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Informal Talks Webinar 2

How to tackle the informal economy? Key policies and approaches

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ILO Recommendation 204 on the transition from the informal to the formal economy

- Today policies and measures addressing the informal economy take place within the Recommendation 204 unanimously adopted by the 2015 International Labour Conference
- This recommendation is a balanced set of incentives and coercive obligations, of carrots and sticks, that takes into consideration the diversity and heterogeneity of the informal economy

What diversity?

- The informal economy is comprised of:
 - The small economic units of the informal sector: own-account workers and informal employers of micro-businesses and their dependent workers (1/2 to 3/4 of total)
 - The informal employees of formal firms, be they directly contracted but without any formal rights in terms of social protection, or sub-contracted
 - The informal domestic workers of the households
- Policies addressing the informal economy are obviously different for each of these 3 components

Various policies for various categories of workers

- Depending on countries and regions, focus is primarily put on the “fight against illegal work” (informal employment in the formal firms)
- Or on the promotion-transition of micro-businesses and their dependent workers
- As to domestic workers, they require specific measures provided they are one of the last categories of workers to continue to be ignored by labour laws in some countries

Main approaches

- General or Global Approaches
 - Coercive approach: Taxation
 - Comprehensive approach: Value chain
 - Approach from within: Organizing
- Sectoral approaches
 - Extension of social protection
 - Skills' enhancement
 - Access to credit

Main focus of transitioning policies: the inclusion of the informal sector

- Historically, taxation of the informal economic units was the main goal for governments realizing the shortfall in revenues from the non registration of such a huge number of activities
- It was led under the banner of the fight against unfair competition, these taxation policies have also raised the issue of a renewal of the social contract: why the informal sector should pay taxes whereas it does not benefit of any public service: education, health, infrastructures, credit, markets?
- It means building (or re-building) trust and fighting against corruption and cronyism

The incentive approach for informal micro-businesses

- Creating an enabling environment for micro-businesses
- Simplifying the procedures
- Unique desk for all procedures
- Provision of support services for micro-businesses and targeting youth, women, the unemployed
- A unique, all inclusive, presumptive or synthetic tax

The coercive approach for informal micro-businesses: Taxation

- A unique, all inclusive, presumptive or synthetic tax
- Based on a clear objective and simple characteristic of the activity: area in square meters, electricity consumption for example
- De-linked from the number of workers
- To be collected by a unique institution or department (tax authority or social security) and not to be brought to administration by liable persons
- Inclusive of social contributions
- Successful examples in Latin America (Monotax)

The coercive approach for formal firms: A mix of controls and tax incentives

- Preventing formal firms from hiring informal workers or to fall into, or come back to the informal economy
 - By improving the registration and matching data available on formal firms
 - By strengthening and coordinating controls between fiscal, labour and social security administration
- Curative
 - Partial amnesties for under-reporting firms that formalise
 - Tax deductions for households declaring their domestic workers

But these approaches are macro approaches for governments. What about grassroots organisations? The following approaches are valid for both governments and grassroots organisations

The comprehensive approach: climbing up the value chain

- Value chain analyses have become common among development actors, especially the organisations in charge of the implementation of local development projects
- The reason for that is that it is not enough to provide capital, inputs and skills for income-generating activities, it is necessary to ensure markets for the products
- There are two aspects in value chain
 - Sub-contracted home-based workers who need support for accessing more decent work conditions
 - Own-account workers and smallholders who need accessing wider markets and processing the plants or products they grow in order to increase their share of the value chain

A good practice: women shea nut producers in Ghana

- Objective: capture a more important additional value in the chain through :
 - An increase of the quantities produced (improved productivity, increased storage, sales at appropriate times when prices increase)
 - Bundling volumes
 - Improvement in quality
- This type of strategy usually requires multi-pronged actions such as:
 - Organising in community groups
 - Sensitisation
 - Education and training
 - Grant of small loans through micro-credit
 - Use of ICTs 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

Organizing: the approach from within (1)

- Because of their conditions of work (home-based - own homes as well as owners' homes -, mobile, outside firms' premises) these populations have no opportunities to meet regularly
- This is why it is important to support them in organizing in order to give them voice and agency
- Traditional existing community-based organisations are a good starting point to this aim
- SEWA (Self-Employed Women Association) funded in 1970 was recognised as the very first trade-union of informal workers in 1983
- WIEGO (Women in Informal Employment: Globalizing and Organizing) funded in 1997

Good practice and lessons learned from the struggle of waste pickers of Bogota

- Recent privatization of public waste collection threatened the livelihoods of some 15,000 waste pickers in Bogota: municipal administrations granted exclusive contracts to private companies for 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 Bogotá, began a legal campaign to allow the recicladores to continue to collect and recycle waste. A landmark victory was achieved 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 court mandated that the cooperatives of waste pickers had a right to compete for the city tenders and gave the ARB until March 31, 2012 to present the municipality with a concrete proposal for solid waste management inclusive of the waste picking community
- With the help of WIEGO and others, the ARB prepared a proposal, elements of which were adopted in the official proposal made by the district agency in charge of the city's public service
- The struggle continued because of vested interests in the private sector want to regain control over the waste collection and recycling sector and have mounted a political campaign to remove the current Mayor of Bogotá. They argue that the public management of waste collection and the involvement of the recicladores undermine 'free competition' and are, therefore, illegal

Organizing: the approach from within (2)

- Organizing is at the crossroads of most actions toward formalisation
 - Organizing is key for being taken into account as a player in the value chains.
 - Organizing is key for gaining visibility and voice and having their rights recognised
 - Organizing is key for gaining self-esteem and confidence when facing public authorities
 - Organizing is key for extending social protection.
 - Organizing is key for financing
- The Social and Solidarity Economy and social enterprises have recently been given more emphasis for taking the lead in this role for ensuring the transition to the formal economy

Sectoral approach: social protection (1)

- Universal health coverage and social protection are salient in the SDGs
- They are also central for the transition from the informal to the formal economy (by definition)
- There are two options:
 - Either the social contributions are made compulsory and it is up to the State to collect them
 - Or it is left to the workers or the citizens to decide whether they contribute or not and to the private sector to offer such services
- In all cases, it is necessary to make sure that the services are effective

Sectoral approach: social protection (2)

- In the first “compulsory” option, two possibilities
 - Include social contributions in a unique tax collected by a unique institution
 - Organise informal workers communities or self-help groups, raise awareness among them of the advantages and benefits of social protection and collect contributions
 - In both cases, there is a need to sensitize, raise awareness and incentivise the staff of social security institutions to realize that they are serving the beneficiaries
- In the second “voluntary” option
 - Organise informal workers communities, raise awareness among them of the advantages and benefits of social protection and collect contributions
 - Rely on mutual funds to ensure health coverage adapted to the population

Sectoral approach: social protection (3)

- A major issue, beyond sensitization of the populations, is how to ensure the collection of regular contributions
- Good practices can consist in:
 - Combining the payment of social contributions with the (daily, weekly, monthly) collection of savings in community groups and use a part of savings for contributing to professional mutual funds (see AVSI in Côte d'Ivoire)
 - Combining the payment of social contributions with the regular payment of a necessary input for the profession (seeds, fertilisers, gas, equipment) (see professional cooperatives of DOSI in Togo)

Sectoral approach: Skills' enhancement (1)

- Informal workers generally lack the theoretical background and the skills that they could have acquired in the Technical and Vocational Education and Training (TVET) formal system
- On the other hand, youth trained in the TVET formal systems lack practical experience acquired on the job as well as management skills
- People having worked in the informal economy and eager to transit to the formal economy struggle to access to formal recognition of the skills they have acquired
- Large proportions of the youth who learn a craft on the job are older and above all more educated than their masters or the owners of the workshops. Consequently the status of apprentice has changed and trainees rather than apprentices are demanding more than learning by the eyes, they need that their practice be strengthened by more theoretical knowledge

Sectoral approach: Skills' enhancement (2)

- Consequently priorities for skills development are
 - Recognition and upgrading of skills developed in the informal economy,
 - training of informal trainers, and
 - upgrading of informal apprenticeship schemes so that informal apprentices are not locked in the informal economy
 - access to higher-level skills training for improving the informal workers' performance
 - formal and informal TVET schemes enabling learners to develop entrepreneurship and start-up businesses to come out from poor wages and insecure jobs.

Sectoral approach: Skills' enhancement (3)

- One of the advantages of work-based learning or apprenticeship 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
 - or in other words a good proficiency in all dimensions of the craft, not only technical, but also in entrepreneurship skills
- The drawback is that apprenticeship often hides poor wages and work conditions, as well as lack of basic occupational health and safety conditions
- This provides room for field projects accompanying young apprentices in the informal sector

A good practice in skills' enhancement: the recognition of skills acquired on the job

- Implemented in Uganda by SwissContact Germany in a EU-funded project “Validation of Non-formal and Informal Training”
- The “Proficient Acquired Skills” (PAS) document was developed and implemented in Uganda in partnership with the Ugandan Association of Private Training Providers (UGAPRIVI) and negotiated with employers' associations
- The PAS certifies the skills and competencies of an individual in a particular trade and assesses the strengths of the holder as well as his skills gaps. It facilitates the placements among the participating employers' associations

Sectoral approach: Access to credit

- 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
- But the simple financing (not only micro-finance) of the informal micro-entrepreneurs by the banking system also requires to be tackled seriously if the transition to the formal economy is at stake
- Micro-finance is defined as a set of financial services such as savings, micro-credit, insurance, money transfer, adapted to the needs of low-income and poor persons (especially those who do not have bank accounts)
- Micro-credit is not a usual loan, it is most often combined with others elements: the borrower benefits from tips that will help him use the borrowed money in the best way, among others: how to keep accounts, calculate a cost, comply with regulations, and choose a particular approach or a project

A good practice of GESCO in Côte d'Ivoire

- The Groups of savings and community solidarity (GESCO) initiated and supported by the EU-funded project implemented by AVSI in Côte d'Ivoire is a good example of good practice at grassroots level
- Inspired from traditional 'tontines', the GESCO are professionally based and remain at small scale in order that everybody can know and trust each other (20 to 30 members) thus securing savings
- The collection of savings is organised and redistributed under the form of micro-credit (for consumption or equipment or insurance for health coverage)
- In this sense, GESCO constitute the basis of a micro-finance institution (with the triple function of saving, credit and insurance)
- The insurance function for health coverage is activated by AVSI upon demand of the individual household in order to abound an amount collected at the Professional Organisation of Handicrafts (OPA) 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 and functioning mutual fund that allows households members benefitting immediately from health coverage

Room is limited in such a short presentation for highlighting the variety and richness of good practices and lessons learned in the field.

You are encouraged to consult, comment and enrich the RNSF report on the [IESF Group](#)



Thank you

Questions & Answers

The views expressed in this webinar do not necessarily reflect the views of the European Commission.





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Next webinar in end September: “How to extend social protection to informal workers?”

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