

FORMALISING THE INFORMAL ECONOMY?

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INTRODUCTION

The transition from the informal to the formal economy was discussed at the 103rd session of the International Labour Conference (ILC) in 2014 (see these two reports [here](#) and [here](#)) and was on the agenda of the 104th session in June 2015 in view of the adoption of recommendations (see this [link](#)).

Within the walls of the tripartite conference, a consensus has been reached towards the “transition” from the the informal to the formal economy. It has not always been the case. Let us remember that the ILC in its 78th session in 1991 submitted a report entitled “The dilemma of the informal sector” and before that in its 77th session in 1990 on “The Promotion of Self-employment” that were more accepting of the existence of the informal economy.

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For the employers, the informal economy must be eradicated because of the unfair competition it provokes: informal economic units do not pay taxes nor social contributions and they do not respect the labour law (minimum wage, working hours, etc.). The prices for the goods and services that they produce are lower than they should be. Ironically, in addition to this competition from the bottom by offering lower wages, informal activities can also compete from the top. Remunerations offered through informal trans-border trade activities can, for example, come to exceed the wage rate in the formal economy. In this way, they mop up the supply of the workforce on the labour market so that the formal enterprises are unable to hire workers at such a high wage rate.

Workers' trade unions have for long been unconcerned regarding a population (the self-employed) who is not traditionally part of their “clientele” (and whose interests are by nature, closer to employers) until they realise that the informal economy employs more and more wage earners working under indecent conditions. Workers organisations now also recognize that the informal economy represents an unfair competition for the protected workers, which could undermine the social rights and benefits that these have obtained after long struggles.

As to governments facing increasing indebtedness, they consider that the informal economy does not play the game and they agree that it is an unfair competition for the formal economy. The informal economic units represent a mass of taxable incomes that escapes them. A focus on taxation has long been the centre point of public policy to address the informal economy.

However, the interests of the three social partners are also mutually beneficial: employers gain from low wages in the informal economy in the sense that they exert a downward pressure on wages in the formal economy. They also benefit from low salaries through sub-contracting firms, which, at the lower level of the chain, are informal. Informal economy workers benefit from relatively easier access to jobs in the informal as opposed to the formal economy. Within these tripartite arrangements, the informal economy gains some support from some specific trade unions such as the Self-Employed Women Association (SEWA).

WHAT COULD BE THE ARGUMENTS IN FAVOUR OF THE INFORMAL ECONOMY IN THIS DEBATE AROUND UNFAIR COMPETITION?

Doesn't the informal economy itself suffer from an unfair competition from the other players?

For instance it has to pay bribes that may appear to be heavier than taxes, access to public bids may be denied to informal entrepreneurs even where they organised in associations or cooperatives (see the example of [waste-pickers in Bogota](#)).

More generally the exclusion of the informal workforce may be seen as challenging the social contract that is the foundation of the society at large.

Why should the informal workers (self-employed or wage earners) who represent the 'norm' and at least the largest number, pay for taxes and social contributions if they do not have access to good health and education services, to infrastructures (water, sanitation, electricity, etc.) and security in the areas where they live and work?

CONCLUSIONS

The national delegations at the 104th ILC on the 12th of June 2015 adopted quasi-unanimously ILO Recommendation 204 concerning the transition from the informal to the formal economy.

It aims at “*facilitating the transition of workers and economic units from the informal to the formal economy, (...), at promoting the creation, preservation and sustainability of enterprises and decent jobs in the formal economy (...), and at preventing the informalization of formal economy jobs*” and calls for “*a balanced approach combining incentives with compliance measures*”.

But it especially insists on “*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*”, then to “*reduce, where appropriate, the barriers to the transition to the formal economy and take measures to promote anti-corruption efforts and good governance*” and finally enumerates most of the policy measures that have been tested in various countries to support micro-enterprises.

Interestingly, one of the measures in Recommendation 204 is clearly inspired from Hernando de Soto (2003) in the sentence where it recommends “*providing the means for such workers or economic units to obtain recognition of their existing property as well as by providing the means to formalize property rights and access to land*”.

REFERENCES

[Recommendation 204 - Recommendation concerning the Transition from the Informal to the Formal Economy, adopted by the Conference at its one hundred and fourth session, Geneva, 12 june 2015](#)

De Soto Hernando (2003), *The Mystery of Capital. Why Capitalism Triumphs in the West and Fails Everywhere Else*, New York: Basic Books

IESF TEAM SUGGESTED RESOURCES

[Transitioning from the informal to the formal economy – Report V. International Labour Office \(ILO\), Geneva. International Labour Conference, 103rd Session, 2014.](#)

[Transitioning from the informal to the formal economy – Report V\(2\). International Labour Office \(ILO\), Geneva. International Labour Conference, 103rd Session, 2014.](#)

[Transitioning from the informal to the formal economy – Report V. International Labour Office \(ILO\), Geneva. International Labour Conference, 104th Session, 2015.](#)

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