in addition to the widespread poverty, the informal economy is also characterised by many other deficits, such as social exclusion, lack of access to services, rights, representation, and voice for the people dependent on the informal economy. Policies and measures that tackle these issues often address qualitative or structural aspects of livelihoods. They focus on the issues of decency, dignity, rights, quality of life, working conditions, etc.

European Union

The European Union attaches a large importance to the issues of informal economy and informality at work. Although the document Agenda for Change (European Commission 2011) does not explicitly mention the informal economy as a separate priority, and the New European Consensus on Development (European Commission 2017) only mentions it in connection with decent work and ILO labour standards, informality is an issue, both inside the EU and in its foreign aid operations.

In its foreign aid interventions, the European Union has both explicit and implicit focuses on the informal economy. The former is represented by separate calls for projects within work programmes dedicated to the informal economy and people whose livelihoods depend on it. The latter are represented by recent efforts to mainstream the informal economy issues into other interventions and policies. The

usual project-based approach has been recently upgraded to a programme-based approach through new initiatives, such as the appearance of a systematic component in project implementation (subsequent clusters of projects have been accompanied by the Research, Network and Support Facility, RNSF).

Swedish International Development Agency

Another major international agency that attaches a large importance to the informal economy issues is the Swedish International Development Agency (SIDA). The informal economy is covered under the umbrella of private sector development initiated by SIDA in 2002. SIDA's approach is not one of preparing a stand-alone strategy dedicated to the informal economy. Informal economy issues have been integrated mainly under private-sector development strategy and policies, and topically attached to the poverty reduction and other related goals. The approach is based on treating the informal economy as a cross-cutting issue.

World Bank

An example of unofficial but strongly institutionalised approaches to policy formulation on the informal economy is provided by the World Bank. This has been paying increasing attention to the issues of informality, although seen through a different lens than in the case of its rights-based counterpart, the ILO. The analyses developed by the World Bank regarding the factors linked to informality often point to overregulation, excessive bureaucracy, generous fiscal policies, complicated tax and tariff systems, a lack of transparent property rights, or lack of economic and business freedom (as measured, for example, by the Heritage Foundation economic freedom indexes). The policy recommendations typically include creating an enabling environment by removing these barriers and obstacles. At the level of direct actions in communities, recommendations usually include improving access to credit or microfinance, business development services, provision of technical, financial and entrepreneurial skills and training.

Policy approaches

The review of documents and materials leads us to identify three specific approaches and three main technical or sectoral approaches underpinning policies designed to tackle the informal economy.

- The three **general approaches** include **taxation**, **upgrading informal activities** within value chains, and **organising** the populations dependent on the informal economy.
- The three main **sectoral approaches** include **social protection**, **skill enhancement** through technical and vocational education and training, and **finance**.

Taxation

At the macroeconomic level, the first concern of states and financial institutions providing aid and counselling to developing country governments has been taxation. If the informal economy represents such a large share of GDP, the reasoning goes, then it should contribute to government resources and

revenues. Support to these firms transforms them into formal activities that become liable to pay taxes. Although the willingness to tax the poor may seem paradoxical and counter-productive in countries where tax evasion is common among formal actors, the huge number of informal operators allows the broadening of a very narrow tax base. In doing so, governments focus on the upper tier of the informal economy – informal microenterprises – rather than the lower tier of income-generating activities. However, the basic principle is that resources that accrue to the state by taxing the poor should be offset by resources redistributed to the poor.

As a precondition of formalisation, the design of a tax that would fit with the realities experienced by informal operators has been attempted in several countries in Africa and Latin America. The principle of a synthetic or presumptive tax, as experienced in several African or Latin American countries, is to be simple, unique, advantageous, and based on objective criteria other than the wage bill, though contributing to the social protection of the employees.

Upgrading informal activities

Upgrading informal activities within the value chains is two-fold. First, home-based workers have to be protected. These are sub-contracted – often through various intermediaries – by large outsourcing firms seeking to cut their labour costs, maximise their profits, and maintain flexibility. The hard working-conditions and low pay that prevail in a cascading sub-contracting system require actions to ensure decent conditions through organisation, bargaining and social dialogue. They also require sensitisation towards enforcement and reinforcement of corporate social responsibility, making large companies accountable for the working conditions of the workers they hire, even indirectly through sub-contracting, and giving voice to consumers and their representative organisations.

Second, contract farming or agri-food processing (the equivalent of sub-contracting in industries) may also be synonymous of long hours and hard conditions of work for low wages or low rewards. And at the same time inclusion in international markets may provide opportunities for small own-account producers and a more favourable environment for the development of new businesses, innovative processes, and better working conditions.

Organising

Organising is at the core of actions and policies designed to enhancing the livelihoods of populations dependent on the informal economy. Whatever angle the question is viewed from, organising is the way to address it. It aims for the recognition of informal workers' rights and to support communities of working poor. Sooner or later, all policies and projects intervening in the field come to the organisation of the populations they support, because organising is key for financing, extending social protection, increasing its share in the value chain, and more generally for gaining visibility, voice and self-esteem and confidence.

Two types of actions can be distinguished toward the organisation of vulnerable populations.

- First, illustrated by organisations such as SEWA (the Self-Employed Women Association) or WIEGO, is the attempt to intervene at global (regional, national and international) and political levels in support of the recognition of informal workers' rights. Examples of such actions cover workers such as waste-pickers, domestic workers, street vendors and transport workers, in other

words informal workers who are not geographically located in places where they can meet together and who are especially vulnerable.

- Second, local or sectoral development projects – donor- or government-funded – try to rely on or revitalise pre-existing self-help groups to help communities in self-financing, contribute to social protection schemes, or more generally give visibility and voice.

Social protection

The universalisation of social protection is goal 1.3 of the Sustainable Development Goals (United Nations 2015):

“Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and vulnerable”.

Beside the capacity strengthening of public agencies or self-help groups, for most governments and international and bilateral institutions, social safety nets may be the solution to achieve the goal of universal social protection. If so, the path of transition from the informal to the formal economy is still long. Providing workdays to poor people is positive but it cannot be the only way to achieve such an ambitious goal.

Social protection for informal workers must be mainstreamed and be a long-term commitment. Good practices and lessons from projects have still a role to play in the implementation of national policies, and national policies could play a coordination role among various stakeholders in this respect. Furthermore, inefficient bureaucracies, immersed in clientelist practices, cronyism and devoid of resources, need to be sensitised, incentivised and accompanied by grassroots organisations in order to achieve transformation – or even a revolution – serving the people rather than having the people at their service.

Enhancing technical and vocational skills

Technical and vocational education and training is a major issue in addressing the informal economy for at least two reasons:

- On-the-job training remains the main provider of skills in the informal economy
- Not all the youth enrolled in official vocational education programmes will be absorbed in the formal labour market and many will have to find their way within the informal economy.

This highlights the strong interconnection between vocational education provision and the informal economy in the following fields:

- Recognition and upgrading of skills developed in the informal economy, training of informal trainers, and upgrading of informal apprenticeship schemes.
- Access to higher-level skills training to improve informal workers' performance.

- Formal and informal vocational education schemes enable learners to develop entrepreneurship and start businesses, so pull themselves out of insecure jobs and poor wages.

Challenges lie in the place and role given to apprenticeships and the ways by which formal vocational education systems strive to upscale traditional, informal systems. The recognition of informally acquired skills is also a challenge, as is the adaptation of formal systems to match the needs of the global economy. One of the most important issues that transition policies from the informal to the formal economy face is the absence of recognition of skills that have been acquired informally. This is nevertheless a necessary pre-condition for workers to move from informal to formal enterprises.

Finance

The positive role of microfinance in enhancing livelihoods of people dependent on the informal economy is generally recognised, though voices are beginning to be heard about the risks of over-indebtedness. The combination of tight needs with large numbers of operators constitutes a vibrant market and has been the basis for the development of microfinance and its commercialisation. The profit motive has progressively taken precedence over that of solidarity. However, for-profit microfinance institutions can play a role in supporting the poor and vulnerable people dependent on the informal economy, even if they prioritise the most rewarding loans.

Microfinance is defined as a set of financial services, such as savings, microcredit, insurance and money transfer, adapted to the needs of low-income and poor persons (especially those who do not have bank accounts). Because they have no collateral, the poor have no access to the official banking system. In this sense, financial inclusion – the objective that microfinance aims for – may be seen as a dimension of social inclusion.

Microfinance has long existed in traditional societies under the form of rotating savings-and-credit schemes or clubs (known as “tontines” in Western and Central Africa or “merry-go-rounds” in Eastern Africa). Important actors emerged from the mid-1970s to the mid-1980s, including the Grameen Bank, founded by Nobel Peace Prize winner Mohamed Yunus in 1983. Another is SEWA’s microcredit bank, based in Ahmedabad, Gujarat, India.

State vs non-state actors

The various domains open for state and civil society organisation interventions have long been explored, and our review of policies benefits from many experiences in the field at macro (national), meso (regional) and micro (local, households/enterprises) levels.

Taxation is the only of these domains that is the hands of the state. In all other cases, micro-level experiences tested and implemented by civil society and funded by international or bilateral donors can be capitalised, adapted to local conditions, generalised and converted into national policies. Similarly, national policies can be supported, enhanced and improved at local levels thanks to civil society, particularly where budgets are limited.

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I OVERVIEW OF APPROACHES TO THE INFORMAL ECONOMY

Approaches to the informal economy are inspired by more than 40 years of research that analysed the concepts of informality with varying degree of success (see RNSF 2017a for a detailed discussion). Historically, the most influential school of thought was started by W. Arthur Lewis (1954), who had an optimistic view of the informal economy as a **reservoir** of labour that should be gradually upgraded and absorbed by the formal sector. As it became clear that this absorption did not fully materialise and that the informal economy was there to stay (and eventually grow), further approaches concentrated on the informal economy *per se* as a sector in its own right. As summarised in Chen (2012), further schools of thoughts include the following:

- The **dualist** approach (ILO 1972) looks at the informal economy as a separate marginal economy, de-linked from the formal economy.
- **Structuralists** (Portes et al. 1989) treat the informal economy as a segment subordinated to the formal economy.
- **Legalists** (de Soto 1986) understand the informal economy as a rational response by economic units to over-regulation and bureaucracy.

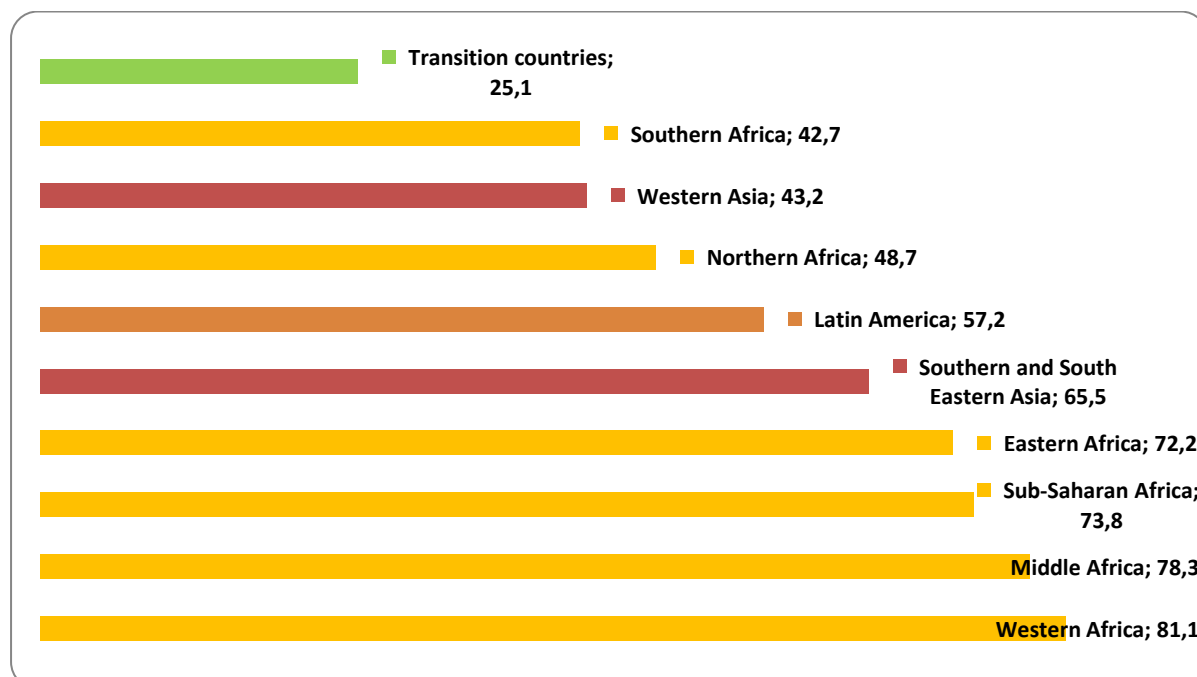
The underlying principles behind the different schools of thoughts inspired approaches used in the framework of (normative) policies that attempt to influence the informal economy in both directions (support or eradication). The following sections provide an overview of these developments.

1 Context descriptors

A basic question in designing policies on the informal economy is the character of relationships between the informal economy on one side and other national social and economic characteristics on the other. If a significant relationship is observed, it is important to examine the presence or absence of causality that might be further exploited in policy formulation. If a causal relationship can be found between certain socio-economic parameters and the informal economy, acting on these parameters can be expected to influence the informal economy, thus making the policies more effective. In this section we document the potential relationships between the informal economy and other aspects of the socio-economic context.

First, the extent of informality has to be quantified. The issues of measurement and data collection in relation to the informal economy have been discussed at length by Charmes (RNSF 2017a). We here only briefly revisit the indicator that is traditionally used to describe the informal economy: the share of employment in the informal economy as a proportion of total non-agricultural employment. Figure 1 provides an overview of the employment in the informal economy expressed as percentage of total non-agricultural employment for several geographical regions. Figure 2 presents the distribution of the informal employment measure across a wide range of countries. The lowest values are attained in transition economies; the trend increases through Latin American and Asian countries towards African countries. However, intra-regional variation is also large: e.g., Costa Rica versus Guatemala for Latin America, Thailand versus Bangladesh in Asia, and Sudan versus Benin in Africa. Although large differences exist within continents, and even starker differences at the national level, the analysis clearly exhibits some systematic regional pattern.

Figure 1. Employment in the informal economy as a percentage of non-agricultural employment, 2010–14

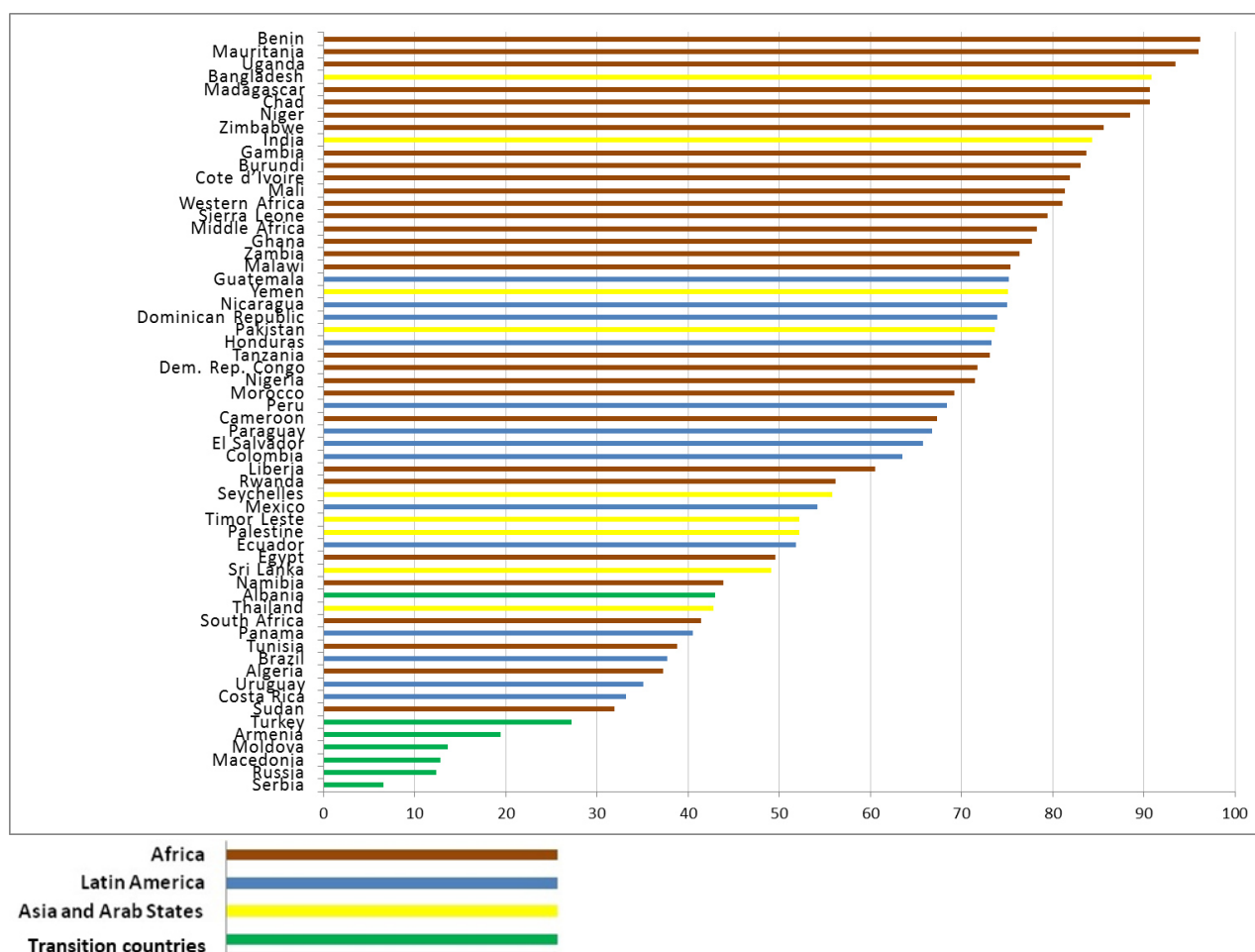


Source: Charmes (RNSF 2017a), Table 1, based on Charmes (2012), updated with new countries.

A deeper insight into the variability at regional and national levels is provided in Figure 3, which illustrates the intra-regional variation in the extent of informality. It depicts the extent of informality on a light blue-dark blue scale: the darker tones correspond to greater informality. Figure 4 depicts the same indicator using a pairwise scheme allocating the same colours to the countries with similar extent of informality. The figure documents that there is no uniform pattern within various regions. In each continent or in each major region one can find countries with similar extent of informality. The intra-regional variation in terms of informal economy incidence is large. One can find countries with very high and very low incidence of informal economy within the same geographic region.

The high incidence of the informal economy in particular countries must be explained by characteristics other than just regional identification. In particular, as documented in RNSF 2017a and briefly illustrated below, poverty incidence and GDP level have been found to be significantly related to the extent of informal economy by numerous academic studies.

Figure 2. *Employment in the informal economy and its share in non-agricultural employment, 2010–2014*

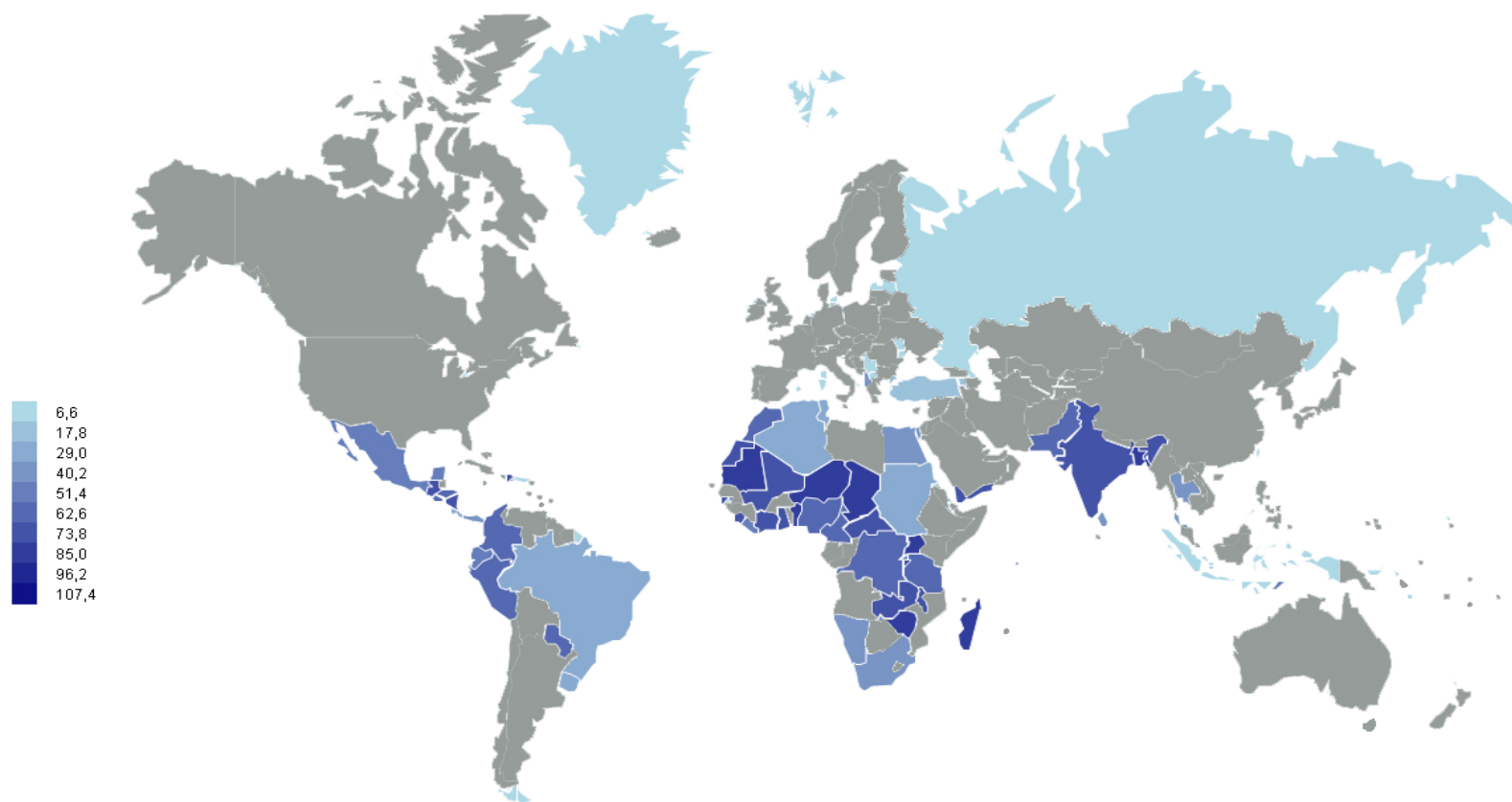


Source: Charmes (2017), Tables 2, 3, 4, 5, 6, based on Charmes (2012), updated with new countries.

Variation at the national level can also be used to look into the possible relationship between the informal economy and the socio-political context. For example, is there a reason to believe that democratic political systems that are inclusive and rights-based are associated with lower degrees of informality than fragmented, and centralised or authoritarian systems? Similarly, is there a systematic pattern of informality in relation to market-based and state-based economic systems?

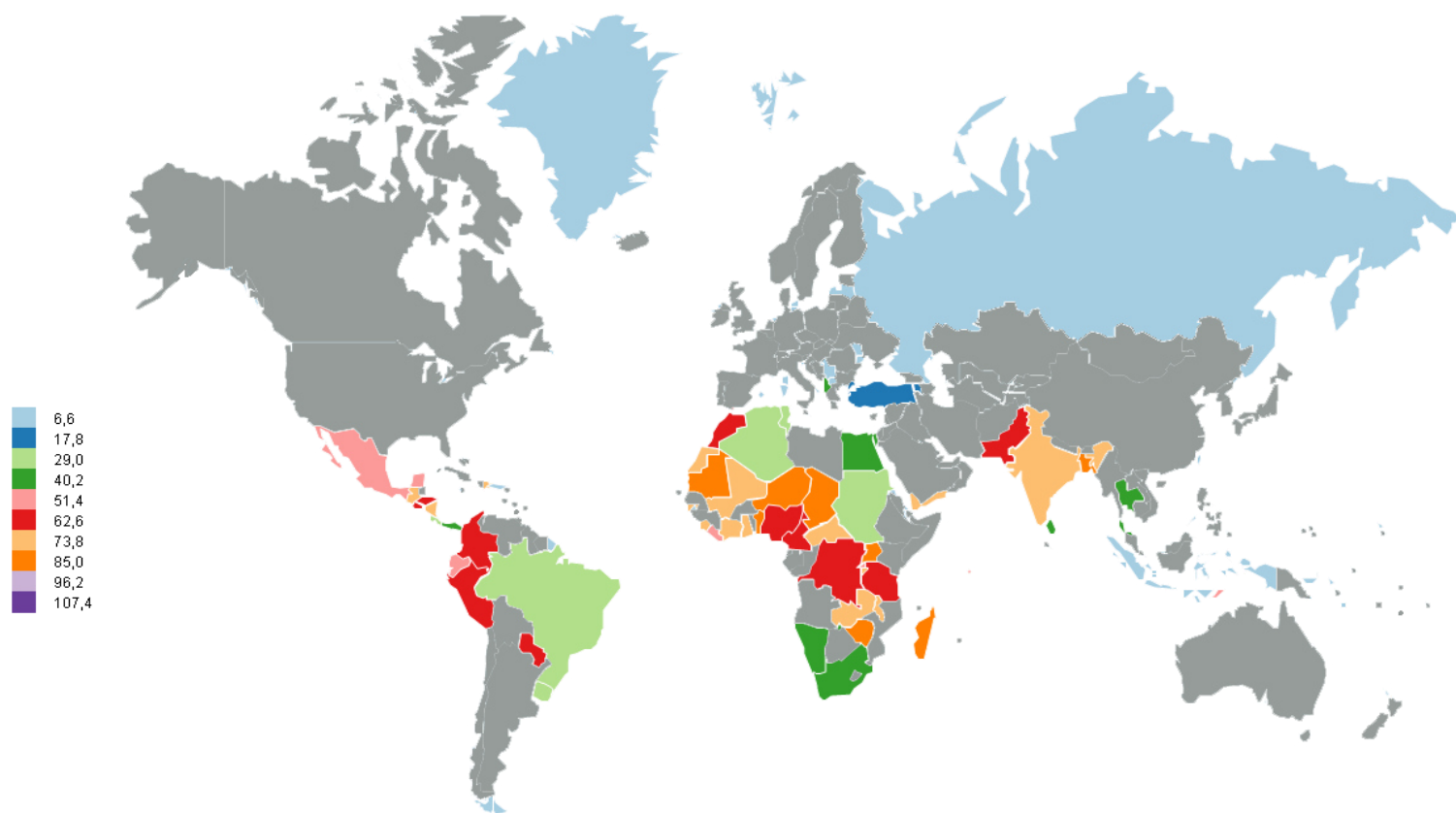
The “varieties of capitalism” approach developed by institutional economists (e.g., Hall and Soskice 2001) can be also used to illustrate the absence of a strong relationship between the institutional system and the level of informality. This approach classifies national systems on a bi-polar scale ranging from the liberal market economies coordinated mainly by the market, to strategically coordinated market economies coordinated to a high degree by the state or other central authorities. Countries are classified along this range using qualitative approaches (based on a description of the main subsystems, such as the labour market, fiscal system, degree of redistribution and education systems), and quantitative approaches (usually based on factor analysis that uses observable variables to capture the underlying unobserved latent variables).

Figure 3. National variations in the measures of informality



Source: Charmes (2017), Tables 2, 3, 4, 5, 6, based on Charmes (2012), updated with new countries. *Grey areas denote missing data*

Figure 4. National variations in the measures of informality: Pairwise scale



Source: Charmes (RNSF 2017a), Tables 2, 3, 4, 5, 6, based on Charmes (2012), updated with new countries. Grey areas denote missing data

An example of a typical liberal market economy is the United States; in Europe, the United Kingdom; and among the transition economies, Estonia. On the other side – typical strategically coordinated market economies are Germany, Austria, the Scandinavian countries, and Slovenia for the transitional world. One can easily show that this popular and academically respected typology is not consistent with the observed degree of informality. For example, the two extremes of the scale – the United States (as a representative of liberal market coordinated economies) and Austria (as a representative of strategically coordinated economies) – both exhibit very low degrees of informality.

Numerous studies examine the relationship between the informal economy and other variables of interest. As documented in Charmes (RNSF 2017a), many authors confirm a significant negative relationship between the informal economy and income levels, or a significant positive relationship between the informal economy and poverty. The two relationships are depicted in Figure 5 and Figure 6 (for more detail, see Charts 3 and 4 in RNSF 2017a). Therefore, it seems plausible to conclude that informality is more significantly linked to poverty and income than to any particular socio-political system.

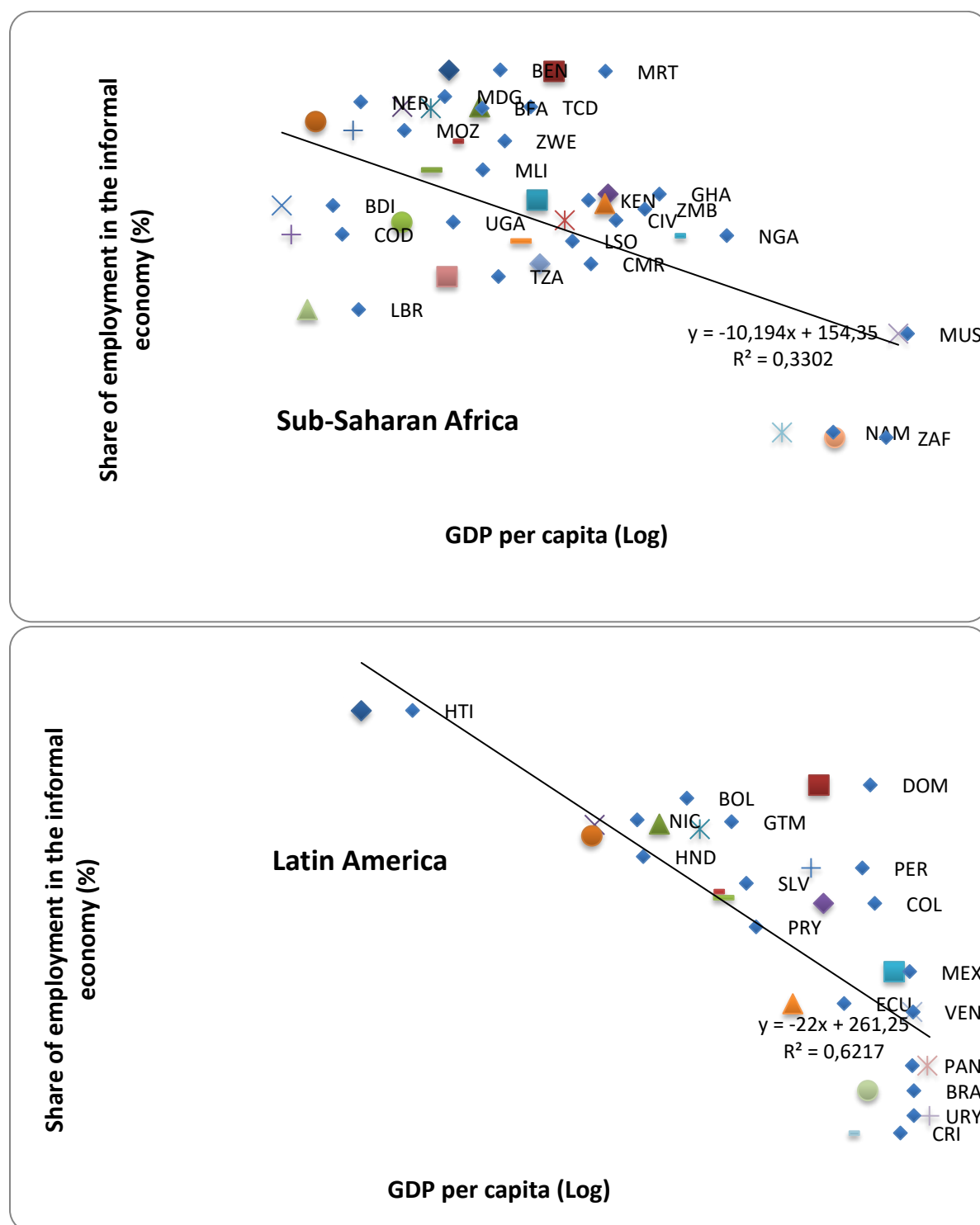
Employment in the informal economy is generally associated with low productivity, low income and poverty. That it is negatively related to GDP per capita and to poverty rate, as illustrated in Figure 5.

Figure 6 shows that a very high proportion of employment in the informal economy is associated with very high shares of population living in poverty (as in Madagascar and Zimbabwe), with moderate rates of poverty (Benin, Mauritania) and with low poverty rates (Indonesia, Morocco). Relatively low proportions of employment in the informal economy can be associated with low poverty rates (Brazil, Thailand, Tunisia), as well as with high poverty rates (as in South Africa).

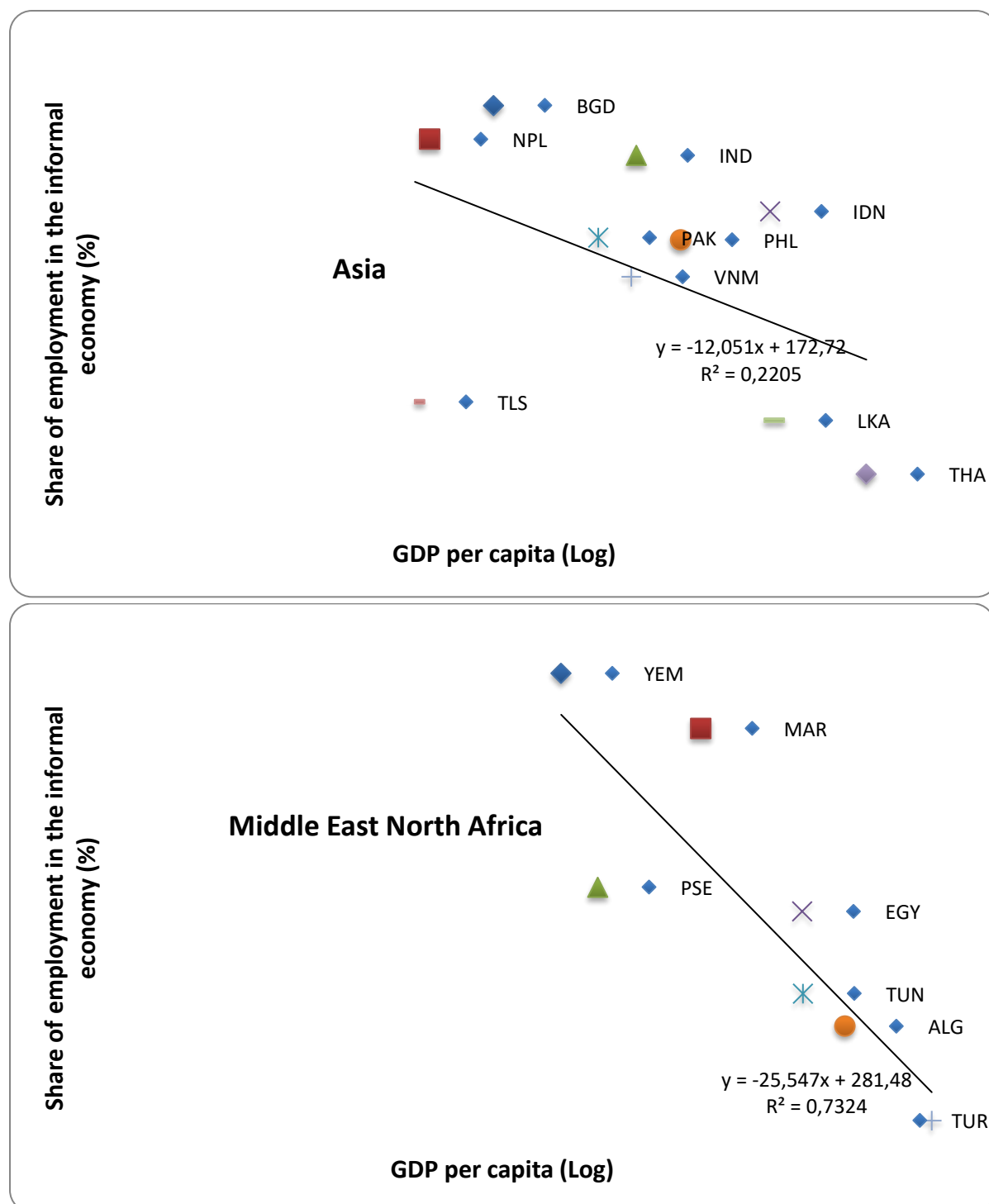
It has been also established by many authors that the informal economy tends to behave counter-cyclically: it diminishes during the times of economic booms and swells during downturns. This finding can help to explain the lack of causality between informality and socio-political systems. The relationship seems to be determined by the dynamics of the economic cycle rather than by the static picture defined by institutions. Controlling for the dynamics can bring further insights into the relationship.

Although there seems to be a general agreement among researchers regarding the linkages between the degree of informality and other variables of interest, such as incidence of poverty, GDP, the pace and direction of GDP growth or the phase of economic cycle, the major problem is the absence of a clear indication of causality in these relationships. If there was clear evidence that a certain variable “causes” informality, then acting on such a variable could reduce the informal economy. However, a correlation between informality and poverty does not automatically reveal the direction of causality between the two. Although it is certainly justifiable to design policies aimed at poverty reduction, it is not guaranteed that decreasing poverty would automatically reduce the informal economy. The relationship between the two may be more complex, scale-dependent, linked to the dynamics and phase of economic cycle, or subject to other factors and interactions.

Figure 5. Relationship between employment in the informal economy and GDP per capita

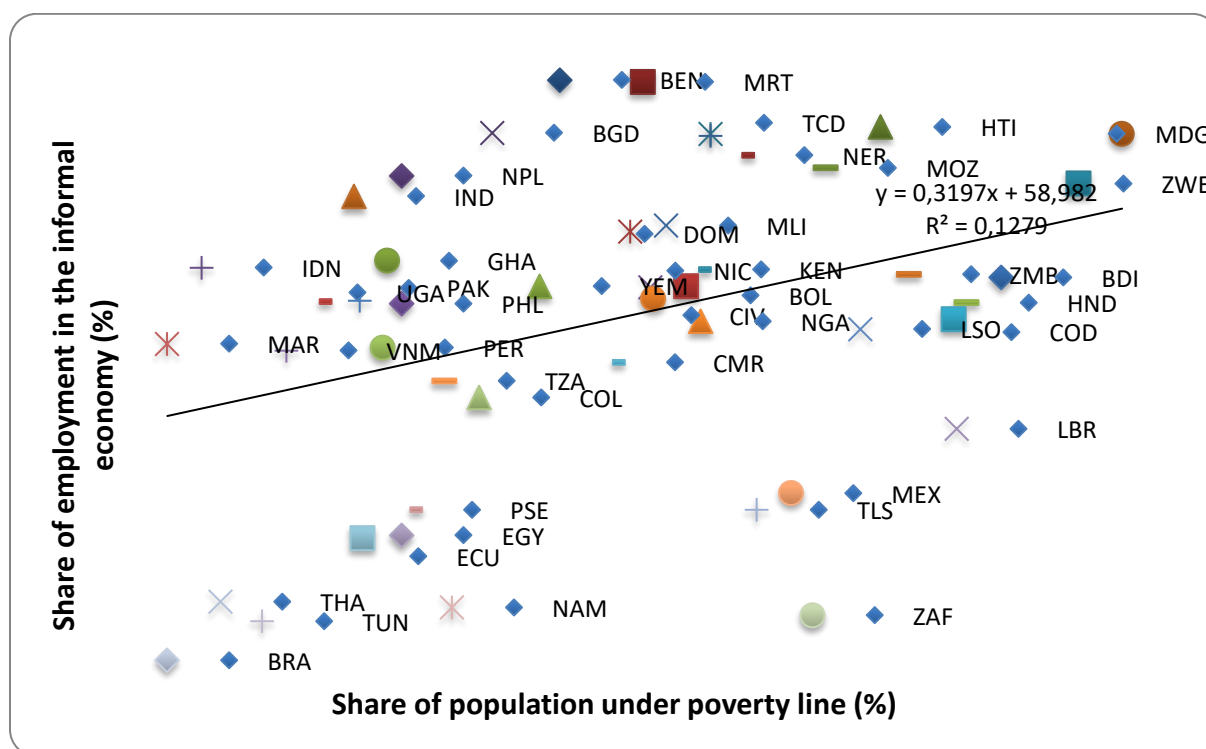


Source: Charnes (RNSF 2017a)



Sources: Charmes (RNSF 2017a), Human Development Report for GDP per capita.

Figure 6. Employment in the informal economy is positively related to poverty



Sources: Charmes (RNSF 2017a) and Human Development Report for GDP per capita.

Numerous academic studies have examined the relationship between the extent of informality and the degree of regulation. However, due to rather diverse research frameworks and findings, the results generally remain inconclusive. On one hand, many authors conclude that the informal economy can be reduced by lowering the degree of regulation. For example, work by Palmade and Anayiotos (2005) published in the influential World Bank Policy Note series recommends reducing the extent of regulation. However, the formula also includes other types of interventions, such as reducing and simplifying taxes and tariffs, improving access to credit, increasing the stock of formal land, and improving public sector governance (Box 1), as only a mixed strategy (“forceful action along these five fronts”) can cut the vicious circle of informality.

Box 1. Reversing the rising tide of informality: Policy advice by Palmade and Anayiotos

“Fighting informality calls for a major simplification of labour, product, land, and tax regulations along with privatisation and drastic improvement of governance in the public sector.

Reducing the stock and flow of regulations and procedures. Every country should conduct a systematic inventory of its rules and regulations to eliminate all those that cannot be justified. An independent body of professionals should carry out this review (with participation from the private sector)—and should also review any new regulatory proposals. The McKinsey studies (2004) show that tackling product market regulatory issues (entry and trade barriers, product standards, pricing regulations) will have the greatest benefits. These issues also are relatively easy to deal with, at least from a technical standpoint.

Reducing and simplifying taxes and import tariffs. Governments always raise the specter of falling revenues as justification for imposing new or higher taxes — but in fact reducing and simplifying taxes and import tariffs often increases revenues by encouraging business activities and reducing the incentive for tax evasion. If it does not, in some developing countries donors could make up the difference until unnecessary public spending is cut or new or better taxes (such as land property taxes) are put into place.

Increasing the stock of formal land. Many land reform attempts are mired in small-scale land titling programs. A better way to start is to make government land available for private development (developing country governments own a lot of unused land) and to privatise utilities (or at least allow public-private partnerships in new projects). This strategy would have the double advantage of generating the funds needed to develop infrastructure while lowering the price of formal land. Relaxing tenant laws, zoning restrictions, and building codes is also a relatively quick and easy way to increase the availability of formal land. Finally, rates of land property taxes (relatively easy to enforce equally) should be increased to discourage speculators from holding vacant land and to provide local governments with the financial means and incentive to develop more land for commercial and residential use.

Improving access to credit. Since access to affordable finance is among the main incentives for companies to become formal, governments should make lending to small companies much more attractive to banks — such as by strengthening creditor rights, enabling secured lending (with both land and movable assets as collateral), and raising interest rate ceilings. New evidence from the Consultative Group to Assist the Poor, showing that private banks under competitive pressure are much more likely to devise innovative ways to serve small businesses profitably, suggests that governments also should privatise banks and reduce licensing requirements on financial institutions to ease entry (CGAP and World Bank Financial Sector Network 2004).

■ **Improving public sector governance.** By reducing the scope for government interference in the economy, all these reforms should help weaken the impact of poor governance and focus scarce enforcement capacity on the main offenders. But it is also critical to improve governance. Increasing transparency and accountability would encourage companies to join the formal economy (promoting e-government solutions that are easily replicated and scaled up is one way to help in this). Improving government services such as the police and judiciary would provide another strong incentive to do so. Forceful action along these five fronts is the only way to transform the vicious cycle of informality into a virtuous one of formality — as more and more companies find that the benefits of joining the formal economy exceed its costs.”

Source: Palmade and Anayiotos (2005).

On the other hand, many authors conclude that lowering the regulatory burden does not necessarily result in the decrease of informality. For example, in another World Bank Policy Note, Kapaz and Kenyon (2005) use data from the World Bank’s Investment Climate Survey in Brazil to examine the extent of tax evasion. The authors confirm that informal firms are less productive and less likely to access financial markets than other firms. They also provide some advice on how to tackle the problem — notably, they emphasise the benefits of regulatory compliance, reducing the costs of going formal, and tightening up enforcement.

The latter finding is particularly valuable, as it admits that

“contrary to what many people have argued, informal firms do not always ‘grow up’ and join the formal sector. Instead, they can remain stuck in an informality trap, excluded from markets for finance and forced to evade taxes and other regulations to compete with their more productive rivals. The solution lies in a mix of stronger incentives for compliance and stiffer penalties for noncompliance”.

These findings are consistent with the assumption that many firms may remain in the informal economy by choice.

One of the obvious problems is the fact that for some individuals and economic units being informal is not a necessity, but a rational choice. For example, the cause of reducing tax costs, wage costs or costs of compliance with various regulations can be a legitimate reason for some economic units to be fully or partially informal. In such a case, poverty reduction may not lead to a decline in informality. Rather, policies aimed at lowering these costs could be more effective. However, even a substantial reduction of costs of formality or a substantial degree of deregulation does not guarantee that economic units would join the ranks of formal economy. Therefore, some authors suggest that certain degree of enforcement may be more effective than purely dismantling the various barriers. Similarly, empowering the people dependent on the informal economy by providing them with finance, skills and access to services may increase their income and productivity, and improve their living and working conditions, but does not necessarily imply that they will become parts of the formal economy.

Therefore, even the supporters of deregulation admit that the regulatory case can be effective only if accompanied by a number of other measures, notably appropriate enforcement.

This said, one still has to explore the issue of causality in the relationship between the informal economy and other variables that were found to be significantly related to the extent of informality (such as poverty incidence, national income, or regulatory burden). On this front, research results so far are rather deficient and inconclusive. Most authors conclude by recommending that more insights are needed into a matter as complex as informality.

2 Empirical versus normative approaches to the informal economy

As discussed above, the phenomenon of the informal economy has been intensively researched since the 1970s. Several influential authors, such as Arthur Lewis (1954), assumed that the informal sector would gradually disappear with increasing development. However, as the informal economy persisted, governments started to become concerned. One of the first motivations for the interference by governments was an attempt to increase the tax base by regularising informal activities (the success in taxation of informal activities is discussed in detail in Section II.1 below). Another major motivation to deal with the informal sector was related to the need to increase incomes and extend rights and benefits to the people whose livelihoods depend on the informal economy. Therefore, both national governments and international organisations have paid increasing attention of issues of informality. In doing so, they

have gradually developed their own views and stances towards the informal economy that determine their policy formulation.¹

This process was guided by two main approaches – empirical and normative. Empirical approaches are characterised by a value-neutral stance, focused on explaining the state of affairs through observation. Normative approaches focus on the exploitation of values and on achieving a desirable situation postulated in terms of these values.

In order to formulate certain value-based apparatus related to the informal economy, one has to respond to some basic questions. First, one has to ask, what is wrong with the informal economy? Many authors have admitted that the informal economy has certain positive features. Frequently quoted is its large potential for employment and the use of human resources that are untapped by the formal sector due to various barriers. Furthermore, the informal economy acts as a “fall-back” option, or the “employer of last resort”, for people who cannot find opportunities in the formal economy, and for those who have lost their formal jobs during recessions. Therefore, the informal economy is to an extent appreciated by governments and international organisations; acting on it is subject to various warnings and limitations.

Despite the plethora of analyses, there is no internationally accepted approach towards the informal economy. Although most actors agree on the main fact – that it is desirable to reduce the extent of the informal economy. At the same time, many appreciate the large potential of the informal economy in terms of use of labour resources, as well as the cushioning effects that it provides by mopping-up surplus labour that cannot find jobs in the formal sector.

In the absence of a clear-cut technocratic solution to the problems of informality, governments and donors tend to shape their interventions using normative approaches based on their priorities, values and ideological orientations. Therefore, in the common pursuit of reducing the informal economy, some governments may increase the regulations, monitoring and enforcement in order to get the informal economy into the spotlight; other governments may opt for decreasing regulations in the hope that this will induce a spontaneous formalisation of informal economy units. Similarly, some donors and international organisations may advise governments to deregulate, decrease administrative barriers and tax burdens, while others may, on the contrary, advise them to introduce new social contributions or safety nets to cover the poor, and to improve monitoring and enforcement.

Since the adoption of the global poverty reduction goal in the late 1990s, the international institutions have been converging towards a set of common goals (for details see Box 3). However, while this rapprochement is obvious in terms of common goals and targets (the Millennium Development Goals, Post-2015 Development Agenda, and Sustainable Development Goals), the approaches to achieving these goals vary widely across the whole spectrum of organisations, ranging from deregulating and decreasing the fiscal burden on one hand to increased monitoring, enforcement and introduction of new fiscal schemes to penetrate the informal economy on the other.

1. A major boost in this effort was provided by the focus on poverty reduction. This was due to the fact that a large part of the poor live and work in the informal economy. Therefore, the eradication of poverty is to a large extent linked to activities in the informal economy.

3 Explicit versus implicit focus on the informal economy

3.1 Implicit focus on the informal economy

Many policies and measures that affect the informal economy are not designed to focus primarily on the informal economy. Their effects are often implicit and can be understood as positive or negative externalities of the policy measures rather than their primary focus.

Such policies may have a variety of goals, among which a major role is played by poverty alleviation. This is due to two main reasons:

- The significant relationship between the extent of informality and poverty at the national level.
- The fact that combating poverty has been at the centre of global international development frameworks for more than two decades.

Given that the phenomenon of poverty has strong links to the informal economy and the developing world, those working on poverty reduction are permanently confronted with issues of the informal economy and the challenges it poses.

Poverty reduction has been among the main targets of the Millennium Development Goals, the Post-2015 Development Agenda, and the current Sustainable Development Goals. These frameworks were approved by the international institutions and embraced by major international donors, national governments and private sector actors. The cause of poverty alleviation is hence at the centre of official development assistance.

Poverty reduction has been addressed mainly at the operational level within the lending programmes of the international financial institutions, such as the IMF's Poverty Reduction Growth Facilities and the World Bank's Poverty Reduction Strategy Programs (PRSPs). Despite the strong links between poverty and informality, the latter has not been explicitly recognised or dealt with in either of these frameworks (Box 2).

Therefore, one can conclude that on a global scale the informal economy is implicitly affected by policies aimed at poverty reduction to a much greater extent than by policies focused primarily on the informal economy.

In Box 3 we list the main goals and targets of the most influential recent global development frameworks: the Millennium Development Goals, the Post-2015 Development Agenda, the Sustainable Development Goals, and Strategy Europe 2020. One obvious fact is that poverty reduction occupies a central place in recent global development frameworks. This prominent position means that the informal economy, which is significantly linked to poverty, is also targeted through implicit channels.

Box 2. Poverty reduction in IMF operational frameworks

In September 1999, the International Monetary Fund (IMF) established the Poverty Reduction and Growth Facility to make the objectives of poverty reduction and growth more central to its lending operations in its poorest member countries. Reviews of the Facility by IMF staff in 2002 and by the Independent Evaluation Office of the IMF in 2004 confirmed that the design of the programmes supported by Facility lending has become more accommodating to higher public expenditure, in particular pro-poor spending.

Poverty-reduction strategies are required by the IMF and World Bank before a country can be considered for debt relief within the Heavily Indebted Poor Countries Initiative. PRSPs are also required before low-income countries can receive aid from most major donors and lenders. The IMF specifies that a PRSP should be formulated according to five core principles: country-driven; result-oriented and focused on outcomes that will benefit the poor; comprehensive in recognising the multidimensional nature of poverty; partnership-oriented; and based on a long-term perspective for poverty reduction.

As can be seen from Box 3, the global development networks have numerous goals related to the informal economy and to the situation of economic units and workers in it. All the global development frameworks include recurrent goals that have very strong linkages to the informal economy and informality issues. Notably, the goals aimed at:

- Poverty reduction, employment and decent work, reduction of inequality
- Education, training and skills
- Inclusive institutions, participation and partnerships.

These implicit channels are responsible for relevant cumulative effects on the informal economy through implicit coverage, although they are not explicitly focused on the informal economy.

Box 3. Main goals of recent global agendas

Millennium Development Goals (2000–2015) (United Nations 2000)

1. To eradicate extreme poverty and hunger
2. To achieve universal primary education
3. To promote gender equality and empower women
4. To reduce child mortality
5. To improve maternal health
6. To combat HIV/AIDS, malaria, and other diseases
7. To ensure environmental sustainability
8. To develop a global partnership for development.

Post-2015 Agenda (2015+)

- **Leave no one behind.** After 2015 we should move from reducing to ending extreme poverty, in all its forms.
- **Put sustainable development at the core.** We have to integrate the social, economic and environmental dimensions of sustainability.
- **Transform** economies for jobs and inclusive growth.
- **Build peace and effective, open and accountable institutions for all.** Freedom from conflict and violence is the most fundamental human entitlement.
- **Forge a new global partnership.** A new spirit of solidarity, cooperation, and mutual accountability must underpin the post-2015 agenda.

EU Strategy Europe 2020 (European Commission 2010d)

- **Employment:** 75% of 20–64-year-olds to be employed.
- **R&D / innovation:** 3% of the EU's GDP (public and private combined) to be invested in R&D/innovation.
- **Climate change / energy:** Greenhouse gas emissions 20% (or even 30%, if the conditions are right) lower than 1990; 20% of energy from renewables; 20% increase in energy efficiency.
- **Education:** Reducing school drop-out rates below 10%; at least 40% of 30–34-year-olds completing tertiary education.
- **Poverty / social exclusion:** At least 20 million fewer people in or at risk of poverty and social exclusion.

Sustainable Development Goals (2030 Agenda for Sustainable Development) (United Nations 2015)

9. End poverty in all its forms everywhere.
10. End hunger, achieve food security and improved nutrition, and promote sustainable agriculture.
11. Ensure healthy lives and promote wellbeing for all at all ages.
12. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.
13. Achieve gender equality and empower all women and girls.
14. Ensure availability and sustainable management of water and sanitation for all.
15. Ensure access to affordable, reliable, sustainable and modern energy for all.
16. Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all.
17. Build resilient infrastructure, promote inclusive and sustainable industrialisation, and foster innovation.
18. Reduce inequality within and among countries.
19. Make cities and human settlements inclusive, safe, resilient and sustainable.
20. Ensure sustainable consumption and production patterns.
21. Take urgent action to combat climate change and its impacts.
22. Conserve and sustainably use the oceans, seas and marine resources for sustainable development.
23. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification and halt and reverse land degradation, and halt biodiversity loss.
24. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.
25. Strengthen the means of implementation and revitalise the global partnership for sustainable development.

Quantitative versus qualitative goals

Poverty is a complex phenomenon that can be measured and expressed in absolute and relative ways, using objective or subjective indicators. However, many institutions and donors understand poverty alleviation as a quantitative goal measured against one simple quantitative threshold (e.g., US\$ 1.90 per day per person).² This narrow focus can lead to approaches that aim at achieving poverty reduction targets without taking into consideration other important concerns, such as qualitative aspects of interventions, including the degree of informality of environment, empowerment of beneficiaries, or sustainability.

For example, the influential PRSP framework has in general paid little attention to issues such as informality, employment, working conditions, or provision of labour and social rights. Although social protection has played a prominent role among poverty-reduction measures under PRSPs, the focus has been almost exclusively on social assistance schemes that provide (income-tested) targeted benefits and/or social services for the poorest segments of population. Such schemes are typically funded through general taxes and disbursed within the state budget or regional budget expenditures. To the extent that social assistance is funded through taxes, informal economy units are largely excluded from the game, as one of the major characteristics of the informal economy is its lack of coverage by the official tax system. Measures funded through social contributions are less popular in bank-led programmes, such as PRSPs. This is mainly due to the fact that such schemes are often run by extra-budgetary funds that fall outside the general tax system and are supervised by social partners or collective organs. International financial institutions, operating mainly through banks and finance ministries, tend to prefer (targeted) social assistance schemes run by state budgets and funded through general taxes. In Section III.1 below we discuss the use of tax-based social protection schemes, as well as alternative systems based on social contributions or self-help groups and their relevance to the informal economy.

The above-mentioned example illustrates the effect of value-based approaches by donors in the implementation of projects focused on social assistance that is supposed to reach out to beneficiaries in the informal economy. It is often the case that national or international donors support the models that prevail at home or that are consistent with their own national agendas. However, such models can be ill-suited for developing countries, notably those with a big informal sector. For example, the European social model based on social insurance contributions is known to function well during times of economic boom and to face serious deficits during recession. This is due to the fact that intake into the scheme depends on contributions by the employed, while the outlays are related to the pool of unemployed or economically inactive. During recessions, employment falls and unemployment increases, which puts pressure on social assistance schemes funded through contributions, up to the point of bankruptcy. In such a case the schemes have to be subsidised externally (typically through tax-based funds) if the level of protection is to be maintained. Otherwise the schemes provide too low a level of protection for a too narrow base of recipients. Eventually, they collapse to a system of lump-sum minimum benefits, i.e. the outcome that is delivered by tax-based targeted social assistance systems. Box 4 illustrates this in the transitional economies of the former Soviet Union.

2. Developed countries in their national goals tend to capture also qualitative aspects of poverty. For example, the definition of poverty according to the EU Strategy 2020 (measured by the EU Statistics on Income and Living Conditions) combines three indicators – relative income threshold, a set of criteria capturing material deprivation, and an indicator of work intensity in households.

3.2 Explicit focus on the informal economy and the ILO approach

Box 4. Failure of value-based approaches: The European social insurance model in the former Soviet bloc

In the early 1990s, most likely due to the legacies of socialism, the transitional economies of the former Soviet Union installed the European models of unemployment and social protection based on social contributions, run by extra-budgetary funds, often supervised on a tripartite basis. However, in the wake of the major transitional recessions and the rise of informal economy, these imported European models became essentially bankrupt, which resulted in severe restrictions of eligibility conditions, decreasing amount of benefits, and eventually in the cancellation of such schemes altogether (e.g., in Georgia). The richer ex-Soviet countries, such as Russia and Kazakhstan, were able to switch the source of funding early enough (towards the end of 1990s) to the state or local budgets, thus maintaining the level of protection. Looking back at the dynamics of the economic transition, it would have been preferable to start with basic targeted income-tested schemes funded by taxes or by mixed sources that would have been more resilient in the transitional recessions. Only at a later stage the schemes could have been instrumented by social contributions-based funding. None of the transitional countries was able to address the issue of exploding informality, likely due to their fascination with EU models and a lack of expertise or interest in the experience of developing economies. The two most influential regional donors – the EU and international financial institutions (notably the World Bank) – at the time did not put a major focus or expertise on informal economy issues. The transitional economies thus learned their own lessons and struggled with the large informalisation of their economies with a varying degree of success.

Although the informal economy is increasingly recognised and tackled by the international community through various projects and programmes, only a few international organisations and donors have developed an official standpoint on the topic. Such stance is usually underpinned by the value orientation of the particular donor. Below we briefly describe the position of several major actors in the field who have developed and implemented activities explicitly focused on the informal economy. Among these, the ILO is the only major international organisation that has developed several official documents describing its position towards the informal economy and that provides normative advice. For other organisations that do not have such a comprehensive position towards the informal economy, the formulation of conclusions and recommendations on the informal economy is usually provided by consultants whose views do not necessarily represent the institutional point of view. The lack of an official standpoint on the informal economy is partially due to the lack of unambiguous research results that could inform and inspire the official positions.

3.3 Systematic normative approach to the informal economy by the ILO

The ILO has been involved in informal economy issues since the early 1970s. This orientation was in line with the organisation's focus on the strategic priorities of labour standards, social protection, employment, and social dialogue. All four are intimately linked to issues of informality. Notably the

ILO's role as the global standard-setter in the social field required attention to informality as a serious governance issue. Social standards, like any other standards, have to be enforced. Therefore, informality was a legitimate and serious concern, as it would undermine the implementation and enforcement of the standards defined by ILO Conventions. Another feature that predetermined the ILO's role in the field was its tripartite character and preoccupation with labour and social affairs.³ Tripartism is inherent in all ILO's activities as the representatives of workers, employers and governments are its main constituents. The organisation has developed expertise over the years in dealing with a broad range of national organisations, including NGOs and organisations that have to fight for their recognition by national authorities. These skills have also equipped the ILO to deal with subjects in the informal economy and to have a potential outreach to informal economy units.

Another comparative advantage in dealing with the issues of informality is the ILO's legal expertise in the field of international social standards accompanied by relatively good enforcement mechanisms. The latter consist of the regular reporting obligations by all the tripartite constituents, the Committee of Experts on the Application of Conventions and Recommendations, the Commission of Inquiry, and eventually the power to cast a global UN embargo on a country that does not comply with the fundamental standards.⁴ These qualities predetermined the ILO's role as a global forerunner in the field of the informal economy, notably informality at work. Therefore, already in early 1970s, long before other major international organisations, ILO was explicitly dealing with informal economy issues (e.g., ILO 1972 employment mission, as described in RNSF 2017a).

During the 1980s and notably the 1990s, the organisation strengthened its focus on fundamental rights (defined by the ILO's eight "core" Conventions). These concentrate mainly on protection from discrimination, the eradication of forced labour and child labour, and securing freedom of association. Such phenomena are largely represented in the informal economy.

The Decent Work agenda introduced by Juan Somavia (later the ILO Director General) stemmed from his work on globalising social progress in 1990s ("People's Security"). As of the 2000s, Decent Work has been the organisation's leading agenda. The notion of "decency" is linked to the preoccupation with qualitative aspects of work (rather than just the number of jobs created), while "work" expresses the value orientation towards active "working out of poverty" – rather than just passively receiving social benefits. This orientation captures the basic juxtaposition between the ILO and the World Bank interventions on the poverty reduction front. In particular, in the PRSP documents of the late 1990s, the World Bank tended to follow quantitative targets for employment (if any) and did not dwell on activation into employment and other qualitative issues related to the process of working out of poverty. The focus on activation into employment is strong also in the EU's employment strategies since the 2000s ("activation" is understood as a necessity if growth has to be achieved with shrinking and ageing populations). Therefore, the EU's employment interventions have been in line with the ILO values and strategies over the past two decades, both in the EU member states, and in its foreign interventions.

Over the past decade, the Decent Work idea has made its way into a number of international documents and development frameworks. It continues to position the ILO as a rights-based organisation focused on both qualitative and quantitative aspects of social development (e.g. the More and Better Jobs Initiative).

3. The ILO was created in 1919 (long before the United Nations) in the framework of the Versailles Agreements at the end of World War I, as a global tripartite organisation, with the aim to prevent social unrest and tensions that could eventually trigger another global conflict. ILO was later embraced by the United Nations and became one of its specialised agencies.

4. In more than 90 years of ILO's history, this power was used only once – in the case of Myanmar.

A seminal work on defining and measuring the informal economy was supported by the ILO and the International Conference of Labour Statisticians (ICLS) (Charmes in RNSF 2017a). The ICLS helped to define the basic terminology capturing various aspects of informality at work (employment in the informal sector, informal employment, informal economy, etc. – see RNSF 2017a for details). The Report on Decent Work and the Informal Economy submitted by the ILO to the 90th ILC session in 2002 contained background analysis and orientation that resulted in the adoption of the ILC Conclusion on the Informal Economy (ILO 2002). Operationalisation of the ILO's work on the informal economy should be underpinned by the ILC Conclusions (Report to the Committee on the Informal Economy, 19th Session June 2002), and the corresponding Resolution that calls for readjusting the resources of the current biennium to take on board work outlined in the Conclusions (both documents can be consulted under ref. GB.285/7/2, 285th Session, Geneva, November 2002). The Conclusion and the underlying work by the ILO inspired and reinforced the focus on informal economy for a number of governments and international organisations.

In order to guide the implementation of the Conclusion in practice, the ILO Informal Economy Task Force identified the following key issues for addressing the informal economy on topical and procedural grounds:

- Governance and macroeconomic issues
- Productivity and access to markets
- Representation and voice
- Addressing vulnerabilities.

The continued work on the informal economy resulted in the adoption of ILO Recommendation 204 concerning the Transition from the Informal to the Formal Economy (adopted by the ILC at its 104th Session in Geneva on 12 June 2015) (ILO 2015). The Recommendation represents a historical labour standard that is based on the assumption that “most people enter the informal economy not by choice but due to a lack of opportunities in the formal economy and an absence of any other means of livelihood.” The Recommendation represents the first international labour standard specifically aimed at tackling the informal economy and providing strategies and practical guidance on policies and measures that can facilitate the transition from the informal to the formal economy. In line with ILO's value orientation and rights-based approach, the Recommendation stresses issues such as rights, protection, inclusion, and decent work. However, there is also recognition of the complex, multifaceted character of the informal economy and the related challenges, including the potential adverse effects of enforced formalisation.

“Over the years we've seen a growing consensus between governments, workers and employers that the right thing to do is to move people from an informal to a formal employment situation. We know it is not easy, we know that these processes are complicated and take time, but the great value of this Recommendation is that we now have an international framework of guidance to help member States bring this about.” — Guy Ryder, ILO Director-General.

The Recommendation also stressed the need for complex integrated strategies, as expressed also by the guiding principles for transition to the formal economy stipulated in its Article II (Box 5).

The ILO thus represents an organisation that follows the rights-based approach to the informal economy and inspires the interventions by many other donors and international organisations, including the EU. This is mainly because in addition to widespread poverty, informal economy is characterised by other deficits, such as social exclusion, lack of access to services, rights, representation, and voice for the people dependent on the informal economy. Policies and measures that tackle these issues often address qualitative or structural aspects of livelihoods. They focus on the issues of decency, dignity, rights, quality of life, working conditions, etc.

Box 5. Guiding principles for the transition from informal to formal economy stipulated by Article II of ILO Recommendation 204

“... In designing coherent and integrated strategies to facilitate the transition to the formal economy, Members should take into account the following:

- a. the diversity of characteristics, circumstances and needs of workers and economic units in the informal economy, and the necessity to address such diversity with tailored approaches;
- b. the specific national circumstances, legislation, policies, practices and priorities for the transition to the formal economy;
- c. the fact that different and multiple strategies can be applied to facilitate the transition to the formal economy;
- d. the need for coherence and coordination across a broad range of policy areas in facilitating the transition to the formal economy;
- e. the effective promotion and protection of the human rights of all those operating in the informal economy;
- f. the fulfilment of decent work for all through respect for the fundamental principles and rights at work, in law and practice;
- g. the up-to-date international labour standards that provide guidance in specific policy areas;
- h. the promotion of gender equality and non-discrimination;
- i. the need to pay special attention to those who are especially vulnerable to the most serious decent work deficits in the informal economy, including but not limited to women, young people, migrants, older people, indigenous and tribal peoples, persons living with HIV or affected by HIV or AIDS, persons with disabilities, domestic workers and subsistence farmers;
- j. the preservation and expansion, during the transition to the formal economy, of the entrepreneurial potential, creativity, dynamism, skills and innovative capacities of workers and economic units in the informal economy;
- k. the need for a balanced approach combining incentives with compliance measures; and
- l. the need to prevent and sanction deliberate avoidance of, or exit from, the formal economy for the purpose of evading taxation and the application of social and labour laws and regulations.”

Source: ILO Recommendation 204 (ILO 2015)

4 Approaches of some donors and organisations

The reinforced focus on the informal economy in early 2000s brought new initiatives in the field that were reflected by new programmatic approaches by several major donors. Some of them started to treat the informal economy as a cross-cutting issue and eventually attempted to develop an official standpoint towards the issue and/or policy formulation.

4.1 European Union

The European Union attaches great importance to the issues of the informal economy and informality at work. Although the document Agenda for Change (European Commission 2011) does not explicitly mention the informal economy as a separate priority and the New European Consensus on Development (European Commission 2017) only mentions it in connection with decent work and ILO labour standards, informality is an issue both inside the EU and in its foreign aid operations. Internally, informality is linked to the recognition of increasingly complex and atypical employment relationships of EU citizens: new forms that do not fit the classical employer–employee relationship bound by time and place. There is also an increasing concern about a trend towards the “casualisation of labour” in some segments of the EU labour market. Issues of informal work are related to labour migration, employers’ sanctions, social dumping, functions of labour inspection, but also to technological progress and new economic realities of the shared economies, platform economies, etc. The trade-off between the strictness of regulations and informality is addressed at the EU level by the concept of “flexicurity” – a combination of flexibility and security that on the one hand removes unnecessary rigidities of overregulation and on the other hand provides sufficient level of protection to the population.

In its foreign aid interventions, the European Union has both an explicit and implicit focus on the informal economy. The former is represented by separate calls for projects dedicated to the informal economy and people whose livelihoods depend on it; the latter can be represented by attempts to mainstream informal economy issues into other interventions and policies. The usual project-based approach has been recently upgraded to a programme-based approach through new initiatives such as the appearance of a systematic component in project implementation. Subsequent clusters of projects are accompanied by the Research, Network and Support Facility (RNSF).

EU concepts and policies

In defining the informal economy, the European Union refers to ILO documents, which consider it as comprised by informal employment, regardless of whether the job is carried out in formal or informal enterprises or in a household.

In this context, informal employment refers to people being employed without legal and social protection – both in the formal and informal sector (i.e. in unincorporated or unregistered enterprises). From a statistical perspective, informal employment includes own-account workers, employers in their own informal-sector enterprises, contributing family workers, members of informal producers’ cooperatives, and employees holding informal jobs (European Commission 2018).

Aware of the variety of activities, enterprises and workers which could be aggregated within the concept of the informal economy, the European Union endeavours to address the different aspects, constraints and challenges that this “diversity” presents in its policies and programmes (EC-Europeaid 2009).

A number of communications from the European Commission (EC 2006a, 2012a), Resolutions of the European Parliament (European Parliament 2007), statements (EC 2004, 2006b, 2010b, 2010c, 2011, 2017) and working documents (EC-Europeaid 2009, EC 2007) deal with issues related to informality and the expected achievements in terms of “decent work”. They demonstrate that, since the endorsement of the ILO Decent Work Agenda, the EU is committed to address informal employment and the related problems it presents: poor working conditions, health hazards, lack of social protection, lack of training opportunities, low productivity, lack of legal protections, major discrimination of disadvantaged groups such as women, young workers, and migrants. In addressing its negative aspects, the EU does not neglect to consider that the informal economy contributes to the economy and to job creation. Its policies thus also try to address increasing productivity in the informal sector and the smooth transition from the informal to the formal economy (EC 2007).

As stated by the European Parliament Resolution of 23 May 2007, the EU recognises that:

“the concept of decent work goes well beyond safeguarding core labour standards; ... (it) includes productive and freely chosen employment, rights at work, social protection and social dialogue, and gender mainstreaming under all four pillars”.

The same Resolution considers that:

“decent work is a centrepiece of the fight against poverty and social exclusion ... (and demands) to include the perspective of decent work in all the activities of the European Union and encourages the same in its Member States”.

The common goal of decent work, together with the common concept of the social dimension of globalisation, led to a longstanding partnership between the EU and the ILO, which has been ratified and enhanced by instruments such as the ILO-EC Cooperation Framework, the EC-UN Financial and Administrative Framework, and the ILO-EC Strategic Partnership in the Field of Development. This partnership has guided the European Commission’s external aid strategies and programmes, with a special focus on labour standards and working conditions, social protection and social dialogue, youth employment and skills development, gender equality and child labour.

In its external and development assistance in developing and emerging countries, the EU’s policies are thus in line with the rights-based approach.

Outside the European area, the EU commitment for decent work is implemented through different measures inspired by the above-mentioned longstanding cooperation with the ILO.

The EU’s pre-accession strategy includes measures to promote the Decent Work Agenda for candidate countries, and decent work is a central theme also in the EU’s neighbourhood policy in terms of labour reform promotion, policy dialogue, and cooperation strategies.

Specific bilateral cooperation agreements with Latin America, the Caribbean and Africa include aspects related to decent work as well as trade policies and agreements with developing countries. An example is the EU’s Generalised System of Preferences, which gives priority to a list of developing countries in facilitating their exports toward the EU, thus contributing to economic growth and job creation. In particular, the new Generalised System of Preferences, known as GSP+ (EC 2012b), provides additional preferences to those countries which ratify and implement international conventions on core labour rights.

Similarly, trade and sustainable development chapters can be an entry point for the EU and partner countries to discuss issues related to the informal economy.

In the EU's development aid, the emphasis is still on employment and decent work, although the informal economy is treated as a cross-cutting issue in different strategies and actions tackling poverty eradication and development. Recognising that globalisation, while generating economic growth, has not succeeded in guaranteeing well-being and equal opportunities for all, the European Commission stresses the need for a growth trend that takes into account the social dimension and the priority of poverty reduction (EC 2007). In this framework, the EU's efforts on employment and decent work promotion are intrinsically connected with wider social, economic and environmental goals (EC 2018), where "employment" is considered as playing the role of a bridge between growth and development.

The EU's agenda on employment and decent work focuses on four areas:

- Maximise decent job creation, supporting job-rich growth.
- Improve the quality of existing jobs in terms of earnings and working conditions (both in the formal and informal economy).
- Ensure increased access to these decent jobs, particularly of the most vulnerable in the labour market, through improved employability (education and training) and efficient labour market policies;
- Mainstream the employment perspective in economic policies/programmes and other sectors such as agriculture, energy or private sector development (EC, 2018).

The EU document **Social dimension of globalisation** (EC 2004) insists on the importance of core labour standards and social dialogue in order to promote fair globalisation. Gender equality is also targeted and declared as an essential aspect of internationally agreed core labour standards. Policy dialogue, private initiatives for social development, conditionalities for trade preferences, corporate social responsibility, are also mentioned as tools to achieve the social dimension of globalisation. The EU adopts the notion of decent work as defined by ILO, which is subsequently expanded and developed in policy documents, such as the ones described below.

The first **European Consensus on Development** (EC 2006b) recognised social cohesion and employment as priority areas of intervention and it identified measures, including decent work, to be supported through the thematic, country and regional programmes of the European Commission. Based on this recognition, the consensus declares that "the EU will contribute to strengthening the social dimension of globalisation, promoting employment and decent work for all" in order to meet the needs of partner countries.

The EC Green Paper **EU development policies in support of inclusive growth and sustainable development** (EC 2010c) on how the EU could best support efforts to address growth toward the Millennium Development Goals enumerates the tools needed to achieve socially friendly growth. Among these are productive and decent employment, social protection and skills development.

Although the document **Increasing the impact of EU development policy: An agenda for change** (EC 2011) does not explicitly mention the informal economy as a separate priority, the goal of inclusive and sustainable growth for human development includes several aspects linked to informality and informal economy. The EU, it states,

“should encourage more inclusive growth, characterised by people’s ability to participate in, and benefit from, wealth and job creation. The promotion of decent work covering job creation, guarantee of rights at work, social protection and social dialogue is vital”.

Inclusive growth is thus conceived as intrinsically linked to employment, the latter representing “the main transmission mechanism between economic growth and improvements in living standards for society” (EC 2018). A more comprehensive approach to human development is demanded and this should include developing social protection and vocational training. Development of the private sector in developing countries is also included in the document among the pillars to promote human development and access to finance, especially for small and medium-sized enterprises and cooperatives.

The focus on private sector is well underlined in the EC Communication **A stronger role of the private sector in achieving inclusive and sustainable growth in developing countries** (EC 2014). This identifies the transition from the informal to the formal economy, together with decent job creation and better labour conditions, as basic principles to be considered while strengthening the role of the private sector in EU development cooperation. The document recognises that the private sector provides 90% of jobs in developing countries, with an estimated 60 to 80% of enterprises belonging to the informal sector, thus outlining the central role of informal economy in job creation and in the fight against poverty. The focus should thus be on supporting micro, small and medium enterprises, usually belonging to the informal sector, as well on the creation of regional blending facilities and in the promotion of access to finance in order to enhance productivity and promote formalisation. Among the lessons from an evaluation exercise of EU support to the private sector in developing countries between 2004 and 2010, a greater emphasis on decent job creation and on cross-cutting issues such as the Decent Work Agenda, youth employment and gender equality are considered as strategies to support a more effective EU role in the area of private sector development.

The document identifies some paths for future engagement of the EU. Support to the informal sector is well considered and outlined in terms of incentives for formalisation on one side and measures to improve productivity and working conditions of the informal sector on the other.

- Incentives for **formalisation** include effective institutions, legal systems and secure property rights – especially for land – are mentioned as collateral to loans.
- Measures for **productivity** include access to markets, finance, infrastructures, technical and vocational training.
- **Working conditions** can be guaranteed through assets as safer working environment, social services and capacity development of informal support organisations.

More in general, the EU will promote an enabling environment for private sector, especially for small and medium enterprises (reforms, assistance to support organisations, development of systems of finance and microfinance) through its external aid and development cooperation. In this framework, special attention will be given to promote women’s participation, addressing the special training needs of potential entrepreneurs and facilitating access to finance.

The **New European Consensus on Development** (EC 2017) does not explicitly focus on the informal economy, but it recognises decent work as a priority to achieve the Sustainable Development Goals, especially for women, youth and vulnerable groups such as forcibly displaced persons. Creating decent jobs is considered as fundamental to achieving sustainable and inclusive growth in developing countries, and this will be promoted in line with the ILO’s Core Labour Standards. The document states that the

EU will continue to support decent employment both in the formal and informal sector, and to promote the transition from the informal to the formal economy. Additional issues already found out in the other mentioned documents are reiterated in the New Consensus: the need for social protection and social dialogue, the support to small and medium enterprises, finance and productivity. Even if these are not explicitly linked to the issue of informal economy, the latter could be considered as a cross-cutting theme of the aspects to be tackled by the New Consensus.

In the EU's external aid, the focus on increasing working conditions and productivity in informal economy is reiterated in the EC Staff Working Document **Promoting Employment through EU Development Cooperation** (EC 2007). Here, attention shifts from the need to increase and to create more job opportunities in the formal economy towards improving working conditions and increasing social protection for informal workers and on raising earnings and productivity in the informal economy.

The latter comes from a standpoint that seeks to balance the need to preserve the high potential of job creation in the informal economy, especially for the poorest, with the aim of promoting a gradual and smooth transition from the informal to the formal economy. The EC Staff Working Document recognises that the informal economy guarantees income opportunities for people who do not have access to any other means of livelihood, and it emphasises the great potential in terms of promotion of entrepreneurship, creativity and innovation. For these reasons, any attempt at formalisation, which remains a long-term objective, must be conceived and implemented without the benefits of the informal economy being compromised.

With regard to EU's attention to one of the main pillars of global policies designed to tackle the informal economy, a special consideration for social protection is highlighted in the Communication from the Commission on **Social protection in European Union development cooperation** (EC 2012a), where its role in poverty reduction and inclusive growth is clearly stated. Recognising that developing countries present a high number of casual and informal workers without access to any form of social protection, the EC Communication calls for placing social protection at the centre of policy dialogue with partner countries, and demands support for national social protection policies and programmes. In this framework, a clear link with informal employment is mentioned and the Document calls for an active role of EU Development Cooperation in supporting partner governments in their decent employment strategies and in creating more and better jobs, in line with core labour standards. The need to provide social protection in the context of informal labour markets is clearly linked with the EU's objectives. The Communication calls for innovative measures in this area, such as microinsurance schemes.

A second pillar of global policies on informal economy that is tackled by EU cooperation policies is **technical and vocational education and training**. In the EU's approach, such training is considered as a relevant and effective tool to provide skills that enable people to access to decent jobs, thus linking informal economy to formal education.

The role of vocational education for poverty reduction and development was affirmed in the EC Communication **Education and training in the context of poverty reduction in developing countries** (EC 2002). Vocational education is considered as a valid alternative for people leaving the educational system who need to be strengthened in order to provide a skilled workforce for the formal and informal labour markets. The latter requires tailored training programmes for informal workers.

The EU **Agenda for new skills and new jobs** (EC 2010a) sets out key actions in four priority areas:

- Better functioning of labour markets

- More skilled workforce
- Better job quality and working conditions
- Stronger policies to promote job creation.

These areas are to strengthen the EU's contribution to employment goals as part of its **Europe 2020** strategy (employment rate of men and women of 75% by 2020) (EC 2010d). The Communication states that these objectives will be promoted within its enlargement process, the European Neighbourhood Policy and the Regional Policy Frameworks (the Asia–Europe Meeting and EU–Latin America).

In developing and middle-income countries, the EU's external aid has focused on providing a skilled workforce – especially youth – with an increasing focus on decent work, social inclusion and social protection.

As explained in the EC/DEVCO's report **TVET and skills development in EU development cooperation** (EC-Europeaid 2012), European Commission actions have been characterised by vocational education-focused projects and programmes as well as mainstreaming vocational education into different types of socioeconomic interventions. In both cases, a priority has been to link the informal economy, formal and informal learning and vocational education through the recognition of skills acquired through apprenticeship. Given the dimensions of the informal economy and informality at work, skills development and access to lifelong learning opportunities are recognised by the EU as one of the main concerns for people whose livelihoods depend on the informal economy. Hence, a great effort of the European Commission has been directed toward formalisation into the informal/traditional systems of skills development (certifications and credit systems).

The EC **Thematic briefing note on the informal economy and decent work** (EC-Europeaid 2009) outlines a potential policy agenda for the informal economy in developing countries, which is built on deficits identified within the four pillars of the Decent Work Agenda (Box 6).

Box 6. Potential EU policy agenda based on the Decent Work Agenda

Pillar 1: Creation of decent employment opportunities

- To adjust the legal frameworks according to the constraints of the informal economy operators
- To promote access to education and training for informal workers so to enable them to access better jobs
- To promote regulations for property rights for the poor thus enabling them to convert assets into capital to be used for entrepreneurship and innovation.

Pillar 2: Rights at work

- To promote core labour standards and gradual improvement of working conditions in the informal economy
- To promote labour inspection activities.

Pillar 3: Social protection

- To promote basic social protection for all: basic health care benefits, income security for children, elderly and disabled, income support for the poorest workers
- To promote measures to reduce labour accidents and hazards.

Pillar 4: Social dialogue

- To promote freedom of association
- Official recognition of organisations of informal workers
- Capacity building of informal workers organisations.

In conclusion, the analysis in these documents leads to the conclusion that the key issues of EU policies are based on the employment focus and the consequent goals in terms of decent jobs, core labour standards and social protection. An emphasis is put on the need to increase productivity in the informal economy, coming from the recognition of its great potential of job creation, to be achieved by promoting access to skills development and finance and supporting private sector development. The long-term final objective is the gradual transition from the informal to the formal economy, without threatening the benefits of the informal economy in terms of employment opportunities. Attention to the theme of social dialogue is also present. One interesting aspect is the declared need for empowerment and official recognition of the informal workers' organisations.

EU funding instruments and programmes, 2014–2020

The strategic plan 2016–2020 of the Directorate-General for International Cooperation and Development (EC-Europeaid 2016) has included the creation of decent job among its specific objectives (SO2 and SO3), while the promotion of human rights is covered by an additional objective (SO5). The document calls for the “enforcement of labour laws that promote decent work” and for “initiatives contributing to the respect of international labour standards”. Indicator 5 under SO5 is expected to increase to 70 (by 2020) the number of states that have signed and ratified international and regional conventions, including eight ILO core conventions.

An examination of the funding instruments covering the EU's external aid and development cooperation for the period 2014–2020 highlights the attention of the development cooperation instrument on the issue of the informal economy and informality at work. Among general principles of the instrument, decent work is mentioned as a cross-cutting issue to be mainstreamed throughout all programmes.

This is particularly evident within the thematic programme **Global public goods and challenges** (EC 2014a) that identifies “informality” as a global challenge. Human development, including decent work, is among the priority areas of cooperation to achieve poverty eradication. Within this priority area, the Programme includes specific outcomes to be achieved in terms of decent employment policies; the development of vocational training systems in line with market needs; improved working conditions in the informal economy; the empowerment of people whose livelihoods depend on the informal economy; the promotion of the social dialogue and the development of social protection systems. Promoting good governance and private sector partnership are mentioned as strategies to achieve these specific objectives.

In defining specific priorities and indicators to be achieved within the area of “Employment, decent work, skills, social protection and social inclusion”, the Programme identifies three priorities:

- Supporting high levels of productive and decent employment
- Extending social protection coverage
- Strengthening social inclusion with particular attention to disadvantaged groups (women, youth, migrants, persons with disabilities).

Within the first priority, the Programme states that effective employment policies and vocational education systems will be fostered as a first objective, including skills development and vocational education and training “taking into account the informal economy” and the Decent Work Agenda. A specific concern is the lack of effective vocational education systems in developing countries, which are rarely tailored to providing skills development for informal workers. A second objective will be the implementation of the Decent Work Agenda and the improvement of life conditions of people whose livelihoods depend on the informal economy. The Programme promotes a right-based approach to employment and labour with a specific focus on informal workers, especially women who represent a significant proportion of informal workers. In addition, the Programme is intended to promote innovative approaches to increase productivity and skills development for people in the informal economy and the empowerment of informal workers through strengthening organisations of informal workers. The Programme is intended also to promote the gradual transition from the informal to the formal economy.

Within the second priority, the Programme recognises that low social protection coverage is typical of countries characterised by a high levels of informality and low tax revenues. It does not deepen this linkage but it outlines areas of work in terms of institutional capacity building of partner governments to enable them to create, finance and manage effective social protection systems.

The Programme is conceived to develop several “flagship programmes” to be launched gradually in the period 2014–2020, which seek to tackle key issues that go beyond traditional sectors and aim at addressing global challenges such as multi-sectoral or cross-cutting approaches. Among these, Flagship Programme 11, Rights-based development for the working poor, is clearly linked to the informal economy. The document mentions that the informal economy could provide up to 90% of jobs (if the agricultural sector is included), thus guaranteeing livelihoods for a huge number of people. But side effects are undeniable: they include the erosion of the tax base that could fund social protection, social services or pro-poor programmes. Informal workers are not guaranteed fair earnings, safe working conditions, labour rights or social protection coverage. This flagship programme seeks to address these aspects. Recognising the multidimensional aspects of poverty, the Programme aims at supporting innovative solutions to address the different needs (health, education, skills development, productivity) of people dependent on the informal economy through better analysis and understanding. At the same time, it intends to tackle the issue of formalisation of enterprises, with a special focus on small and medium enterprises.

In the framework of the Development Cooperation Instrument, the **Programme Civil Society Organisations and Local Authorities** (EC 2014b) has to be mentioned even if a particular focus on informality cannot be found. This Programme’s aim is to strengthen civil society organisations and local authorities’ role and efforts in partner countries in promoting governance and inclusive growth. Actions at country level (Priority 1) are at its core; under this priority we find some specific objectives related to civil society and local authority contributions to promoting inclusive and sustainable growth. These

aspects aim to enhance livelihoods of poor people through decent job creation and income generating opportunities, without neglecting the role of vocational training. The Programme seeks to reinforce service provision for productive activities and access to resources (business support, market access, opportunities for integration of the informal economy, microcredit). It also seeks to support actions to promote social development through measures to improve poor people's access to social services such as social protection. Building synergies and complementarity with interventions implemented by public authorities is of particular importance.

Remaining with the Development Cooperation Instrument, a more specific mention of the informal economy can be found in the **Pan-African Programme** (EC 2014c), where one of the priorities of the Africa–EU Partnership is private sector development though, among other measures, appropriate business support services and better access to credit, especially to facilitate the transition of the informal activities into the formal economic sector. This will be also an instrument to promote women's transition into the formal economy.

With regards to human and social development, employment issues – especially decent work and social protection – will be addressed through the partnership. In this effort, a priority will be given to increasing job opportunities in the formal economy, promoting the Decent Work Agenda and fostering the integration of the informal sector into the formal economy.

The Programme **Investing in People** (EC 2006, 2010) has been the EU's main initiative to explicitly tackle the informal economy, so it has to be mentioned here even though it has now concluded. This broad thematic programme for support of thematic action in the area of human and social development has foreseen four main priorities among which the fourth, “other aspects of human and social development” has dealt with a number of issues linked to the informality: decent work, vocational education and social protection.

The Programme recognises that in developing countries the majority of the population depend on the informal economy and informal jobs. Underemployment and the increasing number of working poor, especially women and young people, together with child labour, are some of the main challenges the Programme seeks to address. Fostering the Decent Job Agenda and decent job creation are considered a major strategy to be pursued in the EU's external aid and development cooperation.

4.2 The World Bank

The World Bank provides an example of unofficial but strongly institutionalised approach to policy formulation on the informal economy. The World Bank recognises that informal sector workers are disproportionately poor, less skilled and lacking access to finance and tools for productivity, are not covered by social protection systems and protection rights. Accordingly, it has been paying increasing attention to issues of informality, although it uses a different lens from its rights-based counterpart, the ILO. The analysis developed by the World Bank on the factors linked to informality have often pointed to overregulation, excessive bureaucracy, impact of labour regulations, generous fiscal policies, complicated tax and tariff systems, lack of transparent property rights, or lack of economic and business freedom (as measured, for example, by the Heritage Foundation Economic Freedom indices). Its policy recommendations have typically included creating an enabling environment by removing these barriers and obstacles (Box 1).

Although the World Bank has not produced specific policy statements on informality, it has been explicit in policy debates; moreover, its numerous publications and researches on the issue provide an orientation to policies and a theoretical background for the actions implemented by the Bank. It is thus possible to outline the World Bank's approach mostly from policy research, but it has to be kept in mind that these do not imply any immediate or concrete commitment.

The major policy approach of the Bank to fight informality has originated from the De Soto paradigm, conceiving informality as a response to excessive state regulation. Most of the analysis has thus concentrated on the role of business and labour regulations in creating and increasing the informal sector. This negative effect is, however, perceived as mitigated in countries with better institutions where regulations are aimed at improving business environment. The Policy Research Working Paper **The impact of regulation on growth and informality** (Loayza et al. 2005) analyses the effects of regulation on economic growth and the size of the informal sector, concluding that a heavy business regulatory burden, especially in product and labour market, induces and increases informality. High costs and taxes faced by the formal sector (Braun and Loayza 1994, World Bank 1995, Palmade and Anayiotos 2005), and the impact of labour regulations mandating a minimum wage above market levels (Loayza 1994, Loayza et al. 2005) have been identified as causes of the formation of the informal sector. These theoretical positions have prompted the Bank to advocate for labour market flexibility and business deregulation.

The 1995 World Development Report, **Workers in an integrating world** (World Bank 1995), complies with the orientation of previous analyses and states that high taxes and regulations lead to an increase in the informal sector. Labour policies in developing countries are considered unable to affect workers in the informal sector and favour only those who are formally employed – who are the minority. Since labour standard implementation in developing countries concerns only the minority of workers, measures such as the minimum wage are difficult to justify in such countries. The report states that this evidence does not imply that labour policies are not necessary, but that they must complement community and informal solutions aimed at improving the working environment. It introduces a concept that will then be recurrent in the analysis and actions of the World Bank and which concerns the actions needed to increase productivity, namely access to credit and skill development. Security conditions of informal workers, including social protection, are also tackled. Since informal workers continuously face dangers (health, security, income), improved working conditions could be promoted not by legislation but by “direct public action in areas such as provision of water and sanitation, roads and drainage, environmental health, public transfer programs (e.g. public works method) complementing informal income”. Exploring what governments should do about the informal economy, the report suggests three types of policy interventions:

- To remove anti-labour biases which slow the process of formalisation (biases against work in agriculture or favouring formal over informal work)
- To reduce, and enforce, tax and regulatory burdens on formal economic activities
- To support small firms development through credit and skills development on marketing, new technologies, and business.

Subsequent publications were about the same topics. In an attempt to outline solutions to curb the growth of informality, the document **Rising informality** (Palmade and Anayiotos 2005), published in the World Bank's Viewpoint collection, insists on a major simplification of labour regulations and the reduction of taxes as primary steps to eliminate barriers to formalisation. In parallel, access to finance should be promoted as one of the main incentives to formalisation, along with the improvement of public-sector

governance, since accountability and transparency will encourage firms to move to the formal sector. The government's accountability is further developed in other publications where stronger institutional capacity along with stronger enforcement are integrated as milestones beside business environment reforms.

The flagship report **Informality: Exit and exclusion** (Perry et al. 2007), presents several policy messages for the Latin American and Caribbean Region arising from the analysis of the multidimensional causes of informality. Messages to policymakers in the document focus on the need for better policies aimed at enhancing the formal sector's productivity on one hand and by redressing constraints, barriers and costs of formalisation on the other. A more productive formal economy is expected to encourage a decline in informality. This goal can be achieved through a mix of investment climate reforms (reducing excessive regulations and taxes, and facilitating business entry) and human capital enhancement measures, so that a skilled workforce can be available for a growing formal economy. In parallel, a change with regard to the "culture of informality" should be achieved, mainly improving the perception of the state and building an effective and inclusive social contract. Labour policies should accompany economic growth rather than impede it because of excessive costs and ineffective institutions. A redesigned labour code combining strengthened safety nets, workers' protection and representation with the necessary flexibility is thus required, along with its enforcement. Reengineering social protection systems in order to cover all citizens, and not only workers of the formal sector, takes on a central role. A long-term vision on social protection is needed; the report suggests that "there is a case for providing a package of minimum essential direct cover, de-linked from the labour contract and financed through general taxation." On the side of formalisation, barriers should be reduced through administrative simplification and reduced costs; and incentives should be promoted, such as increasing access to bank credit and other forms of external finance support, and access to information and advisory services. What is interesting compared to previous analyses is the consideration that a renewed social contract and the central role of social protection are envisaged as pillars in the process of formalisation.

At the level of direct actions in communities, the World Bank's recommendations have focused on the role of complementary measures, mainly revolving around finance and skills development. A lack of access to finance limiting the capacity of informal entrepreneurs to offset risks has been one of the main concerns and a substantial body of research and numerous projects have been supported in this area. Improving access to credit and microfinance, along with business development services, have been advocated as strategies to support those working in the informal economy.

Skill development has been another common policy recommendation (Adams et al. 2013). In a publication on informal enterprises in Kenya (Safavian et al. 2016), the education level of the owner of the informal enterprise is found to be correlated with the chances of productivity and expansion. Education and skills development are instruments to promote both formalisation and productivity in the informal economy. The latter is particularly pointed since a large share of firms will remain informal because costs exceed the benefits of registration. Acknowledging that small firms provide income and employment, it is worth supporting them so that they become more dynamic:

"Increasing the skills of the main owner appears to be the most effective means to increase productivity and growth, while lowering barriers to financial access could further support microenterprises to increase survival rates and maximise their opportunity to grow and expand".

In recent years, recommendations have progressively shifted to the critical role of employment and job creation on poverty reduction strategies. This role has been clearly emphasised by the Bank, although the emphasis is more on underscoring general economic benefits rather than focusing on a human rights approach.

In its **Vision 2030** (Development Committee 2018), the World Bank aims at ending extreme poverty (reducing the share of the population that lives in extreme poverty to 3 percent) and promoting shared prosperity (increasing the income of the poorest 40% of people in each country). These goals are intrinsically linked to job creation and employment issues.

The World Bank **Development report 2013 on jobs** (World Bank 2012a) points to job creation and employment as cornerstones for development and poverty reduction. Compared to the Bank's more traditional approach, the report introduces the concept that economic growth alone is not enough to guarantee development, and that any policy should be examined through a "jobs lens". Jobs contribute to productivity and economic growth; they increase living standards providing an income to people and promoting life satisfaction; they strengthen social cohesion connecting people, promoting civic engagement, social and political stability. The Report assigns to the private sector the role of main job creator, where the role of governments is to promote policies ensuring smooth conditions for the private sector development, in particular focusing on three levels of interventions:

- **Fundamentals:** Macroeconomic stability; an enabling business environment (adequate infrastructure, access to finance, sound regulations); human capital accumulation (good outcome in nutrition, health and education); and rule of law (protection of property rights and progressive implementation of rights at work).
- **Labour policies** to guide growth toward effective job creation and inclusion. Such policies should include labour market regulation (e.g., labour laws, minimum wage, social dialogue), programmes to support specific target groups, and a balanced social protection system.
- **Contextual priorities:** Given the country-specific context, the largest-payoff jobs should be identified and supported, removing those market imperfections and institutional failures which prevent private sector development in the most profitable areas.

Several aspects related to informality are tackled. In particular, the Report stresses the need to extend representation and economic rights for the informal workers. Social protection, legal coverage and representation for the informal workers are mentioned among main challenges within policies aimed at job creation. Special attention is reserved to the issue of formalisation, which is a process that on the one hand can strengthen social cohesion, increase living standards of those who can benefit from labour rights and social protection, but which on the other hand can limit economic dynamism and productivity where burdens on firms are set. Informality is outlined as a multi-layered phenomenon with some workers forced into it by a lack of opportunities, and others having chosen it. The issue as to whether labour-market and business regulations have to be tackled to reduce informality is presented as a controversial question, with a suggested potential major role of business regulations. However, no aspect is considered alone as a solution, but a mixed policy approach is suggested, including economic growth, human capital, the rule of law, effective policies, including social protection, and a better perception of the role of the state. Formalising economies thus requires a balance of effective regulations and social protection systems, both enhancing productivity and improving the social contract between the state and citizens.

The Policy Research Working Paper **Investment climate reforms and job creation in developing countries** (Rahman 2014) reviews the literature on the role of the investment climate reforms on job creation and tries to identify knowledge gaps to be filled and potential channels to be promoted. Since “9 out of 10 jobs are created in private sector” (World Bank 2012a), its development, together with business-friendly reforms, are considered pillars of the policy framework for job creation. Investment climate reforms may include regulatory and institutional measures associated to business entry, licenses, permits, fiscal and non-fiscal incentives, and investment policies, among others. Recognising that the majority of jobs in the private sector in developing countries are provided by the informal sector (60–80% of micro-, small- and medium enterprises being informal), with negative consequences in terms of productivity, growth, and access to credit, the paper explores results from research on the impact of investment-climate reforms on job creation and enterprises formalisation processes. On one hand, the paper describes how De Soto’s paradigm has inspired World Bank surveys and programmes, which have focused on the main barriers to formalisation (tax policies, lack of information on how and when to register a firm) and a number of investment reforms all around the world focusing on simplifying business regulations and bureaucracy. On the other hand, the paper mentions evaluations demonstrating that the effects of investment-climate reforms on business formalisation processes are not so obvious, despite the conceptual link between removing barriers and simplifying procedures and transition processes from the informal to the formal sector. Although the impact of investment-climate measures on the creation of completely new formal enterprises is more evident in several experiences (e.g., in Mexico’s reform of 2002, World Bank 2014), the impact on formalising existing informal enterprises has not been completely demonstrated. For this reason, in addition to reclaiming the need for greater attention to the concrete effects on job creation and formalisation, the paper introduces two interesting research paths:

- First, not all informal entrepreneurs are highly aspirant formal entrepreneurs who remain informal because of bureaucracy and the high costs for formalisation; rather, they may be considered as “survival entrepreneurs” who remain in the informal sector because of a lack of opportunities in the formal sector.
- Second, a policy question to be deepened is what type of investment-climate reforms, beyond entry business measures on which research has mostly focused, are needed to promote formalisation of the limited number of high potential formal entrepreneurs.

Relevant areas of investment-climate reforms, such as tax and investment reforms, have not been taken sufficiently into consideration in evaluations. The paper calls for a greater focus on the interrelation between business entry, operating and exit reforms, and on the heterogeneity of the informal sector. The latter requires attention to other constraints beyond those targeted by investment-climate reforms, such as land titling and registration and lack of evident benefits from formalisation. Critical points of research for the future are thus how to identify high-potential entrepreneurs and which areas of reforms could promote job creation and transition from the informal to the formal sector.

The effectiveness of regulatory measures designed to make it easier for firms to formalise was discussed in 2013 in the Policy Research Talks Series (World Bank 2013a), an event organised by the World Bank’s Research Department aimed at fostering dialogue between researchers and operational staff. This came to the conclusion that “Despite a decade of reforms to make it easier for firms to register, however, the trend has barely budged”. On its own, the World Bank’s “Doing Business” project (World Bank 2018a), advocating more efficient business regulations and encouraging related reforms across 190 economies, has not been sufficient to guarantee the transition from the informal to the formal sector. As stated by the World Bank Research Director, Asli Demirguc-Kunt (World Bank 2013a):

“The persistence of informality suggests there may be too much focus on becoming formal but not enough focus on the costs and benefits of being formal for businesses and...it’s time to rethink policy approaches to informality”.

In the same year, the report **Informal economy and the World Bank** (Benjamin et al. 2014) summarises research results related to the informal economy and provides policy advice for the Bank’s interventions. The report reviews recent literature, methodologies, and relevant Bank studies as a way to share information with country teams interested in expanding their knowledge of the informal sector and related policy debates. The review leads to the following four main areas where development policy can be improved by taking the informal sector into account:

- **Improvements should be made along a continuum.** Considering the heterogeneity of informal firms, different policy approaches are required for different firms, where the aspects of utmost importance of employment and productivity should have predominance.
- **There should be public–private collaboration on mutual reforms.** Many efforts to improve firm productivity have focused on aspects of the production function (labour skills, credit) while public aspects have been mainly tackled as a cost (taxes, cost of compliance with regulations). However, evidence from research demonstrates that characteristics of the public sphere strongly influence the choices of firms regarding informality.
- **Research indicates a strong relation between basic skills and labour outcomes.** This is particularly evident within the informal sector. Skills development of informal workers is thus of utmost importance. With regard to business services programmes, on-going research is refining results on successful experiences.
- **Informal trade is pervasive in developing countries** and the networks developed in informal trade – wholesalers, credit suppliers and money-changers, transporters – are a strong presence in the informal sector. This kind of trading systems can discourage foreign investors and can undermine trade policy and the international competitiveness.

The report formulates the following recommendations corresponding to these four main areas where development policy can be improved by taking the informal sector into account:

- A research agenda and an action plan should be launched “to investigate and implement policies that assist small informal firms to improve their performance while encouraging large informal actors to modernise.”
- “Launch the kind of practical public–private dialogue that can reveal elements of a public–private bargain that enhances both public performance and private contributions to public finances. Such a dialogue toward this mutual need for reform must include actors from the informal economy and not be confined to constituents focused on defending the status quo.”
- “Pursue the development of worker training and business service programs with a view to improving the capacity of vulnerable participants and improving the performance of the smallest firms along the continuum [...], but not with a view to formalising or taxing them. Put in place the necessary incentives and reform packages to encourage large or sophisticated informal businesses to formalise progressively.”
- “Examine trade policies for elements encouraging informal trade and pursue governance reforms, such as crosschecking between customs and fiscal authorities that can render trading

networks more transparent while better integrating developing countries with the global economy. At the same time, the impact of informal trade on the incomes of impoverished border regions should be taken into account, and alternative income sources should be considered. Regional integration initiatives should be mobilised to foster more regional policy coordination to avoid the kind of distortions that set the ground for smuggling between member countries.”

The latest World Bank’s **Doing business report** (World Bank 2018a) reminds us that business measures are related to the occurrence of informality and that excessive business regulations make it “too costly for firms to engage in the formal economy”. Recent policy messages assign progressive importance to new approaches, which coexist with the original ones. Besides reforms to create an enabling environment for formal business, instruments to promote wellbeing, rights, representation and increased productivity for informal workers begin to be reiterated.

In particular, social protection has become an important issue in tackling the informal economy. Recognising that social protection and labour policies buffer individuals from shocks and equip them to improve livelihoods, the World Bank’s **Social Protection and Labour Strategy 2012–2022** (World Bank 2012b) supports them as pillars to reduce poverty and promote inclusive growth. Taking a step forward from its previous social protection strategy, one of the goals is to extend social protection to low-income countries, where the informal sector is predominant. Moreover, in its attempt to address current gaps, the new strategy commits to expanding the coverage of social protection and labour programmes to informal workers. The central role of “job and opportunities” is reiterated where the main challenge is that of workers’ skills and productivity, which calls for partnerships with the private sector, strengthening of human capital, protection of core labour standards, and a sound balance among protection and competitiveness.

In September 2016 a new **global partnership** between the World Bank and ILO for universal social protection was launched (World Bank and ILO 2016). A related statement recognises social protection as a central component of national development strategies and essential to achieve the corporate goals of the World Bank’s Vision 2030 (Development Committee 2018). Although the statement does not specifically mention the informal economy, the expected benefits from universal coverage clearly affect informal workers: prevent and reduce poverty, increase productivity and income, and prevent shocks and losses.

In exploring new modern paths to address informality, the World Bank’s **Innovation Policy Platform** (World Bank 2013b), a web-based interactive space, suggests a possible positive impact of innovative entrepreneurship. Although research on the topic is limited, various examples have demonstrated the capacity of innovative entrepreneurship to offer employment opportunities to disadvantaged groups (e.g., low-skilled young people and women) who are over-represented in the informal economy and who can be pushed to move into the formal sector to enjoy its benefits. Innovative entrepreneurs are more likely to operate in the formal economy since they are growth-oriented and in need to take advantage of formal benefits such as education and credit. Policymakers should be aware of the potential capacity of innovative entrepreneurship and support it through improved access to finance, findings, risk-sharing arrangements and partnerships, along with broader policies supporting general business formalisation through reduced costs and increased benefits from registration.

The draft of the **World Development Report 2019** (World Bank 2018b) on the changing nature of work states that, despite improvements and reforms of the business regulatory environment, informality has not been reduced in developing and emerging countries over the past two decades. The share of informal workers is stable and even increasing in some regions and countries. Millions of informal entrepreneurs

and workers, who rarely make the transition to the formal sector, are still exposed to the same risks as in the past (poverty, social security, low productivity) and they are very likely to remain in the informal sector because it is their only opportunity.

The report suggests three pathways for governments to promote job creation:

- To enhance human capital through skills development and lifelong learning
- To strengthen social protection through “progressive universalism” as a guiding principle to cover workers of the informal sector
- To stop tax evasion.

With particular regard to the informal economy, additional measures suggested to governments are: promoting formal jobs within the framework of factory development; improvements in infrastructure to promote the establishment of firms in poor and rural areas; simplifying procedures and reducing costs to start a business; removing heavy regulations and promoting incentives for formalisation. Despite the awareness that the deregulation has not resulted in a decrease in informality, the report insists on some suggestions that have characterised the Bank’s approach since the beginning: business reforms leading to easier regulations; reducing regulatory burdens; reducing costs and the time needed to start a business. While admitting that core labour standards are essential, the Report draws attention to the costs to firms that these entail, thus affecting productivity and acting as an obstacle to formal work. The challenge is thus to balance workers’ protection, including for informal workers, and firms’ flexibility in the management of human resources. Flexicurity remains the main objective.

Greater attention to social inclusion can be found in the 2019 Report than in the 2013 report on jobs (World Bank 2012a). The need to understand how social protection and labour institutions can be strengthened in the context of the changing nature of the work to ensure poverty reduction and the protection of informal workers is stressed. Social assistance interventions are claimed as necessary to increase the productivity of informal workers. The need for representation of both formal and informal workers is highlighted, as is the necessity to renovate labour unions and institutions to make them relevant to the new work context and to give voice to informal workers. Active labour markets programmes are demanded from governments to ensure counselling, training and information also for those working in low-productivity jobs. However, issues related to the formalisation of economies and related incentives for businesses entry into the formal sector are not addressed.

On the side of formalisation, a set of policy recommendations applicable to developing as well as emerging and developed countries are synthesised in a paper prepared for the World Bank as part of a country economic memorandum for Turkey (Oviedo 2009). A fundamental principle for policies is the need for a detailed understanding of the specific country context. A detailed knowledge of the nature of informality in each country will support the identification of the necessary mix of policies to reduce informality and to promote the transition from the informal to the formal sector. Here, as in other World Bank’s documents (World Bank 2011, Benjamin et al. 2014), the authors suggest a policy package comprising “carrots” (tax reduction, simplification, benefits from formalisation) and “sticks” (enhancement and enforcement of improved laws and regulations) to be adapted to the local context. “No one policy”, it says, “is likely to work on its own: rather a package of policies to achieve various goals – economic growth, social protection, inclusion and trust – may work best”. A package of successful policies should include several elements, depending on the country context: regulatory reforms encouraging firms formalisation; promoting business creation through simplified registration procedures and business services; identifying effective labour regulations that do not translate into

barriers for a firm's expansion through excessive protection for workers; strengthening enforcement of improved laws; creating a more inclusive social system so as to enhance human capital and economic growth; building social trust and a "culture of compliance". A good balance of enforcement and incentive tools is thus conceived as a good path to promote the transition to the formal economy.

Similar conclusions on the necessary policy initiatives are contained in a technical note produced by the World Bank for the government of Ukraine (World Bank 2011), which concludes that a wide range of policy actions could be implemented to reduce informality. However, the note highlights that there has been little evaluation of the results achieved by past experiences inspired by the "carrots and sticks" approach, and that more empirical analysis is required to provide evidence of the effects of these policies.

Still on the formalisation side, a copublication of the World Bank and the Agence Française de Développement on informality in West Africa (Benjamin and Mbaye 2012) provides policy responses by distinguishing between large and small informal enterprises. While for large enterprises policy implications are related to formalisation, for small ones interventions should aim raising productivity: credit, business services and training being at the top. This can be seen as a pragmatic orientation that, on the one hand recognises that the informal sector is essential for job creation, on the other hand that its chances of growth are intrinsically limited. Therefore, although the mix of carrots and sticks is again mentioned, the formalisation of small businesses remains a long-term goal but with uncertain chances of success.

4.3 Swedish International Development Agency

Another agency that attaches large importance to the informal economy issues is the Swedish International Development Agency (SIDA). The informal economy is covered under the umbrella of private sector development that was initiated by SIDA in 2002. The instructions for policy development included the task to highlight the issues of relevance to the informal economy in SIDA's partner countries. In an attempt to develop a more systematic programme approach to the informal economy, SIDA commissioned a report "**The informal economy**" by Flodman Becker (2004). The study followed two main objectives: to determine the relevance of a SIDA strategy on the informal economy, and to provide a background for further analysis of the informal economy in view of the SIDA strategy elaboration.

The report underlined that

"a number of steering documents for Swedish development cooperation, such as the government proposition 'shared responsibilities', clearly state that measures regarding the informal economy must be taken as part of necessary steps towards poverty alleviation".

In its background document for private sector development "Making markets work for the poor" (SIDA 2003), SIDA identified strategic areas for intervention aimed at informal economy actors. Therefore, the report recommends that the next step for SIDA should not be to develop a strategy, but to focus on the development of an operational approach in relation to the informal economy. More concretely, the report provides the following recommendations:

- SIDA should develop an operational approach towards the informal economy.

- It should ensure that projects that directly or indirectly target informal economy actors include differentiated target group analysis in order to ensure the maximum project impact.
- It should perform field studies in a number of partner countries with the objective of identifying which intervention areas would generate the greatest impact.
- It should reassess existing projects that target groups belonging to the informal economy in order to increase effectiveness and impact and to avoid any negative effects.
- It should exchange views with other donors on matters related to the design, implementation and evaluation of informal economy programmes and projects.
- It should pursue the idea to conduct a seminar on how to best support informal enterprises in order to gradually integrate informal economic units into the informal economy.

Thus the approach adopted by SIDA is not to prepare a stand-alone strategy dedicated to the informal economy. Informal economy issues have been integrated mainly under its private sector development strategy and policies, topically attached to the poverty reduction and other related goals. The approach is based on treating the informal economy as a cross-cutting issue. The above-mentioned recommendations essentially support the creation of operational integrated approach based on mainstreaming the informal economy issues and considerations into a broad spectrum of activities of the organisation.

5 Conclusions

We can summarise that the informal economy attracts increasing attention of national governments, donors, and international organisations.

So far, research findings have established a significant relationship between the degree of informality and a number of economic and social characteristics, such as poverty, GDP and its growth rate, phase of economic cycle, the degree of fiscal and business freedom, etc. However, there are no clear conclusions about the existence of causality in these relationships.

The absence of proven causality and/or its direction complicates policy formulation. The latter is in practice guided mainly by the value orientation of the implementing agencies. Rights-based approaches stress the importance of inclusion, protection and empowerment of the informal economy actors, while business-minded approaches stress the importance of deregulation, business freedom and enabling environment.

The informal economy can be addressed in explicit and implicit ways. The latter is achieved mainly in the framework of poverty reduction that represents a major goal of current global development frameworks. Other global goals that are closely related to the informal context include reduction of inequality, support of social inclusion, provision of education and skills, support to governance, institution building and partnerships. These implicit approaches are responsible for relevant cumulative effects although not specifically addressed to the informal economy.

There seems to be a broad consensus that formalisation of the informal economy is desirable and that it can be achieved through a gradual process. This should be accompanied by safeguarding against the potential adverse effects on the wellbeing of informal economy actors.

The removal of barriers and deregulation do not necessarily bring about the formalisation of informal economy units. This can be because some units remain informal by choice. To that extent deregulation has to be accompanied by enforcement.

Outreach to the subjects in the informal economy is complicated by their irregular status. Therefore, creating enabling environments is among the most frequent approaches to policy formulation. Depending on the value orientation of the implementing agencies, the enabling environment track can follow two directions – on one hand focused on deregulation, simplification of tax and tariff schemes, removing bureaucratic barriers and increasing business freedom, or on the other hand focused on securing the rights, protection, representation and inclusion for informal economy actors.

Direct action at the community level usually includes components of training, access to services and finance, organisation of informal economy units and workers, and facilitating representation and voice for informal economy actors.

Among the international institutions that focus explicitly on the informal economy, the ILO plays the role of global trendsetter, mainly due to its long-term experience in the field, as well as its progress in adopting normative documents (ILO 2002 and 2015): ILC Resolution on Decent Work and the Informal Economy, ILO Recommendation 204 on the transition from informal to formal economy, etc.). Other major donors adopt approaches based on treating the informal economy as a cross-cutting issue, mainstreaming of informal economy issues into all types of other interventions, or covering the informal economy under other topical strategies (e.g. private sector development). This approach is also linked to the recent move from isolated projects to more complex sets of projects or programmes.

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II GENERAL APPROACHES TARGETING INFORMAL ECONOMY UNITS AND WORKERS

Although governments and donors use a number of approaches in policies targeted at the informal economy, the following generic families of interventions occupy a prominent place:

- Taxing informal activities
- Upgrading the informal activities within the value chain
- Organising the populations dependent on the informal economy.

This section discusses each in turn.

1 Taxing informal activities

At the macroeconomic level, the very first concern of states and financial institutions providing aid and counselling to developing country governments has been taxation. If the informal economy represents such a large share of GDP, then it should be transformed into government resources and revenues, all the more so as the provision of support to informal firms transforms them into formal activities that become liable to tax payment.

Although this issue does not provide much room for intervention for field projects, it is important to address because development actors must take a position in this regard: are informal activities able to pay taxes; are they willing to do so, and should they be forced to do so?

Although the willingness to tax the poor may seem paradoxical and counter-productive in countries where tax evasion is likely to be more important from formal actors, the huge numbers of informal operators permits governments to consider broadening a very narrow tax base. In doing so, governments focus on the upper tier of the informal economy – that is, informal microenterprises – rather than the lower tier of income-generating activities.

However, the basic principle should be that whatever resources accrued to the state through taxation of the informal sector should be offset by the resources the state redistributes to the poor in various ways.

Early research by the ILO in Africa and Latin America has shown that if they were compelled to pay the various taxes to which the formal sector is subject, many informal activities would not survive (Maldonado 1999). On the other hand, informal entrepreneurs pay value-added tax on their purchases as if they were final consumers, even if they do not claim VAT from their clients. Moreover, they are often subject to paying bribes: surveys have shown that these are at least equivalent to, and often higher than, the taxes that they should have paid. And finally, they do not consider themselves to be beneficiaries of public services that taxes are supposed to provide to the population (electricity, water, sanitation, security, education, health, etc.), given their poor accessibility.

As a precondition of formalisation, the design of a tax that would fit the realities experienced by informal operators has been attempted in several countries in Africa and Latin America.

In **Burkina Faso**, the contribution of the informal sector, known as the “contribution of microenterprises”, is a unique tax paid quarterly by operators whose annual turnover is less than 15 million FCFA. This type of tax is called a synthetic or presumptive tax in other countries. The level of

the tax is fixed according to several criteria (geographical location, category of activity). However, the impact is low and the cost of collection is high.

Some good practices can be presented for Argentina and Brazil, where fiscal taxes are combined with social contributions.

In **Argentina** the “monotax” system was implemented in 1998 to replace income tax, VAT and social contributions (including for pensions) by a unique monthly lump-sum tax, the amount of which is fixed according to the level of annual turnover, the consumption of electricity or the area of the workshop (one of these three criteria determines the highest payment). Overall, the total amount of tax due is less than what the microentrepreneur would have had to pay otherwise. Seventy percent of the receipts go to social security and 30% to the local government. Table 1 shows the amounts to be paid according to the criteria and the branches of activity.

Table 1. Tax for sales activities, locations, services and other activities, Argentina 2010–2012

Category	Annual gross income (US\$)	Premises area affected to the activity (m ²)	Electrical energy consumed annually (kw)	Number of paid workers	Monthly tax (US\$)		Pension contribution (US\$)	Social contribution (*) (US\$)	Total to pay (US\$)	
					Leases or services	Furniture and other sales			Leases or services furniture and other sales	Furniture and other sales
B	4,142	30	3,300	0	7	7	19	120	38	38
C	6,214	45	5,000	0	13	13	19	120	44	44
D	8,285	60	6,700	0	22	20	19	120	53	51
E	12,427	85	10,000	0	36	33	19	120	67	64
F	16,570	110	13,000	0	69	53	19	120	100	84
G	20,712	150	16,500	0	95	70	19	120	126	101
H	20,854	200	20,000	0	120	87	19	120	151	118
I	30,560	200	20,000	0	275	213	19	120	306	244
J*	40,561	200	20,000	1	--	344	19	120	--	375
K*	46,602	200	20,000	2	--	404	19	120	--	435
L*	51,780	200	20,000	3	--	464	19	120	--	495

(*) Only applicable for sale offers. (**) Category A has been deleted.

Source: Van Elk and de Kok (2014)

The “SIMPLES” programme in **Brazil** is similar, seeking to promote “inclusive” development (Van Elk and de Kok 2014, Fajnzylber et al. 2011). It was launched in 1996 with an intensive information campaign: it targets microenterprises with no more than 5 paid employees (excluding services for health, education, finance and real estate). It can be considered a measure for reducing the costs of formalising. It simplifies the fiscal system by replacing a whole set of taxes and social contributions with a single monthly contribution. Furthermore, social contributions are no longer based upon salaries, but on a fixed share of total receipts (or turnover), giving an incentive to the entrepreneur to hire employees and register them. Originally the overall tax was fixed at 5% of receipts; it has since been differentiated between micro and small enterprises.

Depending on the definition of informality, the increase in the level of formality ranged from 4% (defined by the payment of taxes and social contributions) to 12% (definition by the holding of a license).

The positive effect was twice as important for microenterprises employing wage earners than for those not employing any. Obtaining a license has a positive impact on employment levels and the reduction of social contributions. The decoupling of social contributions from the wage bill plays an important role in the process of formalisation and job creation.

Generally, these programmes exempt the beneficiaries from all taxation that would be due for prior activities.

Many governments and international institutions, such as the World Bank, continue to view the question of the informal economy through the lens of tax evasion and the shadow economy: the share of GDP or the amount of lost taxes is deducted through macro-modelling. Schneider's estimates are very often taken as references for the size of the informal economy, which they are not (RNSF 2017a). The miss to win for VAT is stressed. As a consequence, some countries such as **Algeria** in its Complementary Financial Law 2015, have tested what is called “voluntary tax compliance”, which is temporary and subjects the amounts deposited with banks to a flat rate tax of 7%, a mechanism recommended by the Financial Action Task Force to facilitate “the regularisation of the situation of a taxpayer in respect of funds or other assets that would not have been previously or had been incorrectly declared, but originate from legitimate and lawful sources”. Informal operators are subsequently allowed to perform transactions within the formal sector or with the state.

Another efficient method that was introduced in Sao Paulo, **Brazil**, in 2007 and revealed to be successful consists of taking the consumers' viewpoint into account by organising lotteries on purchase receipts. This encourages clients to ask for a proof of purchase and puts pressure on businesses to register. Although sometimes accused of “crowding out of tax morale” and having negative long-term welfare effects (Fabbri and Wilks 2016), such programmes have also been used in Argentina, Chile, Costa Rica, as well as in China (“fapiao”), Greece, Slovakia and Portugal. The generalisation of electronic payments pursues similar objectives.

The concern for taxation of informal activities leads to the issue of social protection. It is not by accident that two good practices in this domain both deal with the payment of social contributions. The taxation of the informal sector also aims to ensure that informal operators have access to health coverage and old-age pensions through the official system of social security to which they must contribute. It is also one of the main levers by which public policies try to apply the ILC 204 Recommendation on the transition from the informal to the formal economy (ILO 2015). The recovery of social contributions is the means by which the state asserts its pre-eminence, more efficiently than taxation because the outcomes of social protection are more immediately visible than the outcomes of taxation, as public expenditures are rarely efficient and well-implemented enough to reach the targeted populations.

1.1 Conclusions

Taxing the informal economy is not synonymous of taxing the poor. And it is not for the state merely a matter of reinvigorating declining revenues. It is also a matter of renewing and renovating the social contract that has been put to the test by many years of inefficient policies addressing poverty in the face of unjust enrichment, corruption, cronyism and mismanagement. This is why it is of primary importance to link taxation to social contributions and to the access to effective social benefits.

The simplification of procedures, and the incorporation of all due obligations into a single tax that opens access to social protection and all other services provided by the state could be a powerful instrument

for reintegrating vulnerable and marginal (in terms of the attention they receive from the state) populations. This must be followed by a clear reallocation of resources in their favour. The universalisation of health coverage and of social protection floors, enshrined in the Sustainable Development Goals, offers a unique opportunity for the state to rebuild trust among its vulnerable populations. Paradoxically, the payment of tax can be the occasion for manifesting the rebirth of citizenship within an approach of wider and more efficient solidarity.

2 Upgrading informal activities within the value chain

A value chain...

“describes the full range of activities that are required to bring a product or service from conception, through the intermediary phases of production (involving a combination of physical transformation and the input of various producer services), to delivery to final consumers, and final disposal after use” (Kaplinsky and Morris 2002).

Value chain analysis is...

“the assessment of a portion of an economic system where upstream agents in production and distribution processes are linked to downstream partners by technical, economic, territorial, institutional and social relationships. The effects of policies targeting specific production processes extend their primary impacts in the economic system according to the same path as the main inputs and outputs. Analysing impacts of policy options through value chains provides decision makers and other stakeholders with anticipated evidence on likely changes directly induced by policies” (Bellù 2013).

For development projects and their implementing partners aiming to enhance livelihoods for people dependent on the informal economy, it has become common to conduct value chain analyses, if only to ensure that the income-generating activities or informal activities they try to support among the beneficiaries are not condemned to fade away due to a lack of commercial opportunities. How to be sure that skills training for youth (for example) will fit the markets' needs? How to be confident that the production for which inputs are purchased will find customers beyond the restricted local markets? Preliminary value chain analyses are a preamble accompanying baseline surveys that capture the situation of the targeted populations at the beginning of the project implementation.

The conceptual framework of value chains for the informal economy is traditionally oriented towards home-based workers sub-contracted – through various intermediaries – by large outsourcing firms seeking to cut their labour costs, maximise their profits and boost flexibility (see for example McCormick and Schmitz 2002). The hard working-conditions and low pay that prevail in a system with cascading sub-contracting require actions to ensure decent work conditions through organisation, bargaining and social dialogue, and on the other hand in terms of sensitisation towards more efficient corporate social responsibility. In Asia and Latin America, sub-contracting of informal workers is widespread. Although these forms of labour relationships also exist in Africa, especially in Northern, Southern and Eastern Africa, value chains above all relate to agriculture and primary products, including export crops where informal smallholders are commonly involved. And in such cases, the value chain is also a matter of contracting.

Similarities can indeed be found between outworkers at the bottom of industrial value chains and farmers at the bottom of agri-food chains. The outworker in the garment industry may own his or her sewing machine and be provided with raw materials by the contractor. In the same way dairy-processing companies may provide farmers with cows and various inputs.

“The contract farmer is the most popular one (...). During the contract, the farmers receive the small cow, feed, medical treatment from the milk processor. They nurture cows in their own land and sell the raw milk to the same milk processor. The contract farmer plays an assembling role and gains the assembling profit, which is usually low. This type of farmer appears in Ho Chi Minh City” (Nguyen Viet Khoi and Tran Van Dung, 2014).

It could be said more clearly: farmers become quasi wage-earners, exactly like the garment outworkers, and they come to consider themselves as such, rather than working for their own account.

The informal economy, in its informal sector segment, is by no means an isolated set of activities that would operate autonomously. Many informal activities operate in connection with global markets, for example waste pickers, whose recycling work and recycled materials may find a second life on international markets. Informal workers are also diverse. In most parts of the developing world, informal self-employed predominate over the informal paid employees, but home-based workers paid by the task are also likely to be part of value chains, as well as very small producers or gatherers or collectors, such as shea nut producers in Ghana (see Box 11 below). In Ethiopia or Zambia, for instance, or more generally in sub-Saharan Africa, the milk and dairy value chain involves many challenges: collecting milk from a huge number of breeders, keeping items cold all along the chain, guaranteeing hygiene, and coping with unfair competition with multinational firms that benefit from production subsidies in developed countries (Abdulsamad and Gereffi 2016). But it also shows a very high potential: in the Borana pastoral area of Ethiopia, a milk potential of 130,000 tons was estimated from cattle, camels, sheep and goats. Cows’ milk represented 55% of this, or 70,000 tons; 31% is used for household production, 14% as social gifts, and 11% is processed at household level. The remaining 44% is supplied to the market, fetching high returns to pastoralists compared to other markets (YONAD 2010).

Value chains policies or strategies do not per se foster a transition to the formal economy: they can be instruments that aggravate the working conditions of the poor if they are not accompanied or implemented by institutions dedicated to this transition and to the enhancement of the livelihoods of people dependent on the informal economy. The inclusion of informal workers into value chains may be synonymous with long hours and hard working-conditions for low wages or low rewards; or it may provide new opportunities for small own-account producers and a more favourable environment for the development of new businesses, innovative processes, and better working conditions.

While it is in the agricultural and agri-food sectors that most value chains strategies can be observed, these are not the only sectors at stake. Many other value chains can be analysed, especially in Africa, from the most classical (garment and textiles industries, electronics assembly, etc.) to the most traditional (waste picking and recycling, urban vegetable gardens, etc.), from traditional crafts (such as pottery) to the vast domain of services (such as transport).

In the case of **pottery**, the raw materials and the processing are in the hands of potters. This traditional craft needs to enter into a longer value chain, because the local markets are very restricted and only forward linkages with the tourism industry or the international markets can sufficiently open the markets. This may require a transition from a utility craft for local consumers to arts craft for hotels,

tourists and exports. Support in the design of the products is necessary in order to be more appreciated by the potential clients (Box 7).

Box 7. Cooperative of potters of Katiola, Côte d'Ivoire

The cooperative of potters of Katiola (Côte d'Ivoire), involved in an EU-funded project implemented by AVSI Foundation (one of the 17 on-going projects that are partners of RNSF), represents a successful example of transition from a utility craft to an arts craft. Aiming at empowering crafts, the project has trained potters in design so that they have been able to produce necklaces, bracelets and earrings in clay. In the same vein, weavers from Bonizambo provide embroidery patterns for shirt makers.

More information: RNSF 2018b

Outside agriculture, the bulk of employment in the informal economy is comprised of **services**, including trade. For these informal workers the value chain is very short because generally these types of services cannot be exported. However, they enter into the value chain of other products, such as transport. Intermediary traders are components of the value chain of shea nuts and many other agricultural products; transporters including rickshaw drivers may specialise in the value chain of tourism.

Below we describe several examples of value chains taken from RNSF 2016a, 2016b, 2017c and 2018b.

2.1 Value chains and subcontracted outworkers

Informal workers within the formal sector are subcontracted directly by large companies, or indirectly through various intermediary enterprises on behalf of large companies. More broadly speaking, such “outworkers” do not generally work within the premises of large companies, but outside: in their own homes, in insecure premises, or in secure premises but under harsh working conditions. Policies to address the situation of these sub-contracted outworkers and their transition to the formal economy aim to help them benefit from more decent working conditions (see for instance Lim 2015 on the Ikea supply chain and codes of conduct). Such situations are particularly vulnerable and likely to favour child labour, as home-based workers paid by the task will take advantage passing on work to their children. Action is therefore oriented toward enforcement and reinforcement of corporate social responsibility, making large companies accountable for the working conditions of the workers they hire, even indirectly through sub-contracting, giving voice to consumers and their representative organisations.

Box 8. Ethiopians Fighting Against Child Exploitative Labour

An interesting example of actions aimed at enforcing corporate social responsibility is the Ethiopians Fighting Against Child Exploitative Labour (E-FACE) project and its Safe Threads program. In collaboration with the government, the project strived to create a “child-safe” label for products, in order to increase their connectivity with international textile markets E-FACE found that simple weavers of textiles in Ethiopia would not be able to connect with designers supplying foreign buyers in Europe and America due to a reputation for dependence on exploitative child

labour. Many textile companies and fashion designers did not want to source their materials from Ethiopia because buying from businesses employing child labour would hurt their reputation with consumers in the West.

To solve this conflict, E-FACE implemented a programme known as Safe Threads. Domestic producers of textiles who do not use exploitative child labour can go to the government and, after proving that their means of production are child-safe, they can receive the “Safe Threads” certification. When these firms are certified, international buyers should feel more comfortable buying from them, thus economically empowering the local weavers. Weavers continue to be monitored to ensure that they do not employ children. E-FACE had created this initiative because one of its goals is to get domestic producers of textiles to end their dependence on exploitative child labour.

Instead of forcing the businesses to end their dependence on child labour, E-FACE is influencing them to choose to end the dependence themselves. Should these firms gain international market connections due to the Safe Threads program, it can be ensured to say that they will never return to using child labour, as doing so would lose their certification, and thus their connections with foreign buyers. As far as the informal economy is concerned, this is also an effective formalisation good practice because in receiving this certification from the government, businesses must become registered, and therefore become formal.

This practice motivates businesses to formalise themselves, as it provides large benefits for doing so. As a result, similar practices can be recommended in other situations where improving decent work conditions and economic empowerment are prime goals.

More information: RNSF 2016b

The introduction of certification for items produced through decent work that are for example, “child-labour free”, “forced-labour free”, “produced in safe working conditions”, etc., can be monitored through public–private partnerships and can go beyond fair-trade certification as it can also be used within countries. Awareness raising around the certification programme at national level can also be a means to raise general awareness of the need for decent work conditions.

2.2 Value chains and informal sector microentrepreneurs and smallholders

Climbing up the value chain or expanding the share in the value chain are common strategies for enhancing the livelihoods of vulnerable populations dependent on the informal economy, especially when it concerns agricultural or other primary products, or waste management.

Agriculture and agri-food sector

Whilst urbanisation is accelerating in Africa, rural areas may offer real economic potential if local value chains can be developed. Though the proportion of rural youth is decreasing in all subregions, the absolute number of rural youth has increased and will continue to do so in most of sub-Saharan Africa until 2030 or 2040. A lack of decent work opportunities in rural areas will continue to push youth to migrate to urban areas or foreign countries. Yet, the prospects for growth in demand for value-added food and agricultural products offer great potential for investing in agro-industrial development (Da

Silva et al. 2009). This is why the conceptual and empirical framework of value chains is particularly important for agricultural and rural development.

In addition, agriculture can become more productive through new technologies and production methods. Rapid agricultural growth will require engaging small commercial farmers with the capacity to adopt new technologies. The perspective also needs to shift from food production to the broader agri-food sector, horticulture and non-farm activities to uncover other employment “opportunity spaces” for rural youth. Empirical data are largely missing on youth participation in agriculture value chains, particularly in the informal economy.

Contract farming is a major tool to include people with limited resources and who live in rural areas in economic processes. It can be seen as a broad umbrella term of inclusive business models where smallholders or value chain producers are engaged and supported by larger firms to produce outputs. A key debate on contract farming is about equity of participants and fairness in quality control of products. The recent literature on contract farming with smallholders focuses on several key issues (Sahin et al. 2014):

- The degree of smallholder participation in contracting schemes.
- The impact of participation on smallholders’ incomes/welfare (equity issues).
- Crops exhibiting high variation in quality, that perish easily, that are hard to grow, or that command a high price per kilogram are more likely to be grown through contract farming. Standard crops that have uniform quality and are not perishable are usually traded in spot markets since the transaction costs are low.

Several examples illustrate how these issues can be dealt with. Value chain development needs a preliminary assessment of:

- How beneficial it can be for local workers both in terms of production and income.
- If all groups can be equally involved in the value chain (especially the most vulnerable ones).
- How developed is the last part of the value chain (marketing, transport facilities, supplies, consumers’ customs, etc.).

Among the most striking experiences collected through the literature review on good practices, and besides dairy and milk products, we have selected several interesting sub-sectors in the agri-food sector: sunflower, fishery (Box 9), soybean, shea nut, horticulture, sisal and honey.

Box 9. Supporting value chains in Kassala, Sudan

The evaluation of a project in Kassala that had identified and supported two value chains, sunflower and fishing, offers some interesting observations (Bangui 2014).

With regard to sunflower, 50 farmers were selected from 5 villages. The project provided seeds of sunflower and sorghum (the staple food). Farmers benefitted from extension services from the Ministry of Agriculture, seconded by an officer from the Integrated Food Security Project-Kassala

team, and were trained on the production of these crops. To foster market linkages, a visit of farmers' representatives was organised to Medani Oil processors and to the agriculture research station in Wad Medani.

However, the situation was not clear in terms of income increases. Meetings with sunflower farmers in Kassala have shown that the income they gained from sorghum was more than five times that from sunflower. They attributed this to problems in land preparation and sowing dates and techniques. The farmers are still willing to continue sunflower production based on its potential of stable markets (contracts with oil-processing companies) and a ready market compared to unstable market prices for sorghum.

Marketing is still the weakest link with this production. The sunflower producers are linked to oil plants in Gezira state. All farmers interviewed by the evaluation team mentioned only one company that organised their visit before production to convince them to grow sunflower on the basis of a ready market. The farmers' bargaining power is weak, and they have to accept the price offered. They do not have alternative markets to reduce the risk of dependence on one company.

The intervention in the fish value chain started with consultation meetings with fishermen, boat makers, fish-processing plants, fish restaurants and representatives from local governments and NGOs. Eighteen groups of fishermen were formed, involving more than 425 fishermen. In addition, 40 women in a women's cooperative in Khashm el-Girba benefitted from training in fish processing and net making. The fishermen benefitted from boats and fishing gear, while women in the value chain benefitted from food and fish processing tools.

Although women are involved in fish processing, they are not clearly linked to the value chain. It was also clear that involving women in net making is economically not viable, mainly because it is a time-consuming activity and also because the marketing process is not clearly defined. The women have to use their own networks to sell their nets.

With respect to youth, the skills training they received is not necessarily relevant to boat fixing or tractor repair apart from fixing flat tires.

Fish marketing is still traditional and localised. Expanding the market beyond the state requires sophisticated storage and transport facilities beyond the current capacity of the cooperatives or the project.

Overall, the evaluation found that the project focus was mainly on community-based organisations and service providers, less on micro and small enterprises that do agro-processing. There has also been an almost total lack of the participatory approach, and the implementation process has remained top-down in planning, implementation, monitoring and evaluation. The beneficiaries were not consulted on the results and processes, and the approach has remained strongly focused on the targets of the project document.

Therefore, the designers of this project had not defined a clear, comprehensive, and consistent pathway of activities, outputs and results to support its approach. There was no training of staff and partners on value chains or training on community development approaches. No social simulation or awareness of youth preceded the selection of activities or areas of training.

More information: RNSF 2016b

In agriculture projects there may be interest in, and room for, developing value-adding activities in food related projects: processing products and not just growing and selling them. Limiting value chain development to trading of raw products means opportunities are missed to increase incomes for

vulnerable groups (Box 10). Determining if farmers are interested in food processing and then supporting the development of processing of agricultural products may be decisive for project success. This pleads in favour of including support for value chain analysis and development to accommodate these diversified products and also including training on economic managerial skills to run a business.

Box 10. Soybean production in Malawi

The evaluation of a project in Malawi on soybean production found that there was considerable enthusiasm in farming communities for developing micro and small enterprises to add value to their crop. Farmers are eager to participate in value-adding activities for a profit, and they acknowledged the need for training in food processing and economic managerial skills to run a business (Rodríguez et al. 2015).

Some cooperative members realise that they have potential to aggregate 150–180 tonnes of soybeans per year. With this volume to sell or store, a cooperative can command a good price when it decides to sell. However, cooperatives would like to learn how to add value to go beyond the sale of the raw commodity. Transforming soybean into soy milk, soy meat, or cooking oil on a commercial scale requires technical expertise and managerial skills that farmers lack. Although farmers realise that their villages need suitable infrastructure such as buildings, water, power, and good roads, they would like to know the feasibility of linking with processors to take their soy, process it, and then distribute and sell the final product. Farmers in villages with infrastructure that can support a processing plant would like to carry out feasibility studies to explore the processing options to assess market demand. But the project implementers were not mandated to go beyond their terms of reference, which would have required more time and more resources.

The evaluation concluded that the project work on the value chain stopped at the level of commodity marketing. The addition of agricultural processing to the marketing chain could have provided an easy link to nutritious foods. As one staff member stated, “No one can eat raw soybeans.” Processing was a missed opportunity.

More information: RNSF 2016b

The shea value chain

Shea nut is the fruit of a tree that grows in the bush of the Sudano-Sahelian region in sub-Saharan Africa. Gathering the nuts and processing them into “butter” are exclusively female activities. At the top of the value chain are very expensive cosmetics. Giving more space and value to the bottom end of the chain has been the objective of various projects in West Africa (Box 11). These projects build on a better dissemination of price information (through mobile phones), bulking of the volumes gathered and processed, and improvements in quality. Intervention on the value chain is, on one hand, a matter of organising, coordinating, skills training and upgrading and raising awareness. On the other hand, it is a matter of infrastructure, equipment and change in obsolete production processes, and access to credit.

Box 11. Market Access through Cooperative Action, Ghana

An interesting good practice is the experience of EU-funded project “Market Access through Cooperative Action” implemented by Ghana-PlanetFinance. The shea nut and butter value chain

occupies a dynamic niche in the cosmetics market. In Ghana, PlanetFinance supported poor rural women shea producers who collect shea nuts, then remove the pulp and dry the nuts, to perform additional activities in the value chain. Such activities included trade, bulking the product and meeting the quality and the quantity demands of large buyers.

The objective was to capture additional value in the chain by increasing the quantities produced (improved productivity, increased storage, sales at appropriate times when prices increase), bulking volume, and raising quality.

This type of strategy usually requires multi-pronged actions such as organising, sensitisation, education and training, offering small loans through microcredit, using information technology to access market information and manage operations and transactions at the bottom of the value chain, and building contractual relationships with international buyers or upper actors in the chain.

Production pre-financing and warehousing services have a large impact on the volumes produced. Collective selling undermined the inability of producers to commit to future price levels.

The project used a creative approach to improving chain governance. A social private company (Shea Star Ltd) was set up in which the women have shares through their association, the Star Shea Network. The company offers marketing services to member groups, searches international markets for buyers of nuts and butter, and takes charge of the commercialisation of the shea products that the women sell in bulk. This approach enables progress on increased savings and investments. The company also processed refined shea butter through a tolling arrangement in Europe before sale to final clients. This significantly increased the volume of unrefined shea butter that the women were able to sell.

Star Shea plays a major role in assisting women to fulfil the requirements for fair trade, organic and traceable shea products, as well as providing them with inputs such as packaging and pre-financing. Transparency in the distribution of value added shares between Star Shea and women producers is ensured during association meetings.

The project and women producer groups established contractual relationships to sell to major international buyers. Star Shea helped to increase their number during the course of the project.

Community association members participate in negotiation and distribution within their network. They also supervise the quality of nuts and butter through a quality assurance system and participate in the aggregation of products at approved warehouses. Occasionally, groups have declined to process particular butter orders due to low market prices. In other cases, they have bargained for higher prices, thus proving their empowerment in analysing the market situation.

The producers can still sell their production to local markets or other buyers, but are committed to the arrangements with Star Shea. This is because bulk selling enables them to put their earnings to good use such as to pay school fees or to buy household items or tools for work or farming.

Despite this holistic approach, the women's associations and the project missed making arrangements with some support services such as transporters, owners of donkey carts, tricycles, and "loading boys", who might have strengthened their place in the value chain.

Regarding the question of whether the social enterprise model is working well, one could state that women producers are not always able to meet all orders from buyers. When this happens, they must buy nuts or butter from other women outside their community groups. This has resulted in interesting cascading effects because the required quality from the outside women pushed the beneficiaries to share with them their improved practices.

More information: RNSF 2016a

The development of the whole value chain of production and marketing is important to improve local conditions and support beneficiaries independently from development projects. Particular attention must be paid to those parts of the value chain involving people dependent on the informal economy and how these can be strengthened to improve their decent work and income conditions.

Box 12. Horticulture in Kosovo

Interventions in horticulture in Kosovo focused on restoring the productive potential of agribusinesses by promoting value chains, in particular horticultural and related agribusinesses, through labour-intensive growth. The components focused explicitly on supporting the whole chain from improving the quality of the products, to establishing local collection centres and linking to large local buyers (e.g., supermarket chains). They appeared to be appropriate to sustainably increase production levels (Orbicon et al. 2011).

Beneficiaries in the value chain became increasingly independent and built on the initial supported investments (greenhouses, incubators, collection centres, etc.). Contracts were signed with local storage operators, food processors and supermarkets. Furthermore, the value-chain activities supported through the horticulture component resulted in a degree of import substitution or exports. Some international firms demonstrated willingness to buy Kosovo farm products (fruits and vegetables) and the requirements of these firms in terms of the standard of the exported products are contributing to improving quality over time and other positive knock-on effects for Kosovo horticultural value chains.

More information: RNSF 2016b

Value chain enhancement also provides good opportunities to test various forms of public–private partnerships in food processing facilities (Newkirk 2013).

Strengthening exchanges among enterprises from developed and developing countries is key to accelerating knowhow transfer in both directions. Companies in developed countries may, for example, increase their understanding of other cultures and new markets (Box 13).

Box 13. Business-to-business programme in Mali, Benin, China, Vietnam, Uganda, and Bangladesh

In an evaluation of its business-to-business programme covering several countries (Mali, Benin, China, Vietnam, Uganda, Bangladesh), the Ministry of Foreign Affairs of Denmark (MFA Denmark 2014) focused on enterprises exchanges and knowhow transfer. The latter is often related to system building, for example in creation of cold chains in the food industry and in general safety and hygiene; this is critical for developing country exports to industrial countries where food safety standards are very strict. Knowhow is also to a large extent related to market demands and quality issues in industrialised countries. In this respect, the Danish companies in the programme brought vital knowledge to local firms engaged in subcontracting manufacturing in sectors such as information technology and food. The exchange of personnel between Denmark and the partner country was often crucial, providing essential learning for the local company on how firms are

organised in Denmark and the quality requirements on the Danish market. Financing such exchanges was an essential part of successful knowhow transfer and learning.

In general, collaboration between businesses from different cultures and markets means learning from both parties. It would therefore be wrong to see the knowhow transfer as a one-way street. It goes both ways: Danish companies interviewed express the overall learning they have made through the partnerships of understanding of cultures and of new markets. While technology transfers from the North often can be a valid concept, technology is today globalised in many sectors and transfer of knowhow goes both ways, besides the aspect of mutual cultural learning.

More information: RNSF 2016b

Box 14. Lead-firm model in Tanzania

In Tanzania, Oxfam adopted the “lead firm” model and partnered with Katani Ltd., a Tanzanian firm, to improve smallholders’ access to markets for sisal (Beck and Davies 2013). Katani agreed to improve the production and processing capacity of the smallholders and committed to purchase all quality sisal fibre. Both Oxfam and Katani funded training for smallholders, while Oxfam supplied them with loans to purchase processing equipment. As a result, buyers were attracted by the new supply of fibres, farmers and processors gained significant increased income, and the local sisal value chain greatly improved with sustainable connections to high-value markets.

Although the lead-firm model provides many advantages, the selected private-sector actor can monopolise supply and enforce less beneficial conditions of trade. This risk can be avoided by securing more buyers and less exclusive contracts, and by providing loans directly to smallholders through an independent agent.

More information: RNSF 2016b

For projects related to value chains, “cash for work” and road-building projects can have a strong impact by increasing the effective demand of beneficiaries for major food crops and livestock, and facilitating trade, which results in increased demand for products (Tessema et al. 2008).

Box 15. Honey production in Cambodia

In Cambodia, the USAID Micro, Small and Medium Enterprises Strengthening Project trained and supported communities to filter honey and sell it at higher prices in Phnom Penh and in five provinces. Honey used to be sold in raw and unprocessed state along the roadside in buckets (Mendez England and Associates 2012).

More information: RNSF 2016b

When supporting projects that include value chain enhancement, it is important to consider the impact of the development of the value chain on a wider range of the community members as opposed to

primarily on business owners and to conduct studies to determine whether, if any new value added/value chain components are developed, they do not compete with existing traditional non-beneficiary local producers.

Interventions in parts of a particular value chain may negatively affect the level of employment in those parts of the chain. This may especially occur when more modern equipment is used to increase production.

According to the evaluation carried out in Eastern Europe/neighbourhood countries (RNSF 2016b), production increases obtained through the acquisition of new and more modern technical equipment at small family farm sites do not lead to significant employment effects (Orbicon et al. 2011).

Thus, it is recommended that the design and formulation of future economic development interventions should more explicitly take into account the potential trade-off between the wish to increase production through investing in more effective agricultural production within family farms on the one hand, and the intention to generate large rural employment effects on the other. By focusing on the entire value chain, it could be anticipated that employment will decrease in some part of the value chain due to introduction of more efficient production methods but at the same time lead to increases in other parts of the value chain e.g., in processing.

Still, value chain projects should not embrace too many dimensions of the value chain at the same time and it should be verified whether projects are not over-extending themselves when working on different value chains and various interventions along the value chains. As there are many needs for value chain development with respect to people dependent on the informal economy, it may be tempting to wish to address all of them. But quality of actions, as opposed to quantity, must be the priority. The evaluation conducted by i-Tech (2011) found that the Livelihoods and Enterprises for Agricultural Development (LEAD) project in Uganda was focusing on too many value chains and interventions along the chains, some of which were already supported by other agencies. The evaluation thus recommended identifying a mix of key value chains and gaps along them that would maximise quantitative and qualitative impact, provide effective lesson learning and build a larger degree of sustainability (RNSF 2016b).

2.3 Conclusions

Among the good practices identified and the lessons from past projects, especially in the agri-food sector, there seems to be a repeated interest by farmers and cooperatives in processing products, and not just growing and selling them. Limiting value chain development to trading raw products means that opportunities are missed to increase incomes for vulnerable groups. Such a diversification pleads for conducting systematic value chain analysis because these activities require technical expertise and managerial economic skills that farmers lack. Suitable infrastructure such as buildings, water, electricity, roads are also lacking. Such infrastructure generally requires public investment, but they are also the privileged domain for labour-intensive public works that governments can undertake under “cash for work” programmes that are often implemented as a means of social assistance (see the section III.1 on social protection below). Coordination is therefore a prerequisite for actions intending to enhance the role of farmers in value chains in the agri-food sector because increasing production needs a facilitation of trade that will result in higher demand for products and an increase of exchanges.

Coordination is also a prerequisite for value chain enhancement because the impact of the development of the value chain may occur on a wider range of the community members as opposed to primarily on

business owners and may compete with existing traditional non-beneficiary local producers. In other words, interventions in parts of a particular value chain may negatively affect the level of employment in those parts of the value chain by creating competition among small producers. This may especially occur when more modern equipment is used to increase production. In such cases, it is wise to coordinate with other projects intervening in the same target area or group to make the actions complementary and take into account the potential trade-off between increased production by the beneficiaries on one hand and the broader objective to increase rural employment on the other. It can be anticipated that a decrease in employment in one segment of the value chain due to more efficient methods may be compensated by increases in employment in other segments of the value chain, for instance in the processing of goods. Besides the usual supporting functions of organisation and coordination, value chains analyses also include related services such as financial institutions, the credit system, extension services and infrastructure such as roads and transport) as well as access to new technologies and innovation. But this must be planned and not simply anticipated through the functioning of the markets. At the same time, however value chain projects should not embrace too many dimensions that they cannot fulfil adequately in terms of quality.

Value chain interventions towards fostering vulnerable populations crystallise or mobilise several mechanisms to address the informal economy: they require organising these populations, and so doing facilitate social protection coverage: they also require access to credit, to innovation and to skill enhancement facilities. Finally, they are a powerful means for reinvigorating rural areas by building or reinforcing linkages between the informal and the formal economies through local development. In other words, they constitute a path towards the transition from the informal to the formal economy.

3 Organising people dependent on the informal economy

Organising is at the core of the actions and policies designed to enhance the livelihoods of people dependent on the informal economy. Whatever the angle under which the question is apprehended, organising is the way and means to address it. Sooner or later all projects intervening in the field come to the organisation of the people they support, because organising is a key aspect to be considered when tackling the informal economy.

Organising is key for financing. Many community-based organisations are created to initiate savings and lending groups. Pooling resources helps increasing access to financing. They are a manifestation of the strength resulting from organising. These grassroots organisations are typically the background upon which public actors or civil society organisations can build broader policies towards delineating more ambitious strategies for supporting microbusinesses or cooperatives, achieving universal health or social protection coverage, or more generally transitioning from the informal to the formal economy.

Organising is key for extending social protection. In the informal economy where most workers are self-employed, community-based organisations gather them into larger saving and lending groups, as a first step towards regular and adapted contributions to mutual funds ensuring health coverage and other risks that fit with the people's needs. Governments as well as other actors can help promote such organisations.

Organising is key for being taken into account as a player in the value chains. Seizing opportunities in value chains requires that producers at the bottom of the chains become organised. Community-based organisations, perhaps supported by the government or NGOs, are generally the starting point to

increasing the volumes and quality of produce, so as to gain a better position in negotiations with intermediaries or multinational firms, receive better prices and win more room in the value chains.

Organising is key for gaining visibility and voice and having their rights recognised. “We are poor but so many” is the title of a famous book written by Ela Bhatt (2006), the founder of the Self-Employed Women Association (SEWA) in India. Collective action is the origin and purpose of trade unions and employers’ associations in the formal economy. Informal economy operators and workers need to follow the footprints of their predecessors in the formal sector, who can self-help in this regard.

Organising is key for gaining self-esteem and confidence when facing public authorities. Not only numbers, but also self-confidence is necessary to gain voice and visibility. One among recurrent difficulties encountered by people dependent on the informal economy, especially (but not only) women, is their discomfiture when posing their problems or requests to the administration. Organising is a means towards acquiring self-esteem and confidence; it helps people gain life skills and the ability to speak in public.

Formal workers have trade unions; employers have industry associations. These organisations have become more aware of the informal economy and have attempted to open up to the self-employed as well as to informal workers (for the trade unions), with limited success. Early since the first discussions that paved the way to the adoption of the ILO Recommendation 204 on the transition from the informal to the formal economy, trade unions supported and coached workers’ cooperatives and other types of associations of informal workers.

Workers in the informal economy also have their own organisations. Many self-help groups have long existed among vulnerable populations, through which they exchange labour (for instance for ploughing and harvesting in peasant societies), or save small amounts each day to gain access to credit (as in rotating credit systems called “tontines” in West and Central Africa, or “merry-go-rounds” in Eastern and Southern Africa (RNSF 2017b). Similar associations also exist in Asia. Rural cooperatives facilitate the delivery of fertilisers or other agricultural inputs and the marketing of crops. But some categories of workers, such as domestic or home-based workers, are especially deprived of any kind of grassroots organisations, due to their individual and isolated modes of production. Initiatives therefore either stimulate the creation of grassroots organisations or strengthen existing organisations, overcome blockages or improve their access to resources.

We can distinguish two types of actions in the organisation of vulnerable populations. The first is illustrated by organisations such as SEWA or WIEGO, which intervene at a global (regional, national and international) and political level to support the recognition of informal workers’ rights. Such actions often concern workers such as waste-pickers, domestic workers, street vendors and transport workers: groups who are not geographically located in places where they can meet together, and who are especially vulnerable. The second type of action consists of local or sectoral development projects, funded by donors or governments, that work with self-help groups to help communities, for example in financing or contributing to social protection schemes, and gaining visibility and voice, confidence and self-esteem.

3.1 Organising for the recognition of informal workers’ rights

The lack of legal protection and social protection is a characteristic of workers in the informal economy because of the absence of recognition by policymakers and authorities, and because their work is

unsuited for unionisation and collective bargaining (Chen et al. 2015, Spooner 2011, Schurman and Eaton 2012). In their paper for the Human Development Report 2015, Chen et al. (2015) emphasise the need for informal workers to organise in order to overcome such structural disadvantages. These authors note that they “are increasingly self-organising or getting organised into unions, cooperatives, or associations” and that such organisations “have engaged in collective action of different forms: bargaining, negotiating and advocacy, mobilisation and campaigns, production and marketing, and mutual aid and self-help.” The objective is to increase voice collectively through organising and representation in policymaking, rule-setting, collective bargaining and negotiating processes.

SEWA and WIEGO: Two major actors in organising informal workers

Two institutions have been particularly active in the organisation of informal workers. The Self-Employed Women Association (SEWA) and the Global Network WIEGO (Women in Informal Employment: Globalizing and Organizing). Although dedicated to the cause of poor women, these two institutions have gone far beyond the support of poor women workers.

Founded in the 1970s by Ela Bhat in Ahmedabad, India, as a set of cooperatives, **SEWA** was recognised as a trade union in 1983, having gained affiliation to the International Union of Food, Agriculture, Hotel, Restaurant, Catering, Tobacco and Allied Workers. This was an important landmark as it meant for the first time that informal self-employed workers were recognised within the trade union movement as workers and as such with a right to form their own trade unions.

With today more than 2 million members, SEWA is the largest trade union of informal workers in the world and pursues a joint strategy of struggle (collective bargaining, negotiations, campaigns and advocacy) and development in financial services (it is a major microfinance institution), social services, housing and basic infrastructure services, and training and capacity building. SEWA not only organises its members in trade unions; it also helps them to form cooperatives or other kinds of associations at a local level as well as state or national federations (Chen et al. 2015). In many ways, SEWA has “pioneered creative approaches to unionism, challenging the conception of what a union should be and do” (Bonner 2006).

As a trade union, SEWA fought for the adoption of the Convention on Home Work (C177) in 1996 (ILO 1996) and the Convention on Domestic Workers (C189) in 2011 (ILO 2011). As a cooperative it is organised around four themes: work, income, food and social security.

WIEGO was founded in 1997 with SEWA as one of its founding members. It is an international network of membership-based organisations, activists, practitioners from development agencies, researchers, statisticians that focus on securing livelihoods for the working poor, especially women, in the informal economy. It aims at creating change by building capacity among informal workers’ organisations, expanding the knowledge base, and influencing local, national and international policies. One of its main objectives has been to support the development of membership-based organisations – trade unions, cooperatives, and worker associations – that are democratic and representative, as well as national and international alliances and networks among which the major ones are the International Domestic Workers Federation, HomeNet (for home-based workers), and StreetNet International (for street vendors).

Success stories in organising

The examples below focus on the most vulnerable types of workers who have been supported by SEWA and WIEGO: waste-pickers, domestic workers, street vendors and home-based workers. WIEGO notes that at the heart of these successful campaigns, there was a legal case and that access by the informal workers and their organisations to free, high-quality and responsive legal assistance was key to their success, together with technical knowledge and political support from civil society.

Waste pickers in Latin America

The experience of waste pickers in Bogotá (Box 16) and Minas Gerais (Box 17) illustrates the role that organising can play for the defence of the rights of informal workers. After the privatisation of the waste management system by the Municipality of Bogotá, cooperatives of waste-pickers were excluded from a bid launched by the Municipality. The cooperatives introduced an appeal to the Constitutional Court that recognised their rights and the illegality of the bid process.

The Latin American Waste Pickers Network (RedLacre) is the only regional alliance of waste pickers.

Box 16. Recicladores in Colombia

For decades, *recicladores* (waste pickers) in Bogotá have earned a living by recycling metal, cardboard, paper, plastic and glass, and selling the recycled material through intermediaries. Today there are an estimated 12,000 *recicladores* in Bogotá.

The recent privatisation of public waste collection threatened their livelihoods. Previous municipal administrations in Bogotá granted exclusive contracts to private companies for the collection, transport, and disposal of waste and recyclables.

In response, the Asociación de Recicladores de Bogotá (ARB), an umbrella association of cooperatives representing over 2,500 waste pickers in the city, began a legal campaign to allow the *recicladores* to continue to collect and recycle waste.

The *recicladores* achieved a landmark victory in 2003 when the Constitutional Court ruled that the municipal government's tendering process for sanitation services had violated the basic rights of the waste-picking community.

The most recent ruling, in December 2011, halted a scheme to award US\$1.7 billion worth of contracts over ten years to private companies for the collection and removal of waste in the city. The court mandated that the cooperatives of waste pickers had a right to compete for the city tenders and gave the ARB until 31 March 2012 to present the municipality with a concrete proposal for solid waste management inclusive of the waste picking community.

The current Mayor of Bogotá honoured this mandate by de-privatising waste collection, setting up a public authority to manage solid waste management, and allowing ARB and other organisations of *recicladores* to bid for contracts. With the help of WIEGO and other allies, the ARB prepared a proposal, elements of which were adopted into the official proposal made by the district agency in charge of the city's public service.

In March 2013, waste pickers began to be paid by the city for their collection services. In June 2014, the national government mandated that the Bogotá model be replicated in cities and towns across the country. The ARB has seen success in convincing Colombia's government to adopt a waste management decree that includes the *recicladores*, and is working with 12 cities in

Colombia to implement it. It has also inspired waste-picking movements in countries such as Ecuador, Argentina and South Africa.

However, vested interests in the private sector that want to regain control over the waste collection and recycling sector have mounted a political campaign to remove the current mayor of Bogotá who rescinded some of the private contracts to set up a public waste management authority and brokered the contract with the *recicladores*. They argue that the public management of waste collection and the involvement of the *recicladores* undermine “free competition” and are, therefore, illegal.

Critics continue to call waste-picking an antiquated model, which should be replaced with modern technologies. But modern technology can also be human-driven and have minimal environmental impact. For instance, waste-pickers in Bogotá now have official maps they use to comb every corner of the city for precious trash – usually with a hand-pushed cart. Unlike modern garbage trucks, such carts don't emit pollution – although, ARB does use some trucks to collect recyclables from their members. “The action of the waste-pickers is a people-powered technology that impacts the environment in the most positive way.”

Source: Chen et al. (2015)

Box 17. Waste pickers in Minas Gerais, Brazil

In the state of Minas Gerais, the movement of waste pickers has been active for a long time and has played a lead role at the national level. Since the end of the 1990s, several municipalities have signed agreements with waste pickers' cooperatives to provide services in the local management system of solid waste. In the favourable political context, improving working conditions for the waste pickers was on the political agenda, and funds were allocated to buy trucks and equipment for compressing waste and preparing recyclables for the market, to provide loans for building or leasing warehouses, as well as to finance training in the use of new technologies. The leaders of the movement seized the opportunity to introduce into the legislative agenda the necessity of recognising the waste pickers as providers of a service to the state. They did not obtain the right to permanent contracts between local governments and the associations, but gained a payment for their work: provided that they already received a payment from their commercial transactions, they would receive an additional incentive or bonus from the state. This is how the Recycling Bonus Law was passed.

The vast majority of waste pickers in the city of Belo Horizonte worked for their own account, although there existed 119 cooperatives in the 34 municipalities of the metropolitan area. These workers were encouraged to join cooperatives or associations so they could benefit from the bonus.

Source: Budlender (2013)

Domestic workers

Domestic workers are the most challenging type of workers to get organised because of their isolation and dispersion in private homes. Moreover, in many developing countries there is an overlap with child

labour and in some regions with the custom of sending children to other members of the extended family or community.

These workers are estimated to represent 4% of total employment in the world (ILO 2016a) and up to 10% in some developing countries. Their organisation at the national level and through international alliances was the primary condition that led the profession to be recognised with the adoption of the ILO's Convention on Domestic Workers in 2011.

In 2006, domestic worker organisations began to organise internationally with the support of international trade unions and NGOs, including WIEGO: their claim was to be recognised as workers with all the rights of workers and their benefits.

In 2008, after the ILO decided to put decent work for domestic workers on the agenda of the International Labour Conferences in 2010 and 2011, the newly-founded International Domestic Workers' Network (hosted by the International Union of Food, Agriculture, Hotel, Restaurant, Catering and Allied Workers Associations, which also hosted SEWA) began a campaign for an ILO Convention. This had immediate benefits in some countries and led to the adoption of two standards: the Domestic Workers Convention and the Domestic Workers Recommendation of 2011 (ILO 2011).

The main achievement of the Convention is that domestic workers are unconditionally defined as workers with the same protections under national labour laws and social protection schemes as other workers. Whereas the ratification of the Convention is a long-term process, legislative changes are rapidly taking place.

Latin America played a major role in the adoption of the 2011 Convention. In Latin America domestic workers represent between 1.5% (Venezuela) to 8.3% (Paraguay) of total employment with more than 93% of the workers being women. They receive only 51.1% of the average income and only 28% of them contribute to a pension system (ILO 2013, 2016a and 2016b).

Trade unions of domestic workers have long existed in Latin America (since 1985 in Uruguay, for instance) and have gained recognition since the 2011 ILO Convention.

The multidimensional strategy adopted in this region was based on legal reforms that gave domestic workers the same rights as workers covered by the labour law, and on actions to guarantee compliance with these rights and reduce gaps in working conditions of domestic workers: promoting enrolment in social security schemes, establishing minimum wages, economic incentives for compliance with the law, social dialogue and information and awareness-raising campaigns.

Enrolment in social security is crucial in that it helps prove the existence of a labour relationship where no written contract exists, and indirectly promotes access to other rights. This is why measures ensuring the flexibility of enrolment, for instance in the minimum number of days or hours of work per month and in the combination of several jobs.

Among the good practices identified by the International Domestic Workers' Network one, called "Rap" and applied in **Indonesia**, tries to overcome the difficulties of limited time and isolation by limiting the encounter to 15 minutes and by not requiring a specific time or place to meet. It is a one-to-one approach that applies six systematic repetitive steps, thereby linking the method to rap music and helping to guide the "rapper's" interactions with the targeted unorganised domestic worker.

Box 18. Rap – Six steps

1. Introduction. The rapper introduces both herself and the organisation, including its objectives. The introduction must be short, clear and presented in simple language. Ideally, this is the stage at which the rapper gains the trust of the target.

2. Explore the problems. The rapper has to explore the problems faced by the target, rather than present a list of general issues related to domestic workers. This moment represents a first step in raising awareness about domestic workers' conditions, and it allows the rapper to collect useful information to be later used in persuading the target to join the organisation (steps three and four). It is important the target feels comfortable during the conversation, so rappers should make use of small talk and open-ended questions; they should avoid anything that suggests an interrogation. The aim is to let the target talk about her working situation and about the problems she may face with issues such as working conditions, wages, daily working hours, days off, payment, paid holidays, and social security.

3. Raise consciousness regarding issues of responsibility. The rapper should use the information acquired in step two to discuss the causes of any issues at hand. The rapper needs to identify who should be held accountable for them and why. The rapper emphasises how the target's problems are related not only to the individual employer/worker relationship and links the received information to workers' rights, raising awareness about elements of decent work, the absence of relevant labour legislation, and about how the organisation can more effectively advocate for protection of domestic workers while voicing their interests. This step presents an opportunity for both rapper and the worker to explore and better understand the issues regarding domestic work, first identifying the issues and then discussing who or what might be responsible for them.

4. Vision/dreams. Various elements of awareness having been raised, the conversation moves to the target's dreams and expectations for the future. The rapper should encourage the target to discuss means of achieving these aspirations, and then discuss whether it is possible and/or easier to reach the dreams individually or in collaboration with other fellow domestic workers. Next the organiser describes how the organisation – as a collective of fellow domestic workers, with similar issues and dreams – might help her achieve these objectives.

The rapper explains what the organisation does for its members and the advantages of participation. This step provides the opportunity to present the organisation's activities and visions, showing how it empowers domestic workers so they can advocate for their own interests – such measures as school activities, learning about rights, and learning how to negotiate with employers and to find support in handling cases brought against them.

5. Invitation to join. The rapper asks the target to join the organisation and attend a meeting. If the answer is yes, the rapper collects her name and telephone number or the signed organisation registration form. If the answer is no, the organiser tries to repeat step three, explaining again why it is important to join the organisation. If the target still does not want to join it is important not to exert undue pressure. The rapper should simply take her contact information and approach her another time, repeating the Rap from step three.

6. Encourage the target to take action. If the domestic worker is willing to join, the rapper then encourages her to participate in the next meeting and to invite others, including friends.

Source: IDWN and ILO (2017)

Street vendors

Very often, actions in support of street vendors are based on facts and figures: their enumeration at city level or urban area level and the record of their everyday life and difficulties in carrying out their activity helps municipalities and ministries of urban planning to understand the impact of their policies and to highlight the increasing harassment they are subjected to and their exclusion in urban planning.

In **India** the National Association of Street Vendors of India succeeded in sensitising the Ministry of Urban Development, which created a task force to design a national policy with and for the street vendors. This policy was based on registration and issuance of identification cards and establishment of mixed committees at town and ward levels in charge of identifying zones for vending and hawking. But the national policy was hardly implemented at state and local levels (Chen et al. 2015). An intense advocacy campaign was launched by the street vendors' association, SEWA and other organisations towards the adoption of a national law for street vendors, finally approved by parliament in 2014.

In **Durban**, South Africa, the long-established street vendors of Warwick Junction were challenged by a new project of the municipality to lease this public land to a private developer to build a shopping mall. It provoked a large civil society campaign in support of street vendors. The campaign was accompanied by a non-profit law firm (the Legal Resources Centre), which successfully contested on administrative grounds the right of the municipality to lease the land to a private developer, and to build a mall where a historic market stands (Chen et al. 2015).

Home-based workers

Long before domestic workers were recognised as workers, home-based workers (or “homeworkers” or “outworkers”) had fought for the adoption of the ILO Home Work Convention 177 and the Home Work Recommendation 184 in 1996 for the protection and support of subcontracted workers. A reason for the invisibility of these workers is that they work outside factories, in their own homes. Another reason for their invisibility is that they are paid on a piece rate basis; most are self-employed and not paid employees.

The recognition of home-based workers was one of the first international actions led by SEWA through the case of *bidi* workers in **India** (Budlender 2013). These workers include more than 4,000,000 people, more than 90% being women working from their homes. A *bidi* is a hand-rolled cigarette wrapped in a leaf. The *bidi* industry is very specific in that it is regulated by law: the Bidi and Cigar Workers Welfare Fund Act and the Bidi and Cigar Workers Act. In each state in India, a minimum wage is set as a piece-rate per thousand bidis. As early as 1978 SEWA began to intervene in the *bidi* industry and organise workers in Ahmedabad, obtaining an increase of their wages. A cooperative was then established and identity cards were issued. Support was given to retrenched *bidi* workers who were taken back and compensated. SEWA became a member of the State Advisory Committee on Bidi Workers and obtained for them to access the services of a range of welfare schemes, as well as housing schemes. Such achievements convinced SEWA to expand action beyond Gujarat, and in 1996 the central government announced fixed minimum wages and welfare schemes for the whole country. Simultaneously, SEWA was taking part in the support and success to the adoption of Convention 177.

Similarly, CECAM (Training Centre for Working Women) in **Chile**, PATAMABA (National Network of Informal Workers) in the **Philippines**, HomeNet **Thailand** or MPWRI (NGO Network for Homeworkers in the Putting-out System) in **Indonesia** lobbied with the ministries of labour in each country for recognition of home-based workers' rights (Haspels and Matsuura 2015). HomeNet

Thailand campaigned (with WIEGO support) for the Homeworkers Protection Act, which entitles Thai homeworkers to a minimum wage, occupational health and safety protection and other fundamental labour rights.

In **Bulgaria**, the Petrich Association has developed its own innovative means of establishing a system of collective bargaining (Spooner 2013). Aware of higher piece-rates for laminated carrier bags in other villages, the association tried to negotiate a better rate and better conditions directly with the employer or contractor, organised strikes at specific times (to coincide with tight deadline for orders) and ensured that deadlines were met once the wage increase had been obtained. The association often takes the place of the intermediaries to the point that one of them accused the association of “stealing (his) workers” and creating competition. Sometimes the association receives orders for work that it redistributes among members.

Table 2 synthesises WIEGO’s experiences in the support to these various categories of vulnerable workers. The first column lists the priority issues or the objectives for each category of workers. The second lists the organising challenges or the obstacles. The third column names the bargaining counterparts or institutions with which the workers’ organisations must negotiate improvements in working conditions for their members.

Table 2. Issues, challenges and counterparts in collective bargaining campaigns

Sector/group	Priority issues	Organising challenges	Bargaining counterparts
Street, market vendors and hawkers	<ul style="list-style-type: none"> ▪ Right and space to vend ▪ Facilities: storage, shelter, toilets, water ▪ Protection against police harassment ▪ Safety and security ▪ Competition: protection against bad effects ▪ Access to credit 	<ul style="list-style-type: none"> ▪ Not regarded as workers by selves and others ▪ Controlled by politicians, “mafia” ▪ Fear of harassment by authorities, police ▪ Competition amongst selves and formal sector ▪ Time spent on organising means loss of income ▪ No forums for bargaining 	<ul style="list-style-type: none"> ▪ Municipality: local economic development, health and safety, zoning ▪ National and municipal police ▪ Suppliers and buyers
Home-based workers	<ul style="list-style-type: none"> ▪ Equal income, benefits as factory workers ▪ Identifying employer ▪ End to exploitation by intermediaries ▪ Access to regular work ▪ Access to markets (own account) ▪ Access to credit (own account) 	<ul style="list-style-type: none"> ▪ Isolated in homes, invisible ▪ Time-double burden of work and home care ▪ Fear of losing work ▪ Restrictions imposed by religion, culture ▪ Children working ▪ Unprotected by labour law or disguised status 	<ul style="list-style-type: none"> ▪ Contractors Tripartite boards ▪ Suppliers & buyers
Waste pickers and recyclers	<ul style="list-style-type: none"> ▪ Access/right to recyclable waste ▪ Integration into municipal systems ▪ Work higher up the recycling chain ▪ Fair prices for recyclables ▪ Recognition and improved status ▪ Health and safety ▪ End to exploitation by intermediaries 	<ul style="list-style-type: none"> ▪ Low status and self esteem ▪ Fear of losing work ▪ Fear/dependency on middlemen ▪ Competition amongst selves ▪ Time to meet means loss of income ▪ Child labour ▪ Not protected by labour law 	<ul style="list-style-type: none"> ▪ Government: national and local ▪ Dealers in recyclables ▪ Recycling companies

Domestic workers	<ul style="list-style-type: none"> ▪ Recognition as workers ▪ Protection against dismissal, abuse ▪ Freedom of movement ▪ Freedom to change jobs (migrant) ▪ Less hours, more rest ▪ Better living conditions 	<ul style="list-style-type: none"> ▪ Isolated and invisible in homes ▪ Fear of employers and losing jobs ▪ Dependency on employer for housing, etc. ▪ Not protected by labour law ▪ Lack of time: long hours ▪ Fear of authorities (migrant) 	<ul style="list-style-type: none"> ▪ Employers ▪ Employer associations ▪ Government
Transport workers (urban passenger)	<ul style="list-style-type: none"> ▪ Access to routes and passengers ▪ Protection against harassment ▪ Health and safety/accident protection ▪ Parking and facilities ▪ Petrol and spares prices and fares ▪ Competition: protection against bad effects 	<ul style="list-style-type: none"> ▪ Mobility ▪ Competition between selves and formal sector ▪ Control by politicians, “mafia” ▪ Threats by employers ▪ Fear of harassment by police/authorities ▪ Time for organising means loss of income 	<ul style="list-style-type: none"> ▪ Municipality ▪ Formal companies ▪ Customers
Women workers: all sectors	<ul style="list-style-type: none"> ▪ Safe and affordable child care ▪ Income protection during/after childbirth ▪ Physical security ▪ Sexual harassment protection ▪ Equal income for equal value work ▪ Access to higher income earning work 	<ul style="list-style-type: none"> ▪ Fear and lack of confidence ▪ Cultural and religious barriers ▪ Often in scattered locations ▪ Dominated by men in sector ▪ Lack of time ▪ Child care and home care 	<ul style="list-style-type: none"> ▪ Government ▪ Employers ▪ Formal companies ▪ Community elders

Source: Budlender (2013), Chen et al. (2015)

3.2 Organising communities to gain support

The second type of strategy for organising informal workers is used by actors such as the European Commission and FAO. Here the emphasis is on organising people who depend on the informal economy through self-help groups and cooperatives to enable them to access various forms of support (finance, social protection). The focus is on participation, sharing, exchanging and lending among community members of goods, ideas and skills. Most of the projects we identified lack the overarching view and framework that characterises SEWA and WIEGO.

Box 19. Support to workers in the informal economy in Sao Paulo, Brazil

As part of an EC-funded project (Brazil Christian Aid – “Apoio aos trabalhadores na economia informal e grupos vulneráveis da região central da cidade de São Paulo para proteção social, acesso justiça e conquista dos direitos”), a reference centre for informal workers was established in the Centre Gaspar Garcia of Human Rights. The Centre acted as a partner of the public defender of the State of Sao Paulo to provide legal advice and to function as a centre for popular movements. It further provided monitoring, training and organisational activities with specialised but related institutions (RNSF 2016a).

The beneficiaries of the action were the low-qualified and low-income street workers who were unable to meet the requirement of the 2008 law on “individual microenterprise”. The law was intended to facilitate the formalisation of these activities by registering workers as self-employed professionals and having them contribute to social security.

A concept that emerged during project implementation was the link between the constitutional right to work and the right to use and occupy urban space. The debate goes beyond the simple right of access of street workers to public spaces and leads to the right to transform the city itself. This new conceptual framework was the great and pioneering innovation of the Centre Gaspar Garcia and its contribution to the struggle of street workers and the preservation of urban environment.

Over the years, the situation of street workers in Sao Paulo had progressively worsened, including their criminalisation in 2011. The initial project research action and diagnosis included the provision of legal services. The project also seized the opportunity to propose a public civil action against the city government of São Paulo. The city’s discriminatory attitude, with the clear intention of eradicating street vendors in the city, provided room for the street workers’ collective initiative.

Among the challenges of street workers that the Centre Gaspar Garcia identified were the individualistic character of the street workers and the tradition of corruption, violence and discredit included in most of the workers unions and associations. Their relationships were continually overshadowed by actions for political benefit, extortion and other corrupt mechanisms on the part of civil servants and the police. It was in this context of persecution, criminalisation and violence that the Centre Gaspar Garcia started the project. The project’s methodology was based on popular education, social participation and the effective role of organised groups.

The Forum of Street Vendors that the Centre Gaspar Garcia proposed was created as an autonomous supra-union collective space related to existing associations and patronage networks. The Forum became a new collective social agent, entering into alliances and partnerships, with visibility and voice and recognised as a legitimate political collective actor.

A key initial step of the project was a report on violations of the rights of street workers in the informal economy in São Paulo. The report was published in 2012 as a result of research and diagnosis by the Centre Gaspar Garcia. Planned as an initial activity, this action lasted throughout the first year of the project. It ensured that research brought quantitative data and a description of specific situations together into a single publication. The report has become a reference and, according to the Public Defender Bruno Miragaia, was essential to the favourable ruling issued by the judge in the public civil action, in 2012.

The interaction between academic knowledge, popular education methodology and the reality of the street provided the foundation for a rich process to build knowledge. The publication had an enormous impact, giving a different structure to the struggle. It has had symbolic importance: all street vendors wanted to have the report, which turned into a fighting instrument.

The report was very important to the relationship of the beneficiaries with the government. Its dissemination strategy included sending copies to all sub-prefects, experts, academia, and other entities. This first publication publicised the cause and legitimised the Centre Gaspar Garcia as an institution and was instrumental in the foundation of the public civil action. The diagnosis led to the effective entry of the Centre in the street workers field. “The compilation of rights violations made by [the Centre] was very significant, making of a sentencing by a judge much more efficient than a first class action, with much more data” (Public Defender Bruno Miragaia).

Street workers effectively use the document “as a personal guidebook”. The publication of the report and an accompanying book was very important for street workers because major efforts are required to reverse the negative image of the street workers.

The book consists of three parts. The first part humanises the street workers and includes six life stories. The second part tells experiences of organising (the Forum, the public civil action, the Working Group with the municipality, and experiences of other countries). The last part deals with public policies in different places: New York, Durban, India, Porto Alegre and Sao Paulo. It is a publication, aimed at all audiences, with a nice layout. “The book is beautiful, makes a collection of the lives of these people and values them” said a woman interviewed by the evaluation team. The book is in great demand by people from all over Brazil.

The work to reverse prejudice and criminalisation of street workers is essential, and the Centre Gaspar Garcia has contributed to this. The publications were disseminated in the Public Defender’s Office, and used for requesting registration of the materials by other human rights defenders in several places. “It’s good that defenders, judges, prosecutors know that these people have rights, thus advancing the protection of street workers” (Bruno Miragaia). The role of disseminating the information that the Centre Gaspar Garcia prepared is critical and needs to be expanded.

The Centre played a major role in society and this was an effective strategy. Prioritising research and communication helped a great deal. It humanised the informal workers and helped to address the criminalisation and prejudice (Barbosa et al. 2012).

Combining interactive research with community members, advocacy of academics and activists with legal actions for effective enduring strategies to defend and protect street vendors and waste pickers is the recommendation resulting from the project.

Box 20. Women in Action and Solidarity Against Poverty in Kyrgyzstan

This EU-funded project piloted by the NGO Forum of Women (RNSF 2017b) has established regional service networks in two pilot districts that include groups of solidary producers and “time banks”.

The regional service networks were established in the pilot regions as a system of interacting agencies and organisations that were developed around the Centre for Entrepreneurship Support. Network members included groups of solidary producers, time banks, and help centres for women. These elements were established in the pilot regions and they established mutual cooperation across a wide range of services and aid that they provided.

Groups of solidary producers were inspired by the Italian experience of groups of solidary purchase, based on the principles of mutual trust, transparency, decent work, and respect for the environment. This experience was adapted to the national context in Kyrgyzstan. Groups of solidary producers were established on the basis of common values and common interests of the participating women. The group members launched the process of joint purchases and joint sales of their production, which allowed them to achieve better transaction conditions. The groups engaged in dialogue with producers of equipment and materials, as well as with the distributors of final products. The groups were also able to share more effectively the purchased resources,

as well as the business risks. Collective purchases were realised mainly in terms of seeds, working tools and equipment.

Time banks were established in the course of the project as one of the elements of the Regional Service Networks. The main goal of the time banks was alleviating the heavy burden of domestic work by rural women. Typical services traded in the time banks included organisation of weddings and celebrations, processing of fruits, and also harvests. Two time banks were established in the framework of the project and another one was opened after the project end. The time bank opened in the village of Saray in a dedicated office equipped with computer, printer, phone line, Internet and web camera. Five people work in the office. There is a register where the inputs by the members are recorded and time credits are allocated. The bank developed a system of cooperation with other agencies included in the regional service network. Furthermore in case that a woman asked for defence from domestic violence, depending on the situation and her preferences, she is referred to the specialised services (psychologist, central office, etc.).

Box 21. Support to Household Food Security and Livelihood of Vulnerable and Food Insecure Farming Families in Afghanistan

The FAO project Support to Household Food Security and Livelihood of Vulnerable and Food Insecure Farming Families in Afghanistan was implemented in two districts: Qarabagh, Kabul Province, and Surkhrod, Nangarhar Province. The direct target beneficiaries numbered 6,515 farming families. These were grouped into “common interest groups”. At the end of the project 134 such groups were present in Qarabagh, and 124 in Surkhrod (RNSF 2016b).

The groups collect requests from their members for agricultural inputs such as seed, fertiliser, poles for trellises, and so on. These goods are transported to stores in the district. The group heads divide the goods among the members who sign with their ID number that they have received the items. The groups receive the goods at a discount, often of 20%. After the harvest, the group members pay their equivalent share into a bank account; this is registered in the name of the group head.

The group is free to spend this money for community purposes. For instance, it may be used to build a dam to store water, buy a lorry to transport their produce, transport inputs to the group, or purchase agricultural inputs for the next cropping season.

From a technical perspective, FAO extension officers have communicated to the groups and farmers best cultural practices for particular crops under the particular climate, land, water and soil conditions. This technical information will stay with the farming community and provides a long-term benefit for them; it was a sustainable component of the project.

Box 22. Supporting the empowerment of artisans in Côte d'Ivoire and Togo

Côte d'Ivoire

The integrated project to support the empowerment of artisans in Côte d'Ivoire is a EU-funded project conducted by AVSI Foundation (RNSF 2016b). While the government has decided to pursue the goal of universal health coverage starting with the public sector, it could take years for craftsmen and women to become involved in such goal. Therefore the project has put in place "savings and community solidarity groups" that collect initial deposits and weekly contributions arousing emulation between villages.

Despite the success of the approach, it would have been difficult to reach the minimum amount necessary to create a mutual fund for handicraft makers (weavers, potters, seamstresses, furniture makers, etc.). Too long delays would have disappointed the strong expectations and would have weakened the trust of the population in a context where previous failures have left traces. Therefore AVSI proposed to contribute to various existing successful and efficient regional mutual funds of agricultural planters or other trades, and modulate the services according to the financial capacities of craftsmen and craftswomen: it is a flexible model that can be adapted according to the regional opportunities and is a preliminary step towards an independent mutual insurance for crafts.

In this approach, AVSI is accompanied by the support programme for the mutual health insurance strategies at the regional level of the West African Economic and Monetary Union countries.

Togo

The Delegation for the Organisation of the Informal Sector (DOSI) in Togo has organised farmers, breeders, fishermen, motorcycle taxi operators, handicraft makers and traders in mutual associations (often building on pre-existing cooperatives) that undertake capacity strengthening, acquisition of equipment and ensuring social protection (DOSI 2015). The principle is that the benefit of a credit for acquisition of means of production is submitted to the payment of membership and of an insurance premium (or social contribution) to a mutual association ensuring health coverage and old age pension. Once the credit is reimbursed, the social contribution continues to be reclaimed together with the membership fees. However, as the sense of belonging to a mutual association takes time, it is necessary to attach the social contribution to another regular expenditure for a service or a good that the association provides to its members, for instance seeds or the fertilisers for the farmers.

3.3 Recommendations

Based on evaluation reports of hundreds of past projects funded by international institutions such as the ILO or FAO, RNSF (RNSF 2016b) compiles a list of guidelines about future actions on organising in the informal economy:

- Promote the organising of people dependent on the informal economy into business associations or cooperatives to enable them to formalise and access possible government or other support. Include a capacity strengthening focus on working together, and increase in sharing, exchanging and lending between community members of material goods, sharing of ideas and skills.
- Strengthen the organisational capacities of cooperatives and informal enterprise groups. Merely forming such groups is not sufficient for them to be effective and self-sustaining.
- Be flexible in the determination of types of informal groups that will be strengthened or established. Recognise that there may be different needs, and do not promote a single approach throughout all projects or activities. Consider that there may be groups with strong forms of full

partnership among the group members or simpler options such as cooperating on a single aspect such as marketing or transportation.

- Integrate and study the results of cooperative approaches in small enterprise development. Organising cooperatives as an alternative to small enterprise associations may be useful in the context of formalising the informal economy. The extent to which this is beneficial needs further analysis.
- Promote inter-producer informal economy group learning as opposed to only training from formal entities.
- When starting groups – including for women and other people dependent on the informal economy – consider that a focus on building trust between group members is important. Use team building exercise methodologies to build trust. Even in communities where people may know each other there can be a need for such team-building activities.
- While organising informal economy workers into groups such as savings and credit cooperatives that can be beneficial to addressing decent work deficits, note that the heterogeneous nature of the informal economy may result in challenges. In project design, consider differences between informal economy operators and workers and the potential challenges to scaling up activities after the project end. Such consideration may take the form of good analysis of the functioning of types of informal economy activities and possible contextual challenges. Subsequently, envisage, test and measure results to learn lessons. Integrate lessons learned back into new programming.
- Promote the creation of common interest groups as a first step towards the creation of cooperatives to enable efficient and effective economic and practical support.
- Consider promoting different types of group models depending on the context, needs and purpose of the groups instead of using the same model throughout. Test alternatives in parallel rather than in sequence.
- Foster more participation of vulnerable people in informal groups by adapting the criteria for obtaining membership and staying as a member. For instance women do not have the time needed to participate in all activities, either because of their domestic burden or due to social norms regarding gender roles and relations.
- Keep supporting groups even after a project ceases to operate. Try to sustain technical support for their activities for (at least) another production period or better to guide their transformation process in cooperatives. Gradual phasing out of support is preferable to a sudden end of technical support at project closure.

3.4 Conclusions

Because they are invisible, dispersed, powerless, out of the scope and concerns of policymakers and the policies they design, and out of the scope of traditional trade unions and associations, workers in the informal economy need to gain visibility and voice.

In this matter no one model fits all in terms of organising informal workers, all the more so that they are very diverse. What is needed is:

- A change in mindsets of policymakers to recognise and validate informal workers as real workers through or despite the various forms of employment relationships or arrangements.
- A change in laws, regulations and policies to protect and promote informal workers and their livelihoods.

Activities in support of these vulnerable populations have to rely on existing forms of organisations at best, or to build a consciousness of shared interests and concerns among these various categories of informal workers through campaigns oriented toward the gain of denied rights: for instance the right to have access and make use of the public space for street vendors, or the right to be recognised as workers according to the labour law for domestic workers.

Several models can be distinguished (Chen et al. 2015):

- Domestic workers, who need solidarity in order to bargain with their employers, often form or join trade unions.
- Self-employed home-based workers often form associations to leverage skills training, product design, and marketing services.
- Industrial outworkers who work from their homes need to form unions for collective bargaining with employers and their intermediaries.
- Street vendors who need to bargain collectively with local authorities often form unions or market-specific associations.
- Waste pickers who provide recycling services to cities or cleaning services to firms often form cooperatives.

In many countries, there are such unregistered associations that function like cooperatives or trade unions, but they find it difficult to register as such: organisational form follows organisational function and recent emphasis put on the social and solidarity economy and social enterprises can provide the ways by which the transition from the informal to the formal economy can be achieved.

Chen et al. also remark that at the heart of each of the successful campaigns, except for the domestic workers campaign, there was a legal case for the success of which, access to free, pro-bono, high-quality, and responsive legal assistance by the informal workers and their organisations was determinant, as well as the support from the civil society, and the informal workers themselves.

For development projects organising is generally a first step in building trust among the populations of beneficiaries. To this aim, traditional or pre-existing forms of organisations may be helpful that can be used or revitalised to ensure capacity strengthening, encourage savings and credit, payment of social contributions, and improve working conditions.

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III MAIN SECTORAL APPROACHES OF POLICIES DESIGNED TO TACKLE THE INFORMAL ECONOMY

As discussed above (Section I 2), the formulation of policies aimed at tackling the informal economy can be based on empirical or normative approaches. Beyond this basic divide that is manifested mainly at the macro-level (e.g., through legislation, regulatory systems and creation of an enabling environment), the tools and instruments used by donors in their interventions aimed at the informal economy do not vary substantially. For example, the provision of training, microfinance, access to markets and services, advocacy, representation and voice are in general viewed as desirable and justified in the informal economy projects by all donors.

Through their main components and variants, policies tackling the informal economy can be analysed around three sectoral approaches: social protection, technical and vocational skill enhancement, and finance (especially microfinance). Skill enhancement and the provision of finance deal with the supply side of the informal production, seeking to improve or develop the means of production, increasing workers' skills, or a more capital-intensive organisation of the small enterprises. Social protection, on the other hand, could be seen as intervening further to the supply side approach. It has often been undertaken independently and even prior to policies aiming to improve the means of production. A more universal social protection can be considered as an efficient means of increasing the productivity of the workforce, making it healthier, more confident in the future and in a smoother relationship with the employers.

1 Social protection

The expansion of social protection is key for policies aiming at encouraging the transition from the informal to the formal economy. For this reason, major international actors are focusing on this goal. Universal social protection is target 1.3 of the Sustainable Development Goals. This and other related targets are listed in Box 23.

Box 23. Sustainable Development Goals: Social-protection-related targets

Target 1.3: Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable

Target 1.5: Build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters.

Target 3.8: Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all.

Target 5.4: Recognise and value unpaid care and domestic work through the provision of public services, infrastructure and social protection policies and the promotion of shared responsibility within the household and the family as nationally appropriate.

Target 8.8: Protect labor rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.

Target 10.4: Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality.

Target 13.1: Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.

As early as 2011, the African Union adopted a Social Protection Plan for the Informal Economy and Rural Workers (SPIREWORK)... “in recognition of significant contribution of the informal economy to GDP, jobs creation, poverty alleviation, social cohesion and political stability in Africa”. The African Union acknowledges “social protection (...) has the potential to be the backbone of any strategy towards the modernisation or (...) formalisation of the informal economy” (African Union 2011).

Various coalitions, partnerships and initiatives have emerged to deal with these issues: the Inter-agency Social Protection Assessments (ispatools.org) that define social protection as a set of policies and programs aimed at preventing or protecting all people against poverty, vulnerability and social exclusion, and designed a core diagnostic instrument, in partnership with the major international institutions and bilateral donors; the EU Social Protection Systems Programme (EU 2015) in partnership with OECD and Finland; and the platform socialprotection.org, which aims at promoting knowledge sharing and capacity building on social protection policies.

The World Bank and ILO also decided to combine their efforts in a Universal Social Protection Initiative towards the achievement of Sustainable Development Goals 1.3 (World Bank and ILO 2015). “Achieving universality would facilitate the delivery of the World Bank’s corporate goals of reducing poverty and increasing shared prosperity and the ILO’s mandate of promoting decent work and social protection for all” (and could we add now, the transition from the informal to the formal economy).

After a brief reminder of the variety of systems of social protection and the variety of risks covered, we present some national policies in the following sections. We emphasise the role and impact of projects for the extension of social protection among the vulnerable populations dependent on the informal economy. Lastly, we analyse a few significant social safety nets and public works programmes.

1.1 Variety of schemes: Social security, social assistance and safety nets⁵

Social protection is a very broad notion that comprises several dimensions and is understood differently in different countries and regions. It is comprised of two main components: social security and social assistance (also called social safety nets).

- **Social security** is based on workers' contributions that employers and their employees as well as the self-employed pay. It provides benefits to workers and all their entitled family members who are inactive and therefore dependent.
- **Social assistance.** These are safety nets that governments provide. These are financed through taxes and generally, though not always, target poor and vulnerable populations.

Reflections on social protection remain marked by the type of funds that are mobilised to cover the risks: contributions based on salaries or more generally on income from work ("Bismarckian" systems), or contributions paid through taxes ("Beveridgian" systems). With the increasing concern for competitiveness, the tendency has been more and more oriented towards mixed systems in order to alleviate the contributions on salaries and to balance the deficits of the Bismarckian systems with increased recourse to taxation.

At the roots of social protection are the **social security systems** that have been put in place by states for civil servants and workers in the public sector and later on extended to the private formal sector. Depending on the country, social security covers one, several or all of the following risks:

- Health and sick leave
- Maternity and maternity leave
- Old-age pensions
- Unemployment benefits
- Insurance against occupational injuries and diseases.

There are as many systems as there are countries: in some countries, the social security covers all risks, and the contributions are paid by employers and employees; in other countries, it is limited to pensions and the contribution to health coverage is left to individuals who have the obligation to pay their insurance premium to a public or a private institution.

The legal framework for social protection is characterised by a variety of situations that themselves depend on the level of development and the structure of the economy. Countries with a large agricultural sector and a broad informal economy and consequently with a tight wage employment have necessarily a different approach than countries with a wide social security system based on contributions collected on salaries and labour income.

Since the adoption of the ILO Recommendation 202 on social protection floors in 2012 (ILO 2012), and of Recommendation 204 on transitioning from the informal to the formal economy in 2015 (ILO 2015a), many countries have given more emphasis to their social policies, all the more so as their traditional formal systems of social protection have given signs of unsustainability and disequilibria between

⁵ These conceptions of social security and social protection diverge slightly from ILO's. For the ILO, social security is the generic term encompassing social protection and social assistance.

expenditures and resources due to the expansion of the informal economy and the ageing of their populations.

Today several types of social security systems can be observed. Depending on the country, several or all of the risks are covered by public agencies or funds, whereas in other countries the private sector is in charge of the collection of the contributions from the beneficiaries:

- **Pure contributory systems** covering all risks for all categories of workers (in Tunisia for instance), combined with a redistributive system of social assistance for the vulnerable populations that escape social security. With the ageing of populations and the rise of unemployment and underemployment, such systems are under pressure and have more and more been seen as a “charge” on salaries (rather than an insurance premium paid by the beneficiaries) disincentivising employers from hiring, and pushing governments towards revising the degree of coverage and the number of beneficiaries.
- **Contributory systems** limited to old-age pensions and to the formal sector and the recourse to the private sector for health coverage (Côte d’Ivoire, for instance).
- **Mixed systems** limiting the risks and the categories of workers benefiting of a contributory system and organising the contribution for other risks and for other categories of population through the private sector.

As one can imagine, such systems have difficulties to expand to universal coverage because in many countries paid employment represents a small share of the active population: this is particularly the case in countries where agriculture or informal self-employment are widespread. Although contributory systems have been extended to self-employment and to many if not all kinds of occupations, the coverage of social security fails to be universal. This is why **social assistance programmes** (“social safety nets”) have been generalised; they consist of providing targeted populations with coverage for some risks at the taxpayer’s cost (redistributive systems).

Depending on the type of system, projects may target specific populations and support them in accessing to adapted health coverage through cooperative or mutual insurance.

Moreover, in the absence of state support, vulnerable populations may quasi-exclusively rely on **self-help groups** that can provide assistance to their members in need. Extended families provide support to cover health expenditures, unemployment, and other benefits and allowances. It has been shown (Charmes 2003) that in sub-Saharan Africa in the 1980s–1990s for instance, monetary and in-kind transfers between households – including remittances – represented as much as 25% of the average household income, that is a share equivalent to social expenditures or public transfers in European countries.

Social protection systems thus have three dimensions:

- An insurance dimension that relates to the formal sector.
- An assistance dimension that relates to vulnerable populations not covered by social security.
- A community-based dimension.

Social security is a form of social insurance for paid employees (and also for the self-employed) and their family dependents – spouses, children under a certain age or disabled, aged parents. Social security covers various risks related to health, family, old age, unemployment, etc.

In its broad sense (“vertically” – for each individual), social security aims to guarantee protection against:

- Absence or insufficiency of income from work, due to sickness, invalidity, maternity, accidents at work and occupational diseases, unemployment, old age, decease of a family member.
- A lack of or, unaffordable access to, health care.
- Insufficient family support, especially for children and dependent adults.
- Poverty and social exclusion in general.

“Horizontally” – across a range of individuals – social security has been extended to most economic activities and professions, and all statuses in employment: agriculture, fishery, domestic workers, the self-employed, etc. In some countries, however, some of these activities and statuses still remain uncovered.

It is usually admitted that social security is an advantage provided to employees of the formal sector and is not accessible to people working in the informal economy. This is because, in many countries, social contributions are based on salaries, with wage-earners paying a part of the contributions and employers paying another part (generally more). It is a compulsory formal economy insurance mechanism. This is why both employers and employees-beneficiaries have usually interpreted it as a tax or a cost. The levels of contributions have increased together with the cost of social expenditures and the life expectancy and ageing of populations.

The rising cost of social security has become a handicap in companies’ competitiveness. This has led governments to adopt measures to restrict health expenditures and pensions in many countries. It has also led informal economy entrepreneurs not to declare their workers or to declare them at a minimum wage level instead of their “real” salary.

Social assistance generally benefits the poor and vulnerable. It consists of free access to healthcare, conditional (or unconditional) cash transfers, or transfers in kind. Traditionally, ministries of social affairs draw up lists of persons or families in distress. These might include persons with disabilities, elderly or female-headed households, or large households. The transfers are intended to help them meet their consumption needs or support their income-generating activities through transfers of small items of equipment or livestock. An example of the latter is the National Programme for Needy Families in Tunisia.

Safety nets are diverse: In 2015, the World Bank assessed the state of social safety nets at the world level (World Bank 2015). From price subsidies on basic goods or cash transfers that have sometimes become conditional to infants’ vaccination and children’s schooling (behavioural conditions) or subject to several criteria (such as income levels or demographic or socio-economic characteristics), to the provision of a number of workdays through labour-intensive public works, there is a huge variety of safety nets. The best known and most successful of these conditional cash transfers programmes is the Brazilian “Bolsa Familia” that dramatically lowered the national poverty rate. Such schemes are, however, often criticised for their deficient targeting, especially when they are non-conditional.

Safety nets, conditional cash transfers, and targeted programmes are options for both states and projects. There is a relatively strict correspondence between the goals of social protection systems and the objectives of specific projects. Many projects can be considered as safety nets ensuring that the target

populations benefit from income-generating jobs. The issue is then how to make the actions of the projects sustainable in the longer term, beyond the duration of the project.

Self-help community-based saving and lending groups are widespread in traditional societies in developing countries, especially in sub-Saharan Africa (see for instance Vuarin 1993 and 2000 for Mali; and Oduro 2010 for the interplay between formal and informal systems of social protection). They represent an important aspect of microfinance. Through these groups, members are led to save and they can use their right to borrow in order to meet their consumption or investment needs. Members may also use their savings as a microinsurance mechanism to fall back on when they are affected by health risks. Poor populations dependent on the informal economy may be convinced and led toward saving on a daily or weekly basis – or as often as they can – in order to accumulate some funds that will make them eligible to mutual insurance institutions. AVSI in Côte d'Ivoire (one of the 17 EC-funded projects partnering with RNSF) uses such an approach with associations of handicrafts makers in several regions of the country.

An increasing trend in microfinance institutions is to offer microinsurance – including protection against the impact of crop failures, death of relatives, or chronic health issues. Many EU projects that aim at enhancing livelihoods for poor populations dependent on the informal economy include such actions.

Social safety nets

More than 1.9 billion people around the world are covered by social safety nets (and among them, more than 526 million people are enrolled in five national major social safety nets). Yet, globally only one-third of the poor are covered. On average, a developing country runs about 20 different safety nets. Total spending in social safety nets totalled twice the amount needed to provide every person living in extreme poverty with an income of US\$ 1.25 a day. However, it represents much less than the amount of subsidies on fuel, which are sometimes assumed to have crowded out public spending on social safety nets and pro-poor policies.

The World Bank has recently published a comprehensive assessment of social safety nets around the world (World Bank 2015). The Bank distinguishes six types of social safety net programmes (Table 3):

- Conditional cash transfers
- Unconditional cash transfers (targeted to the elderly, the handicapped, children, etc.)
- School feeding programmes
- Unconditional in-kind transfers (such as food)
- Public works programmes
- Fee waivers (assisting households for covering the costs of education, health and housing).

Table 3. Typology of social safety nets

Program category	Program subcategory
Conditional cash transfers	Poverty-targeted cash transfers Family and child allowance (including orphan and vulnerable children benefits) Scholarship benefits
Unconditional cash transfers	Poverty-targeted cash transfers Family and child allowances (including orphan and vulnerable children benefits) Scholarship benefits in cash Housing and utility allowance benefits in cash Emergency support in cash Old-age social pensions Disability social pensions and benefits Veterans pensions Funeral grants, burial allowances Public-private charity, including <i>zakat</i> Other cash transfers
Unconditional in-kind transfers	Food stamps and vouchers Food distribution programmes Nutritional programmes (therapeutic, supplementary, and people living with HIV) In-kind emergency support Other food/in-kind programme
School feeding	School feeding
Public works	Cash for work Food for work Workfare
Fee waivers	Reduced medical and health fees Educational fee waivers Housing/utility fee waivers
Other social safety nets	Other social assistance transfers Social care services: Care for children/youth Social care services: Care for family Social care services: Care for the disabled Social care services: Care for older persons Other social safety nets

Source: World Bank (2015)

The assessment by the World Bank shows that in 2015 school feeding and unconditional cash transfers were the most widespread programmes, with 131 and 130 countries respectively (out of 157). They were followed by public works (94 countries), unconditional in-kind transfers (92), then conditional cash transfers (63) and lastly fee waivers (49). In number of beneficiaries, Bolsa Familia (Brazil) is the most important of the conditional cash transfer programmes (45 million, representing 24% of the population) and Dibao (China) for the conditional cash transfer programmes (75 million). India comes first in the public works category with MGNREGA (Mahatma Gandhi National Rural Employment Guarantee Act), with 58 million beneficiaries.

Typical cash transfers programmes in lower income countries do not provide adequate income support; they cover only 10% of the average consumption of the poor. The beneficiaries of public works programmes that provide workdays in special times of year cannot be considered as having decent jobs and being covered by social protection. Therefore these types of programmes are not a means of transitioning from the informal to the formal economy.

In rural areas, extremely vulnerable populations need special support at certain periods of the year and/or in certain years. Labour-intensive public works are a widespread type of safety net that provides a certain number of workdays to seasonally unemployed people or those hit by external or climatic shocks.

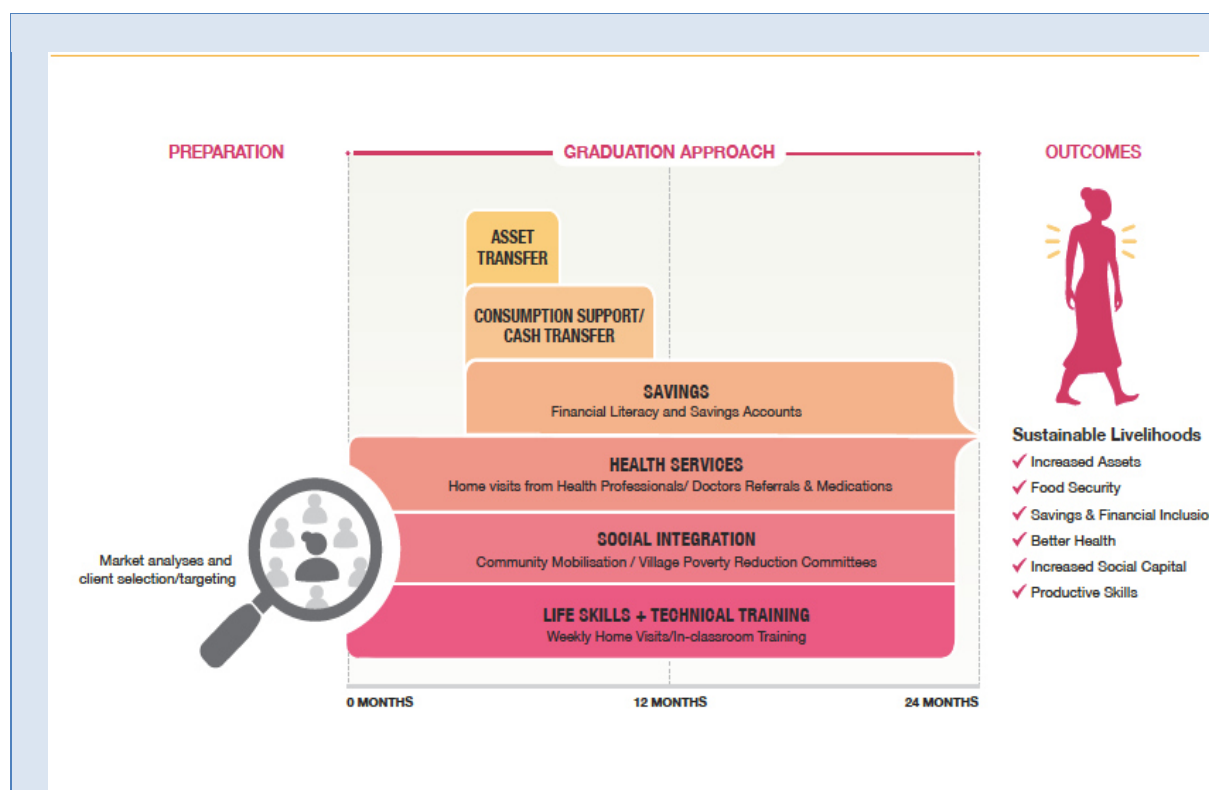
One of the most renowned and of the largest of such schemes, is MGNREGA, launched in 2005 in **India**. This is a labour law and social security measure aiming to enhance livelihoods in rural areas by providing at least 100 workdays per year to volunteering adults within 5 km of their residence and paid at minimum wage: if work is not provided within 15 days of application, applicants are entitled to an unemployment allowance. It secures all citizens the right to work, to which they are entitled by the Constitution. One-third of employment is reserved for women, and equal wages are provided to women and men. It was calculated that since its inception, the programme resulted in the payment of more than 12 billion person-days of employment. The programme also aims to create durable assets such as roads, dams, wells, canals, etc. Another important outcome of the scheme is that wage corruption declined thanks to the payment of wages through bank and post office accounts and community monitoring.

Not all safety nets are unidimensional and examples of multi-pronged programmes seem to be more effective towards ensuring beneficiaries with lasting effects. Such types of safety nets deserve attention: For instance, the BRAC Targeting the Ultra-Poor Programme (Box 24) and the HARITA (Horn of Africa Risk Transfer for Adaptation) initiative (Box 25).

Box 24. BRAC's Targeting the Ultra-Poor Programme

BRAC's graduation approach targeting the ultra-poor presents the advantage of a strong and reliable empirical evaluation. BRAC stands for Building Resources Across Communities (initially Bangladesh Rehabilitation Assistance Committee). It is the largest NGO for development in the world and reaches more than 126 million people in 14 countries. In 2002, BRAC developed the Targeting the Ultra-Poor programme through a graduation approach after noticing that the social safety nets failed to reach the extremely poor. The approach addresses the social, economic and health needs of poor families simultaneously by combining the satisfaction of immediate needs with longer-term interventions in life and technical skills training, asset transfers, enterprise development and savings towards more sustainable livelihoods.

Selected through a participatory process, the beneficiaries are given a productive asset chosen from a list, and the corresponding training, as well as life skills training and consumption support during a given period. They have access to savings schemes and health services. All these supports are supposed to provide the households with a "big push" for a self-employment activity. The programme is costly, reaching an amount per household equivalent to its consumption as measured by the baseline survey.



Source: BRAC, 2016.

BRAC implements two approaches: one for the specially targeted ultra-poor, who receive the productive asset, and the second for the other targeted ultra-poor, who are marginally less deprived, who receive a soft loan for acquiring the asset.

In Bangladesh, the programme has reached more than 600,000 households and its replication was decided in 20 countries.

In 2006, the approach was adapted and tested in eight countries. A randomised evaluation through control trials was conducted in six of these countries (India, Pakistan, Ethiopia, Ghana, Honduras, Peru), the results of which were published in Science (Banerjee et al. 2015) looking at the progress at the end of the programme and one year later. Measuring the impact of the programme on 10 key outcomes (consumption, food security, productive and household assets, financial inclusion, time use, income and revenues, physical health, mental health, political involvement and women's empowerment), the study found significant impact on all of them, one year after the end of the project or 3 years after the transfer of the productive assets. And in five out of six countries, the extra earnings exceeded the programme cost. The study concludes that the multifaceted approach is sustainable and cost-effective.

Box 25. HARITA initiative

The HARITA (Horn of Africa Risk Transfer for Adaptation) initiative, pioneered in Ethiopia by Oxfam America, the Relief Society of Tigray and Swiss Re, is a multi-pronged programme. It is at the origin of the R4 Rural Resilience Initiative (with the World Food Programme). R4 currently

reaches almost 200,000 people in Ethiopia, Senegal, Malawi and Zambia (32,000 with insurance) through a combination of four risk-management strategies: improved resource management through asset creation (risk reduction), insurance (risk transfer), livelihoods diversification and microcredit (prudent risk taking) and savings (risk reserves).

The HARITA Programme in Ethiopia made large use of “weather index insurance”. This is a relatively new approach to insurance provision that pays out benefits on the basis of a predetermined index (e.g., the rainfall level) for loss of assets and investments, primarily working capital, resulting from weather and catastrophic events, without requiring the traditional services of insurance assessors. It also allows for quicker and more objective insurance settlement processes (Madajewicz et al. 2013).

The project made payments contingent on recorded rainfall rather than yields. Basing payments on rainfall eliminated the costly moral hazard problems involved in verifying yields on smallholder farms and therefore made the premiums more affordable. In the event of a seasonal drought, insurance payouts were triggered automatically when rainfall dropped below a predetermined threshold at a predetermined time during the growing season. HARITA relied on satellite data for rainfall measures.

How to pay for this insurance? In the HARITA team’s conversations with farmers, the farmers themselves suggested a solution – they could pay for insurance with their labour. Oxfam America worked with the Relief Society of Tigray and the government of Ethiopia to build an “insurance-for-work” programme on top of the government’s “food- and cash-for-work” Productive Safety Net Program, a well-established programme that serves eight million chronically food-insecure households. The resulting innovation allowed cash-poor farmers who were Safety Net participants the option to work for their insurance premiums on the risk-reduction activities. During the 2010 growing season, 80% of farmers who bought insurance were Safety Net participants who paid with labour, while in 2012 93% paid with labour in those villages in which farmers had the option to do so. Risk-reduction activities began after farmers had purchased insurance since the amount of insurance purchased determined the amount of labour that farmers had to provide.

The evaluation points out that the insurance payout may improve livelihoods by allowing farmers to preserve food consumption and/or their asset holdings after a drought and to repay their loans. Farmers who receive an insurance payout may not need to sell assets in order to feed their families and to repay loans. Therefore, farmers may maintain higher yields in subsequent seasons, preserving food security and livelihoods. These effects may also influence migration patterns since men from a farming household may be less likely to migrate if livelihoods at home improve.

The second effect is on productive investments and consumption in growing seasons with good rainfall. The threat of drought may cause farmers to invest less in all seasons and to avoid borrowing to finance investments because farmers worry that their investments will be wiped out by drought. The promise of an insurance payout that will help to repay loans and buy food in case of a drought may enable farmers to increase their investments, translating into higher yields, assets, and incomes in good seasons, and therefore improved food security and livelihoods in all seasons.

Beyond their direct impact on beneficiaries, cash transfers and other forms of social safety nets also impact non-beneficiary households and the local economy at large. The cash inflows can play the role of income multipliers and they have been measured with an innovative village economy model, called the Local Economy-Wide Impact Evaluation model and coined for cash-transfer programmes in Kenya,

Lesotho, Ghana, Malawi, Zambia, Zimbabwe and Ethiopia. It was shown that the income multipliers ranged from 2.52 in Ethiopia to 1.34 in Kenya, taking inflation into account (Universal Social Protection 2016).

1.2 Variety of risks covered

ILO Convention 102 (ILO 1952) lists the nine main branches of social protection: healthcare, sick leave and allowances, unemployment benefits, old age pensions, accident at work and professional illness benefits, family allowances, maternity leave and benefits, invalidity and survival allowances.

Among the various risks constituting a complete social protection system, **health coverage** seems the most basic and the one to be given the highest priority provided that sickness and exposure to various diseases remain the major causes for the lack or insufficiency of income from work. Many countries have enshrined universal health coverage – a target of the Sustainable Development Goal 3 – in their policy agenda. While this type of coverage can be based on social contributions paid by employers and employees and even self-employed within the usual social security systems, it is also the type of risk that can be easily covered by the private sector. Savings can be collected through microfinance schemes, not only in order to provide microcredit, but also as insurance for health coverage, or rather as a right of entry into a mutual insurance (Box 30).

Two other risks affecting the capacity of the poor to earning a living are occupational health and safety, and for women, maternity.

Because they generally operate without any protection, informal workers are, more than others, subject to occupational injuries or occupational diseases. **Occupational health and safety** are therefore a major concern for people working in the informal economy. However, it is difficult to sensitise people to such risks and to persuade them to save money to deal with them. This is why projects generally address this issue through the improvement of protection at workplace, for instance by distributing clothes or equipment (gloves, boots, masks, helmets, etc.). Insurance against such risks can be covered in a similar way as health, for those workers who are especially subject to these risks.

Maternity leave and childcare are important for women in the informal economy, because they correspond to periods during which their income-generating activities may be insufficient. Mothers must return as soon as possible to their informal occupations, often to the detriment of their child's health. This is a domain where the public sector is generally unable to play its role as far as the informal economy is concerned, but it should be a concern for projects.

Among the other risks to be covered are **old-age pensions**, but this type of risk is rather a responsibility of the state in that it is much more difficult to have it taken into consideration by poor populations for whom short-term needs are of greater concern than long-term issues. Furthermore it is a domain where community solidarities continue to play their role. Large families and many children are the usual means to cope with old age in traditional societies. When the time comes that older people are unable to work, it is up to the family to take care of them. However, economic crises, ageing and the rise of unemployment have put extended families under pressure and made it more difficult for relatives to take care of their elders. Individualism is a consequence of globalisation and urbanisation and has progressively eroded community solidarity (Marie 2008).

As regards the protection against **unemployment risk**, rare are the developing countries that include such benefits in their social security systems. In Algeria, for instance, unemployment benefits were

implemented at the time of structural adjustment and to accompany the downsizing of the public sector; then it turned into a fund to provide credit to create microenterprises. A guaranteed basic income for the unemployed would be difficult to implement in countries with high unemployment and underemployment rates and scarce resources. Labour-intensive public-work safety nets will long be the only means to provide the poor with a minimum number of workdays and a minimum income per month. In some countries poor farmers have been authorised to mop up their debt with such workdays. However, safety nets as such are not a means for ensuring the transition from the informal to the formal economy because they do not create decent jobs.

There is a long way to go to reach such objectives. In many countries, only paid employees in the formal sector have access to these minimum rights. Even in the formal sector, health services are frequently not yet accessible at reduced cost. For the majority of people, relying on social assistance programmes remains the only way to benefit from health care services and obtain a minimum income. These programmes still do not target the majority who work in the informal economy. Reliance on self-help community-based groups is their primary resort, i.e., they use their own savings.

Despite international recommendations, ensuring the minimum standards of social protection for people depending on the informal economy remains a challenging objective for projects. Microfinance institutions are often the only tool that can be reliably used to achieve this aim.

As described in section I above, in the 1970s the ILO was the first international institution to show interest in the informal economy (and especially the informal sector) and to take measures or adopt recommendations for the design of policies addressing this sector, as a source of jobs in a period when unemployment was on the rise. The ILO transformed the negative concept of informality (and the negative criteria that define it) into the more positive view of “decent work” (with positive criteria, among which the benefits of the various dimensions of social protection take place (ILO 1999). The ILO came to define a “social protection floor” (ILO 2011) and adopted its Recommendation 202 (ILO 2012, Box 26). More recently, Recommendation 204 was unanimously adopted by the International Labour Conference in 2015 on the transition from the informal to the formal economy (ILO 2014 and 2015b).

Box 26. Social protection floors

In 2012, the International Labour Conference adopted Recommendation 202 on social protection floors:

“Social protection floors are nationally defined sets of basic social security guarantees that should ensure, as a minimum that, over the life cycle, all in need have access to essential health care and to basic income security which together secure effective access to goods and services defined as necessary at the national level.”

Recommendation 202 applies to all, including workers in the informal economy.

“National social protection floors should comprise at least the following four social security guarantees, as defined at the national level:

- *Access to essential health care, including maternity care*
- *Basic income security for children, providing access to nutrition, education, care and any other necessary goods and services*

- *Basic income security for persons in active age who are unable to earn sufficient income, in particular in cases of sickness, unemployment, maternity and disability*
- *Basic income security for older persons.”*

These recommendations have encouraged governments to make efforts to extend their social security systems. Countries such as South Africa or Kenya have even enshrined the right to social protection in their constitutions.

It is thanks to the ILO that the extension of social protection is henceforth tightly linked to the process of formalisation, not only because the absence of payment of social contributions is a criterion for defining informal employment (or non-“decent work”), but also because the traditional systems of social security are revealed to be unsustainable in the long run with the ageing of populations, the rise in the number of pensioners and the tightening of the base for the payment of social contributions (mainly the wage bill of the formal/public sector).

The World Social Protection Report 2014–15 (ILO 2015c) recalls that according to ILO estimates, in 2012:

“only 27% of the working-age population and their families across the globe had access to comprehensive social security systems. In other words, almost three-quarters, or 73 per cent, of the world’s population, about 5.2 billion people, do not enjoy access to comprehensive social protection.”

This last figure is close to estimates for employment in the informal economy.

This is why the reflection on social protection is at the core of the policies addressing the informal economy, especially the policies for the transition to the formal economy.

1.3 Examples of national policies

Tunisia is said to have one of the most extended social security systems in Africa, both horizontally (covering many professions or population groups, from civil servants to small farmers and domestic workers) and vertically (covering many risks, from health to old age pensions) (Charmes and Ben Cheikh 2016). Informal employment (including agriculture), a measure of the labour force not covered by social security, did not exceed one-quarter of total employment by 2011, the year of the revolution, until its recent increase (up to 32 percent in 2015).

In parallel with the contributory system of social protection, based on the payment of a contribution by the workers (either own-account or paid) and the employers, a large distributive system has been implemented since the end of the 1980s. This has worked through the national programme for support to needy families (PNAFN). This now benefits more than 230,000 households: 8.5 percent of the 2,713,000 households enumerated in 2014 and an increase of some 100,000 households since 2010. The PNAFN is a programme of cash transfers. It provides a monthly money order of 120 dinars, equivalent to 45% of the legal minimum salary, dependent on the absence or inadequacy of income, plus a free

health care card for all members of the household. In addition to the programme, cards for health care at reduced cost have been provided to more than 600,000 individuals.

Tunisia has enshrined social inclusion into its new Development Plan 2016–2020 and its Vision for Tunisia 2020. It has made it a high priority to safeguard its social protection system, and the prospect of the universal health coverage. Given this, an assessment of the weaknesses and disequilibria of the social protection system in its various dimensions was necessary. All the more so as further to the adoption of Recommendation 204 by the 2015 International Labour Conference, the transition from the informal to the formal economy has become another priority for the government. This requires a more in-depth knowledge of the roots and dynamics of the informal economy.

According to a report on social protection and the informal economy for the Centre of Research and Social Studies (CRES) and the African Development Bank (Charmes and Ben Cheikh 2016), a dilemma for the Tunisian social protection system is that the generous schemes of the contributory system (for instance the special scheme for low-income workers) and the distributive system have progressively nibbled away at and contaminated the equilibrium of the whole system. Criticism has been addressed at the distributive system regarding its weak targeting (not even to say its “clientelism”). A report prepared for the ILO on “the Tunisian youth and the informal economy” (Charmes 2015) shows that a high proportion (more than 75%) of new entrants to the labour market worked informally and a non-negligible proportion of them accepted to do so in order to continue benefitting of the free or reduced cost health card. They would have lost this benefit if they had been declared formally, and would have had to contribute to the regular social security schemes.

Although there is a kind of consensus among social partners (trade unions and employers’ organisations) about such a state of affairs, the increasing deficit of the social security funds leads the government, within a general will to push toward the transition from the informal to the formal economy, to check whether a significant proportion of the households benefitting from the distributive system could be brought back to one of the contributory schemes. At the request of the Ministry of Social Affairs, CRES surveyed the distributive programmes that confirmed that the population of beneficiaries had tended to become younger and that some 27% of the beneficiaries were earning incomes high enough to allow them to contribute to the schemes (CRES 2015).

Another potential source of contributions is the under-declaration of wages in the formal sector. A balanced policy must also target the shadow economy in the formal sector.

In many respects the social security system in **Algeria**, where informal employment has been decreasing recently and did not exceed 38.5% of the total labour force in 2015, is among the most progressive schemes, and experiences similar difficulties. The Finance Law for 2015 refers to Recommendation 204 on the transition from the informal to the formal economy aiming at:

“making of the country one of the precursors in the broadening of social protection to the informal sector and the implementation of an incentivising process towards formalising this sector and reducing it, in conformity with the new international ILO conventions for the next decade”.

The objective is to cover actively occupied persons who are not subject to the social security system through voluntary affiliation on the basis of a contribution equal to 12% of the legal minimum salary during a transition period. The potential beneficiaries of this measure are estimated to 1 million (and 3 million with their family members). Compliance can be increased by applying stricter controls and sanctions against employers who do not declare their employees, or who under-declare them.

Further to the adoption of the law, the National Social Security Fund has tried to incentivise informal workers, especially those who work on their own account, to join a special transitional scheme at the fund for wage earners, as a first step toward their registration to the fund for own-account workers (Charmes and Remaoun 2016).

Tunisia and Algeria are two examples of national policies that have been designed and implemented in the wake of ILC Recommendation 204. They show how governments and national institutions conceive the transition from the informal to the formal economy.

Côte d’Ivoire, where the social security in the formal sector covers only old age pensions, has recently launched universal health coverage, starting modestly with the public sector. In such a case, progress will be achieved through the private sector and the intervention of projects at the field level – as is shown in the following section.

1.4 Role and impact of projects and civil society in extending social protection

Capacity strengthening is on the agenda of most development policies and projects. It applies to public institutions, private and community institutions as well as individuals. Strengthening the capacity of public institutions can help meet the goals of formalising the informal economy by expanding its benefits to the most remote and vulnerable populations.

Projects aiming at enhancing the livelihoods of vulnerable populations dependent on the informal economy have found original ways to expand coverage. This includes national health insurance systems that combine organising small informal operators with providing outreach. It also includes incentivising local and central administrations in charge of the national health insurance system.

The basic principle is that public service providers should go to the population to offer such services and collect corresponding taxes or premiums, instead of waiting for populations to come forward on their own.

In countries where social contributions for health coverage are not recovered through employers from the salaries they pay to their employees, or where own-account workers represent an important share of the workforce, individuals have to pay their contributions directly to a national health fund. It is expected from that such people are aware of the need to be insured in case of illness or injuries. The National Health Insurance Fund in Ghana is of this type, while in Côte d’Ivoire, no such fund exists. It is interesting to see how a system of universal health coverage can be achieved in these two countries.

In **Ghana** the National Health Insurance System (NHIS) was established under Act 650 in 2003 to “provide basic health services to persons resident in the country through mutual and private health insurance schemes”. Members receive a card, which enables them to go to hospital and benefit from general outpatient services, inpatient services, oral health care, eye care, emergencies and maternity care, including prenatal care, normal delivery, and some complicated deliveries, without direct payments. In 2008, nearly 54% of the population were covered, but vulnerable groups failed to benefit from the scheme. Therefore, the government decided that all children under 18 and all pregnant women should receive a card (Abebrese 2012).

The NHIS was successfully involved in facilitating the registration and membership card renewal of an EC supported project’s beneficiaries (RNSF 2016a). The project focused, among other aspects, on

market access of women shea producers through cooperative action. Using a combination of sensitisation, logistics support, and techniques for facilitating registration and organising women producers it was possible to reach the goal of improved access to these public services.

Meetings with NHIS regional staff persuaded them to participate in sensitising clients on the importance of the NHIS and help them understand that the project valued their role as service providers. Logistics support, such as vehicle and a public address system, was also provided to facilitate their travel to the sites for mass registration.

The NHIS staff gave presentations of the role of their institution and the benefits for the population in the project field sites. The staff was asked numerous questions, since many women were unaware of the existence of such health insurance schemes. They also listened to complaints about the non/late delivery of cards, difficulties in renewing cards, as well as the frustrations that card bearers encountered at various delivery points. This exposure helped make the NHIS staff more aware of the difficult conditions of remote and vulnerable populations.

Techniques for facilitating registration included getting women to make contributions in instalments towards registration and renewals. It also included scheduling bulk registrations in the communities, thus extending registration operations beyond the project beneficiaries through a cascading effect. Project officers also picked up expired cards of women to bring them to NHIS offices.

Women producers have been organised in community social funds that were connected to microfinance institutions to obtain financial support for their production activities, as well as for NHIS registration. This allowed the community social fund members to share their health risks as they can pool resources together through the community social funds to access healthcare. An increased attendance to health facilities has been observed with earlier treatment of diseases.

NHIS officials now travel to renew expired cards and register new clients as a result of their collaboration with the shea associations.

This case illustrates the role that civil society organisations can play in complementing government institutions to fulfil development agendas such as the achievement of universal health care services.

The logistical support provided may raise the question of the sustainability of the practice. It is up to the NHIS administration to incentivise its staff to achieve quantitative goals for new registrations and renewals.

Such systems of universal health coverage exist in other regions of the world. Ghana's NHIS is very similar to **Thailand's** Universal Coverage Scheme (earlier known as the "30 Baht Scheme", a very modest sum) that guarantees any Thai citizen access to health services provided by designated district-based networks of providers consisting of health centres, district hospitals and cooperating provincial hospitals. Individuals are able to access a comprehensive range of health services, in principle without co-payment or user fees. These include both inpatient and outpatient services and maternity care, furnished by public and private providers, within a framework which emphasises preventive and rehabilitative aspects (Lim 2015).

Conducting outreach and incentivising local or central administrations (social security, health insurance services) to search and convince informal economy operators to register rather than wait for them to come and register on their own has been recently implemented in various contexts.

In **Tunisia**, for example, under the Tunisia Inclusive Labor Initiative TILI (GFI et al. 2013), the Ministry of Labour, and especially the Labour Inspection with the support of the Tunisian Association for Management and Social Stability, has conducted pilot actions aimed at crafts and small businesses in seven governorates to sensitise them to their fiscal obligations, social protection and labour laws. It is often assumed that informal operators do not know how to become legal: the absence of information, the fear of bureaucracy and corruption raise barriers to the transition to the formal economy. Workshops were organised for informal operators in the presence of all administrations (tax, social security, customs, governorates) to listen to their views and build a climate of mutual trust and dialogue. But generalising such pilot actions would require the strengthening of human and financial resources.

In countries where bureaucracy is synonymous with clientelism and patronage, such actions are a means for providing informal operators with some kinds of relationships within the bureaucracy and supporting them in building social capital.

Côte d'Ivoire decided to pursue an objective of universal health coverage, starting with the public sector. Considering that it would take years to address the handicrafts sector, the AVSI project to empower craftsmen and women in Côte d'Ivoire (one of the 17 projects associated with RNSF) included health coverage for beneficiaries among its long-term objectives. The AVSI project, conducted in partnership with the National Chamber of Crafts, aims at improving the skills of its beneficiaries, their social inclusion and the institutional framework within which they operate. The implementation of a health coverage mutual fund is conceived to ensure the sustainability of the other dimensions of the project (RNSF 2018b). This practice has already been described in the section (II 3.2 Box 21) on “organising” above.

Through savings and community solidarity groups, the project collected deposits for various existing mutual funds, and modulate the services according to the financial capacities of artisan. This flexible model can be adapted to regional opportunities and is a preliminary step towards an independent mutual insurance for crafts.

In **India**, SEWA's integrated insurance scheme, known as VIMO SEWA, has three components: life insurance, asset insurance and health insurance. It has over 102,000 members and was a response by SEWA to the concerns of members that the majority of what they earn is spent on health costs, and ill health was a major cause of loan defaults in their savings scheme. The health insurance helps cover the cost of necessary medical attention. It helps to avoid further loss of income over that already caused by the illness or injury. The reduction in cost of treatment is an important incentive for workers to seek medical attention when needed rather than risk continuing to work and further compounding health problems (Lund 2009).

Recapitulating social protection practices from more than 200 projects, Zegers mentions the following (RNSF 2016b):

- The inclusion of a range of stakeholders (including government, employers' and workers' organisations, and civil society groups and other non-state actors) related to the informal economy in capacity strengthening and decision making on social protection issues. This helps raise their awareness and strengthens their ownership of the related processes;
- The registration of the informal workers in social security systems by working directly with the informal operators and their workers.

- The dissemination of information on social protection resources that may be available. Where associations of workers dependent on the informal economy cannot provide access to social protection themselves, support should be provided to establish linkages of operators and workers in the informal economy with social protection services through exchanges and meetings. A reason for this is that changes in revenue collection and management systems become more effective and acceptable when people can better understand what they are likely to gain.
- The provision of project beneficiaries with the best available insurance solutions in line with their needs and their disposable assets. It is necessary to obtain workers' opinion and insights to understand which option could be considered the most suitable.
- The necessity of sound advocacy and training on the linkages between social protection and employment toward a better integrated approach in the design of projects.
- Targeted social protection (including safety nets) and investments in infrastructure and production technology to offer extremely vulnerable people better alternatives than support for microcredit.

For WIEGO, social protection is a high priority for informal workers. After more (and more sustainable) income, they list access to health services, child care and savings/security for the old age among their highest priorities. WIEGO considers that informal workers should be integrated, wherever possible, into formal schemes, rather than being covered through small schemes designed especially for them. Short-term safety nets are definitely not enough, and social protection for informal workers must be mainstreamed and be a long-term commitment (WIEGO undated). Although not fitting with such requirements, it is necessary to mention safety nets as they are still, in many countries, the only policies meant to provide the poor with a source of income.

1.5 Back to taxation

According to the World Bank and ILO allied within the Universal Social Protection Initiative (World Bank and ILO. 2015), today more than 30 low and middle-income countries have universal or nearly universal social protection programmes, and over 100 others are...

“scaling-up social protection and fast-tracking expansion of benefits to new population groups. Universal social protection is most commonly achieved for old-age pensions. Universal social protection for children is also a reality in some countries”.

The World Bank and ILO recognise, however, that it requires appropriate and major sources of financing. Several options exist:

- Reallocating public expenditure.
- Increasing tax revenues, including revenue generated from taxation of natural resources.
- Using the reduction of debt or debt servicing.
- Expanding social security coverage and contributory revenues.

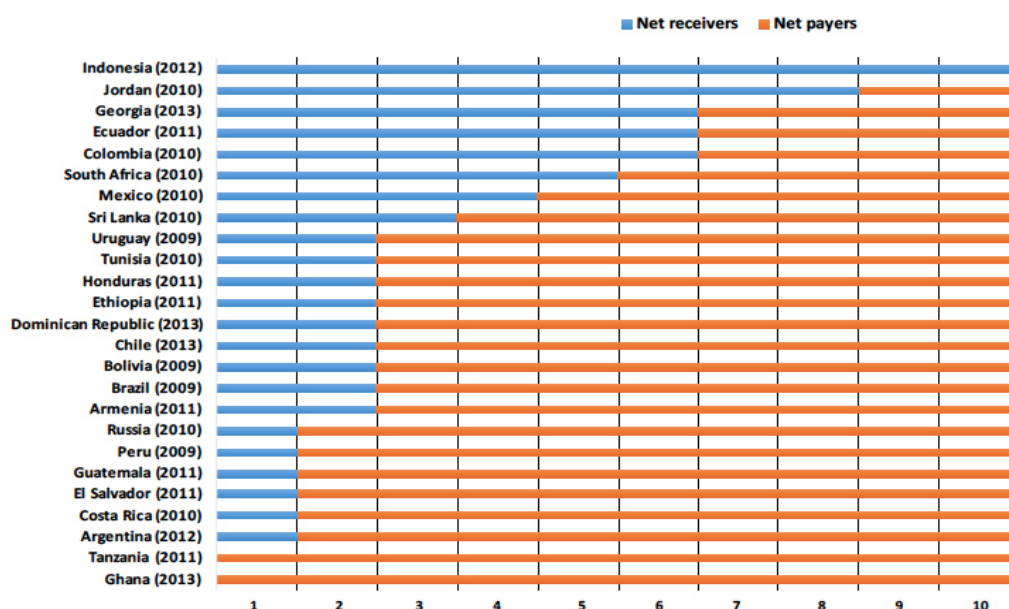
It is particularly stressed that:

“enforcement of social security revenue collection may result in higher tax collections, particularly in countries with young demographic pyramids. Higher tax revenues can in turn support the promotion of statutory programs.”

These remarks bring us back to the issue of taxation of informal activities (Section II, 1). Until recently (and still often), social protection policies and fiscal policies were treated separately. It is now widely admitted that they should be treated jointly. Observing that in some countries such as Ethiopia, almost 70% of the poor pay tax, and that subsidies benefit mainly the rich, researchers have developed a new concept of “net social protection” (Lustig 2016b). According to them, analysing the impact of spending on social protection without the impact of financing on the poor is useless. When financing is added to the picture, the net effect of social spending on social protection can increase poverty.

Figure 7 summarises the findings. In Tunisia and Ethiopia, the first two deciles are net receivers, whereas the others are net payers; in Ghana and Tanzania, all deciles are net payers.

Figure 7. Net payers and net receivers to the fiscal system by decile: Contributory pensions as deferred income



Source: Lustig (2016a and b). <http://commitmenttoequity.org/>

The discussion on the transition from the informal to the formal economy is therefore inseparable from the discussion on the social contract, social inclusion, citizenship and the payment of taxes. For some policymakers and observers, presumptive taxes are the means to bring as many people as possible into the tax system, while for others citizenship is not linked to the payment of taxes.

1.6 Conclusions

It seems clear that for most international and bilateral institutions, as well as governments, social safety nets are the solution that will allow achieving the goal of universal social protection. If so, the path leading to the transition from the informal to the formal economy is still long. Of course, providing

workdays to poor populations is positive, but it cannot be considered as the only way to achieve such an ambitious goal.

Nicholas Taylor, a former head of sector Employment, Social Inclusion and Social Protection at EU-DEVCO, states that:

“countries are now moving away from a panoply of small fragmented programmes mostly managed and funded by donors or implemented by NGOs in very small contexts (...) into a very different framework where countries want to have this as part of national social policy.” (Capacity4dev 2015)

However, as WIEGO puts it, informal workers should be integrated, wherever possible, into formal schemes, rather than being covered through short-term safety nets that are not enough. And as a participant to a recent OECD-EU meeting of experts on social protection stressed in the concluding remarks, time may have come to move:

- From targeting to universal coverage
- From conditional to non-conditional transfers
- From fragmented to more comprehensive approaches.

This means that it is time for social protection to be given the highest priority and its full extent.

Social protection for informal workers must be mainstreamed and be a long-term commitment. But good practices and lessons from projects have still a role to play in the implementation of national policies. National policies could play a coordination role. Inefficient bureaucracies, immersed in clientelist practices and cronyism, and devoid of resources, need to be sensitised, incentivised and accompanied by grassroots organisations in order to change, or even undergo a revolution: serving the people rather than having the people at their service.

2 Enhancing technical and vocational skills

Originally, the informal sector was defined, among other criteria, by skills acquired on-the-job, outside the formal school system. Most of its workers had no school education, even at a primary level (ILO 1972). Since then, much water has passed under the bridge. In particular, the proportion of the population who have completed primary and even secondary school has dramatically increased.

Today many informal workers have a primary or even secondary level of education, not to mention young graduates who temporarily (or even permanently) earn a living in the informal economy. But informal workers still generally lack the background and skills that they could have acquired in the formal technical and vocational education and training system. On the other hand, youth trained in this system lack practical experience acquired on the job, while people who have worked in the informal economy struggle to get formal recognition of the skills they have acquired. The youth who learn a craft on the job are often older and more educated than their masters or the owners of the workshops. Consequently, the status of apprentices has changed, and trainees rather than apprentices are demanding more than learning by doing (Charmes 1982). They want their practical experience to be backed up by more theoretical knowledge.

Enhancing technical and vocational skills is one of the major issues that should be taken into account in addressing the informal economy. There are at least two reasons for this:

- On-the-job training remains the main source of skills in the informal economy
- Not all the youth enrolled in formal training programmes will be absorbed by the formal labour market; many will have to find their way within the informal economy.

This highlights the strong interconnection between formal training and the informal economy in the following fields:

- The recognition and upgrading of skills developed in the informal economy, training of informal trainers, and upgrading of informal apprenticeship schemes.
- Access to higher-level skills training for improving the informal workers' performance.
- Formal and informal training schemes enabling learners to develop entrepreneurship and start-up businesses and escape from insecure, poorly paid jobs.

Training and vocational education thus stand among the major domains of state intervention to improve the productivity and quality of informal operators. The challenge lies in the role given to apprenticeship and the ways by which formal training can improve traditional, informal systems. Other challenges are the recognition of informally acquired skills and adapting formal systems to match the new needs of the global economy.

Two implications result from these observations.

- Formal training and vocational education systems must ensure that skills acquired on the job are recognised and complemented so they will match the formal sector's needs. This is necessary so that informal apprentices are not locked in the informal economy.
- The young trainees of the formal systems should be provided with entrepreneurship skills to allow them to create their own jobs and find their way through private initiative, rather than counting on wage jobs that are lacking in the formal labour market.

One of the most important issues that transition policies from the informal to the formal economy face, is the absence of recognition of informally acquired skills. Doing this is necessary to boost mobility from informal to formal enterprises.

The recognition of non-formally acquired skills may entail high costs, both for applicants and the state. The challenge for policymakers is thus to analyse the costs and benefits and choose the most advantageous forms. The outcomes of non-formal learning that are valued in the labour market can generate benefits; but such outcomes may not justify the additional costs of recognition and certification. Experience also suggests taking into account soft forms of validation, such as “skills passports”, which make acquired skills visible to potential employers without requiring official recognition.

However, the costs for recognition and certification are generally lower in the long term than the costs of providing formal vocational training for the majority of people or youth working in the informal economy.

Furthermore, one of the most recurrent criticisms regarding formal training systems is their lack of adaptability and flexibility – especially as regard updating and their ability to respond to the most common needs.

Because they are close to the intended beneficiaries, grassroots organisations, non-state organisations and the projects they manage are the most able to identify the needs – and especially the new needs – that formal training could satisfy.

Thus formal systems should not be designed only to supply the formal sector with the trainees it requires; it should also aim to improve the productive capacities of the larger number of informal workers.

The paradox that training and vocational education systems face is that informal on-the-job trainees often lack the theoretical background that the systems deliver; at the same time, these formal systems lack opportunities for on-the-job practice and realistic experiences in entrepreneurship for their trainees. Practical experiences they can offer their trainees are often limited to large and medium enterprises, rather than in micro and small enterprises where they could be confronted with the real problems of entrepreneurship.

2.1 Examples of national policies and actions from donors

Many training and vocational education systems remain traditional and inflexible to change to suit the new needs of the labour market. Bilateral and multilateral agencies often promote the reform of such systems. The German vocational education and apprenticeship system is often regarded as a model.

On the labour supply side, the objective is to improve employability and matching. There are various types of mismatches. Demand mismatches include the economy and types of jobs versus skills sets and expectations of workers. Supply mismatches include the type and quantity of skills produced and responsiveness to demand.

An interesting experience is a 20-year GIZ project implemented in Egypt since 1995 (with 6 years without GIZ). Training and vocational education in this country was total school-based. It was subject to criticism because of insufficient and irrelevant training, poor skill acquisition, skills mismatches and high cost. The reform implemented a dual system combining school (2 days) and work experience (4 days), with regional units as self-financed matchmakers. A joint evaluation by teachers and employers leads to a diploma, and the government and employers share the costs. This model is based on the German dual system, adapted to Egypt. The programme covered 30,000 enrolees, 1,900 employers in 24 out of the country's 27 governorates, 32 occupations, with 76 technical secondary schools participating. Eighty per cent of the trainees received job offers, but three-quarters decided to continue to university because of the poor quality of jobs and low wages (there is a discussion about having higher technical education in Egypt). The issue is to reach small enterprises (currently just 1 to 5%) and rural areas, and to improve the school-to-work transition. The European Union is currently working on scaling up the approach. A similar project is currently being conducted in two regions of Morocco.

Also worthy of mention is the Rwandan National Employment Programme sharing sector approach between modernising sectors (such as agro-processing, construction, manufacturing: metal-wood, maintenance and technical repair services) and modern sectors (such as information technologies, renewable energy solutions with small and medium enterprises).

2.2 Apprenticeships

Vocational training can take place in formal training institutions as well as at the workplace in informal enterprises through traditional apprenticeships. The latter has proven to be a major pathway to jobs in the informal economy in developing countries.

Traditional apprenticeships have played a major role in Africa: in northern Africa with craftsman guilds and their influence on a range of industries, and in sub-Saharan Africa on an ethnic or caste basis. With the modernisation process, the system of traditional apprenticeships has lost weight but remains important in absolute numbers.

Paradoxically, the importance of apprenticeships in the total labour force is less well-known than some decades ago. The reason is that labour force surveys now commonly apply the legal minimum age when defining the labour force, while the measurement of child labour was assigned to dedicated modules or surveys that did not systematically collect information on employment status. Still, the number of apprentices is admittedly high in Africa, and apprenticeships remain a major entrance to the labour market and a major provider of self-employment.

One of the advantages of such work-based learning is to facilitate the transition from learning to work by ensuring a better understanding of the workplace culture and the acquisition of good work habits – in other words, proficiency in all dimensions of the craft, not only technical, but also in entrepreneurship skills. The drawback is that apprenticeships often conceal poor wages and work conditions, as well as a lack of basic occupational health and safety conditions.

“However, the EU experience in developing countries confirms that better and more broadly available apprenticeships can reduce youth unemployment and poverty when combined with national efforts to spur job growth. Further efforts should be undertaken to make apprenticeship a more attractive and a more efficient pathway to productive and decent jobs for more young people” (Gobbi 2015).

Recognising that the differences in conditions in each country make it impossible to develop a standardised framework and strategy for informal apprenticeship, the EU identifies some possible paths to be adapted and scaled up. At the top of possible pathways to be explored and tested are:

- Improving the technical and pedagogical skills of master craftspeople
- Modernised training modules
- Enhancing the training capacities of informal trade associations
- Increasing the participation of women in apprenticeships
- Recognition of informally acquired skills.

In their modern form, apprenticeships alternate periods of on-the-job training at the workplace and learning periods in formal education institutions or training centres. In Europe and especially in Germany and Austria, this is referred to as the “dual system”, where companies train providers together with vocational education schools and centres. The dual system should be further explored and applied within vocational education strategies and reforms in developing countries.

Apprenticeship should be an integral part of coherent and comprehensive vocational education strategies. The European Commission recommends a comprehensive policy to informal apprenticeship

at the macro-level, embedding apprenticeships in social movements and creating institutional structures (EU 2017). Issues of financing and recognition of skills should be integrated in policy formulation. At the micro level, it is important to combine apprenticeship with measures such as mentoring, credit, equipment and advisory services for start-ups.

2.3 Role and impact of projects and civil society in recognising informally acquired skills

The official recognition of diplomas and training certificates is a long and bureaucratic process in most countries. It can take years, has a low probability of success, and entails considerable costs for individuals and institutions. An interesting good practice for projects consists of negotiating the certification of acquired skills with employers' associations.

In many countries, a major problem with the official training and vocational education system is that it produces types of qualifications that are not adapted – or are no longer adapted – to market needs. That is, the types of training do not match the employers' demand for different types of skilled workers. As a result, graduates of formal institutions often have no other recourse than finding or creating a job in the informal economy. Employment in the informal economy is thus fed by the outputs of the formal system that do not fit with the qualifications required in the labour market. At the same time, individuals who have completed informal systems of apprenticeship or skills training are prevented from finding jobs in the formal sector due to the absence of formal recognition of their training.

SwissContact Germany developed and implemented systems to recognise informally acquired skills in Uganda through an EU-funded project, Validation of Non-formal and Informal Training (RNSF 2016a).

Box 27. Skills certification in Uganda

The “Proficient Acquired Skills” (PAS) document was developed and implemented in Uganda in partnership with the Ugandan Association of Private Training Providers. The PAS document certifies the skills and competencies of an individual in a particular trade and assesses the strengths of the holder as well as his or her skills gaps.

A large-scale and low-cost non-formal educational and training approach of “local skills development” and DACUM (for “Developing a CUrriculUM”) was developed. Through DACUM, a participatory process was developed for describing any occupation in terms of duties, tasks, knowledge, skills and traits. This was done for eight trades: hairdresser, tailor, motorcycle mechanic, motor vehicle mechanic, welder, metal fabricator, plumber, carpenter and joiner. The project aimed at providing appropriate training opportunities to the unemployed and to potential or actual workers in the informal economy. The method developed private-sector-driven and innovative non-formal modes of skills training and their accreditation. It did this in partnership with several employers' associations, such as the Ugandan Small Scale Industries Association and the Ugandan Hair and Beauty Alliance. It included interventions in capacity building, institutional development, coaching and technical assistance of training providers, stimulation of collective action of workers and employers for linkages and network development, career guidance, pre-vocational skills training, and advocacy.

Once the assessments for the selected trades are completed and the qualification process is in place to deliver the PAS document, human and financial resources are no longer critical. The provision of the PAS documents is then a service that can be delivered without permanent costs:

the costs of the qualification and certification processes are charged to the beneficiaries. The online PAS database captures the personal data with corresponding assessment results of each trainee to be promoted among potential employers.

Although the PAS assessment might be considered a public service, it was conceived as one to be delivered by a private-sector player. The private-sector operator would have business plans, pricing strategies, and marketing strategies as opposed to awareness campaigns. It would also have business networks and clients rather than beneficiaries, thus ensuring a more creative implementation. The reverse of the coin, however, is that without public subsidies, the system remains inaccessible for the poor who cannot afford the ensuing costs. The PAS has progressively gained recognition through approval of the Directorate of Industrial Training and has become part of the Ugandan Vocational Qualification Framework.

Among the main benefits and uses of the PAS, the facilitation of placements of trainees among members of the Small Scale Industries Association should be noted. Also important are matching identified skills with the needs of the labour market, and the enhancement of employability of PAS holders through the demonstration of skills to clients. The access of small businesses to tendering is facilitated. In the psychosocial sphere there is increased personal confidence of the holders, increased support from relatives and recognition in the community, as well as better interaction with local and central authorities.

More information: RNSF 2016a

Several similar African examples are provided by an ILO report on case studies (Lange and Baier-D’Orazio 2015): construction workers and hairdressers in Ghana, plumbers in the Democratic Republic of Congo, construction in Rwanda, other trades in Cameroon, as well as mining in Colombia.

The assessment and recognition of prior learning in Bangladesh is an interesting example related to the formalisation of skills and informal apprenticeships. This is part of the Technical and Vocational Education and Training Reform Project (2008–13), a joint ILO–EU initiative with the government of Bangladesh, that sought to modernise and upgrade the vocational education system and make it more inclusive and accessible to disadvantaged groups and informal workers who were not formally trained and certified.

Box 28. BEP-STAR Project, Bangladesh

The pilot project BEP-STAR (short for BRAC Education Programme – Skills Training for Advancing Resources) was jointly implemented by BRAC (see Box 24), ILO and UNICEF. It focused on how informal apprenticeships can better utilise existing skills of master craftworkers to train, assess and enhance the employability of school drop-out adolescents. In parallel, the project also included enterprise improvement and occupational safety and health training to upgrade and modernise skills and techniques of selected master crafts across 11 trades to improve productivity at workplaces and reduce hazardous working conditions. While the ILO and UNICEF trained master craftworkers, BRAC monitored the training and facilitated the enrolment of apprentices through programme organisers who were trained by ILO and UNICEF. BRAC also provided support so that these microenterprises, and later the apprentices, could access microfinance and other business development services to expand or start their businesses.

Intensive training was provided to two apprentices in each enterprise over a period of 6 months, for 5 days in the workplace and 1 day in a nearby technical institute or learning centre. There, instructors reviewed the practical training received at the workplace and provided theoretical training, training in English and in social and life skills.

“The introduction of skills testing arose from a mix of government and market-driven initiatives. As a part of the national Technical and Vocational Education and Training reform agenda, work on assessment has intensified to consolidate existing training and certification initiatives in the public and private sector under one umbrella, and to increase access to training and certification of the majority of Bangladesh’s workers who informally acquired skills in the workplace and through informal apprenticeships. There have also been requests from employers in the ready-made garments [...] and construction sectors to intensify certification of workers and promote and pilot test for [recognition of prior learning] to be able to upgrade the overall skills levels and productivity within the industry. The ready-made garment sector’s interest in skills testing is a result of the massive skills shortages and high attrition rates within the industry and has further led to plans for a centre of excellence for training and certification to be established that will address these needs. Interest in certification has also arisen as a result of increasing skilled migration and the need to recognise the skills of migrant workers (mostly construction) before they go abroad. In the case of micro entrepreneurs, BRAC had found that increasingly, master craftworkers wished to be assessed and certified, as this provided them with an identity of a skilled entrepreneur and gave a branding opportunity that distinguished them from other enterprises.”

[...]

“500 master craftworkers have been trained in competency-based training, workplace improvement and occupational safety and health during a 3-day programme. They learned how to follow a code of practice covering occupational safety and health standards and working conditions (the number of working hours, pay rates, minimum age etc.), how to use the Competency Skills Log Book [...] and familiarise themselves with competency-based training. Trained BRAC Programme Organisers paid weekly visits to monitor compliance in the workplace and provided mentoring support to the master craftworkers to strengthen the apprenticeship process and documentation. Compliance monitoring includes observations, attendance register, use of the competency skills log book, adherence to the code of practice, workplace improvements and social compliance, (ensuring non-exploitation of apprentices, working hours etc.).”

[...]

“The assessment includes 80 per cent practical demonstration, and 20 per cent oral and written multiple-choice questions. Assessment criteria are based on the individual competency skills log book units. The Ministry of Employment and Training [...] registers all the apprentices under the apprenticeship scheme and provides them a certificate that they have completed the apprenticeship. In this way what was an informal apprenticeship becomes a formal programme.”

[...]

“At the end of the apprenticeship, Programme Organisers supported job placement and after training support. The programme had a 95 per cent placement rate, and significant wage improvements could be measured. To date, all the apprentices have been retained on the job. One per cent of the apprentices started their own business.”

[...]

“The BEP-STAR is a scalable and replicable model, which promotes the conversion of informal apprenticeships into structured and formal apprenticeships in Bangladesh. At the same time it reduces hazardous working conditions in micro enterprises. Master craftworkers perceived the project as a significant support to their businesses and to get access to trained and motivated staff. Many [...] were sceptical initially about the duration of the apprenticeship and the fact that learning can be accelerated through a structured and well-documented apprenticeship process. They realised that they could reduce the usual training period of three years to six months to achieve similar learning outcomes. The master craftworkers also appreciated the additional training in documentation of their business practices, like basic book keeping and accounts and noticed considerable progress in managing their business.

Most master craftworkers showed interest in certifying their apprentices but till date they do not see an advantage of being certified themselves. The perception is that testing is time consuming, costly and not easily accessible, since there are only few assessment centres and qualified assessors available, which is currently being addressed. Another hurdle is the fear that the master craftworkers will not pass the assessments due to their low literacy/numeracy skills. Testing might also have positive effects on the relationship between master and apprentice and lead to increased respect for the master. Despite the initial low take-up, BRAC is continuing to explore possible incentives for master craftworkers to be certified and is in the process of developing a training package for business up gradation, training methods and loan facilities, which is linked to certification”.

Source: Lange and Baier-D’Orazio (2015)

Box 29. Certificate of Qualification for Crafts in Benin

Another interesting example is with the Swiss cooperation that intervened in Benin since 2007. The project aimed at replacing the end-of-apprenticeship testing that was autonomously organised by crafts people by the Certificate of Qualification for Crafts (CQM). In collaboration with municipalities, at national level and in parallel with the CQM, a dual-system approach (the Certificate of Professional Qualification) was introduced for apprentices who had an adequate level of schooling: the testing became legally regulated, compulsory and structured by official decrees. The craftsmen and women were involved in the definition of the contents of testing but the jury was no longer composed only of craftspeople as previously, but also comprised representatives of the municipality, the training centres and communities.

It was observed that apprentices were much more active in asking questions during their apprenticeship and the masters were motivated to be better informed in order to enable their apprentices to pass the testing. Still, the project faced several challenges. One of these is the idea that craftspeople “lose” something with the introduction of the testing – losing money by having to do without the “traditional fees” for the “liberation” ceremony, losing credibility in the community if the apprentices fail the testing, and losing authority once a certificate will no longer be signed by them and instead is signed by the municipality or a ministry.

Source: Lange and Baier-D’Orazio (2015)

2.4 Recommendations in the field of technical and vocational education and training

From an assessment of some 200 projects on the informal economy, especially from ILO, Zegers (RNSF 2016b) identifies a number of good practices, lessons and recommendations. These can be classified into three main categories:

- Actions before the implementation of training
- Implementation and content of training
- Support for trainees in their job search.

Such good practices and lessons can help in the design of vocational education programmes at the national as well as the project levels. They also can help in designing adequate public policies for technical and vocational training.

Actions before the implementation of training

1. When planning a vocational education programme, **conduct an internal review of government priorities about labour market and economic diversification**. Labour market assessments are needed to identify viable economic sectors for private-sector development, the human resource requirements within the market, and the appropriate training packages. The objective is to align the vocational education system more closely with the requirements and dynamics of the market, as well as to the needs of an economic diversification strategy. A recurrent failure observed is the training of surplus labour in already congested industrial sectors.
2. Explore a range of methods to **determine the types of skill sets needed** in the labour market. Aside from labour market assessment surveys, this can include surveying companies and corporate social responsibility programmes to understand the skill sets that are needed. The example of ACUMEN is interesting in this regard. It is a non-profit global venture fund that uses entrepreneurial approaches to solve the problems of poverty. It aims at changing the way the world tackles poverty by investing patient capital in companies and businesses whose products and services are enabling the poor to transform their lives. It collects data on each of its portfolio companies to confirm that they are effectively serving low-income customers, and more recently it has done it through a gender lens (Acumen 2015). In other words, its assessments result in the identification of new skills – from design, production, marketing and sales to workplace structures and systems – needed by companies to optimise gender integration within their business models while increasing financial viability as well as social performance.
3. Ensure the vocational education and training is **sufficiently tailored to local contexts** and to the needs of participants is important so that beneficiaries can implement what they have learned easily in the local situation.
4. Include an **emphasis on the establishment of linkages** between government training institutions, private training institutions and private-sector operators in vocational education projects.

5. Take into account that **not all youth have the inclination or aptitude to become self-employed**, so any type of training needs to be sensitive to youth preferences and capacities. Therefore, determining preference for self-employment or for paid employment working for others when enrolling youth in programmes is a prerequisite. Also, one has to be aware that youth preferences may change over time.
6. **Distinguish between income-generating activities and market-based employment objectives**, as well as expanding the repertoire of courses and options for trainees in both.

Implementation and contents of training

7. A careful review and **plan of the implementation steps of a vocational education programme** is required as well as ensuring that these are well organised in order to avoid implementation delays. Any significant delays may result in a loss of momentum and poor results.
8. Ensure that all **training modules include clear learning objectives** and, if relevant, establish linkages to national qualifications networks.
9. Ensure that projects include implementation of **assistance with job referral in the project design**.
10. **Involve potential employers** in the project by asking them to review course content and mentor trainees in order to promote market-oriented training and reduce skills mismatch.
11. Link trainees to a range of public- and private-sector experts who provide **expert training in innovative subjects** not often considered for vocational education programmes, for instance greenhouse techniques.
12. **Develop voucher programmes** for young and other interested persons to facilitate attendance in vocational education programmes. A voucher programme enables potential trainees to receive vouchers that they can use to cover (most of) the costs of training in a selected number of training sites. A project evaluation noted that the probability of working in the formal sector is increased by 4 percentage points as a result of the vocational education voucher programme (Attanasio et al. 2015).
13. In vocational training, focus on a **wide range of skills** including with the retail industry and other customer service areas. Consider including possible types of employment that are often not considered for vocational education, such as sales service provider, security guard, information technology, development of new products based on traditional crafts, and green jobs.
14. **Translate all the material** to be used during vocational education programmes and other capacity-strengthening materials prior to training. Misunderstandings and message distortion may arise if the facilitator is relied on to translate the content. Also ensure that training materials are directly accessible to participants and content does not need too much adaptation during training. A project evaluation found that vocational education in Kenyan villages was based on very useful material that, however, was written in English and most of the group members could not read it. The trainers then had to interpret it into Kiswahili and then the local dialect. This was a long process of passing a message with high likelihoods that the message received by the final recipient was not the same as the original. Considering that the majority of trainers do not

speak the language of the local community, these materials had to be translated into Kiswahili to reduce the risks of message distortion (Dondo et al. 2014).

15. Consider that **people who never attained primary education may require supplementary assistance** to keep up with higher-educated participants (who are at least able to read and write). According to a project evaluation, requiring a minimum education level for youth program participants (such as completion of lower primary) improves the likelihood that youth will master the work readiness and technical training. Some trainers reported that training secondary and primary school leavers together improved the quality of learning across the board, particularly during group work. In a USAID project in Rwanda, while youth with low literacy levels were the primary target population in the original plan, the Education Development Centre of Akazi Kanoze found they required considerable supplementary assistance to match the performance of the more highly educated participants. “If being able to read and write is a minimum requirement, it makes a big difference. They have the capacity to understand and accept the concepts quickly and either continue in school or look for opportunities for work,” one sub-grantee partner coordinator observed (McLellan et al. 2012).
16. Note that **employment creation after vocational education completion may not be evident in the short term**. If employment creation is to be directly fostered in a vocational education project, this should be directly incorporated into the project design. This could include, for example, support for creating self-employment or training oriented directly to supply labour for new to be created employment opportunities.
17. Provide training with a specific session on doing **job applications and strengthening of professional confidence**. Do not underestimate that lack of preparation and experience in applying for a job is one of the main challenges that prevent those in the unemployed workforce from finding an employment opportunity.
18. Include a focus on **building relations with private sector** companies to ensure employment of younger less-educated workers after the end of training.
19. Promote the use of **locally available resources, building on already known techniques**, and training on non-time-consuming skills. (This should not be to the exclusion of innovative products and services if there is a market for them.)
20. Where resources allow, **provide the basic equipment necessary** to the trainees in the form of income-generating “toolkits”, and provide support to access start-up capital. In one of the on-going projects partnering with RNSF 2018b (the EC-funded Regional Project for Support to Child and Youth Migrant Workers, implemented by Save the Children in Côte d’Ivoire, Burkina Faso and Mali), the youth placed as apprentices with master craftworkers were provided with toolkits. However, in the course of the project it was decided to transfer these toolkits to the master craftworkers with an obligation for them to have the apprentices use this equipment because it was found that incentivisation of the master craftworkers was a priority.
21. **Engage in local procurement of tools and materials** for training in order to ensure greater project effectiveness in supporting the local economy.
22. **Include life skills and other training** in vocational education programming as it is critical to help prepare graduates for jobs. The inclusion of life skills and other soft skills training will help ensure that they can build sufficient confidence to implement their technical skills.

Support for trainees in their job search

23. Ensure that **vocational education activities are well monitored** through an information system that collects data on the post-training situation, including the absorption rate of graduates into the job market and changes in students' attitudes and lives.
24. Promote and provide support to obtain **internship options for vocational education graduates** so that they can acquire experience and come in contact with employers who may not always advertise jobs that are becoming available.
25. Ensure (and test) that **project beneficiaries are fully able to use their newly acquired skills** and working tools obtained through training. Monitor the beneficiaries even after the end of the project, supporting them in developing their new activities and, consequently, gain more from their work. Work with government and civil society representatives to enable this.
26. When providing **seed capital support** following vocational education, ensure that it is provided within 2 months after graduation to avoid disillusionment and fatigue among graduates.
27. In situations where projects or other entities provide support for self-employment by providing work spaces, **ensure that such spaces are sufficiently well located** to be suitable to attract clients. While this may seem evident, it is not always considered. Examples of craft areas established in the city outskirts and remaining empty and unattractive are many.
28. Be aware that graduates may not immediately automatically find employment. Strategies need to consider the **post-graduation support** that addresses the specific obstacles to job market access faced by the young graduates. Develop other means to support graduates through social protection methods if needed until employment can be accessed.

Although this set of recommendations is based on project experience, a crucial problem does not show up that should however be addressed. If apprentices in informal microenterprises are to be provided with specific training, the courses should be held in the evening. If not, the masters or microentrepreneurs have their say and should be asked to authorise their apprentices or should possibly be subsidised for that. But another difficulty may appear: a master may fear that his apprentices will acquire skills that could make them more skilled than he is. Another challenge can be to provide masters with ad hoc training in order to update their skills. Also it may happen that projects support and provide skills to targeted apprentices (the beneficiaries), ignoring that in the same microenterprises, other apprentices do not benefit of their support: this is potentially the case in the project operated by Save the Children in Côte d'Ivoire (Projet Régional d'Appui aux Enfants et Jeunes travailleurs Migrants) (RNSF 2018b) where young migrants are placed in informal enterprises with which a contract is signed for these specific apprentices (and not for the others who already work in the enterprise).

2.5 Conclusions

Technical and vocational skills enhancement is a major dimension of state interventions in the transition from the informal to the formal economy. Efforts to adapt the current vocational education systems to match the changing needs of the labour markets can strengthen formal enterprises to remain formal, and help the informal businesses to transit toward formalisation. Such policies are two-fold:

- Youth trained in vocational education systems must be provided with management skills and on-the-job opportunities extended to small-scale enterprises, where they are more likely to

acquire management skills that could be useful if they start their own businesses. In other words, the upper tier of the informal sector can be a useful training provider if it is considered as a real partner and gets support from training centres.

- Skills acquired on the job in informal microbusinesses must be strengthened to provide informal apprentices and trainees with the theoretical backgrounds that will help them to find formal jobs on the labour market or to create businesses that might otherwise remain informal.

A number of good practices and lessons learned exist that can be capitalised in order to formulate and implement appropriate technical and vocational training strategies in countries where large proportions of the workforce still acquire their skills in the informal economy. Employers' associations, crafts' associations, private training providers, and official vocational education systems should be mobilised and incentivised toward achieving these aims.

3 Finance

The positive role of microfinance in enhancing the livelihoods of people dependent on the informal economy is generally recognised, although some voices have begun to be heard about the risks of over-indebtedness.

The simple financing (not only microfinance) of informal microentrepreneurs by the banking system requires to be tackled seriously if the transition to the formal economy is at stake. One of the main characteristics of the informal sector has been not to rely on external sources of funding. Most microenterprises in the informal sector start with limited initial capital drawn from own or family resources. Informal operators rarely seek credit at the initial stage. They do, however, regularly buy on credit from their immediate and daily/weekly providers of the goods they sell or transform.

Nevertheless, the combination of tight needs with large numbers of operators constitutes a vibrant market and has been the basis for the development of microfinance.

Microfinance is defined as a set of financial services such as savings, microcredit, insurance and money transfer, adapted to the needs of low-income and poor persons (especially those who do not have bank accounts). Microcredit is not a standard loan; it is most often combined with others elements. The borrower benefits from tips that will help him or her use the borrowed money in the best way, such as how to keep accounts, calculate a cost, comply with regulations, and choose a particular approach or a project. For the World Bank, the amount considered as defining microcredit corresponds to 30% of the GDP per capita in a country (US\$ 250 in Madagascar, to \$400 in Cameroon and \$1,300 in Tunisia). Because they have no collateral, the poor have no access to the official banking system (De Soto 2003). In this sense, financial inclusion – the objective that microfinance aims at achieving – may be seen as a dimension of social inclusion. It is currently estimated at a value of \$60 to 100 billion.

Over recent years, microfinance has earned a major place in funding income-generating activities. This is primarily because it has become possible to raise funds for microfinance on the international capital market. This has, however, been to the detriment of its solidarity value, and the quantities of microfinance available still far from satisfy the needs of the global poor.

Microfinance has long existed in traditional societies under the form of rotating savings and credit schemes or clubs (known as “tontines” in Western and Central Africa or “merry-go-rounds” in Eastern Africa). Important actors emerged between the mid-1970s and mid-1980s, including the Grameen Bank

that Nobel Peace Prize winner Mohamed Yunus founded in 1983. Others include the SEWA Bank, affiliated with the Self-Employed Women Association (SEWA) and based in Ahmedabad, Gujarat India. SEWA was founded in 1974 and has more than 2,000,000 members today. Such institutions are based on trust and solidarity and provide support to poor households, helping them in their income-generating activities. As of April 2015, the Grameen Bank, for example, was present in 60 countries, had over 8.6 million members (96.1% of them women) and has cumulatively disbursed \$17 billion since its inception. Its outstanding loans are currently valued at \$1,164 million, lent out to more than 6.5 million microentrepreneur borrowers and more than 78,000 beggar members (who benefit from loans with a zero interest rate), for an overall rate of recovery of more than 98%.

Box 30. Groups of savings and community solidarity in Côte d'Ivoire

The GESCOs (Groups of Savings and Community Solidarity) initiated and supported by the EU-funded project implemented by AVSI in Côte d'Ivoire is inspired by traditional "tontines", or mutual savings groups. The GESCOs are professionally based and remain at a small scale (20 to 30 members) so everybody can know and trust each other. The collection of savings is organised and redistributed under the form of microcredit (for consumption, equipment or health insurance). In this sense, GESCOs constitute the basis of a microfinance institution with the three functions of saving, credit and insurance. The health insurance function is activated by AVSI upon demand by an individual household in order to abound an amount collected at the Professional Organisation of Handicrafts that will help constituting a professional mutual fund as a final objective. In the meantime, the amount is used to pay a contribution to an existing mutual fund that allows household members to benefit immediately from health coverage.

More information: SIGEM 2017; RNSF 2018b

Among the main features of microcredit is the high proportion of women beneficiaries. This is probably because many actors in the microfinance sector target women, but also because they are less likely than men to default on their loans. They borrow lower amounts than men and have a higher rate of recovery for not so low interest rates (compared to formal loans).

3.1 New actors and the institutionalisation of microfinance

Islamic microfinance institutions have started to play an important role, especially in East Asia, the Middle East and North Africa. Governments have also become more involved in the financing of initial capital for micro and small entrepreneurs, and it is a major component of their policies to create employment for young, unemployed graduates. Governments may also provide small assets and working capital for income-generating activities through programmes dedicated to poverty alleviation. Revealing itself to be profitable, microcredit has attracted international investors. A major change during the past decade has been the entry of microfinance institutions into the capital market through partnerships with international banks, investors and investment funds. These have started to invest in the microfinance market in search of profit and have changed the overall landscape of microfinance institutions.

The search for profit has taken increasing precedence over the solidarity motivation. Many observers now think that this is not compatible with the basic values of microfinance institutions. All the more so

because of stories of indebted farmers in India and elsewhere who commit suicide because they are not able to repay their debts. Such stories have made the headlines and suggested that trust and solidarity have lost ground to these newcomers in search of profit. It is difficult to say if microfinance actually creates wealth or, on the contrary, whether it encourages indebtedness (see for example Guérin 2015).

However, profit-seeking microfinance institutions can also play a role in supporting the poor and vulnerable people dependent on the informal economy, even if they firstly seek after the most rewarding loans.

Box 31. Supporting microfinance institutions to enhance the livelihoods of vulnerable people dependent on the informal economy

It is generally taken for granted that microfinance institutions are by nature dedicated to the support of the poorest and most remote populations. This is not quite true in practice, however. Microfinance institutions are usually not (or are no longer) non-profit institutions. They are institutions like others, and consequently often do not address the concerns of the poorest, particularly those of poor rural women engaged in gathering and agro-processing activities. Like other organisations, microfinance institutions need motivation, support and training. They need to be sensitised and incentivised to reach the poorest people. They need to be strengthened to do so and develop new credit products.

The EU-funded project “Market Access through Cooperative Action”, implemented by PlanetFinance in Ghana, has helped sensitise and motivate microfinance institutions to reach the poorest and most vulnerable people. It has provided support to refine and develop new credit products for clients among the poorest.

The project supported not only women producers in the shea nut and butter value chain, but also served microfinance institutions as one of the actors of its holistic approach to development. Building on earlier initiatives of microfinance institutions and the experiences of beneficiary communities, the project helped the microfinance institutions to target poor rural women engaged in agro-processing and whom traditional financial institutions normally avoid.

One action was to provide technical support to partner microfinance institutions to refine and develop new credit products for clients. Such new products enabled clients to acquire appropriate business inputs, pay health insurance premiums, and stabilise their incomes throughout the year.

Several lessons were learnt from previous experiences:

- Microfinance institutions that provide group loans need to develop specific internal competences to provide financial services in a value chain framework.
- The sustainability of microfinance institutions depends in part on their capacity to offer timely loans in relation to the financial needs of the shea value chain.
- Microfinance institutions may feel harmed by some actors in the value chain (e.g., bulk buyers) who have the potential to offer more competitive pre-financing services. Also, the burdening of microfinance loan officers limits the effectiveness of their actions.

The project decided to invite microfinance institutions to participate in the formation of production groups in order to increase their sense of ownership and willingness to provide financial services. It also provided them with training in software to manage and monitor the loan process.

Four loan products were developed and used: working capital loan for shea nuts, working capital loan for shea butter, roaster loan, and grinding mill loan. The use of roasters has led to an increase in quality and productivity in butter processing.

The project organised a training-of-trainers workshop on group dynamics and business management for nine staff of two microfinance institutions. The project supported the activities of the institutions involving meetings, workshops and experience sharing. The microfinance institutions indicated that this was very useful in carrying out their planned activities.

With PlanetFinance support, the microfinance institutions have been able to provide their staff with motorbikes, laptops and microloan management. The staff described this assistance as highly beneficial because it provided them with an enabling environment to operate. They said that their capacities in key areas such as loan management were improved.

The institutions took the initiative to conduct needs assessments before disbursing loans to women.

Feedback from the staff further shows that they used knowledge gained from the training to design and carry out follow-up monitoring. They had raised additional funds from other sources to support product refinement and new product development for clients.

The staff also provided support to the project through business management training for some communities and monitored the development of women's groups through their field visits. The training was facilitated through interactive lectures, group discussions and presentations as well as individual assignments focusing on group bylaws, leadership roles, conflict resolution, identifying shea as a business, increasing income through shea, and selling to large-scale buyers.

More information: RNSF 2016a

3.2 Extension of microfinance and potential for growth

The number of users (borrowers, members) of microfinance institutions is estimated at 200 million around the world. This is a large number, but is still small compared to the 3 billion poor. The majority of informal-sector enterprises and income-generating activities that use family labour remain dependent on other moneylenders. Those figures also indicate that ways for the transition from the informal to the formal economy have to be found and that greater access to funding is still an issue to be solved. Microfinance can be a solution for such a transition.

Box 32. Enterprise Development for Rural Families Programme, Kenya

In Kenya an evaluation of SIDA's Enterprise Development for Rural Families Programme showed that access of poor people to financial services has become the focus of increasing political, business and development attention over the last five years (Dondo et al. 2014). Despite its modest direct impact, microfinance continues to receive considerable attention from donors and more significantly and increasingly from the government. The microfinance sector in Kenya is changing. New commercial players are entering the lower-income segment of the market, backed by new investments. Increasing competition and economies of scale lower the cost of funds and introduce new practices and products. Change has also been brought about by a more enabling government policy and regulations in the financial sector. Technological innovation has also been

a major driver, permitting the spread of electronic banking, such as SMS-based banking and electronic point-of-sale devices in retail outlets across the country.

In parallel to mainstream banks entering the low-income market segment, three of the more successful NGO microfinance providers (KWFT, Faulu Kenya and SMEP) have transformed themselves into regulated, deposit-taking microfinance institutions. Driven by the quest to mobilise deposits and grow in scale and professionalism so as to offer a fuller range of financial products, investors have also discovered opportunities to earn a return in microfinance. Six deposit-taking microfinance institutions have been established by such investors.

On the beneficiary side, the evaluation found that, to facilitate access to finance, the programme introduced and promoted approaches such as merry-go-rounds, piggy banks, individual savings and enterprise incubation funds. All training groups learned about savings methods and were encouraged to start savings as a precondition for further support. The programme's impact evaluation found that 91% of the group members had started saving (though some had already done so before the programme started in 2010). The evaluation also showed that in 2010, 75% of the savers were in the "small" category, 17% were categorised as "medium" and 8% as "large". By 2013 the majority of savers (54%) were in the "medium" category; the "large" category had increased to 10%, while the "small" category had decreased to 35% of savers.

The programme's enterprise incubation fund was an important tool for supporting emerging groups and for group members to start and expand their enterprises. The enterprise incubation fund provided poor people with loans (not grants), acting as a catalyst for enhancing group and individual saving that improve on financial access in the rural areas. The programme ensured that the fund was only benefiting the poor who had no chance of accessing financial services from the formal or informal service players. Targeting is important because if support is wrongly targeted, market distortion in the sector is likely and the intended target group will miss out. The evaluation recommended that, in order to promote further expansion of the groups' enterprises, the incubation fund should support small and medium enterprises with strong backward linkages to beneficiary economic activities.

More information: RNSF 2016b

There are various ways to ensure success in providing microfinance services to vulnerable populations. The following examples are extracted from RNSF 2016b.

- Provision of a **broad range of microfinance products** including package with diversified interest rates and loan periods (Turrall 2013). In the design of loan packages to heterogeneous clients including women, innovative ways of meeting clients' needs can be explored, such as by varying interests and loan periods. Karlan and Zinman (2007) worked with a **South African** lender, using randomised interest rate offers to over 50,000 clients. The analysis found that offering different rates and loan conditions had a strong bearing on clients' demand for credit. Changing the duration of the loan affected the size of the loan requested. This would assist women who need a longer duration of loan, dependent on the gestation of the crop. In a project in **Sichuan** (Zeng 2013) it was also found that, in some cases, loans were not sufficiently large, were not adequate, or needed longer repayment periods. It might have been better if the loan mechanisms were to address the needs of different types of businesses while clearly identifying the loan conditions in line with actual needs. This would require the provision of guidelines clearly defining the loan repayment mechanisms, and setting the most suitable amount and length of loans for different types and scale of businesses.

- Adaptation to **women's specific finance needs** and habits at different life-cycle moments and in accordance with their physical mobility opportunities (some are more mobile than others). Women's life cycle and their priorities and circumstances also need to be taken into account when targeting credit. Financial services should offer opportunities to save. Alkire et al. (2013) argue that women should not be locked into microfinance alone – but need access to a “ladder” of finance. Women also need access to more ways of making and receiving payments, such as through mobile phones. This is particularly important for situations where women's mobility is restricted, and women rely on family and friends to access banks and markets. More generally, a life-cycle approach can help design projects that are relevant and appropriate at different stages and transitions of a young person's life. This includes designing financial products for different life stages (starting with savings for minors) and for different rural financial needs (farm and non-farm) (Kasprowicz and Rhyne 2012 and IFAD 2015).
- Identification of **innovative ways of reaching borrowers**, especially in remote, rural areas and/or where they have low education levels. The Opportunity International Bank of Malawi has used creative ways to reach its clients. It offers a biometric smart card that enables illiterate customers to open and manage a savings account using only their fingerprints for identification. It has developed a mobile banking van, which visits villages on certain days of the week for men and women to use (Stuart et al. 2011).
- Policymakers often prescribe that microfinance institutions increase **interest rates** to eliminate their reliance on subsidies. This strategy makes sense if the poor are rate-insensitive: then microlenders can increase their profitability (or achieve sustainability) without reducing the poor's access to credit. The study by Stuart et al. (2011) tested the assumption of price-inelastic demand using randomised trials conducted by a consumer lender in South Africa. The demand curves are downward sloping, and steeper for price increases relative to the lender's standard rates. They also found that loan size is far more responsive to changes in loan maturity than to changes in interest rates, which is consistent with binding liquidity constraints.
- Different and adapted types of microfinance services may be needed in line with specific sociocultural and political contexts. It is necessary to verify the specific situation prior to planning new projects and avoid simple replication of methods used in other settings. In Afghanistan, adaptations of financial products are needed to comply with local culture and to gain acceptance by both male and female members of society. The USAID project's “Zahra” microfinance product (a locally adapted special women's loan product that caters specifically to female farmers and agribusiness entrepreneurs) consisted of specialised operations, products and distribution mechanisms which were required to reach and retain certain target groups like women (Mucheru-Karuri et al. 2015).

It may sometimes happen that the development of microfinance systems compete for the same market segment as existing service providers. For example, in Ghana, the World Bank's Independent Evaluation Group (IEG 2014) observed that strategic business plans were developed for 15 selected rural and community banks and three training manuals were developed. Ten rural and community banks reported putting their plans into action, with a resultant increase in the number of microfinance clients and size of microfinance portfolios. All participating rural and community banks became operationally self-sufficient. Overall some 8,000 rural and community bank staff were provided training in customer care, treasury and credit management, anti-money laundering, internal controls and cheque clearing. Some 468 microfinance institutions received training, as compared to a target of 500, of which about 348 received training more than once. In addition, 17 good practice training manuals were developed that

could be used by future generations of trainers. Despite these positive aspects, the evaluation found that informal community-based organisations and the formal rural and community banks in Ghana both competed for the same market segment and were not in complementary roles.

Linking NGOs together with banks or microfinance institutions is more likely to be associated with success (as opposed to delivering programmes solely through one or the other). A meta-analysis (Cho and Honorati 2013) concluded that, compared to having multiple agencies involved in programme delivery, the programmes delivered solely through banks or microfinance institutions were less likely to be successful. NGOs are associated, though weakly, with better performance. This finding suggests that programmes could work better when delivered by providers that have strong connections with the beneficiaries and are familiar with local contexts.

Box 33. UNIDO support to credit facility in Iraq and Armenia

The presence of a credit facility to support trained entrepreneurs to start/expand or diversify their business was found to be a valuable tool to complement the technical assistance provided by the United Nations Industrial Development Organization (UNIDO) in **Iraq**. The inclusion of a loan facility within UNIDO's Enterprise Development and Investment Promotion programme served not only to finance the expansion of the existing clients' businesses but helped ease the transition of clients from small businesses to mid-size enterprises beyond the life of the programme. The facility was the first in Iraq to partner a UN technical assistance programme with an Iraqi lending institution. UNIDO's decision to adopt an interest-free loan as opposed to a grant to the implementing institution was a move towards breaking the dependency of microfinance institutions upon international donors and also brings in accountability. Interest-free loans are an interim solution between grants that are often provided during start-up years and accessing financing on the international markets, which still remains difficult considering the high perceived risks associated with Iraq and the ongoing credit shortage as a result of the international financial crisis. Lending without charging interest is particularly adapted in Muslim countries for religious reasons.

Another interesting recommendation by UNIDO is to make long-term repeated applications for loans accessible to everyone with reasonable precondition criteria. Giving the opportunity to re-apply for a loan only to those entrepreneurs who have shown high growth in a short time is not conducive to strengthening. New firms may actually need more time to develop and become eligible for new loan facilities. The evaluation draws attention to the rules for lending to young **Armenian** entrepreneurs. In accordance with the regulations of the government of Armenia, an individual youth entrepreneur can access only one start-up loan, irrespective of the amount granted. This implies that certain segments of the youth entrepreneurs are likely to face difficulties to realise their growth potential. In fact, youth entrepreneurs showing potential for strong and comparatively quick growth will be supported to further develop their business plan to apply for an additional loan from another loan facility, the SME Development National Centre. Most youth entrepreneurs will show potential for moderate but stable growth, which is not sufficient for approval of additional loans from the loan facility. The evaluation recommends looking into the possibility of revising laws and regulations (possibly on a pilot basis) to allow all approved youth entrepreneurs to apply for loans in several steps.

Source: UNIDO (2010, 2015).

3.3 Youth and microfinance

Young people are a group that needs to be targeted. There is emerging evidence that youth have the capacity to repay loans, and that lending to young people is no riskier than lending to adults. Young people do have access to money (though their sources of income might be small and irregular); they do save (often irregularly and in unsafe places); they do borrow (most often informally) to start a business or continue with their education; and they do want access to formal financial services that can better meet their growing needs. Market research studies and demonstration projects conducted over the past several years across different continents have demonstrated that youth do have the capacity to save (SEEP 2013). According to IFAD (2015) youth loans continue to be very limited. Despite some innovations and emerging evidence on the viability of youth loans, financial service programmes remain reluctant to offer youth loans at scale because youth are still perceived as being too risky. This creates a vicious cycle, where a lack of large demonstration projects prevents more extensive evaluations of effective mechanisms for offering credit to young people. Young people, however, need to tap into formal savings accounts prior to using other types of financial services, especially loans. This savings-first approach builds young people's capacity and confidence in using formal financial services and serves as a basis for building assets for the future (Erulkar et al. 2006, IFAD 2015, Kilara and Latortue 2012, Kilara et al. 2014).

3.4 Conclusions

For enterprises – be they micro or small – access to credit is essential for any perspective of growth and consequently for their transition to the formal economy. But they lack collateral (land, buildings, equipment) and mainly resort to family funds, credit from suppliers and advance payments from clients.

Most government policies addressing the microbusinesses in the informal sector have put easier access to credit at the forefront of their agendas. Financing such enterprises cannot be left only to community savings associations. On the other hand, savings associations can offer a set of financial services: savings, microcredit, insurance for health coverage or old-age pensions and money transfers that are adapted to the needs of low-income and poor persons, especially those who do not have bank accounts. Moreover microcredit is not usually a simple loan: it is often accompanied by training on how to keep accounts, calculate a cost, or select the best project to use the credit. Microcredit can play a major role in expanding financial services among poor populations who depend on the informal economy.

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IV THE INFORMAL ECONOMY IN SUB-SAHARAN AFRICA

This section provides a general overview of the characteristics, challenges and key areas for policy intervention in the informal economy in sub-Saharan Africa. This is a vast and diverse region; this section does not claim to be exhaustive.

1 Importance of the informal economy

The informal economy is a key feature of sub-Saharan Africa. It contributes to the formal economy through various links, it provides income for the working poor and the most vulnerable, and it has a primary role in job creation. An intrinsic factor of African economies even prior to colonization, it is still a structural feature of a region where formal employment is uncommon, except in South Africa, where the majority of jobs are formal. Various analyses confirm that it is growing, despite the general regional economic growth (AfDB 2018).

The African Economic Outlook 2018 (AfDB 2018) confirms that the informal economy remains the **main source of employment** in the region, absorbing 60–80% of the jobs and representing **up to 90% of the new jobs created**. These percentages would be even higher if the non-formal agricultural sector was also taken into consideration.

Recent estimates (RNSF 2017a) show that the sector (excluding agriculture) accounts for a 78.3% share of employment in Central Africa, 72.2% in Eastern Africa and 81.1% in Western Africa. Southern Africa is the only sub-region where less than half of population is engaged in the informal economy. At the country level, informality outside agriculture ranges from 41.4% in South Africa to 96.2% in Benin and 96.0% in Mauritania.

The ILO world employment social outlook (ILO 2018a) estimated that in 2018, sub-Saharan Africa would have a rate of 72% of general **vulnerable employment**. This would be the highest rate in the world, surpassing even that of South Asia.

African workers are trapped in activities that have low productivity and many disadvantages. In 2011, the African Union estimated that only 10% of informal operators were covered by social protection schemes (AU 2011). According to the ILO (2009), the average earnings of informal workers in Africa are just one-fifth of that of public-sector workers. **Women** are overrepresented in the informal sector, since this is often the only option they have to earn a living (ILO 2009). Women are more likely to be in the informal sector than men (Cassim et al 2015, ILO 2018b): a majority of women are informally employed or self-employed (Southern Africa is an exception to this). The African Union (AU/OECD, 2018) has compiled data showing that almost 50% of employed women in Uganda, and over 62% in Tanzania, work in the informal economy; in Kenya and Rwanda, 80% did so. The **young and the old** are also highly represented in the informal labour force. This is further evidence of the capacity of the informal economy to absorb vulnerable groups into the labour market.

Rapid **urbanisation** has spurred the growth of informality. The informal sector accounts for 61% of urban employment (AU/OECD, 2018). But it also represents the biggest source of non-agricultural employment in **rural areas**, where micro and household informal enterprises prevail.

A regional review for the World Bank (Fox and Sohnesen 2012) found that **informal enterprises** (household enterprises and micro-enterprises) were a key source of non-agricultural employment and livelihoods in low-income countries in the region. Even where the national economy is growing, demographic and economic structural factors do not result in enough related growth in non-farm wage employment to absorb the new entrants into the labour force and those who seek to leave agricultural jobs. This means that informal enterprises will continue to grow in the region. Their development should be taken into consideration in anti-poverty policies and strategies.

A World Bank analysis (Cassim et al, 2015) showed that the bulk of the informal economy is represented by informal enterprises and self-employment (53%), while informal employment in formal enterprises made up only 14% of informal employment. **Own-account workers** are the largest group represented in the informal economy of the region (ILO 2018b).

According to the ILO (2009), in sub-Saharan Africa “**self-employment** represents a greater share of informal employment outside agriculture than wage employment”. Excluding South Africa, where black-owned businesses were prohibited during the apartheid, the share of self-employment in the informal economy in sub-Saharan Africa is high. RNSF 2017b estimates that it accounted for of 64.9% of non-agricultural employment (wage and self-employed workers) in the Region.

A large number of informal workers are engaged in **cross-border retail trade**. This is generally small-scale and has self-employed workers; in 2012 it accounted for 64% of national trade in Benin, 46% in Mali and 41% in Chad (UNECA 2015). Sommer and Nshimbi (2018) confirm its importance: informal cross-border trade contributes 30–40% of the total intra-regional trade in the Southern Africa Development Community (SADC) and 40% in the Common Market for Eastern and Southern Africa (COMESA). It plays a big role in income generation, especially for the most vulnerable (youth and women). Trade is among the major economic activities of self-employed women in the informal economy (UNCTAD 2018): in West and Central Africa women represent the 60% of informal traders, while in Southern Africa they represent 70% (Sommer and Nshimbi, 2018). The scope of this trade is wide; it covers agricultural products, manufactured goods (processed food, clothes, electronics) and services (car/bicycle repairs, artisanal work).

Informal cross-border trade suffers from greater constraints than the formal equivalent: a lack of trade facilitations, inadequate border infrastructure, limited access to finance, lack of market information, bribery and insecurity, and limited knowledge and business management skills of informal traders. Moreover, informal traders are often perceived as criminals and so are more exposed to abuses, corruption, and, for women, sexual harassment (Sommer and Nshimbi, 2018).

The informal sector in the region is much **less productive** than the formal one. La Porta and Shleifer (2014) found that informal enterprises added far less value than formal firms: just 1% in Congo, 3% and Rwanda, 7% in Tanzania and 10% in Kenya. In Cape Verde the ratio was 70%.

Educational levels are closely linked to the rate of informality and, (except in West Africa) the higher the educational level, the lower the informal employment rate (AU/OECD, 2018). On the **supply side**, deficiencies in education systems and **skill-development** programmes, plus poor access to **finance** that limits investment in technology and infrastructure, limit the possibilities for workers to enter the formal market. On the **demand side**, the major constraint is the **lack of sufficient formal jobs**. This calls for a growth path based on creating employment in labour-intensive sectors. The predominance of the informal sector is also related to **weaknesses in taxation and regulation**. Procedures for formal registration require revenue thresholds, which act as a disincentive to formalisation (UNECA 2015).

Measuring the rate of informality is a precondition for any policy intervention. But many African countries are at an experimental stage in this regard. They lack the capacity to run periodic surveys on the sector. The ILO and WTO (2009) reported that South Africa, for example, relied on self-assessment questionnaires – hardly the most reliable form of data-gathering.

The predominance of the informal economy is mentioned by several international actors as being among the main causes impeding the **structural transformation** of African countries, from low-productivity toward higher-productivity sectors. Policy interventions are necessary to tackle these (AfDB 2018, IMF 2018).

2 Major actors and initiatives

The economic growth that African countries have experienced in the past decades has not been accompanied by a proportionate reduction of poverty or inequality. Policymakers and governments have been spurred to pay increasing attention to strategies to create employment and decent job opportunities. The informal economy and related issues have gained momentum in the public debate: how to increase the productivity of informal firms, how to promote better working conditions, how to promote formalisation and take advantage of the sector for the national and regional economic growth. Addressing the challenges of the informal economy and poverty reduction have appeared as closely interlinked objectives in sub-Saharan Africa (ILO 2009).

2.1 African Union

Ouagadougou Declaration, 2004

The African Union has committed itself to improving the working and living conditions of those involved in the informal economy as a way to eradicate poverty. Underemployment, especially in the urban informal economy, and a lack of social protection, especially for informal workers, were among the concerns of the 2004 Ouagadougou Declaration and Plan of Action on Employment and Poverty Alleviation in Africa. The latter sets, among its goals, the empowerment of the poor and vulnerable, especially in rural areas and in the urban informal economy, in order to integrate them into the labour market. Measures mentioned are skills development and vocational training, access to finance, and business services such as infrastructure and access to markets.

To promote employment and decent jobs, the Economic, Social and Cultural Council and the Labour and Social Affairs Commission of the African Union became the main partners for the implementation of the **ILO Decent Work Agenda** in the continent (Deacon et al. 2008).

In the framework of the Ouagadougou Summit, the African Union Commission was tasked with the elaboration of a **comprehensive analysis of the informal sector** to inform member states about existing policies and legal frameworks related to the informal economy, and to detail good practices and challenges that might offer policy options to create jobs and reduce poverty. The study, completed in 2008, explained how mainstream policies continued to favour big enterprises without adequately covering the informal sector. It identified four main policy areas to explore given their impact on the informal sector: labour and laws, social security, financial policies and practices, and education and training. The study presented best practices by governments and non-state actors. The results were

reviewed at the **African Union–ILO workshop on the informal economy in Dakar in 2008** (ILO 2009).

Decent Work Agenda for Africa, 2007

The informal economy had been the central theme of the **11th ILO African Regional Meeting** in Addis Ababa in April 2007, which adopted the Decent Work Agenda for Africa for the period 2007–2015. This reinforced the ILO–AU task force to achieve, among others, the goal by 2015 of:

“Three-quarters of all African States adopt(ing) strategies to formalize the informal economy and extend(ing) protection to informal economy workers. Such strategies should integrate, among other things, policies for the increased registration of informal businesses, skills development, improved and safer working conditions, the extension of social protection coverage and the encouragement of freely chosen associations of informal economy workers and employers” (ILO 2007).

AU Social Policy Framework for Africa, 2008

The interest of the African Union in the theme continued, as the Social Policy Framework for Africa (AU 2008) demonstrates. This pioneering document, placing social policy at the frontline of the AU Agenda, recommended that member states “give the informal sector the necessary support by removing administrative, legal, fiscal and other obstacles to its growth and facilitate its employment creation functions” and “develop and extend social security and social protection to cover rural and informal workers and their families”.

Programme on Upgrading the Informal Economy 2010-2016

The African Union also created a specific Programme on Upgrading the Informal Economy 2010–2016. This was grounded on three main strategies:

- Advocacy for informal economy visibility and recognition
- Capacity building and empowerment of the informal economy
- Productivity and competitiveness for African informal workers and enterprises.

An **expert team** was created in 2010 to act as a think-tank proposing strategies to the African Union organs, with special regard to

- | | |
|------------------------------------|--|
| ▪ Social protection | ▪ Apprenticeship and lifelong learning |
| ▪ Legal and regulatory environment | ▪ Productivity |
| ▪ Empowerment and social dialogue | ▪ Public–private partnership |
| ▪ Microfinance | ▪ Youth employment |
| ▪ Macroeconomic policies | ▪ Statistics. |

Social Protection Plan for the Informal Economy and Rural Workers (SPIREWORK), 2011

As a result of the work carried out by this programme, in 2011 the AU adopted the Social Protection Plan for the Informal Economy and Rural Workers (SPIREWORK). This recognizes that

“social protection systems mitigate the impact of economic and social crises among vulnerable populations, enhance workers’ capacity to seize economic opportunities and stabilise aggregate demand, in addition to their primary and systemic role to ensure income security and access to health services” (AU 2011).

The purpose of SPIREWORK is to promote the effective implementation of social protection policies and systems within member states and, at the regional level, within the regional economic communities, which are required to integrate the plan into their programmes. Following its adoption, the ILO and other development partners have provided financial and technical support to its implementation.

Although the Programme on Upgrading the Informal Economy represents an important step for African Union in its approach to the informal economy, and although SPIREWORK directly resulted from it, no documents analyse the results or actions carried out by the Programme and the expert team.

Agenda 2063

More recently, through its pan-African vision Agenda 2063, the African Union is working on engaging member states in setting strategies and policies for inclusive and employment-friendly growth. Among these strategies, upgrading the informal economy has a role. This must be achieved through:

- Social security and protection (at least basic social protection for all Africans, and social security coverage for at least 20% of workers in the informal sector and for rural workers)
- Technical and vocational training for informal workers
- Increased access to financing, inputs and markets and gender-responsive modalities to support small and medium enterprises (at least 20% of informal sector ventures formalised)
- Policies and legal framework widening the scope of tax collection at the informal sector
- Decent job promotion.

The **First Five-Year Priority Programme on Employment, Poverty Eradication and Inclusive Development** drafted by the African Union Commission in collaboration with the ILO (AU 2017), and based on the commitments of the Declaration and Plan of Action endorsed at the 21st Ordinary Assembly of the African Union, insists on the need to domesticate and fully implement SPIREWORK within member states and in upgrading the informal economy in order to facilitate the transition to formality. The AU’s Programme on the Informal Economy should be domesticated and fully implemented in member countries and in the regional economic communities, in synergy with ILO instruments.

Despite these commitments and goals, according to recent reports of the African Union and OECD (2018), the quality employment targets set in the 10-year Implementation Plan of Agenda 2063 will be

bound to fail if policy interventions tackling vulnerable employment do not promote progress around the expected goal of reducing it by 25%.

2.2 African Development Bank

Another regional actor that has been paying increasing attention to the role of the informal economy within economic development processes is the African Development Bank. Here, the focus has been mainly on increased knowledge, private sector development and youth employment.

Strategies for the informal sector

The Bank recognizes the role of the informal sector at the core of its strategies (AfDB 2013b). It names three pillars to do this:

- Raising governments' awareness about the sector
- Improving access to finance
- Fostering knowledge.

Raising awareness. This means promoting a change in the attitude of African policymakers, who often consider the informal economy mainly from the point of view of tax evasion and criminal activities. Formalisation policies should be coordinated across the continent and focus on effective regulatory frameworks, good governance, improved government services, better business environment and increased access to finance, technology and infrastructure. Formalisation interventions should focus mostly on larger informal firms, in order to promote their transition to the formal economy. Governments should promote social protection interventions for informal workers and support informal small and medium enterprises, which make up the bulk of the informal economy.

Improving access to finance. Facilitating access to formal channels could be among the steps to promote formalization. Large commercial banks should be aware of the potential of the informal economy.

Improved knowledge. Accurate data on the informal economy are scarce, and the sector is often invisible in official statistics. This gap must be filled to shape effective interventions. The African Development Bank states that its policy support to small and medium enterprises includes incentives for informal enterprises to promote their transition to formality, and policy support to governments to strengthen the administrative, business development and financial services context to create an enabling environment for formalization.

Jobs for youth

The fact that the great part of African youth are involved in the informal economy is a major concern in the African Development Bank's **2016-2025 Jobs for Youth in Africa Strategy**, which aims to create 25 million jobs. One major lesson from past experiences is the need of multi-approach strategy – on both demand and supply sides – to tackle youth employment (AfDB 2016). The strategy recognizes that the lack of focus on the informal economy has been a major gap in addressing youth employment. Interventions have been mainly based on market labour data, which reflect the formal market rather than

the informal one. Interventions have been designed to address unemployment rather than informal employment and related decent job deficits. The strategy therefore gives special consideration to the informal economy. In particular, policy-based orientation and capacity building for member countries will promote supportive policies for youth working in the informal economy. These policies include social protection schemes for informal workers, interventions to promote formal job creation, and initiatives to promote youth transition to the formal sector. Investment is expected to foster access to finance for small and medium enterprises through guarantees and lines of credit with financial institutions and equity investments through the Boost Africa Investment Fund. Flagship programmes for a more competitive business environment are to be established; they will include engagement with the informal economy, increasing the income of young informal workers, and develop youth skills to promote the transition.

Private sector development policy

Private sector development is another theme at the core of the Bank's strategies. In 2009–11, the Bank helped at least 200,000 informal enterprises in Kenya, Cameroon and the Democratic Republic of Congo to get small loans to support their productivity (AfDB 2013c). The Bank's **private sector development policy** identifies high informality, low productivity and weak integration within the value chain as major challenges (AfDB 2013a).

2.3 Regional economic communities

Africa's **regional economic communities** have a big role in promoting inclusive growth, employment and decent work. There is a wide consensus that regional integration may be crucial to address development challenges that call for a supra-national approach. The assumption that regional economic communities could make an important contribution to the goals of employment and decent work has guided much of ILO's work in Africa (Deacon et al. 2008).

Cross-border trade

The main aspect of the informal economy which has been tackled from the regional point of view is its impact on **informal cross-border trade**. Many observers regard this as the “real but invisible integration of Africa's economies” (FAO 2017). Considering its potential impact on women and on poverty reduction, informal cross-border trade should play a prominent role in policy debate. However, there has been a longstanding lack of focus on the issue in national trade policies, poverty-reduction strategies, and development plans (FAO 2017).

A **lack of data** on informal cross-border trade has often undermined the ability to outline policies. However, recently, some countries have taken steps in this direction. Data on the sector are now being collected through such organisations as the Eastern African Grain Council (EAGC), the Famine Early Warning Systems Network (FEWS NET), the Alliance for Commodity Trade in East and Southern Africa (ACTESA), and Brahim Cisse (CILSS); COMESA STR (Sommer and Nshimbi 2018). In Uganda, surveys on informal cross border trade have been institutionalised under the Uganda Bureau of Statistics and the Bank of Uganda and aim to improve policies on this topic (FAO 2017).

Informal cross-border trade has been tackled by recent policy initiatives that address cumbersome customs and administrative procedures that could favour informality. The **Common Market of Eastern and Southern Africa (COMESA)** and the **East Africa Community (EAC)** have introduced “simplified trade regimes” that recognize the role of informal traders in cross-border trade and free them from custom duties, streamline paperwork and simplify custom procedures. This initiative gathers data that are transmitted to the UNCTAD Automated System for Customs Data, thus capturing how much cross-border trade contributes to the total trade (FAO 2017). But while they simplify procedures, these measures seem to have had little impact on small informal traders: they apply only to a common list of goods, and they do not provide exemptions to domestic taxes or other border requirements. Limited knowledge about the simplified procedures means that few informal traders can take advantage of them (UNCTAD 2018).

The **Southern African Development Community’s (SADC)** Advocacy Strategy on Informal Cross-Border Trade of 2011 is regarded as a best practice in targeting informal cross-border trade, as well as in gender mainstreaming. The strategy seeks to mainstream informal cross-border trade within economic and trade related policies, and within national and regional structures, thus recognising its crucial role. It also seeks to harmonize regional trade policies with gender policies, advocating for gender-sensitive procedures and protocols at the borders, and collecting gender-disaggregated data (FAO 2017).

The **Economic Community of West African States (ECOWAS)** also pays attention to the issue of informal cross-border trade. A Regional Programme of Support for the Regulation of Informal trade was adopted by member states in 2013 (ECOWAS 2016). The Plan of Action on Gender and Trade (2015–2020) aims to improve the role of women in trade; one recommendation is to promote the formalisation of informal cross-border traders.

ECOWAS and EAC initiatives to promote the free movement of citizens can obviously have an impact on cross-border trade. In both regional economic communities, common passports and visa-free travel for citizens can enhance informal traders’ activities.

Although the **African Continental Free Trade Agreement**, signed in March 2018, does not explicitly tackle informal cross-border trade; it does reduce tariffs. This may enhance efficiency and encourage informal traders to operate within formal channels (Sommer et Nshimbi, 2018).

SADC, ECOWAS and EAC have also implemented regional payment systems that may support informal cross-border trade. The SADC Integrated Regional Electronic Settlement System, launched in July 2013, promotes formalisation by reducing the incentive to use informal channels to send money across borders (FAO 2017). West and East Africa both have similar experiences: the West African Monetary Zone, and the East Africa Payment Systems.

Southern Africa

Beyond the focus on cross-border trade, there been relatively little debate on the informal economy from the perspective of the regional economic platforms. SADC is the exception to this.

The SADC’s **Regional Indicative Strategic Development Plan** guides regional integration in the period 2005–2020. This clearly identifies “the lack of a comprehensive regulatory mechanism to promote the informal sector” as one of the major challenges to be addressed (SADC 2001). Trade policies should be developed in order to “target vulnerable groups, such as the rural and urban poor, small business, informal operators and women”. On the side of availability of information and data, the

SADC Statistical System should support the regional integration through collection and making available “timely and accurate statistical information” to be used in policy formulation in a number of cross-cutting areas, such as “informal sector statistics”. In regard to cross-border informal trade, a “policy framework for the facilitation of cross-border informal trade for employment creation and income generation” should be implemented. Finally, aware of the difficulties that informal operators face in terms of financial services, the Plan states:

“Financial institutions should be encouraged to provide a fuller spectrum of financial services to households in both the formal and informal sectors as well as in both urban and rural settings. For this purpose, they could develop and implement programmes to encourage household savings such as through (i) revisiting minimum deposit levels and discretionary administrative fee structures in order to encourage small savers to use the formal financial sector institutions; and (...) Government should encourage, directly and indirectly, the development of the microfinance sector to provide sustainable finance for the informal sector and financial services to the poor. On a regional level, Member States should be encouraged to exchange information on best practices on policy and regulatory frameworks for micro finance” (SADC 2001).

Compared to the past, there is nowadays a renewed interest in policy intervention in the field of the informal economy in sub-Saharan Africa; and some good practices and integrated approaches are emerging in the continent. The next section describes these.

3 Regional challenges and key policy areas of intervention

3.1 Inclusive growth, employment and decent work

In the past decades, a number of countries in sub-Saharan Africa have experienced high economic growth rates. However, this growth has been concentrated largely in externally oriented enclaves (for example, focusing on capital-intensive exploitation of natural resources for export). They have benefited only a limited portion of the population and have failed to develop virtuous circuits with the rest of the economic sectors. Since this growth has not created new and better jobs that can reduce poverty, it cannot be considered as inclusive (ILO 2009, Cassim et al 2015).

Economic growth is still concentrated in capital-intensive sectors that impinge little on the informal sector and agriculture, excluding from benefits the great part of the population who rely on the latter. Economic growth predicted for the near future will not match growth in the working-age population. Sub-Saharan Africa would need to generate 18 million new jobs a year by 2035 in order to absorb the number of new workers (IMF 2018). The failure to generate formal jobs is expected to affect the levels of unemployment and poor-quality employment (ILO 2018a).

Policy debate focuses on understanding the relationship between informality and inclusive growth in Africa: whether “informal labour markets promote or constrain inclusive growth” (Cassim et al 2015). On one side, the high flexibility of informal markets allows jobs to be generated for a large share of the population, including the most vulnerable. Unlike in the formal sector, this capacity is maintained in the

event of economic downturns. But on the other hand, informal markets produce poor-quality jobs, with low earnings and without protections, thus increasing levels of social exclusion.

A World Bank study (Cassim et al 2015) in South Africa (which in contrast to other countries has high levels of unemployment and low levels of informality) found that the transition from unemployment to informal employment indeed reduces poverty by providing an alternative, especially for low-skilled and vulnerable people. But it does not greatly reduce inequality. So although informality can support livelihoods and provide short-term solutions for the poor, the long-term goal should be to create more formal employment so as to reduce poverty and inequality. To address this goal a range of supportive measures are recommended, rather than enforcing laws. If entrepreneurs are provided a space in which they can work and grow, transition is more likely (as has occurred in West Africa, for example).

Unemployment rates in sub-Saharan countries are low: on average 7.3% according to the African Development Bank (AfDB 2018) or 7.9% according to the ILO (2018a). But underemployment and informality are structural features, and the region has the highest rate of “vulnerable employment” globally. This is predicted to grow dramatically, affecting up to 299 million workers in 2018 (ILO 2018a).

In a study on the informal economy in Africa, the ILO (2009) pointed at more and better jobs as cornerstones of poverty reduction strategies, together with macroeconomic stability. The goals should be to increase productivity in the informal sector, promote economic transformation, and increase decent job opportunities and the skills of African workers to do these jobs. Social economic policies should focus on “employment-friendly macroeconomic frameworks”, the study states, without neglecting the role of the informal economy, the urgency for decent job conditions, and making the most productive economic sectors a priority within poverty-reduction strategies.

The African Development Bank (ADB 2018) and the African Union (AU 2008a) have also stressed the importance of encouraging a shift toward more labour-absorbing growth paths, which requires a focus on the informal economy. Supporting labour-intensive activities that require relatively low skills, such as agro-processing and light manufacturing, are mentioned by the African Union and OECD (2018) as mechanisms to create waged jobs for local labour markets.

In general, increasing the availability of formal jobs through employment-friendly growth, and improving the informal economy’s productivity are seen as the most effective paths to promote inclusive growth.

3.2 Legal framework: labour legislation and taxation

Informality is closely linked to the legal framework. It is mainly conceived in this context (informal economy is that which falls beyond the reach of the law) and it is related to law-enforcement capacities and governance issues. Being “beyond the reach of the law” means decent job deficits for informal workers, low productivity for informal entrepreneurs, and lost revenues for governments because of tax evasion.

Labour laws and other laws

Although most African countries have ratified international labour conventions, these have little impact because they are not applied to workers in the informal sector, and often they are not enforced or binding.

Precarious and unfair job conditions are widespread. In Mali and Zambia, for example, only half of the workers have written contracts (AfDB 2018).

There is intense debate on whether strict labour laws, such as minimum wages, limit the size of the formal sector. Evidence exists that laws and regulations have an impact on informality; in Kenya, changes to labour legislation in 2007, including a minimum wage, seemed to “disincentivise formal employment” (World Bank 2016b). But the ILO (2009) suggests that the relation between informality and labour laws is not so obvious: “The challenge in Africa as elsewhere is the need to address in stronger empirical terms the causes of informality”, these are “manifold and most of these are unrelated to the legal field itself”.

Research in 12 sub-Saharan African countries as part of the ILO’s Small Enterprises Development Programme (ILO 2009) explored the impact of labour regulations on micro, small and medium enterprises. The analysis identified three approaches to labour laws:

- Countries whose labour laws make no exception for small enterprises.
- Those that exempt small enterprises from particular obligations.
- Those (such as Kenya) that exclude small enterprises completely from labour codes.

For non-labour laws (tax, zoning, commercial regulations), all 12 countries treated small enterprises differently from larger ones. The ILO study concluded that labour laws are not the main constraints faced by small enterprises; other factors (taxation, skills, access to finance and markets) have a major role in promoting or discouraging formalisation.

Financial services

As elsewhere, informal enterprises in sub-Saharan Africa have little access to credit and other benefits because they are outside the legal framework. They do not contribute to taxes and government income, and informal workers lack labour standards and protection. Informality has both incentives and disincentives for enterprises, and entrepreneurs generally behave rationally with a view to the costs and benefits. An ILO study in seven developing countries (mentioned in ILO 2009) found that enterprises complying with basic registration requirements had better access to financial services. They contributed more to job creation in the long term, and their workers had better access to social security mechanisms.

Taxation

According to the African Economic Outlook 2018 (AfDB 2018), economic growth experienced by African countries, together with recent reforms and taxation of resources, has boosted tax revenues over the past 15 years. But it is difficult to tax operators in the informal economy. The informal sector provides almost no government revenues, even though it is the largest economic sector and accounts for more than half of the GDP in most countries (Benjamin and Mbaye, 2014).

Innovative instruments and policies are needed for tax compliance in the informal sector. They must take into account the risk that high tax rates might be harmful and encourage informality. They must also consider firms’ ability to pay, and be tied to measures to increase benefits from formalisation. Policies must ensure that the costs of formalisation do not exceed the benefits (Cassim et al. 2015). An example of an unsuccessful policy aimed at enforcing formalization is that of South African retail liquor

firms. Its impact has been very limited: only 11% of “shebeens” (illegal liquor retailers) have formalised, while the majority have found ways to continue operating informally.

A regulatory framework is necessary for the informal economy, but approaches should be differentiated (AfDB 2018). For small firms the goal should be to increase productivity, while for larger ones the aim should be to enforce the regulatory regime. The regulatory environment should be also improved by removing complex and counterproductive regulations. Some countries have made steps toward this goal: in 2016, Rwanda and Gambia ranked among the world’s top 10 performers in removing cumbersome and unnecessary regulations. In Rwanda, the Small and Medium Taxpayers Office, established in 2006, has favoured informal firms to register through a simplified procedure. This reform has made it possible to expand the tax base and increase tax compliance to 97% (AU and OECD, 2018).

3.3 Entrepreneurship, finance and skills development

Entrepreneurship

Private sector development is crucial to create jobs and cut poverty. But doing business in sub-Saharan Africa can be complicated: registering a firm takes a long time, licensing procedures are cumbersome or confusing, it is difficult to enforce property rights, access to credit is limited, and taxation is inconsistent (ILO 2009). These factors mean that Africa suffers from low levels of domestic and foreign investment that might boost entrepreneurship and create jobs. The insecure environment promotes informality.

A large share of African enterprises is represented by informal micro-enterprises with low productivity (ILO 2015c). They are neglected in policy interventions, so face problems entering markets and accessing finance. A World Bank survey (2016b) on *jua kali*, the informal sector in Kenya, demonstrates that most informal firms remain small, with just one employee, and have low productivity. Major obstacles they face include a lack of access to finance (43% of firms), followed by difficulties in accessing electricity (7.5%), bribery (6.8%), access to land (6.7%), and crime (5%).

A World Bank study on household enterprises in sub-Saharan Africa (World Bank 2012) argues the need to include the informal sector in employment and development strategies. Very small enterprises offer income opportunities for the great part of the labour force in low-income households. Although household enterprises have been considered in the framework of poverty reduction strategies, their role in the private enterprise literature and structural transformation debate has not been taken enough into consideration. If its constraints are adequately supported, this sector represents a big opportunity for job creation.

There is a general consensus among the major actors in the field on how to increase the productivity of informal enterprises. These include an enabling business environment, access to credit and to skills development, infrastructure, and awareness of the benefits of formalisation. The strategies for entrepreneurial growth in the informal economy are therefore related to multiple areas. Among all, access to finance and skills development are those of primary relevance in sub-Saharan Africa.

Finance

Sub-Saharan Africa presents has a preponderance of informal financial systems, which are often used by informal operators to meet their financial needs. Such systems include rotating savings groups, credit associations, *tontines*, and *susu* daily savings collectors. In some regions, informal finance instruments such as *mutuelles santé* also cover insurance needs. This predominance highlights the failure of the formal systems to meet the day-to-day operational and investment needs of informal operators. Although these financial mechanisms may be adequate for small companies, they do not allow firms to grow and to formalise. The transition from informal finance channels to formal mechanisms becomes necessary once a firm tries to grow.

A lack of capital is one of the biggest constraints faced by informal operators. The World Bank's Informal Enterprises Survey found that only 11% of informal enterprises worldwide resort to loans and 23% have a bank account (ILO 2016). In a report on informality in Kenya (World Bank 2016b), 60% of informal firms surveyed identified access to finance as their primary obstacle; only 9% of them were found to resort to bank services.

Improving access to finance is expected to boost firms' operations through investment in technology human resources and infrastructures, thus leading to better performance and stronger roles in job creation.

According to the ILO (2009) formal finance institutions should be inspired by Africa's many informal systems, which offer advantages such as speed and flexibility. Microfinance institutions have emerged to serve informal operators, often drawing inspiration from informal finance practices. But these institutions have had only limited success in terms of scope and breadth. Most focus on micro-enterprise loans but do not offer other financial services. African microfinance institutions have far fewer customers than their equivalents in countries such as Bangladesh and Mexico, where clients number in the millions.

An ILO policy paper (2016) suggests that finance should still be deepened and tested as an engine of formalisation, as limited access to finance hinders business start-ups as well as the operations of existing ones within the informal economy. The paper recommends policies to widen access to a range of financial services for informal enterprises. Benefits should continue after a business is formalised in order to maintain the incentive of remaining formal.

The financial inclusion of small informal enterprises should be considered as among the most urgent actions needed to support their growth and formalisation (World Bank 2012, ILO 2009).

Empirical data are scarce. But experiments supported by the ILO indicate that financial institutions that support, raise awareness and train informal-economy clients can be effective. An example is the ILO's Action-Research Programme Microfinance for Decent Work, implemented between 2008 and 2012 in several countries (ILO 2015b). This tested whether a package of financial and non-financial services would be more effective than microcredit alone. In Burkina Faso, there was short-term 10% increase in the number of firms registering as "informal sector" (a simplified way to register informal enterprises) but not in those registering as a "formal enterprise". Improved business management practices were also observed (26%), and more clients separated their business bank accounts from their personal ones. But there was little impact on enterprise performance or access to finance. One lesson (ILO 2015c) was that interventions aimed at enterprise formalisation need to be integrated into government programmes to stimulate an enabling environment, and to cut the costs and increase the benefits of formalisation. Interventions involving only financial intermediaries might not have the desired large-scale impact.

Microfinance is usually accompanied by client training. An ILO report (ILO 2015c) prepared for the 104th Session of the International Labour Conference suggests that merely promoting financial access alone is not sufficient to increase productivity and formalisation. Although this report was the result of a survey of formal small enterprises, some of its conclusions can be considered relevant for the informal sector. A major policy implication was that promoting entrepreneurship through packages combining financial and non-financial support (such as training) is more effective than stand-alone interventions (which are still very common). Other conclusions were that combined interventions resulted in more employment if they were addressed to youth, and that specific interventions should address women, who have specific needs and constraints.

Skills Development

Another factor affecting firm's productivity is the skills gaps of informal operators. The low level of skills restricts firm's productivity, undermining growth and preventing workers from getting formal jobs. This fosters a vicious circle of low productivity, low income and low investment in skills development.

Young, self-employed entrepreneurs lack the skills they need to succeed (AU and OECD, 2018). In Malawi, for example, they have low levels of education and 80% acquire competences informally through family members (36%) or self-teaching (44%). The lack of entrepreneurial skills lowers both the likelihood of young entrepreneurs to set up their own businesses, and their firms' survival. This points to the need for better entrepreneurship programmes, aligned with market demand, and to better address the needs of the informal economy in training interventions.

A study in five African countries (Adams and Razmara, 2013) shows how basic education is a cornerstone of any future skills development programme. Workers in the informal sector had lower levels of education than those in the formal sector. Although the vast majority of informal workers had completed their primary education, very few had proceeded beyond this. Both in rural and urban areas, traditional apprenticeships prevailed as the source of skills development; countries such as Ghana had such apprenticeships as the main source of skills in both the informal and formal sectors. Despite their popularity, traditional apprenticeships were associated with low earnings in all five countries examined because of the low educational level of the apprentices, the low quality of training, and the outdated technologies used.

Nevertheless, as argued in Section III of this Volume, the number of informal workers who have attended secondary school has risen, and an increasing number of youth graduates are employed in the informal sector. But such people still lack the theoretical background and skills they would acquire through formal technical and vocational education and training.

Formal training systems fail to meet the diversified needs of informal workers (ILO 2009). Surveys (Walther and Filipiak, 2007) show how formal systems have reached a very low percentage of informal workers: just 0.1% in Ethiopia. The informal economy trains the majority of young people using its own resources or external aid; government funds were used to train a minority who then often struggle to find formal jobs. National training systems have neglected the potential of small enterprises to create jobs, so missing the opportunity to contribute to inclusive growth. African policymakers are therefore called on to acknowledge the informal economy as an important area for skills development.

The World Bank study mentioned above suggests a package of measures:

- Expanding basic education and “second-chance” education programmes.

- Designing vocational training systems by taking into account the needs and characteristics of those working in the informal economy.
- Supporting the training of master craftsman in order to improve the quality of apprenticeships.
- Encouraging the involvement of business associations in skills development for the informal sector.
- Promoting competition and innovation in training delivery for the informal sector.

Some of these measures have proven effective. The Complementary Basic Education Programme in Malawi is a rare example in sub-Saharan Africa of a “second-chance” programme targeting adults and youths who left the formal education system and providing qualifications equivalent to those in the formal sector. In Ghana, through the support of German technical assistance, master craftspeople have been involved in apprenticeship-testing and certification systems. In Rwanda, micro-trainers help develop skills of learners in the informal sector.

Several West African countries have reformed their vocational training and apprenticeship systems. Benin, Togo and Senegal have restructured their systems to incorporate apprenticeship and to certify skills that have been acquired informally. Benin’s reform has addressed the needs of informal workers: it recognizes the role of traditional apprenticeships and includes them in the formal training system. The reform relies on the dual system, alternating theoretical training and apprenticeship, and delivering a professional certificate (*Certificat de qualification professionnelle*). It also created a work qualification certificate (*Certificat de qualification de metier*) recognising artisanal and informally acquired skills (OECD 2009). Similarly, Senegal has reformed its technical and vocational training system, integrating apprenticeships in the informal economy (AU 2008).

Other factors

Other factors might influence the levels of informality beyond access to finance and human capital development (Gajigo and Hallward-Dreier, 2012). These are **corruption** and the type of **experience** of the firm’s owners. Widespread bribery reduces the likelihood of formality; if a firm’s owners have previously worked for formal enterprises, it is more likely to become formal.

The inclusion of informal enterprises in **value chains** is also seen by the ILO (2009) as an urgent policy measure to favour better access to markets, services, technologies and know-how. Support to cooperatives and strengthening the link between formal and informal firms could play a crucial role in this.

Some local authorities provide spaces and **infrastructure** for informal traders to operate; examples are the Muthurwa market in Nairobi and various markets in Bamako (World Bank 2016b). The Muthurwa market, which can host 8,000 traders, was established to boost the productivity of a large number of informal traders who used to sell in the streets. Unfortunately, inadequate management caused the area to deteriorate. In contrast, Bamako’s experience is one of effective partnership between informal operators and local authorities. The informal traders are actively involved in the management of the markets, resulting in better market conditions and higher tax revenues.

Formalisation

Policymakers are therefore concerned to design interventions to face the main constraints faced by the variety of small informal firms, which prevent them from investments and growth; and to elaborate formalisation paths. The main assumption is that “reducing the cost of formalisation and extending the benefits (coming from it) should lead to a higher number of registered formal enterprises” (ILO 2015c).

According to the ILO, the priority should be to promote the formalisation of informal firms, with the double objective of increasing productivity and improving working conditions. A need for policy differentiation is also claimed (ILO 2015c), taking into account the existence, beside “the great share of micro-enterprises that won’t grow and generate employment”, of a “sizeable higher tier of growth-oriented informal enterprises” that could have a role on employment generation. While support to micro-enterprises continues to be vital as they are a source of income for the poor, specific measures for formalisation should be targeted to youth, growing enterprises, and start-ups (which are easier to formalise than are existing informal operations). The assumption is that growth-oriented micro-enterprises, the so-called “constrained gazelles” (ILO 2015c) might enjoy the benefits of formalisation more than subsistence entrepreneurs, who might not have neither the skills and the motivation to grow and to become formal.

Other major actors, such as the World Bank (2012), insist on the need for differentiated policy responses by distinguishing between large and small informal enterprises. While for large enterprises policy implications are related to formalisation, for small ones interventions should aim at raising productivity: credit, business services and skills development being at the top of the list.

A survey mentioned by ILO (2015c) in seven urban areas in West Africa found that 10% of informal enterprises are growth-oriented. Another one-third are potentially successful enterprises (according to their business skills and returns) but they do not grow because of a lack of access to finance or other factors related to the business environment. The conclusion is that if properly supported, this type of firm could grow and play a role in job creation.

However, despite some interesting initiatives, the overall impact of formalisation interventions on enterprise development and job creation has not been clearly assessed (ILO 2015c). This is mainly because most impact evaluations have been limited to the effects of business entry reforms, without taking into consideration wider and integrated interventions.

3.4 Social protection

Gaps in coverage

According to RNSF 2017b, only 4.2% of global GDP is allocated for social protection expenditures in sub-Saharan Africa. In addition to being poorly developed and financed, social protection systems in the region targets only the small segment of formal workers. A lack of social protection is therefore a key feature of workers in the informal economy.

Contributory social security systems cover scarcely 10% of workers, and resulting in a wide gap in social security coverage (AU 2015). In Tanzania, for example, the National Social Security Fund covers all non-government employees. It has over 350,000 members, but only 2,000 of these are informal

workers. Informal workers are therefore poorly protected and highly exposed to various economic risks, including motherhood, old age, health hazards and injuries (AU and OECD 2018).

A shock to African social protection systems came at the time of the structural adjustment programmes, which introduced “user fees” that excluded the great part of the population from social security and protection. Two main strategies emerged in response. Some countries attempted universal social security systems; other embraced community-based insurance schemes (AU and OECD 2018).

In addition, to balance the gaps and the limited breadth of national social protection schemes, some countries started non-contributory social protection programmes: social assistance targeting the poor and vulnerable groups through cash transfers, public works programmes, and safety nets. A survey in 2015 (AU 2015) found 123 cash-transfer programmes in 34 countries, and over 500 public works programmes.

Global trends and national initiatives

In assessing the provision of social protection in developing countries, RNSF 2017b identifies global trends related to the coverage of informal workers. A first type is a wide coverage health-insurance scheme, which for example now covers large parts of the residents of Ghana. The Ghanaian National Health Insurance Scheme, founded in 2003, is primarily financed through tax revenues; informal workers are the only category who pay premiums, and they account for 30% of all members and 42% of total reimbursements. Together with children and the elderly, informal workers benefit more from the Scheme’s services and reimbursements. Indeed, it is estimated that informal workers receive the largest share of benefits relative to their share in total membership (World Bank 2017).

Another approach is to design flexible systems adapted to informal workers, taking into account the wide range of job types and working conditions. In Kenya, the Mbao Informal Sector Pension Scheme is a voluntary retirement savings plan addressed at informal workers and enabling them to save for their old age through small contributions that can be made at any time through mobile phones.

Other approaches target specific categories of informal workers, such as one in South Africa that extends unemployment insurance to domestic workers. Other strategies aim at extending coverage through community-based insurance schemes, Guinea Bissau’s Abota Village Insurance Scheme started in 1980 in a few villages, was later expanded to 462 villages and, in 1991, was integrated into the National Health System (AU 2008). It adapted traditional payment mechanisms that were used to collect funds for village ceremonies. A village committee decides on procedures for collecting funds, purchasing drugs, and monitoring.

The Community Health Fund in Tanzania finances rural health services through three mechanisms: user fees introduced by the government, insurance contributions, and a mix of funds from the government and external aid. An exemption mechanism guarantees access to those who cannot afford contributions, and as in Guinea Bissau, local communities manage the scheme.

Microfinance can also be a tool to support community-based solutions. In Senegal PAMECAS, a microfinance institution, associates health micro-insurance services with the micro-credit (AU 2011).

Compared to the past, a new regional policy trend has emerged. If previously the informal economy was perceived mainly as a problem of tax evasion and unfair competition, governments’ attitudes have changed significantly. The recognition of its role in employment generation has pushed authorities to

put a new emphasis on extending social coverage to informal workers (RNSF 2017b). The continental SPIREWORK Programme (AU 2011) puts social protection for informal workers as an “essential concern for African Union Heads of States”, being a measure promoting human rights, social cohesion, productivity and transition to formality. Through SPIREWORK, governments are requested to elaborate a “minimum package of social protection for rural and informal workers, and their families, encompassing measures on access to market and land for stable workplace, health, maternity, death, retirement” and to “review their laws and regulations, policies, strategies and programmes as they relate to access of the informal and rural workers to social protection measures, and undertake reform measures for more inclusive social protection systems”. A special focus is on health care, and on strengthening the efforts of the Africa Health Strategy.

In the same vein, Agenda 2063 (AU 2015) states that social security and social protection “can play a vital role in ensuring that growth leads to reduced poverty”. Governments are therefore called on to guarantee “social protection floor and minimum package to improve access to essential health care and basic income security ... in particular in the informal economy and rural sector”. It is estimated that allocating 5% of GDP of member states will ensure the minimum package. Second, they are called on to ensure the extension of contributory social security systems in the informal economy.

Future directions

RNSF 2017b highlights several key directions for social protection of informal workers.

Legal frameworks. Although informal workers are defined as those “without legal and social protections” they operate within the respective country’s institutional framework. The issue is therefore to assess whether existing systems may be expanded or reformed – and how to enable access for informal economy workers. Several recommendations are proposed:

- Adapting social protection schemes to the specific needs of different categories of informal workers (self-employed, informal employees, micro entrepreneurs) and providing both long and short-term benefits (the latter being represented for example by funeral aid, child education, equipment for firms, skills building).
- Raising awareness and mobilizing informal workers to participate in the design process, especially through representation mechanisms for informal workers in institutional dialogue.
- Combining efforts with a broader approach to promote formalization.
- Supporting the rights-based approach (social protection as a human right).
- Supporting a minimum level of social protection to cover all informal workers (including at least health, maternity, and disability benefits, old-age pensions, life insurance benefits).
- Designing sustainable financing mechanisms.

Access to social security. Social protection systems are often poorly accessible for informal workers, so few are enrolled in them. Problems include registration requirements, contribution levels, types of benefits, and modes of service delivery. Another obstacle is the poor knowledge and awareness of the benefits. Sometimes it is a matter of distrust in the institutions because of a lack of accountability. Suggestions to change this include:

- Adapting requirements (making social protection schemes flexible and costs affordable, simplified registration requirements, diversify payment systems, e.g. through mobile phones or post offices).
- Improving customer service (simplified procedures, one-stop-shops, quick and efficient payment of the benefits).
- Improving governance and accountability through technology (e.g., electronic payments).
- Raising the awareness of informal workers.
- Advocating through informal workers' organizations.

Community-based solutions to social protection. Where the state is not able to meet social protection needs, other actors intervene to support community driven actions: donors, but above all the community itself. Beyond support from family, neighbours, cooperatives, trade unions and charities, the most widespread forms of this type of solutions are mutual assistance arrangements to perform collective tasks such as land preparation and crop harvesting (e.g., *harambee* in East Africa) and rotating savings-and-loan groups or *tontines*. The latter are widespread in sub-Saharan Africa, as a form of mutual assistance where members pay a periodic small amount into a kitty. The mutual fund is then assigned in turn to each member of the group. In some cases, the mutual fund can be designed with a specific scope, such as in the case of *idir* in Ethiopia, which covers funeral expenses. These solutions deserve to be supported and developed, as is the case for many cooperation projects that support, broaden and strengthen similar systems of social protection and the community organisations on which they are based.

An integrated approach should be considered to promote social protection coverage for those whose livelihoods depend on the informal economy. The African Union (2008) recognises that although universal coverage is the long-term objective, a combination of universal coverage approaches with community-driven solutions or special targeted systems is necessary in order to cover the greater share of the population.

Some countries seem to be on this path regarding social health insurance. In the attempt to extend health coverage to specific sub-populations, such as informal workers, who could not be addressed through contributory schemes, 40% of the countries in the region have adopted voluntary schemes, such as community-based health insurance. The latter present different degrees of state participation: in some countries, the state directly subsidizes the system, such in the case of Tanzania Community Health Fund (Cotelar and Rosenberg, 2018).

4 Integrated regional experiences toward formalization

Integrated strategies at the local level are among the most effective approaches toward formalisation (ILO 2008). A number of good practices at the regional level to promote formalisation were presented at the ILO Tripartite Interregional Symposium on the Informal Economy in 2007 (ILO 2008).

Ghana

In Ghana, the Decent Work Pilot Programme, initiated by the ILO and the government, combines the national poverty reduction strategy (with its focus on the informal economy and entrepreneurship promotion) with interventions at the local level. Macro-policy was sustained in its focus on the informal economy and decent work, and strictly linked to the local level through the capacity building of the key stakeholder in designing and implementing a Local Economic and Social Development Plan. A policy instrument to link this macro-policy to the local governance from a decent job perspective was designed in the form of a statutory public-private forum, the District Assembly Sub-Committees on Productive and Gainful Employment. In this forum, business associations could influence local tax regulations and receive technical support to improve firms' productivity. The partnership produced interesting results: organizing was boosted, social protection coverage was expanded by linking small enterprises to the National Health Insurance Scheme, "decent work savings and credit unions" were initiated, and local government funds were increasingly allocated under programmes developed by the partnership. Trade unions and the National Employers' Association also supported the approach (ILO 2008).

South Africa

The Durban Metropolitan Council has elaborated a successful, integrated policy addressing informal operators, which includes measures such as capacity building of informal workers' organizations, institutional dialogue, legalized sales areas, business support and market access, and a licensing system that includes incentives such as skills development and infrastructure access. Furthermore, some sectors of the informal economy have been specifically targeted, as is the case of traditional medicine. The latter has been provided with market infrastructure, plant nurseries, processing plans and skills development (ILO 2008).

Kenya

A study published by SIDA (Flodman Becker 2004) highlights how Kenya has been leading policymaking in the issue of informal economy. From 1986 the government started incorporating the *jua kali* into national economic policy. Measures to support microentrepreneurs were established, including flexible credit schemes, support to informal firms to produce cheapest items that could replace imports, boosting of cooperatives, group purchasing and marketing, and knowledge on new technologies. The government was also permitted to subcontract informal economy operators for a range of assignments. A specific policy for the informal economy was later designed. Nevertheless, some weaknesses are highlighted by Flodman Becker, such as the lack of a coordinating body for implementation, and weak consultation of beneficiaries.

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Cover photo: Operations At A Leather Factory As Small And Medium Businesses Look To Budget To Reward India's Job Creators. A worker holds a piece of processed leather for a photograph at the Jalandhar Leather (India) Pvt. tannery in Jalandhar, Punjab, India, on Friday, Jan. 20, 2017. India's 51 million micro, small and medium enterprises employ 117 million people, accounting for 45 percent of the country's total exports and contributing more than 7 percent to its gross domestic product through manufacturing. The sector, which is mostly informal and unregistered, hasn't generated enough jobs or contributed to overall growth for decades. Photo by Dhiraj Singh/Bloomberg via Getty Images.

POLICIES ON THE INFORMAL ECONOMY

This volume is an analysis of the main policies and approaches adopted to tackle the informal economy in a development context, with special reference to main actors and players in this field. It includes an analysis of the policies of key International Institutions. There is special focus on the approaches that the ILO and Word Bank developed.

The analysis covers Country Assistance Strategy reports and other official documents/programmes of the World Bank and ILO for selected countries of interest. It also includes reports on the practical implementation of the technical support initiatives of CSOs and NGOs.

The Research, Network and Support Facility (RNSF) is a European Union-funded project to improve knowledge on ways to enhance the livelihoods of people in the informal economy and to increase the social inclusion of vulnerable groups. It supported 15 projects in 13 countries funded by the EU Thematic Programme "Investing in People" and conducted research, identified best practices and facilitated information sharing and networking on the Informal Economy. RNSF research findings are organized in four levels: 1) Theories and concepts around the Informal Economy and related topics; 2) Approaches and recommendations from institutions and worldwide stakeholders working on the topic of the Informal Economy; 3) Good practices and lessons learned arising from the projects supervised by the RNSF team, as well as from other projects on the informal economy funded by the EU; 4) Thematic Monographies on Key Topics that combine theoretical analysis, presentation of successful cases, and recommendations. All volumes are available here: <https://europa.eu/capacity4dev/rnsf-mit>