

Local Employment in the Informal Economy

Course Guide

**For staff in local governments and partnership
organisations.**

Prepared for the International Labour Organisation

by Adrian Atkinson

Geneva 2001

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ILO /
Local Employment in the Informal Economy
Course Guide for staff in local governments and partnership organizations
Geneva, International Labour Office, 2001

ISBN 92-2-112513-0

ILO Cataloguing in Publication Data

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Printed in Switzerland

Preface

Cities are places to work as much as they are places to live. To absorb the ever-increasing number of people living in urban centres, local governments face a huge task. One of the key challenges is to help create employment locally and to improve its quality. Urban poverty is on the rise in many developing countries, and most city-dwellers cannot afford to be unemployed.

This Guide addresses the need for job creation by showing how municipal governments can improve the local economy. The Guide deals mainly with the “informal sector” because this is where most people are in fact working (and generating a substantial part of total income earned) in most cities in Asia. The second reason to concentrate on the informal sector is that many of the women and men working outside formal employment are not part of any legal or social security system, do not belong to any representative structure and are not eligible for any financial and other support services.

To alter the virtual exclusion of the working poor, many local governments are already implementing support programmes of various kinds. The aim of this Guide is to help sustain and expand these efforts and thus contribute to the promotion of decent work for all those engaged in the local economy.

For this to happen, local governments cannot act alone. They need to work together with organizations already operating in the local economy. Community-based organizations, business associations, home-based workers’ groups, cooperatives, employers’ organizations, trade unions, and a myriad of training, advisory and support institutions are often already connected directly to the informal entrepreneurs and workers. The present Guide is also intended for use among these different intermediary actors. The operational strategy it proposes is to establish and realize effective partnerships between local governments and local organizations in order to implement an employment-focused development agenda.

The potential role of local governments in promoting employment is enormous. They can procure many goods and services locally, and undertake more employment-intensive strategies in the delivery of public services. They are also central in shaping a more conducive business environment in terms of policies and regulations for small enterprise creation, and in attracting outside interests to buy from and invest in the city they govern.

This Guide, which the Public-Private Partnership programme of ILO/SEED offers to interested users at the local level, is one in a range of tools to support a more prominent role for local government and its partner institutions in promoting decent work. While the training courses developed on the basis of the Guide will not immediately lead to a more proactive, conscious employment strategy, they may well contribute to a change in the authorities' understanding of the local economy and steer awareness towards the need for a fundamental policy shift.

ILO/SEED is willing to help such policy changes evolve and subsequently develop concrete partnerships for a more productive and integrated local economy. This is an indispensable building-block in transforming the many poor urban centres into prosperous and sustainable "Cities at Work".

Christine Evans-Klock
Director
InFocus Programme on Boosting Employment
through Small Enterprise Development

Acknowledgements

The present Course Guide has a long history. It was developed upon the findings, in the early 90'ies, of a Regional ILO project in Asia that aimed at developing policy options for the urban and rural informal sector. Funded through a contribution from the Federal Republic of Germany, the policy reviews and the various high-level policy workshops concluded that, in spite of their good prescriptions, national policies are not always effectively implemented at the local level. The reasons for this can be debated, but a key point made was that responsibilities were increasingly being decentralized to the local level, where there was the least awareness of the complexities of job creation potential of the informal sector.

Based on the project's recommendations, a set of training materials was developed for local level urban authorities in Asia. Two major training institutions, the Local Government Academy (LGA) in the Philippines and the Regional Centre for Urban and Environmental Studies (RCUES) in Hyderabad, India, were involved in the initial development of these materials, with a view to ensuring a broad relevance of the modules to conditions pertaining in South and Southeast Asia. A technical review workshop was subsequently held in Hyderabad bringing together the major participants in this exercise from both countries. The workshop led to a series of constructive recommendations how to improve the practical relevance of the training materials. The contributions of the respective participants and institutions are greatly acknowledged.

The final Course Guide has been written by Mr. Adrian Atkinson, ILO consultant for the InFocus Programme "Boosting Employment through Small Enterprise Development" (SEED). While using the existing draft training materials, Mr. Atkinson successfully extended its content to the various dimensions of the promotion of decent work. As a result, issues such as gender equality, social protection, job quality and association building for improved representation are now blended with strategies to enhance productive employment through small enterprise development.

This reorientation fully reflects the priorities and key strategies of the SEED programme. Developed as a product under SEED's Public-Private Partnership programme for local employment promotion, the Guide underlines the potential of more and better jobs through increased market opportunities for enterprises operating in the informal economy.

A team of three people of the Public-Private Partnership programme, consisting of Ms. Andrea Singh, Ms. Maria Prieto and Mr. Kees van der Ree, led the final work on the Guide. The actual production was coordinated by Ms. Prieto and realized with the assistance of Ms. Paula Miguel and Ms. Chantal Deprez, to which many thanks are due. The course guide is financed from a contribution under the ILO/The Netherlands Partnership Agreement, which is gratefully acknowledged.

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NOTE FOR THE TRAINER

INTRODUCTION

What is the Intention of this Guide?

This guide has been compiled by the International Labour Organization (ILO) as a basis for running courses in municipalities in Asia, with the aim of improving the local economy. The specific focus of the course is on the “informal sector”, comprising those parts of the economy that are often left out of discussion because they are thought to be of little value. In reality, the informal sector is far from negligible, constituting the majority of the working population and generating as much as half or more of income earned within most cities and towns in Asia.

The purpose of the course is to increase the understanding of local actors – including local authority officers, community organizations and the associations of people working in the informal sector – of how the informal economy operates and how its performance might be improved. It is hoped that this course will reinforce the message of courses initiated and run by other ILO Programmes and other institutions in the region, to foster a new coherence in the assistance given to local actors in the informal economy.

Course Objectives

- To broaden recognition among local actors at all levels that most informal sector activities in local economies are of value to the city and should be promoted and facilitated;
- To help local actors in their identification and analysis of the local informal economy;
- To develop local initiatives and programmes that augment the capacity and performance of informal sector activities in order to create and utilize new job opportunities, with the ultimate aim of evolving a more productive and integrated local economy, better serving the needs of all citizens.

Course Outputs

- A more positive attitude on the part of senior local authority officials and all course participants to the needs of informal sector actors and heightened awareness of the high potential for job creation that the privatization of public works and services can generate in the informal economy;
- Course participants are enabled to identify and analyse the components of the local informal sector;

- Course participants are prepared to increase their involvement in initiatives to improve the job creation potential of the local informal sector;
- Course participants create public-private partnerships.

For Whom is the Guide Intended?

This guide is written for the instruction of trainers on how to prepare and run the course. In particular, it targets trainers with relatively little experience. More experienced trainers should utilize their familiarity with the course material to adapt their training approaches to specific circumstances in those countries and cities where particular courses are being delivered.

The material presented here is for trainers to read, digest and use as the basis for the course. At the end of each module, a number of summary sheets is provided. These can be reproduced as overhead transparencies and later distributed to course participants.

How to use this Guide

Headings and main text detail the structure of the course and how training should proceed. *Instructions to the trainer are printed in italics.* Where the trainer will be expected to lecture and where and how discussions should be encouraged is also indicated. The length of each session is suggested but should be flexibly interpreted, the main concern being to ensure that participants understand and retain course content. Appropriate exercises and field visits are included, with suggestions to the trainer on what details to provide.

Sections in light red boxes with sharp corners inform trainers of the arguments to which the bullet headings refer. As not all trainers may be familiar with these arguments, their substance is provided. Note that arguments should not be transmitted to course participants exactly as written and should certainly not be read out. Rather, trainers should be familiar with the arguments and present them accessibly, clarifying any necessary points during discussion with participants authority.

Sections in light yellow boxes with rounded corners are case studies. These can be reproduced and handed out to the participants. They may also be replaced by examples known to the trainer and, where relevant examples can be found locally, these should be substituted by the trainer.

Lists of background materials are provided at the end of modules one, two, three and four. The purpose of these lists is to give the trainer more in-depth knowledge of the subjects treated in this course guide in order for the trainer to prepare the presentations. The trainer may use the materials as background information, and where adequate, recommend the listed materials to the participants.

At the end of each module, a set of summary sheets is provided. These have "OHT" printed in the top right-hand corner and may be reproduced as overhead transparencies and used by the trainer as the basis of lectures or running commentary. The OHT sheets are generally in the form of bullet-point headings, the content of which the trainer should explain to participants in more detail.

In practice, trainers may wish to translate and/or rewrite the overheads, modifying them to contain headings other than those recommended here. In some cases this will be necessary in order to incorporate local information on the legal and institutional situation or on selected case studies. Overheads should be reproduced and distributed to participants in their own language.

Scope and Structure of the Course

It is envisaged that the course takes place in specific towns or cities of urban districts during one week (starting Sunday evening and finishing on Friday evening, for example). It should be emphasized that the modules, exercises and field visits may be used in different configurations where appropriate. The course could also be run on the basis of one day each week for one month; or material could be revised to accommodate centrally running the course, for example, in a national training institution for local government staff. However, the recommended format is to run the course intensively within particular local authority areas, with multiple stakeholder involvement. An overview of the recommended format is provided in the following paragraphs.

Course Introduction

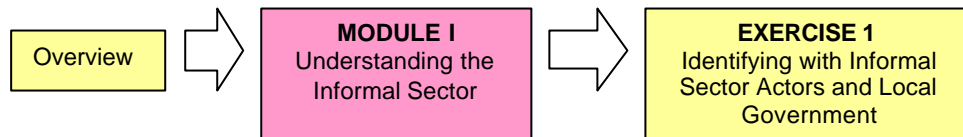
An introductory session is suggested for the afternoon or evening of the day before the course commences. It is assumed that course participants will comprise local government officers at or near the head of various departments, together with civil society actors from within the town or city (see checklist of participants in Method, below).

This session has two main intentions. First, it should be designed to bring participants together and introduce them to the general scope of the course. Second, it is essential that local leaders participate in the session and are encouraged to declare their support for the purpose and outputs of the course. It should confirm the commitment of the Mayor, councillors and senior local government officers to gaining a more positive view of the informal sector and its significance as an essential support to the welfare of citizens in the local economy.

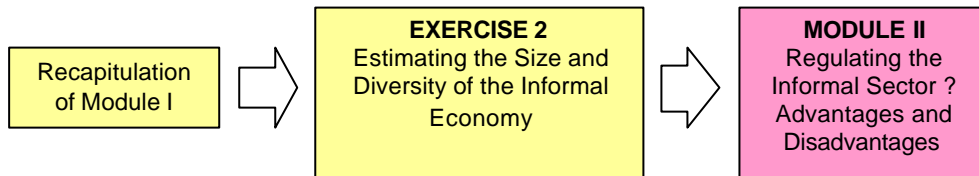
Day before the Course

Reception and
Course Preliminaries

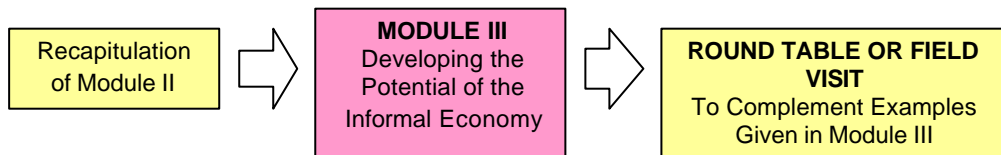
Day 1



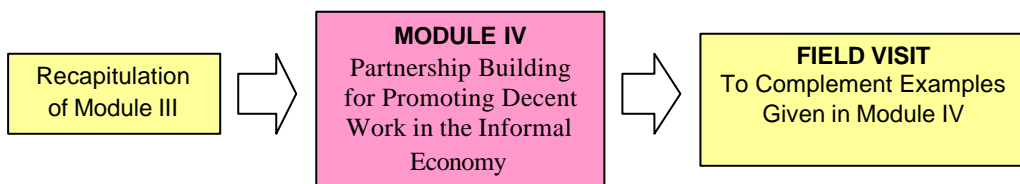
Day 2



Day 3



Day 4



Day 5



Day 1:

Day 1 begins with a short session in which the concept of the informal sector is firmly embedded as the subject of the course. As described below, the local and global aspects of the informal sector should be discussed by the trainer and by participants.

The cornerstone of the first day is Module I, which aims to bring the informal sector into greater focus by analysing its characteristics, its size and composition, its rapid growth, how it relates to the local economy as a whole, the problems created by its activities and those preventing it from being more productive. By the end of the Module, participants should have a good idea both of how to identify the local informal sector and how to determine its structure, dimensions and potential for job creation.

Following the formal presentation and discussion of the content of Module I, participants take part in an exercise designed to sensitize them to the problems of informal sector workers. This exercise also helps participants to understand and accept the needs of these workers and in turn, to comprehend the role of local authorities in the regulation and development of the informal economy.

Day 2:

Day 2 begins with a recapitulation of the main points of Module I. Participants will be asked to make short presentations of each topic, one participant per topic, with comments by other participants where it is felt that the topic is inadequately described.

The second activity of Day 2 involves a further exercise. This exercise aims to help the participants better understand how they should go about designing and executing methods to gain broad information on the local informal sector.

The remainder of Day 2 is devoted to Module II, which focuses on the regulatory function of municipalities and how it affects individuals and enterprises working in the informal sector. The overall purpose of this Module is to give participants a comprehensive understanding of how the informal sector can move towards integration into a more effective local economy. Module II conveys that the level of regulation must be in line with the local legal and structural framework, as well as with the current situation of small enterprises. Based on this alignment, an optimal level of regulation should be achieved.

Day 3:

As at the outset of Day 2, participants will be asked to review the topics covered in the previous day. This is followed by Module III, which looks at a range of approaches that can be taken to improve the situation and economic value of the informal economy and the essential elements of a local policy for its development. Participants are made aware of the local legal context within which the informal sector currently operates and how this can be amended to provide a more appropriate basis for developing the capacity of the informal sector. The second half of the day is taken up with a round table discussion or a field visit. The round table will assemble a number of actors from the informal economy to discuss and recount their experiences. Course participants are then given the floor to ask questions or to comment. The field visit will have been prepared by the trainer in conjunction with the municipality and other local actors. The visit will focus on an informal sector initiative that has organized itself, with or without external assistance, to address a specific local need or has greatly improved its capacities and performance as a consequence of a local project or initiative relevant to this module.

Day 4:

As on Days 2 and 3 of the course, Day 4 participants will be expected to recapitulate the lessons of the previous day. This is followed by Module IV, which identifies the informal sector actors and their activities. It provides a detailed focus on the institutional framework and on the other organizational forms that informal sector actors can adopt in order to improve capacity. This points to the need to promote the formation of organizations and institutions, including associations, for specific activities and, possibly, a support unit specifically established to develop the capacity of the informal economy. Finally, Module IV addresses the need for more coherent and integrated local economic planning as a whole and how this might be approached.

The second half of Day 4 is taken up with a second field visit. Again this will have been prepared by the trainer, together with the local authority and other actors. It should be designed to show how wider cooperative initiatives within the community and/or involving local authority initiative can greatly improve the performance of the informal economy.

Day 5:

Following the recapitulation of the presentations of the fourth day, the fifth day will be mainly devoted to an action planning exercise. Participants will divide into groups and each will produce a plan concerned with developing a range of initiatives to improve the capacities and performance of actors and enterprises in the informal economy. The results will be presented to a plenary session and discussed amongst the participants.

The course will end with an assessment by the participants of what they have learned and how effective the method has been. This is both for their own benefit and for the benefit of the trainer who will hopefully be able to improve on the training in the light of the evaluation. This process should also involve again the municipal leaders and senior officials to hear about what the course has achieved and, once again, to state some commitment to following up on the conclusions. This should end with a formal closing ceremony which might include the distribution of certificates.

METHOD

This section provides a checklist of the preparatory activities that trainers need to undertake to run the course effectively.

Who are the Participants?

The course should number about 20 participants, comprising senior municipal officers of departments concerned with economic development and with various aspects of regulation. Municipalities have different structures in different countries, so the choice of participants will depend on specific local circumstances. Other local actors, especially those involved directly in or with the informal economy, should also be included. Relevant local civil society actors differ from city to city, implying that sensitive but effective selection processes will be necessary. Participants who should be sought are:

- Representatives of a selection of the following municipal offices:
 - office of the head of administration and fiscal office
 - contracting and purchasing divisions
 - economic development and/or labour office
 - industrial and commercial licensing office(s)
 - departments of health and education
 - environment department
 - departments of public works and waste management
 - public utilities
- Representatives of lower tiers of government (neighbourhoods)
- Independent community groups (Community-based organizations, CBOs)
- NGOs involved in supporting local economic development initiatives
- Representatives of associations of informal sector actors
- Representatives of the “formal sector” (Chamber of Commerce)
- Academics involved in local social and economic affairs
- Representatives of the public media

What Preparations are Necessary?

This checklist is a minimum of what is needed to run an effective course. Trainers may want to add their own preparatory requirements.

Venue: A room large enough to accommodate informal seating arrangements for participants will need to be available for the duration of the course. The exercises should be carried out in groups so smaller, independent rooms should also be available to accommodate two or three small groups.

Equipment: Trainers should choose what they consider as the most appropriate way to present the material and conduct discussions. This should involve an overhead projector and screen and a white board or flip chart(s). An excellent way to encourage discussion is to use cards with pinboards (ZOPP methodology of the GTZ). Trainers should provide participants with a file containing copies of the overheads and any other material (photocopies of articles, legislation, case studies etc.).

Trainer's Preparation: If the trainer is giving this course for the first time, it is **essential** that **the present course guide be read right through carefully, before the start of the course** and that aspects with which s/he is unfamiliar are well understood and memorized. Trainers who have previously run this course or a similar one should use their first-hand experience to enrich the course content by substituting or adding relevant material.

Legal and Institutional Issues: In various places in this guide – and in particular Module II, Topic 2 and Module III, Topic 4 – the trainer is required to explain specific institutional arrangements, laws and regulations relating to the country and city in which the course is held. It is thus **essential** that the trainer carry out **adequate research well before the course** in order to be able to present these parts of the course in a relevant, clear and effective way.

Local Statistics on the Informal Sector: Similarly, the trainer should research local statistics on the structure and size of the local informal sector. There may be little or no information, but trainers should check for themselves if data exist or not. In all cases, **some prior knowledge of the key local issues on the informal economy should be gained.**

Examples and Illustrations: This guide contains a number of case studies to illustrate relevant issues concerning the informal sector. If the trainer has examples which s/he considers more specific to the country, region or city in question) then these should be substituted for those in the guide.

Exercises: Three suggested exercises follow the presentation of Modules I and IV. Trainers are invited to consider how these might be made specific to local concerns and conditions.

Field Visits: After Modules III and IV, two field visits are recommended. These require advance preparation. Trainers need to research possible cases, visit the sites beforehand and prepare the subjects of the visit, so that they are readily able to demonstrate relevant aspects of their activities and effectively answer the questions that are likely to be asked.

THE INFORMAL SECTOR

AN OVERVIEW

Rapidly Changing Local Economies

In response to globalization, the production system and patterns of employment are rapidly changing throughout the world. In Asia, earlier in the past century, local economy had a more stable pattern: it was clear what people did for a living. For some, this pattern has remained unchanged. Small and large enterprises still occupy workshops, factories and offices, where people spend their weekdays working. Doctors and teachers are still doctors and teachers, engineers and lawyers are still engineers and lawyers.

In the twenty-first century, more and more people are offering goods and services without having formal premises and with little or no obvious capital. This “informal sector” of the local economy, as it is known, has grown in recent years in all countries both in the North and the South. For example, in Asia, as many as two-thirds of the working population are employed in this sector. In India, the figure is as high as 90 per cent in some cities.

Two main points should be borne in mind. First, this process of “informalization” of economic activity has been associated in recent years with a trend towards the continuous enrichment of a relatively small number of people, in contrast to the impoverishment of much larger proportions of the urban population. Improved “efficiency” in the “formal sector” of the economy is resulting in unemployment for large numbers of people. To survive, they need to be very inventive in finding ways to earn their living. For most people in the informal sector, this rapidly changing world brings more problems than benefits into their lives.

The second point is that these same changes have resulted in regulating institutions, especially local authorities, losing touch with what is occurring in the local economy. Their immediate reaction is that more effort has to go into improving the process of regulation – although this cannot happen until the local authorities are more aware of what is happening on the ground. A more appropriate response is that local authorities need to work in close cooperation with diverse other local “stakeholders” and interests, to arrive at a better understanding of how the local economy is working (and not working) and to help build economies that will better satisfy the needs of all their citizens.

The International Labour Organization and the Informal Sector

The conception of the term and with it the understanding of the existence of a large “invisible economy” in countries of the South arose out of work carried out by the ILO in the early 1970s, in Kenya. It had become evident that an increasing proportion of the urban economy, particularly in African cities, involved income-earning activities that escaped the municipal system of monitoring and, with it, the potential for taxation. It was also evident that these informal sector workers could not benefit from government programmes.

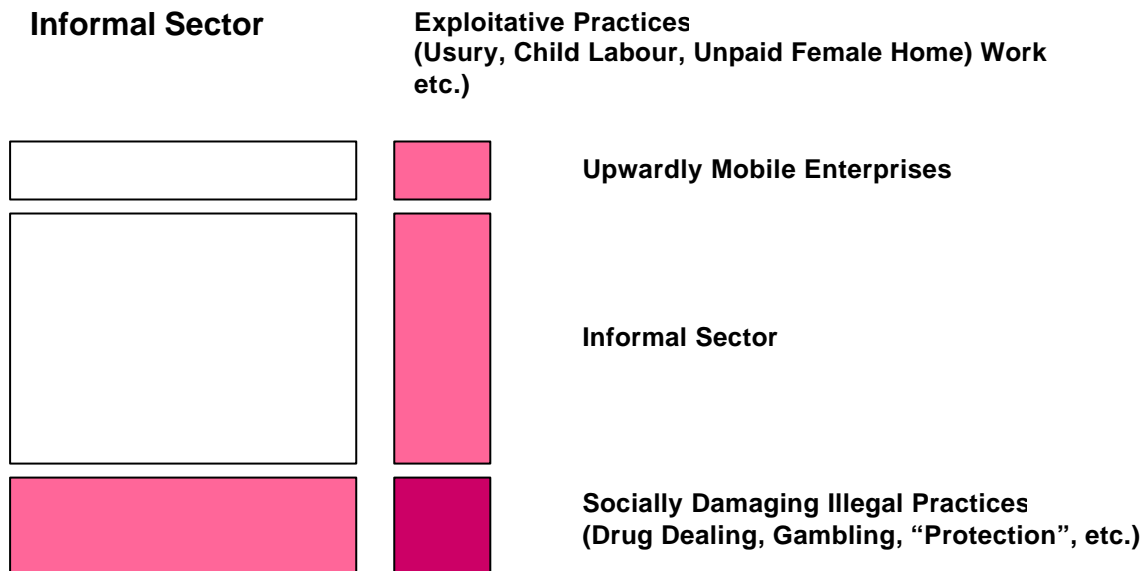
The ILO was originally established to assist in developing good working relations between employers and employees in formal sector enterprises. The emerging importance of the informal economy in countries in the South led the ILO to focus significant attention on workers who are mainly self-employed or organized in very small units. Starting in the 1970s, a large number of studies and projects have been funded by the ILO, in order to better understand and intervene in the informal economy and to improve the working conditions and capacities of those operating in the informal sector.

Over the past 30 years, the ILO has built up a network of international and national institutions that are concerned with the development of the informal economy. In the early years it was assumed that the informal sector would gradually diminish as national and local economies became stronger and more formalized. In practice, the process of globalization has greatly increased the size of the informal sector in many countries, indicating a need for more effective action to improve performance in this sector. To this end, an Informal Sector Task Force of international organizations has been established to review progress and level of impact in this field.

An Initial Look at the Informal Sector

Local authorities have tended to look negatively at the informal sector and to ignore its growth. Traditionally, municipal officials like to see their citizens looking happy and affluent in a clean and tidy city. Until recently, they viewed their municipal role as building and maintaining the physical and social infrastructure and then regulating enterprises and private individuals to ensure a healthy city. They have done little to learn about what makes the local economy work or establish the most appropriate ways to help it grow.

The following diagram defines those parts of the economy – the “informal sector” – that local authorities have found it difficult to identify or come to terms with.



This sector encompasses an extensive variety of activities by a wide range of people, with diverse personal, economic, social and environmental impacts. Some of these activities are illegal and should be treated as such by local authorities. Some are exploitative practices (usury, the employment of child labour and women homeworkers with long hours at little or no pay) that are socially very damaging and require considerable efforts to eliminate. That being said, the majority of activities in the informal sector benefits the local economy and could be of greater benefit, if more attention were paid to helping informal enterprises to develop and to become integrated into the broader local economy.

The following shortlist of typical activities demonstrates the diversity and the many distinctions that exist *within* the informal sector.

Snack Vendors: In most cities of the South – and many in the North – snack vending is a highly visible activity of the informal economy that serves a useful social purpose; it needs some regulation in terms of sanitation and location.

Pedicab Drivers: These are also very evident in some cities in Asia and represent a significant component of the urban transport system. While they can contribute to traffic congestion, proper regulation would ensure that they play their beneficial role in a responsible manner.

Small Artisans: These are evident along particular streets in many cities of the South, doing repairs, producing furniture, crafts or food products. It is clear that they add to the local economy, although they can be significant producers of pollution and can use resources very inefficiently.

Waste Workers: Although in many cities these are seen as a nuisance in the waste management system, informal waste workers bring significant amounts of resources out of the waste system and back into the economy. Problems mainly have to do with their poor working conditions.

Prostitutes: In many countries prostitution is illegal. However, the AIDS epidemic has shown that suppression makes it very difficult to deal with the spread of sexually transmitted disease. It is thus more appropriate to recognize the industry and ensure that it is properly channelled and regulated.

Construction Workers: In many cities in the South, significant numbers of workers – men, women and children – are employed in construction in the formal sector of a city, while they themselves have only an informal connection to the local economy. They sometimes camp in the buildings they are working on, and move from site to site. The nature of their work subjects them to frequent injury but they are unregistered and have no access to social or medical services.

“Put Out” Home Workers: Many women prefer to work in the home where they can divide their time between child-minding and earning a living. In fact in recent years this has increased considerably as many formal enterprises have found it pays them to “put out” parts of their work. Problems include poor pay, the effects of this type of work on homeworkers’ health and children also working instead of being sent to school.

Household Servants: More affluent households have always employed servants. The changing structure of urban societies is also changing the patterns of household employment. In many cities there is little interest in registering household workers and consequently no structures to intervene when problems of violence or more systematic exploitation occur.

Computer and Telecommunications Workers: The widespread introduction of computers and the diversification of telecommunications is resulting in many individuals finding home work, particularly in software installation, but also in other areas servicing the need for computer and communications skills. This is not necessarily poorly paid but it generates a significant unregistered industry.

Urban Fishing and Farming: Although thought of as rural industries, in practice fishing is usually urban-based and a significant part of the local economy of some towns. Urban farming has been a rapidly growing component of some cities in recent years, where in some cases residual spaces provide for self-production and in other cases provides a significant income supplement for poor urban families.

The above shortlist gives an idea of the variety of work in the informal economy and some of the problems which its informal nature raises. This course takes the view that potentiating the informal sector to become more efficient and effective – to provide decent work – will require many different strategies to address the various problems in its numerous subsectors.

The course approach is to enhance the effectiveness and potential of the informal sector by heightening awareness and increasing the knowledge base of local authorities and other local actors on the structure of their local informal sector and what can be done to improve it.

The final message of the course is that the time has come for a far greater effort on the part of local authorities, in close collaboration with a wide variety of other local actors, to gain a more comprehensive idea of how the local economy works and to move much more proactively to develop it in ways which are going to ensure that the citizenry as a whole benefits. We all want our cities to thrive economically but it requires planning and the active participation of citizens to create cities that offer decent work and a good quality of life for all.

EVENT BEFORE COURSE COMMENCEMENT

*It is strongly recommended that on the day prior to Day One of the course, the participants gather together with the mayor of the municipality, with councillors, the heads of relevant municipal departments and relevant people from the local civil society, by way of introduction. This event will have **two main functions**:*

- To consolidate the commitment of the mayor and other local leaders and senior officials to the purpose and outputs of the course; and*
- To bring participants together and lay the foundations of a group working relationship for the course on Day One.*

*The trainer, in collaboration with municipal and other partners, is free to organize the event in whatever way seems appropriate. Some suggestions follow on a **typical structure of the event** (seating, if possible, should be informal, i.e. a circle):*

- 1. Prior to the event, time is allotted to registration and participants receive a file with the initial course documentation, compiled by the trainer with the assistance of municipal staff.*
- 2. Three key speakers from the locality open the event; ideally, these will include the mayor, another locally elected leader and a representative of an association of workers in the informal economy (circa 30 minutes).*
- 3. With the leaders still present, the trainer gives a short introduction – possibly using material from **The Informal Sector: An Overview**, see previous section (maximum 10 minutes).*
- 4. Each participant is asked to make a one-minute (maximum) self-introduction, giving their reason for attending the course (20 minutes).*
- 5. The trainer briefly explains the structure of the course; this should be presented visually (see the **Introduction** section to this guide) and also be contained in the participant files (5 minutes).*
- 6. A reception is held (1 hour).*



DAY ONE

Course Introduction

(If the course begins directly on Day One without an introductory event on the previous evening then a capsule introduction should be given now.)

- *A more detailed overview of the course is presented by the trainer, followed by any questions or clarifications (15 minutes).*

Recapitulation: An Overview of the Informal Sector

The informal sector is a consequence of: (a) unemployment due to a lack of the skills necessary for available jobs, such as low-level literacy; (b) layoffs caused by retrenchment in industries due to economic or financial crisis as well as the restructuring of industries on the brink of collapse; (c) declining agricultural production and population pressure on available land; (d) falling real wages due to inflation; and (f) widening income inequality and poverty. The result is that men, women and children struggle to earn a living in order to survive. They include those who make a living on the streets as vendors, watch-your-car boys, shoeshine boys and hawkers, who carry out their trade, some under legal and some under less legal conditions, while their contribution to national accounts remains largely unrecorded.

Many governments in Asia, with only limited resources for development projects, tend to pursue policies of growth stimulation by investing in economic sectors considered to be the most productive and efficient. As a consequence, the informal sector, bounded by often obsolete technology, poor quality of human resources, inefficient and low productivity, and poor organization, has been regarded as contributing little to economic growth. Investments in this sector are considered costly and interventions are left to market forces. The informal economy, especially in the cities of South and Southeast Asia, has been growing rapidly and it has become clear that a more coherent approach needs to be taken to understanding it, regulating it and helping it to play a more effective role in local development.

- *The trainer should decide how much of the material to present during the evening event and how much to present in this session. Further useful material is provided in the following box.*
- *This session should include short descriptions by the trainer of a number of different situations generally found in the local informal economy in Asian cities.*
- *Participants should then be asked to suggest informal sector activities of which they are aware in the local economy (total 15 minutes.)*



MODULE I: UNDERSTANDING THE INFORMAL SECTOR

(It is suggested that this be completed by mid-afternoon with breaks in appropriate places for tea/coffee and lunch).

Objectives of Module I

(The trainer should present the objectives on an overhead and discuss them briefly).

- To build up a clear view of the concepts, features, characteristics, categories and composition of the informal sector both at the local and global level.
- To develop empathy among the participants with the conditions of citizens working in the informal economy.
- To help local authority staff better understand the needs of informal sector workers and to help informal sector workers comprehend the role of local authorities in regulation and development.

Overview of Module I

- *The trainer should present the overhead (see the end of the Module “Contents of Module I”) listing the eight topics and briefly summarizing them, followed by a short description of the nature and intentions of the exercise.*
- *Clarification of the objectives of this module.*

The informal economy is an extremely complex concept that can be interpreted in different ways by different people. The wide variety of activities it comprises has few common denominators. Its growing significance in the livelihoods of a high percentage of the world’s population calls for solving the many problems (mostly social) that are increasingly being identified in the informal economy. For the success of this course, it is essential that participants who are themselves actors in the informal sector not only understand its global meaning and can explain their own perceptions of the concept, but also that they try to comprehend and to accept the interpretation of other participants working in or with the informal economy.



Topic 1: A Brief History of the Concept of the “Informal Sector”

- **Introduction: A Perspective on the Informal Sector**

Concepts of “informality” within the economy evolved as a historical process. It is important to impart these concepts in relation to some attempts made at considering the ‘informal sector’ as a productive activity of the economy, for instance, the concepts of informal income opportunities (Hart) and ends-means (De Soto). These concepts do not treat the informal sector as a distinct sector of the economy but recognize it as multifarious productive activities. The ILO has been responsible for focusing attention on the informal sector. Its Single Household Operations Concept initially saw the informal sector as a distinct sector of the economy and paved the way for the adoption of mechanisms to assist the sector.

- **The Concept of “Informal Income Opportunities”**

In 1973, Keith Hart used the term ‘informal sector’ to denote the informal income opportunities pursued to satisfy basic human needs. To Hart, informality means informal income opportunities or activities through self-employment mechanisms. In his conceptualization, it is not treated as a separate sector.

- **Ends-Means Concept**

In 1989, Peruvian economist Hernando De Soto developed the ends-means criterion where informality refers to those economic activities whose ends are legitimate (generation of income to satisfy basic human needs), but whose means are illegitimate in the sense that they contravene official regulations. In this approach, the legal status is the main element distinguishing informal from formal activities. It relates the emergence of the informal sector to the policies applied. It suggests, therefore, the deregulation of the market and the almost complete abolition of State intervention.

- **Informality as a Sector Concept**

The term “informal sector” originated in the work carried out by the ILO in Kenya. In 1972, the ILO officially introduced the term to denote those activities where informal working conditions exist. As such, the economy was seen in terms of two sectors: formal and informal, following the development economist Arthur Lewis’ paradigm of a dualistic model of modern-traditional sectors in economic development.





In 1993, The ILO defined the informal sector as:

Very small-scale units producing and distributing goods and services, consisting largely of independent self-employed producers in urban and rural areas of developing countries, some of whom also employ family labour and/or a few hired workers or apprentices, which operate with very little capital or none at all; which utilize a low level of productivity; and which generally provide very low and irregular incomes and highly unstable employment to those who work in it. They are informal in the sense that they are for the most part unregistered and unrecorded in official statistics; they tend to have little or no access to organized markets, to credit institutions, or to many public services and amenities; they are not recognized, supported or regulated by the government; they are often compelled by circumstances to operate outside of the framework of the law and, even where they are registered and respect certain aspects of the law, they are almost invariably beyond the scale of social protection, labour legislation and protective measures at the workplace.

It is important to realize that in practice the formal and informal sectors of the local economy are by no means isolated from one another. They interact in many ways and in recent years the dividing line has become increasingly blurred. Larger, apparently formal enterprises obtain significant inputs from informal workers – particularly home workers – sometimes even helping them to establish themselves.

The ILO approach recognizes the informal sector as an important component of the economy that should be seen as a viable source of employment, the development of its potential should be supported by national and local governments.

- ***Discussion to ensure clarity of the concepts “informal sector” and “informal economy”.***

Topic 2: Know the Informal Sector when you see it!

- *This section follows up on the earlier brainstorming of particular components of the informal sector and should as far as possible be conducted in the form of a discussion.*
- *Here the trainer should present an overview of what s/he has previously researched about the local informal sector, and then to focus on one or two specific examples of its activities. This should highlight particular aspects of the sector in the town or city where the course is being held, relative to the general categories discussed earlier.*

The trainer should also comment on what participants said about the local informal economy at the outset of the morning. The idea here is to orientate the views of participants to informal sector realities and also to discuss negative views that may have been expressed earlier, with the aim of creating a more positive approach towards the potential and needs of actors in the informal economy.



Topic 3: Distinguishing the Formal and Informal Economies

- *The trainer should discuss the distinction between the formal and informal sectors of the local economy by reference to the categories set out in the following table. The discussion should invite participants to give their views and, where possible, examples should be used.*

Category	Formal Economy	Informal Economy
Ease of access by consumers	Difficult	Easy
Source of resources	External	Personal/family/informal financial markets
Scale of operation	Large/medium	Small/micro
Ownership	Corporate	Family/self
Technology	Capital-intensive	Labour-intensive
Skills	Formal education	By experience/Apprenticeship/self-taught
Social legislation (Labour code)	Protected	Low/absence of protection
Market	Wide access	Limited access

- The essence of the informal economy is that it focuses on income generation rather than on job creation. Although there are also dynamic parts of the informal economy, its roots are largely traceable to the weak capabilities of formal institutions to provide employment. As a consequence, informal sector activities are unregistered and unrecorded in official statistics.
- **Discussion**

Topic 4: Characteristics of the Informal Sector

- *This section can be taught by means of a discussion. The trainer presents a series of individual headings that characterize issues or problems in the informal sector and asks participants to suggest the underlying reasons. The shaded boxes provide the trainer with some answers that can be given if participants' responses fall short.*



- **The Informal Sector is Invisible to Official Records**

- Many informal sector actors actively avoid governmental rules and regulations.
- Many informal sector actors actively evade taxation.
- Most of the informal sector is either mobile (no fixed place of operations) or home-based.
- Most of the activities are not found in the official records, due to inadequate definitions and measurement mechanisms/methods in data collection agencies.

- **Informal Sector Actors are Vulnerable**

- Children and women workers are the most vulnerable to exploitation and are disproportionately represented in the informal sector.
- Workers in the informal sector are more exposed to health hazards through poor working conditions and methods and at the same time have no, or inadequate, access to social security and medical systems.
- Most informal employment lacks job security and is subject to constant fluctuations in income.
- There is no regulation of wages in the informal sector.
- Informal sector actors almost always lack the means of collective bargaining.

- **Most of the Informal Sector Suffers from Low Productivity mainly due to Low Quality of Inputs and Technology (Factors of Production)**

- Use of low-cost, often obsolete technology and methods
- Lack of education and training
- Lack of motivation and incentives to improve productivity
- Lack of access to finance to invest in improvements in productivity
- Lack of access to municipal support systems and initiatives



Topic 5: Gender Factors in the Urban Informal Sector

- **The Gender Balance of Employment has Changed in Recent Years with Increasing Numbers of Women Working, Especially in the Informal Economy**

An important aspect of the changing social and economic conditions in recent years has been a marked increase of women's participation in the labour force in all sectors of the economy. Women either look for jobs or create income-generating work for themselves. For women, the lack of remunerative employment in the formal sector is a consequence of both gender discrimination and the broader economic trends. Given the substantial number of women working in the informal economy in most Asian countries, an understanding of gender-related issues and concerns is imperative.

- **The Informal Sector is Becoming Feminized**

Women earn additional income and find much-needed employment for themselves and for members of their family within the informal sector, primarily in home-based activities. This affords the necessary flexibility to combine productive and reproductive work. In some cases women are organized in small workshops near their homes, but they most often perform home work in the family context. Children are introduced to and participate in home-based activities at an early age. Some home-based work is generated by the women themselves but a significant amount is "put out" by larger, often formal sector industries that exploit the needs of women to work at home and save companies the overhead of providing workspace.

Recent studies indicate a general increase in women's involvement in the informal sector, although participation rates vary by country and by sector. Women's participation appears to be more substantial in Southeast Asia than in South Asia. Despite the upward trend of women's participation in the labour force, the traditional perception that women's contribution to family income is marginal, secondary and supplementary still prevails. Furthermore, women are still consigned to repetitive, monotonous and detailed work, often requiring manual dexterity. By all indications, discrimination against women and stereotyped notions of women's work are a manifestation of patriarchal modes of thinking. The prevalent perception of women's contributions to the economy and to society has strong gender dimensions.

- **Gender Bias in the Informal Sector: Issues and Concerns**

The trainer can start this section by asking participants to list the problems that women have relative to men in participating in the economy. The following provides a detailed list that the trainer may wish to reproduce and distribute to participants.



- A woman's subjugated status stems from her **multiple roles as housewife, mother and worker**. Women are often constrained to enter formal sector employment because of young children and household responsibilities. Husbands seldom contribute to both productive and reproductive workloads. Society does not provide sufficient child-care facilities to give women the flexibility of working when and where better work is to be found. Due to the pressures of child-rearing, women may prefer to work at or near the home.
 - Women's multiple burden, both at home and in the workplace, can **have negative effects on their health**. Since their working and living conditions are rarely monitored and controlled, women in the informal sector are vulnerable to many occupational and health hazards. Activities such as embroidery, weaving and those involving physical labour, finger dexterity - work usually associated with women and children - lead to back and joint pains, eye strain, etc. Women workers are sometimes exposed to hazardous materials and chemicals that can lead to birth defects and even fatal diseases. The lack of a clear employer-employee relationship means that women workers in the informal sector have little or no access to social protection benefits such as medical or maternity support.
 - Vulnerability to exploitation and abuse, such as being **paid below the minimum wage, or not being paid at all** are commonplace. Women universally earn incomes that are significantly lower than those received by men. Their earnings are often perceived as merely supplementary to those of the "male breadwinner". The reality is that their earnings are usually essential to family survival, in particular among the large and growing numbers of women-headed households.
 - Women are **highly vulnerable to sexual violence, harassment and other forms of abuse and exploitative treatment in the workplace**, often perpetrated by their male superiors or co-workers.
 - Most women in the informal sector are **unorganized**. They are scattered, fragmented and lack the sectoral identity of, for example, factory workers. In addition, women's domestic responsibilities leave them little time to participate as members in an organization. Male-dominated trade unions are not interested in organizing this sector due to its fragmentation; from the union viewpoint, the costs are not considered commensurate with the gains. Thus, women workers in the informal sector lack voice and visibility in national or local policy- and decision-making.
 - Because it is performed at the informal level, women's work is generally **underrepresented** in national statistics. Work by women is frequently underpaid compared with work done by men, and some work done by women goes entirely unpaid (household, child and elderly caring, for example). Women are still comparatively invisible, undervalued and unrecognized, despite their increasing participation in work and their substantial contribution to the economy.
- **Women's participation** in the labour force has increased greatly in recent years. In many countries women dominate the informal economy. Much of women's work is underpaid or unpaid and women are also exploited in other ways. Nevertheless, the perception prevails that women's contribution to the economy is marginal. This view requires adjustment to the real situation of women in the informal sector.
 - **Discussion**



Topic 6: A Broader View: Poverty and Informal Settlements

- *In this topic, the trainer should summarize the problems of poverty and the living and working conditions of the poor. Where possible, a discussion of the programmes already under way in the municipality should be presented, ideally by the municipal representatives responsible for them.*

- **Poverty and Economic Development**

The major problem arising from the inadequacies of the development process in recent years is the prevalence of poverty. As we have already seen, the rise of the informal economy is in significant part due to the failure of the formal economy to provide a means of livelihood for large numbers of people. As a consequence, they live in poverty, a problem focused on in this section of the course.

From the 1970s to the mid-1990s, poverty seemed on the decline in Asia. But in mid-1997, the South East Asian and to a lesser extent South Asian economies were hit by a major financial crisis that extended throughout the region. By mid-1998 the percentage of people living below the poverty line had increased greatly in most of the countries of the region – jumping from 16% to 28% in Thailand, from 11% to 40% in Indonesia. Over 40% of the urban population of the Philippines is currently living below the poverty line. It is clear that in order to address this problem it is necessary to focus major attention on *economic* development at the local as well as the national level – and the importance of the informal sector indicates that it is here that most of the attention should now be focused.

- **Living and Working Conditions of the Urban Poor**

More or less large numbers of urban residents live in informal settlements – sometimes referred to as ‘slums’ or, where residents have no legal tenure, ‘squatter settlements’. Much informal sector work is accomplished in informal settlements where the cycle of poverty in living and working conditions generates low morale and low expectations.

Major insecurities in the living conditions of these settlements lead to residents’ unwillingness or the legal inability to sustain economic initiatives. The most serious problem is lack of secure tenure. People are unwilling to invest in a business if the threat of eviction hangs over their heads – and in any case it is unlikely that they will be able to borrow money through formal channels of credit. Residents often try hard to improve their living conditions but many settlements are located in areas subject to flooding, fires or landslides and whatever small investments have been made can be destroyed without warning. Health conditions are also poor, leading to insecurities in personal circumstances that also affect residents’ ability to work effectively.

- **Upgrading of Informal Settlements**

Most countries in Asia now acknowledge the need to improve living conditions among the poor, even if in the past ‘squattling’ was viewed as a nuisance to be suppressed. Urban local authorities are responsible for implementing these policies, developing programmes with the residents of these areas and executing improvements.



On the whole the focus of these programmes has been on providing an infrastructure. However, it should be clear that regularization of tenure is the most essential issue, followed by the need to support the development of economic activities directly connected to the improvement of the settlements. Infrastructure development can be part of the creation both of economic initiatives to provide employment and the improvement of living conditions. Although working with the informal economy in informal settlements is certainly not dealing with the whole of the informal economy, it is a part to which significant attention should be given.

- **Discussion**

Topic 7: The Growth of the Informal Sector

- *There are many reasons for the rapid growth of the urban informal sector in Asian cities in recent years. Some of these reasons are listed below, followed by a conclusion. The trainer may choose to present the reasons listed below or/and other reasons pertinent for the area.*
- **Dynamic economic activities that escape local regulatory processes and taxation**

Local authorities generally have categories – usually defined by the national government – for the types of business that should be registered, regulated and taxed. However, today's local economies are changing rapidly. New types of business and new ways of doing business are escaping the attention of the authorities, even though they may be high-value activities. Typical examples of evolutions in business are computer-related and telecommunications enterprises and the way in which many formal sector companies are “putting out” work that was once done in factories to people working at home.

- **Increasing Competitiveness and Efficiency of the International Economy**

Modern economies can produce more and more with less and less labour and those companies that fail to invest in greater productivity and efficiency become uncompetitive and fail. With increasing economic globalization, no national or local economy is protected from competition. All enterprises in the formal sector are compelled to compete and to change with the times. The dilemma here is that production increases but without a commensurate increase in employment.

- **Slow Growth of the Formal Economy**

The increase in the labour force is directly proportional to the increase in population of working age. The labour force has been almost universally increasing in countries of the South at a rate greater than the capacity of the economy to generate jobs in the formal sector. As a consequence, underemployment and unemployment have been growing. Many of those who cannot find work in the formal labour market find employment or engage in informal economic activities in order to survive. Others, however, do so out of choice.



- **Inadequate Rural and Urban Development Programmes**

Migration from rural areas is a significant component of the growth of towns and cities in most of Asia today. Some of this migration is temporary or seasonal but much is also permanent. This migration is in part a reaction to the poor standards of living in the rural areas. As it is, rural and small town development programmes in Asian countries aimed at providing adequate income levels to rural populations have often been ineffective where strong policies have been followed up with only weak implementation initiatives.

- **Poor Absorption of Migrants and Immigrants into Urban Life**

Attraction to urban amenities and promises of higher income levels motivates international migration and also encourages rural people to migrate to cities. However, many immigrants and most rural migrants do not have the education or skills to compete effectively in the formal labour market. As a consequence, they take up informal economic activities and reside in informal settlements. Urban development programmes have tended to focus strongly on infrastructure development to the neglect of economic and social programmes to help immigrants and migrants adapt to urban conditions and particularly to the fully monetarized system of urban life.

- **Economic and Financial Shocks**

In times of economic boom, demand for labour rises, thus reducing unemployment. Conversely, during recessions unemployment increases. Economic slow-down results in formal sector enterprises shedding labour to minimize their risks. Companies may lose their market share or there may be reductions in the size of the market, in either case rendering them incapable of maintaining overhead costs. The result may be an overall reduction in the number of formal enterprises operating in certain sectors. This tends to lead to a rise in the number of informal operators, both as a result of unemployed people looking for new channels to earn a living and from some companies 'going underground' to minimize overheads and possibly also to avoid regulation and taxation. The instabilities of the global economy are increasingly resulting in severe local disruptions of this kind. The collapse of the Asian currencies from July 1997 illustrates this point: for example, in Indonesia formal sector employment declined by some 20% in the months following the currency collapse with significant declines also in Thailand, the Philippines and South Korea.

- **Informal Sector Participation to Supplement Income**

Inflation can result in income levels in the formal as well as the informal economy no longer being adequate to maintain a decent standard of living or even threatening the survival of urban families. Confronted with this situation, people often turn to part-time participation in informal economic activities to augment their incomes. 'Moonlighting' is very common among government personnel in Asia, including functionaries and teachers, who resort to out-of-hours second jobs or to selling goods during office hours and so on.



- **Complicated Bureaucratic Procedures**

There are many cases where entrepreneurs working in the informal sector expand their operations and are in a position where they can – and should – become registered and in general qualify to become ‘formal sector’ operations. In some cases, entrepreneurs are offered various incentives to register that are to their advantage. However, becoming registered can also incur significant costs to enterprises. Obtaining the necessary permits from local authorities is often an unnecessarily complicated and lengthy process and can be an additional deterrent. Because it takes too much time to follow up papers from local authorities, some informal sector operators opt to remain informal. This problem is dealt with in later Modules.

- **Conclusion:** Many negative factors underlying the growth of the informal sector reinforce each other, so it is necessary to implement different measures at the same time, if a real impact is to be made in improving conditions and performance in this sector and providing access to benefits similar to enterprises in the formal sector.
- **Discussion**

Topic 8: Estimating the Size and Composition of the Local Informal Sector

- If effective policies and programmes are to be developed to assist the local informal economy, it is essential that accurate information is available on its size, composition and any other variables that enable us to understand it.
- Initial Estimation of the Magnitude and Structure of the Informal Sector can Proceed via one of two Approaches:
 - ⇒ Residual approach
 - ⇒ Census approach

The **residual approach** makes use of whatever household surveys may be available from other projects or regular monitoring of the population. Results are compared with information kept by local authorities on registrations of businesses. The difference between employment in registered enterprises and the numbers of people employed in the same activities as revealed by the household surveys are assumed to represent the size of the informal sector. However, these figures are crude due to differences in definition of kinds of work and, in many cases, the local authorities do not carry out systematic social surveys.

The **census approach** depends on the way that particular national censuses are undertaken. In many countries separate censuses are made in two categories, the **population**, where questions are asked about what economic activity people are involved in and **business establishments**, through which formal employment by activity is enumerated. Once again incompatibilities may arise between the categories used but, if the information is available, these data can facilitate rough estimates of the size and structure of the informal sector within a given municipality.



Using the census approach, figures for the informal sector in the Philippines were calculated. These reveal that some 82% of employment is in the informal sector. This varies between 40% in the wholesale trade to 99% in the transport sector.

- **Establishing a more Accurate and Permanent Monitoring of the Size, Structure and Changes over time of the Informal Sector.**

If accurate information on the informal sector is to be obtained and the situation is to be monitored effectively, local authorities will need to commission or undertake regular sample household surveys right across their town or city or urban district.

Household surveys are useful for many aspects of local authority work and there may already be some experience of collecting some types of information by this means. To monitor the informal sector, either existing surveys should be adapted to collect appropriate information or surveys should be designed specifically for this purpose.

What are the requirements of a useful survey? Surveys designed to provide information on the informal sector need to have a clear typology of industry types and occupation types. National statistical offices provide these classification systems. The ILO has passed a Resolution concerning the collection of statistics in the informal sector and cooperates with national statistics offices in order to promote the collection of such data. If some of the population surveyed have more than one employment, it is important to ensure that some means is used to document this and the amount of time per week devoted to each employment. Information also needs to be collected on other characteristics of the population, both employed and not employed, including age, sex, education etc.

A major problem with surveys of any kind, but particularly where information is being sought that people are unwilling or afraid to give, is how to ensure that the information obtained is correct. The first point is that survey data must be anonymous. Second, surveys must be conducted in a manner to assure respondents that the information they provide will remain anonymous, is necessary, and that its collection will ultimately benefit them. An alternative approach is to involve communities in the survey process, as participatory surveys in conjunction with local planning processes (Local Agenda 21) discussed in the last Module.

Unless local authorities are experienced in survey-taking, it is highly recommended that they employ professional survey organizations or university personnel to advise them on survey design and possibly to conduct the surveys.

- **Local Authorities Need to Earmark Adequate Resources to Collect Accurate Information on the Informal Economy on a Regular Basis.**
- ***Discussion***



Exercise 1: Understanding Social and Economic Relations Between People Working in the Informal Sector and the Tasks of the Local Government.

(Suggested duration of exercise is 90 minutes)

Objective: To help local authority staff better understand the needs of informal sector workers and to help informal sector workers comprehend the role of local authorities in regulation and development.

Participants should be divided into groups, about 5 in each group. Group composition should be mixed, local government and non-government participants and including at least one representative of informal sector organizations.

The trainer should allocate different problems to different groups; or choose one of the following four situations; or design some other situation of her/his choice). The groups should each find a resolution to the problem and set this out on an overhead transparency. The discussion should be limited to 40 minutes. Each group should then present their results to the other groups, allowing a brief questions/discussion period after each presentation.

Four Problem Situations:

1. The city is becoming well known as a tourist attraction due to its ancient monuments. There is now a good selection of hotels of various categories and the city is gaining an increasing income from this source.

However, numerous negative incidents involving tourists are giving the city a bad name and there is a potential danger that tourists will choose elsewhere. The incidents include:

- Tour companies offering excursions which are not properly organized;
- Informal traders selling bogus precious stones;
- Prostitutes soliciting outside the main hotels;
- Garbage accumulating in the forecourt of a famous temple;
- A high incidence of bag-snatching.



2. An informal settlement has developed along the railway lines near the city centre. About 1,200 families live in the settlement, which has become the centre for cooking food wares. It is bought by street traders who then take it to sell in strategic locations around the city.
 - Recently, two children have been killed by trains appearing unexpectedly while they were playing close to the railway lines.
 - Access from where the food is cooked to the city centre involves taking handcarts across the rails. So far there has been one accident where a train demolished a handcart that was being taken across when the train approached.
 - There have been several recent incidents of food poisoning that were traced to vendors who obtained their wares from this settlement.
 - The municipality started to make plans to relocate the settlement on the edge of the town but the residents complained bitterly that they would no longer be able to make a living if they were not living close to the city centre.

3. In a town, three large factories producing plastic goods have sized down, laying off most of the women workers who were involved in assembly. However, these three companies in fact are increasing their business. It is discovered that they have kept only factory-based activities in the new, smaller factories and put out the assembly work to home workers.
 - Hospitals are reporting an increasing incidence of ill health that is traceable to women and children working long hours on assembly work put out by the factories.
 - There are complaints that the wages of the women have been reduced even though they now have to pay certain overheads in order to do the work in their home. They have no representative association that can speak on their behalf.
 - It is discovered that many of the families doing the assembly work have taken their children out of school to assist in the work because their income is otherwise insufficient to live.
 - The local authority is anxious to keep the companies in the town because they clearly contribute to local income, but is concerned with the nature of the complaints they are receiving following the changes in work procedure.



4. The town is on the sea and has traditionally earned a significant proportion of its income from fishing, although the catch has been predominantly for local consumption.
- Times are changing, the fishing fleet has been expanding because the population of fishermen has been increasing.
 - Meanwhile there has been competition by trawlers that are coming from distant places to compete for the fish.
 - The fish catch is declining and so the fishermen are using illegal fishing methods such as small-mesh nets and explosives to catch anything they can in order to survive.
 - Fishermen have no experience of working at any other job and initially are resistant to suggestions that they look for work elsewhere.
 - The municipality has a policy to maintain a fishing industry in the town.

The participants should each adopt a particular role. As far as possible the role they play should **not** be their actual role in life. For example, government officers should choose private sector or informal sector roles and people from non-government situations should play the role of local authority officers. Roles might include:

- The mayor
- A councillor responsible for the particular problem
- The head of the municipal department responsible for the problem
- A formal sector factory owner
- An informal sector women worker
- A representative of the fishermen
- A representative of an NGO working with home-based workers
- Etc.

The group should look at each of the problems described, identify what institutions and individuals need to be involved in solving the problems and what action should be taken by whom.



List of Background Materials

1. Informal Sector in Developed and less Developed Countries: A Literature Survey Klarita Gërkhani, Tinbergen Instituut, Amsterdam, 1999
2. Shadow Economies Around the World: Size, Causes, and Consequences Friedrich Schneider and Dominik Enste, IMF, Washington, 2000
3. Informal Politics: Street Vendors and the State in Mexico City, John C. Cross, Stanford University Press, Stanford, 1998
4. Urban Informal Sector in Metro Manila; A Problem or Solution? Gopal Joshi, ILO, 1997
5. The Informal Sector, The ACP-EU Courier, No.178, Dec. 1999 - Jan. European Union, Brussels, 2000.



OHT: Mod.1.1

Objectives of Module I

MODULE I: UNDERSTANDING THE INFORMAL SECTOR

- To build up a clear view of the concepts, features, characteristics, categories and composition of the informal sector both at a local and at a global level.
- To develop empathy among the participants with the conditions of citizens working in the informal economy.
- To help local authority staff better understand the needs of informal sector workers and to help informal workers comprehend the role of local authorities in regulation and development.



Contents of Module I

MODULE I: UNDERSTANDING THE INFORMAL SECTOR

Topic 1: A Brief History of the Concept of the “Informal Sector”

- Introduction: a Perspective on the Informal Sector
- The Concept of “Informal Income Opportunities”
- Ends-Means Concept
- Informality as a Sector Concept

Topic 2: Know the Informal Sector when you see it!

Topic 3: Distinguishing the Formal and Informal Economies

- The essence of the informal economy is that it focuses on income generation rather than on job creation. Although there are also dynamic parts of the informal economy, its roots are largely traceable to the weak capabilities of formal institutions to provide employment. As a consequence, informal sector activities are unregistered and unrecorded in official statistics.

Topic 4: Characteristics of the Informal Sector

- The Informal Sector is Invisible to Official Records
- Informal Sector Actors are Vulnerable
- Most of the Informal Sector Suffers from Low Productivity Mainly due to Low Quality of Inputs and Technology (Factors of Production)

Topic 5: Gender Factors in the Urban Informal Sector

- The Gender Balance of Employment has Changed in Recent Years with Increasing Numbers of Women Working, Especially in the Informal Economy.
- The Informal Sector is Becoming Feminized
- Gender Bias in the Informal Sector: Issues and Concerns
- Women’s participation in the labour force has increased greatly in recent years. In many countries women dominate the informal economy. Much of women’s work is underpaid or unpaid and women are also exploited in other ways. Nevertheless, the perception prevails that women’s contribution to the



economy is marginal. This view requires adjustment to the real situation of women in the informal sector.

Topic 6: A Broader View: Poverty and Informal Settlements

- Poverty and Economic Development
- Living and Working Conditions of the Urban Poor
- Upgrading of Informal Settlements

Topic 7: The Growth of the Informal Sector

- Dynamic economic activities that escape local regulatory processes and taxation.
- Increasing Competitiveness and Efficiency of the International Economy
- Slow Growth of the Formal Economy
- Inadequate Rural and Urban Development Programmes
- Poor Absorption of Migrants into Urban Life
- Economic and Financial Shocks
- Informal Sector Participation to Supplement Income
- Complicated Bureaucratic Procedures
- Conclusion: Many negative factors underlying the growth of the informal sector reinforce each other. It is therefore necessary to implement many measures at the same time to help develop the informal economy, if a real impact is to be made in improving conditions and performance, such as providing benefits that accrue to formal sector enterprises.

Topic 8: Estimating the Size and Composition of the Local Informal Sector

- If effective policies and programmes are to be developed to assist the local informal economy, it is essential that accurate information is available on the size, composition and other variables that enable us to understand it.
- Initial Estimation of the Magnitude and Structure of the Informal Sector can Proceed via one of two Approaches: The Residual approach and the Census approach.
- Establishing a more Accurate and Permanent Monitoring of the Size, Structure and Changes over time of the Informal Sector.
- Local Authorities Need to Earmark Adequate Resources to Collect Accurate Information on the Informal Sector on a Regular Basis.

Exercise1: Understanding Social and Economic Relations Between People Working in the Informal Sector and the Tasks of the Local Government



OHT: Mod.1.3

Exercise 1

MODULE I: UNDERSTANDING THE INFORMAL SECTOR

Understanding Social and Economic Relations Between People Working in the Informal Sector and the Tasks of Local Government.

Objective

To help local authority staff better understand the needs of informal sector workers and to help informal sector workers comprehend the role of local authorities in regulation and development.

Activity

Participants should each adopt a particular role. As far as possible, the role they play should **not** be their actual role in life. For example, government officers should choose private sector or informal sector roles and people from non-government situations should play the role of local authority officers. Roles might include:

- The mayor
- A councillor responsible for the particular problem
- The head of the municipal department responsible for the problem
- A formal sector factory owner
- An informal sector woman worker
- A representative of the fishermen
- A representative of an NGO working with home-based workers
- Etc.

The trainer will give each group (around 5 participants) a problem situation concerning a group within the informal sector. The group should look at each of the problems described, identify what institutions and individuals need to be involved in solving the problems and what action should be taken by whom.

Groups will work for about 40 minutes and set their answers down on an overhead transparency. Following the break, one of the group members will then explain the situation and their answers to the rest of the course participants.



DAY TWO

Recapitulation of Module I: Understanding the Informal Sector

- *The trainer now shows the overhead for Module I and asks participants at random to summarize one of the topics in a sentence or two (one participant per topic). This is informal, with comments from other participants who may present an alternative summary, or where the topic has been inadequately described by another participant. (15 minutes max.)*
- *The lessons of Module I are finalized with an exercise that occupies the first half of the morning of Day Two as follows:*

Exercise 2: Estimating the Size and Composition of the Local Informal Sector

Objective: To provide participants with a better understanding both of the necessity to collect satisfactory information on the informal sector and of the methods and problems of adequate collection.

As with Exercise 1 on Day One, participants are divided into groups of five; these can remain the same as the Day One groups or be recomposed. All groups will address the same issue.

In light of the presentations and discussion in Module I, including information given by the trainer on the composition of the local informal economy, each group devises a strategy and plan for collecting information on the composition and magnitude of the local informal sector. Each group lists the information it deems is required and how they intend to collect and organize it. Some suggestions follow (feel free to input others);

- List the main kinds of enterprise you are interested in
 - List the occupations you are interested in
 - What do you need to know about informal sector workers?
 - What do you need to know about the place where the work is performed?
 - How do you intend to collect the information you need?
 - How do you intend to obtain information that people don't want to give?
 - Etc.
- *Groups are left to produce their own analyses. After a short break, each group presents their results, followed by a general discussion (Duration: two hours, incl. break).*



MODULE II: REGULATING THE INFORMAL SECTOR? ADVANTAGES AND DISADVANTAGES

(This Module occupies the remainder of Day Two, i.e. the second half of the morning and the whole of the afternoon – with breaks for lunch and tea/coffee.)

Objectives of Module II

(The trainer should present the following objectives on an overhead transparency and discuss them briefly.)

- To give participants a picture of the local regulatory process.
- To review the traditional role of municipalities in regulating the work of private individuals and enterprises.
- To investigate the various dimensions of the regulatory process as they affect the informal sector.
- To critically discuss the regulatory procedures of local authorities and appropriate ways in which these might be administered in the informal sector.
- To place the regulatory process into the context of the need to integrate the informal sector as part of the local economy.

Overview of Module II

- *The trainer should present the overhead (see the end of this Module) listing the nine topics and summarizing them briefly, followed by a short description of the nature and intentions of the field visit.*

Topic 1: Regulation

- **Defining Regulation**

Regulation can be defined as the legal framework that requires responsibilities and obligations from citizens and in turn provides legal protection. Regulation is one of the major functions of governments at all levels. For local authorities, it involves addressing activities undertaken by private individuals, organizations and enterprises, to ensure the outcomes are not damaging to others or to the common good. Regulation is a means of discouraging illegal activities and encouraging citizens to pursue the common good and to participate in producing more efficient working conditions in a working environment that meets a minimum of ILO standards. Regulation requires a legal framework and legally sanctioned rules in which to operate. The implication here is that regulation is essentially a role that only governments should play.



- **Unregistered activities**

Classically, enterprises, owners of houses, vehicles and other significant pieces of capital, and operators of machinery and equipment are required by law or local regulation to inform the relevant authority of their activities or ownership. In return they obtain the permits, licences or accreditation that allow them to operate.

The “informal sector” is *informal* precisely because people operating in this sector are mainly unregistered. In part, this is because the local authority has insufficient resources to check on because operators actively hide from registration. However, the main reason for lack of registration and licencing is that informal sector operators are ignorant of the benefits of registration and see only problems arising from the requirement to pay licence fees, levies and taxes, including the difficulties of negotiating bureaucratic procedures and, possibly, problems of harassment.

Informal sector actors often do not own their assets, meaning that even though they have access to and work on it, the land is not registered as theirs and therefore they neither pay fees for it nor can they use it as collateral. Hernando de Soto has and is undertaking studies on this issue in Egypt and the Philippines, among other countries. He refers to this phenomenon as “dead capital”.

- *This module does not discuss the issue of whether the informal sector should or should not be regulated. Its keynote is that the level of regulation has to be in line with the local legal and structural framework, as well as with the current situation of small enterprises. The point at issue is to find the optimal level of regulation.*

Topic 2: The Legal Basis of Regulation

- *The trainer should have carried out research and know the legal basis upon which regulation occurs within the local authority where the course is being held. This legislation may be national and/or municipal. The list should be illustrative as opposed to comprehensive and the following types of law should be discussed:*
 - ⇒ *Essential clauses of national laws on health and safety, the environment, land regulation, transport etc.;*
 - ⇒ *Local regulations concerned with setting standards (possibly within a framework given by national laws and regulations);*
 - ⇒ *Local legislation governing details of the regulatory process.*



- The trainer should encourage participants to state the laws and regulations under which they carry out their regulatory tasks.
- The trainer should encourage participants to cite and discuss instances where the regulations seem to be unworkable in terms of application to the informal economy and/or where they discriminate against the development of entrepreneurial initiative in the informal sector.

Topic 3: The Local Road Map for Registering a Small Enterprise

- The trainer has prepared a “local roadmap for registering a small enterprise” taking into account the different administrative and bureaucratic steps to be taken. It is also important to present the cost of registering in the form of both time (spent going to different offices to register) and money (such as fees).
- The presentation of the “local road map for registering a small enterprise” by the trainer should be done in a neutral way.
- Discussion on the nature and pros and cons of the road map and, if the view of the participants is that the cost of registering is too high, discuss how the cost can be reduced.

Topic 4: The Cost of Regulating for Small Enterprises

- That the cost of regulating a company includes not only an initial fee but also regular payments in the form of taxes. In order for it to be feasible for the small enterprises to register, the cost-benefit should be favorable to them, meaning that what they pay in taxes is compensated by what they receive from both the National and the Local Governments (in the form of social security, health care, education, etc) and from the market (in the form of recognition and increased competitiveness).
- The Trainer should have information on the amount of tax that a small enterprise pays (take one typical example for the area).
- Discussion of whether the cost-benefit of registering is favorable for the small enterprises



Topic 5: The Relationship Between Small-Scale Entrepreneurs and State Institutions and the Resulting Legal Status of Informal Economic Activities

- *Based on Carlos Maldonado's paper "The informal sector: Legalization or laissez-faire?" the following five factors combine to determine the relationship between small-scale entrepreneurs and State institutions and the resulting legal status of informal economic activities. To a large extent, the relationship between small-scale entrepreneurs and various State institutions determines the former's chances of survival and growth.*

ONE: The structural handicap. The fact that many activities in an economy have a low level of registration and compliance with obligations under tax and labour legislation can be attributed to the unfavourable structural situation in which these activities are carried out. Small-scale producers operate in a hostile environment, are discriminated against in their access to production links; suffer from a precarious financial situation and obtain only a meagre income from their activities. Economically speaking, most are not in a position to discharge their tax and social obligations. Their inability in this respect itself results from decisions on economic policy and resource allocation, which further aggravate inequality of opportunity in the economic, financial and social spheres.

TWO: An inadequate institutional framework. The fact that the informal sector is so large in many countries can be attributed to the widespread inadequacy of the existing institutional framework and its regulatory system. In a good many countries, tax and commercial laws, investment and urban planning codes¹ and rules governing the exercise of certain trades and apprenticeships clearly do not relate to local realities, which are marked by the new forms of production and social organization. The resulting exclusion and segregation deprive the most disadvantaged population groups of their livelihood, multiplying the problems that arise from living in conditions of poverty.

THREE: Informal operators have a lack of information and a negative perception of laws. Entrepreneurs are often inadequately informed or poorly advised by the competent authorities. In Sub-Saharan Africa, for example, illiterate persons are required to comply with rules that they do not understand and which, moreover, often run counter to customary practices and the extralegal norms observed by most of the population. The small-scale entrepreneur who is fully aware of the law may see it as designed only to benefit the State or major investors and that he or she does not stand to gain any tangible advantage from it. The fear of having to bear additional financial costs and the obligation to submit to an endless series of inspections cause entrepreneurs to refrain from declaring their enterprise or from carrying out written transactions.

¹ *Entrepreneurs in the informal sector are especially vulnerable to projects for urban renewal or the demolition of shanty-towns and slums since the implication is usually that their place of residence and work have to be moved. Workshops, shops and food and refreshment stalls are thus deprived of their customer-base located nearby.*



FOUR: Variable thresholds of compliance with the law. Whether they realize it or not, small-scale entrepreneurs make an economic calculation along the lines of a cost-benefit analysis, in that the extent to which they comply with legislation is based on considerations linked to opportunity cost. This perfectly rational attitude may explain the emergence of the “minimum threshold of compliance” that must be met for an enterprise to be able to operate, but above which the costs outweigh the advantages anticipated. The result will depend very much on the rules applicable to each activity, the visibility of the enterprise, the tolerance of the authorities and the ability of various actors to operate outside the law. The following concerns are among the main motives for small-scale producers to achieve minimum compliance with the law: avoiding arbitrary inspections and penalties which might lead to suspension of their activities; preventing other restrictions on their work likely to worsen the insecurity in which they operate; and gaining access to a public or private service necessary to the enterprise.

FIVE: The prospect of coming under increased tax pressure. Economic restructuring and escalating State budgetary and financial imbalances have brought the informal sector's increasing share in the economy under the closer scrutiny of public authorities, which are themselves under pressure from the international financial and monetary institutions, notably the World Bank and the International Monetary Fund. If the priority is balancing the budget, the question arises whether informal enterprises should be taxed like other enterprises in order to finance public expenditure. On the other hand, if the main objective is an economic and social one, should these activities be taxed as little as possible in order to preserve their potential and economic dynamism? Either way, any rash attempt to tax the informal sector is likely, at best, to be ineffective and, at worst, to stifle the most fragile enterprises.

- ***Discuss the five factors listed above***

Topic 6: Some Advantages of Regulation

- Regulation in the Local Economy is Intended to Make Work more Decent, Improve Economic Performance and Eventually Achieve a Single, Integrated Local Economy

Regulation is often seen as inhibiting economic activity. In practice, when operating effectively, it creates better working conditions and a more efficient and pleasant environment for enterprises to operate in. Regulation should be linked directly to programmes designed to encourage and promote growth in enterprise and, as evidenced by the case studies at the end of this Module, registration and accreditation should provide the “take off” point for enterprises to become successful businesses. Regulation is intended to be an essential part of the machinery of creating a single, integrated local economy that serves the economic needs of *all* local citizens.



- **Regulating for Good Health**

Health regulations are adopted in order to minimize ill health and the spread of disease, as well as to promote healthy living habits among the population. There are many activities where intervention is needed to meet health standards, including aspects of household hygiene and, in the case of homeworkers, working conditions that may be beyond the legal reach of health workers but can be effectively dealt with through community-based campaigns and self-help structures. “Public Health” programmes may overlap with environmental regulations aimed at minimizing pollution for economic and aesthetic reasons, for example, the control of water pollution and the disposal of solid waste. Health regulations also apply to food processing and the sale of food products, aimed at minimizing the possibility of food poisoning.

- **Assistance Programmes and Entitlements**

In addition to the restrictions on individuals and enterprises that are inherent in regulations, there are concomitant entitlements and benefits, for example, assistance in gaining access to finance and marketing and access to social security protection systems. Employers desirous of avoiding taxes or other overheads may hide advantages from employees, so regulatory bodies should be aware of the need to work not only with employers (however small) but also directly with the employees.

In campaigning for informal sector operators to register, local authorities need to stress the advantages and, when this is appropriate and possible, provide incentives.

- **Multiplier Effect**

Informal sector operators are often resistant to change when it comes to new initiatives. They have good reason to be cautious and usually adopt a “wait and see” attitude for some evidence of benefit before participating in any new programme. This is understandable because they have little margin for error and literally cannot afford to take many risks. The sign of success in local initiatives will therefore be a dominant factor in attracting informal sector operators to the programme and will have a multiplier effect over time.

- ***Discuss: Are the above “advantages” applicable for the area or are there others to consider?***



Topic 7: The Cost of Lack of Regulation

- **Two types of costs result from lack of regulation - economic and social costs.**

Economic costs for informal sector operators are:

- *their exclusion from the market*
- *they are denied access to services, facilities and land*
- *they face unfair, distorted competition from the formal sector.*

Social costs are:

- *public safety and*
- *development issues.*

Module III gives a clear picture of the economic costs. The social costs are outlined below.

(Four examples are provided for this topic but trainers should feel free to choose others if they are more relevant to the local situation of the town or city in which the course is being held.)

- **Parallel Structures**

When there is a very low level of control from the side of Government and Local Government, there is a tendency for parallel structures to develop. These structures usurp the role of the local authority in, for example, their collection of fees from businesses. Examples of parallel structures are found in almost all countries of the world, although their size, power and influence vary. Organized crime is the most recognized definition of a parallel structure.

- **Regulating Building and Construction**

Building regulation is based on urban planning that is intended to ensure a reasonable standard of construction and an urban structural layout that facilitates the provision of infrastructure. In the cities of South and Southeast Asia, “informal settlements” now comprise from 10% to 80% of construction. Prima facie this means that local authorities are failing to improve the efficiency of the development process or improve the conditions under which large sections of the population are living.

Local authorities are generally aware of the formation of informal settlements but have yet to find an effective means of participating in the process, with the goal of forming more functional settlements. This is a key question for the regulatory (and the urban planning) process, and will be discussed further in Module IV.



- **The Registration of Vehicles and the Regulation of Traffic**

As with the registration of enterprises, the ostensible reason for registering vehicles is to ensure safety standards and regulate the use of roads. In practice the main purpose is to ensure the collection of road taxes. Once again, the informal sector is often able to avoid such registration (for instance in the case of pedicabs). In addition, there are few places (Singapore is an outstanding exception) where registration is a basis for regulations designed to improve traffic conditions. While most countries adopt highway codes to which road users must adhere, few countries require their longstanding licensed drivers to prove they (still) know the highway code. Much of the use of road space is outside any specific regulatory process, in particular the local rules that road users must learn informally. Likewise, the possibility of improving the use of roads (by reducing congesting, hazards and the incidence of accidents) and at the same time improving the income and effectiveness of informal transport operators is not a subject with which a regulating agency concerns itself. However, this aspect of urban management deserves more attention.

- **Regulation of Street Traders**

Street trading is the most conspicuous manifestation of the informal economy in many towns and cities in Asia and Southeast Asia and contributes significantly to the economy both in terms of providing jobs and providing a valuable service. A number of problems tend to bias local authorities against street traders, which regulation could help to solve. If unregulated, street trading can cause both traffic congestion and the constriction of public sidewalks. Food offered for sale should conform to health standards. Goods offered for sale, (jewellery or antique ware) should be controlled for authenticity.

- ***Discussion***

Topic 8: The Disadvantages of Regulation

- **Corruption: “A Way of Life”?**

Regulation can devolve negatively into a complex system of underlying causes, loopholes and incentives that feed corrupt practices at any or all levels. Understanding begins by dispelling the myth that corruption is a matter of “culture”. People who live in societies where corruption is supposedly “a way of life” often bitterly resent the practice and many do not have sufficient money to pay the bribes or informal fees demanded. Like payoffs, they are almost invariably illegal and count as criminal under the laws of the “culture” itself.

- **Unfortunately, regulatory procedures have often been imported without recognizing the need to adapt them topically to local circumstances.**

While it is necessary to move consistently towards better-managed towns, cities, economies and societies, it is also necessary to be realistic. If regulations are too strict, then evidently the standards expected become impossible to achieve for large numbers of households or enterprises, and the regulations become politically impossible to administer.



An example of this is city administrations that adopt complex bureaucratic procedures with multiple forms to be filled out by would-be entrepreneurs, a significant number of whom are illiterate and find these procedures intimidating. At the same time, many officials are unfriendly in attitude, which is also a disincentive for many poor people trying to complete a regulatory procedure. In cities in developing countries it is necessary to start with simple procedures and standards that encourage entrepreneurs to become involved in the regulatory process and which attack one problem area at a time. The idea is to raise standards very gradually, as improvements are made. This problem of local adaption applies to many areas of regulation.

- **Poor administration**

When laws that lead to regulation are passed on specific issues, they tend to create their own bureaucracies to administer them (health regulations are the responsibility of the Health Department, building regulations of the Public Works Department). Often inadequate cooperation exists between different agencies, so that individuals and, especially, enterprises wishing to enter the formal sector are required to approach many different agencies. This makes registration considerably more difficult than if agencies were to cooperate (and establish a one-stop shop arrangement).

- **Enforcement, Criminality and Corruption**

Regulation is about defining the limits of what an individual or enterprise may do within the framework of legality. The Introduction to this course noted that some enterprises and activities are illegal per se and are not registered in any form: this matter is for the police. It was also noted that some sections of the informal sector engage in exploitation of labour (usury and child labour, for example). The regulatory process should be able to eliminate these practices.

The normal activity of enforcement concerns ensuring that individuals and enterprises at work are conforming to the law, to the rules and regulations attaching to their permits and licences. This means instituting a monitoring regime involving both self-monitoring where appropriate (enterprises reporting on a regular basis) and/or visits by agency staff trained in monitoring conformance to the requirements of the regulations.

Unfortunately there are frequent cases where regulation is used by public authorities as a basis to assert their power and beyond that for extortion and graft. Vigilance is necessary to prevent regulatory personnel from engaging in these practices, as they undermine confidence in the regulatory system and generally result in regulations becoming ineffective (officers allow illegal practices to take place in exchange for informal payments).

- **Discussion:** *Identify a number of regulatory areas where strict standards are expected to be achieved but where the existing situation makes it difficult to achieve them. Discuss the possibility of simpler standards that can be achieved and enforced.*



Topic 9: The Level of Regulation

- **Over-regulation versus Under-regulation**

Both carry risks and it is difficult to determine the optimal level of regulation for enterprises in a particular region. Over-regulation may lead to a lack of transparency in the regulatory and monitoring process of local government. It has been noted in some cases that small enterprises do not wish to register because they cannot afford the high informal fees they are required to pay to public servants

On the other hand, regulations that are too flexible give local government little control of the informal economy. Parallel structures then put in place their own informal regulatory process, which may be as costly or more costly for small entrepreneurs than the legal one.

It is crucial that the level of regulation or laissez-faire is optimal for the region and that small enterprises and local government have a say in its development and monitoring process.

In practice, no distinction should be made between the formal and informal sectors of a city. The idea is to establish regulatory management regimes that deal flexibly with a wide variety of situations, eventually achieving the same standards throughout the city.

- **Addressing Problems within the Legal and Institutional Framework**

As noted earlier, regulation can only be effectively administered if relevant laws have been passed. The regulatory process can only be implemented by establishing effective administration and ensuring adequate funding for regulatory activities.

Before formulating and adopting regulations, local authorities first need to ensure that their regulations are adequate to address the problems and needs of the informal sector. If the institutional framework is unable to come to terms with the informal sector, for whatever reason (lack of information or lack of trained personnel or an insensitive approach), then steps need to be taken to change the framework and undertake the necessary work to ensure that adequate information, trained personnel, etc. are available to administer the regulatory system.

- **Enterprise Registration and Regulation**

There are many aspects to the registration of enterprises. Problems arise from how registration is done and the uses to which it is put. One of the major “problems” of the informal sector is that enterprises and individuals working informally are not registered. The question is: For what purpose(s) should they be registered?



From the point of view of the local authority, registration ensures that taxes can be effectively levied. But taxation – and the registration procedure itself (necessitating several different permissions from different agencies, which takes time and often also money) - act as disincentives and some enterprises may actively avoid registering.

Registration of enterprises is also a basis upon which the local authority regulates the use of land (land use planning), the quality of construction, the demand for infrastructure services, maintenance of health and safety standards and the avoidance of pollution. Although carried out in the name of urban management planning, these regulating functions again involve mainly negative incentives from the point of view of enterprises.

Formal sector enterprises that “put out” work are *fostering* unregistered enterprises of homeworkers and should be held responsible for ensuring that the homeworking enterprises they originate also enter the registration process, possibly by their taking responsibility for obtaining the necessary papers.

Enterprise registration should form the basis for the local authority to design ways to *assist* enterprises to improve their performance – and indeed is often the basis for particular programmes, such as training of personnel and provision of access to capital.

Topic 10: Selected Case Studies

- Here we Discuss Three Cases from Metro Manila which Illustrate Different Levels of Personal and Group Development and the Role that Registration and the Consequent Engagement with Local Government can Bring to Actors in the Informal Economy.

Case 1: Vincente Gallardo lost his job early in 1992 and was forced to start a small business as a survival strategy for his family. He started by buying a tray of eggs and, finding that he was able to sell these, bought larger quantities and soon had a small wholesale business, buying from grocery stores at a small discount and selling to small shops in his neighbourhood. A certain volume of sales was achieved through small investments (in particular a sidecar to his motorbike) by borrowing money from a friend and using his wife’s savings. To expand further, he found he would need 1. better control over his inflow, by having his clients pay immediately instead of on credit and 2. a new investment in packaging. He would need to hire someone to assist him. To borrow money at a reasonable rate and to run a larger business would require registration. Although Vincente’s income remained extremely small, he had neither the courage nor any supporting community structures to help him climb to the next stage of his enterprise. He opted for keeping the business small and informal, with his family subsisting on the poverty line.



Case 2: Rameo Demata started a machine shop in 1986 investing small savings made by working for 18 months in Iraq in a lathe and welding equipment factory. The business grew, but Rameo felt that he lacked knowledge on how to organize a larger business and, on the advice of a friend, took advantage of a small business orientation seminar followed by participation in a business counselling programme funded by the National Government. This made him realize the need to register with the Department of Trade and Industry and the Bureau of Internal Revenue, which opened the way to his obtaining a large low-cost loan to buy a vehicle and further machinery for the business. He needed considerable help to approach the bank and to learn to keep accounts. Once this was mastered, Rameo was able to move his workshop to larger premises, buy further equipment and to hire several employees. The counselling programme had helped him to organize his business, to put it on a formal footing and, in the process, to improve both his productivity and his livelihood.

Case 3: The SIKAP Development Cooperative grew out of the struggle of a group of disabled persons to rise above their destitute and excluded situation. Using a small, pooled capital, the group registered themselves in 1988 as a SIKAP Cooperative enterprise with the aim of facilitating people from the local community to form other cooperatives, provide various services and assist them to borrow money to establish businesses. Membership grew rapidly, but some poor advice and mismanagement almost resulted in its failure. Through the Cooperative Development Authority, the Trade and Industry and the Land Bank staff, the cooperative were able to obtain advice on running the organization more efficiently, subsequently supplying services to a number of local government agencies, including meals to the local hospital. This case illustrates how mutual help within communities can bring larger numbers of people, who are otherwise isolated and without knowledge or confidence, into a setting where they can work together towards organizing their activities on a more formal basis and improving their economic situation. This is the subject of Module IV.



Role Play

- *For the last session of the day, after the afternoon break the trainer should organize a short role-playing exercise as follows:*

Divide the participants into five groups – which may be the same groups as on the previous day. Members of the groups should adopt the same roles as on Day One.

- You are a group responsible for registering individuals and enterprises that are at present operating informally. You may choose any one of the following:
 - Pedicab drivers
 - Cooked food stall holders
 - Vehicle repair operations
 - Fishermen
 - Homeworkers making cotton clothing
 - Waste workers
 - Construction workers
- You should now discuss the following questions and set your answers out on an overhead transparency:
 1. Given the local situation, what are the main advantages for the small enterprise if it decides to register?
 2. Given the local situation, what are the main disadvantages to the small enterprise if it decides to register?
 - a) *Which agency or department should be responsible for registering this group of informal sector operators/enterprises and why?*
 - b) *How will you compile an inventory of all those operating in this trade or industry?*
 - c) *What kinds of regulations do you think should apply to this group?*
 - d) *What attitude would you expect informal sector operators to have towards the requirement to register and what attitude and approach to registration would you expect to find among the staff of the regulatory agency?*
 - e) *How will you overcome any resistance to, or lack of interest in, being registered?*
- *This exercise should take no longer than 45 minutes, following which each group should present their findings and the key points of their discussions to other participants.*



List of Background Materials

1. Policy Brief: What institutional framework for the informal sector? Christian Morisson, OECD, Paris, 1995
2. The informal sector: Legalization or laissez-faire? *International Labour Review*, vol. 134 no. 6, C. Maldonado, 1995
3. Rethinking the informal economy: A Dialogue between Academics and Activists; *International perspectives on work and the economy*, Panel 2: Regulations, Labour Standards, and Informal Work. Radclif Public Policy Center & Women in Informal Employment: Globalizing and Organizing; volume 1 issue 2, 2000
4. The other path. The invisible revolution in the third world. Harper & Row, New York, Hernando de Soto, 1989



OHT: Mod.2.1

Objectives of Module II

MODULE II: REGULATING THE INFORMAL SECTOR? ADVANTAGES AND DISADVANTAGES

- To give participants a picture of the local regulatory process.
- To review the traditional role of municipalities in regulating the work of private individuals and enterprises.
- To investigate the various dimensions of the regulatory process as they affect the informal sector.
- To discuss critically the regulatory procedures of local authorities and appropriate ways in which these might be administered in the informal sector.
- To place the regulatory process into the context of the need to develop the informal sector as part of the local economy.



OHT: Mod.2.2

Contents of Module II

MODULE II: REGULATING THE INFORMAL SECTOR? ADVANTAGES AND DISADVANTAGES

Exercise 2: Estimating the Size and Composition of the Local Informal Sector

Topic 1: Regulation

- Defining Regulation
- Unregistered activities

Topic 2: The Legal Basis of Regulation

Topic 3: The Local Road Map for Registering a Small Enterprise

Topic 4: The Cost of Regulating for Small Enterprises

Topic 5: The Relationship Between Small-Scale Entrepreneurs and State Institutions and the Resulting Legal Status of Informal Economic Activities

- *Five factors that combine to determine the relationship between small-scale entrepreneurs and various State institutions and the resulting legal status of informal economic activities.*

Topic 6: Some Advantages of Regulation

- Regulation in the Local Economy is Intended to Make Work more Decent and to Improve the Economic Performance and Eventually Achieve a Single, Integrated Local Economy
- Regulating for Good Health
- Assistance Programmes and Entitlements
- Multiplier Effect



Topic 7: The Cost of Lack of Regulation

- Economic and Social Costs
- Parallel structures
- Regulating Building and Construction
- The Registration of Vehicles and the Regulation of Traffic
- Regulation of Street Traders

Topic 8: The Disadvantages of Regulation

- Corruption: “A Way of Life”?
- Unfortunately Regulatory Procedures have often been Imported without Recognizing the Need to Adapt them to Local Circumstances.
- Poor Administration
- Enforcement, Criminality and Corruption

Topic 9: The Level of Regulation

- Over-regulation versus Under-regulation
- Addressing Problems within the Legal and Institutional Framework
- Enterprise Registration and Regulation

Topic 10: Selected Case Studies

Role Play



OHT: Mod.2.3
Exercise 2

MODULE II: REGULATING THE INFORMAL SECTOR? ADVANTAGES AND DISADVANTAGES

Estimating the Size and Composition of the Local Informal Sector

Objective

To provide participants with a better understanding both of the necessity to collect satisfactory information on the informal sector and of the methods and problems of adequate collection.

Activity

In light of the lecture and discussion earlier in the day, including information given by the trainer on the composition of the local informal economy, each group devises a strategy and plan for collecting information on the composition and magnitude of the local informal sector. Each group lists the information it deems is required and how they intend to collect and organize it. Some suggestions follow (feel free to input others);

- List the main kinds of enterprise you are interested in
- List the occupations you are interested in
- What do you need to know about informal sector workers?
- What do you need to know about the place where the work is performed?
- How do you intend to collect the information you need?
- How do you intend to obtain information that people don't want to give?
- Etc.

You discuss the issues for 45 minutes, setting your strategy and plan down on an overhead transparency, flip chart or card board. One member of the group will then explain your answers to the rest of the trainees.



OHT: Mod.2.4

Role Play

MODULE II: REGULATING THE INFORMAL SECTOR? ADVANTAGES AND DISADVANTAGES

- You are a group responsible for registering individuals and enterprises that are at present operating informally. You may choose any one of the following:
 - ? Pedicab drivers
 - ? Vehicle repair operations
 - ? Home workers making cotton clothing
 - ? Construction workers
 - ? Cooked food stall holders
 - ? Fishermen
 - ? Waste workers
- Over the next 45 minutes you discuss the following questions and set your answers out on an overhead transparency, a flip chart or a card board:
- You should now discuss the following questions and set your answers out on an overhead transparency:
 1. Given the local situation, what are the main advantages for the small enterprise if it decides to register?
 2. Given the local situation, what are the main disadvantages to the small enterprise if it decides to register?
 - a) *Which agency or department should be responsible for registering this group of informal sector operators/enterprises and why?*
 - b) *How will you compile an inventory of all those operating in this trade or industry?*
 - c) *What kinds of regulations do you think should apply to this group?*
 - d) *What attitude would you expect workers in this field to have towards the requirement to register and what attitude and approach to registration would you expect to find among the staff of the regulatory agency?*
 - e) *How will you overcome any resistance to, or lack of interest in, being registered?*
- **This exercise should take no more than 45 minutes, following which each group should present their findings and the key points of their discussions to other participants.**



DAY THREE

Recapitulation of Module II: Regulating the Informal Sector? Advantages and Disadvantages

- *The trainer now shows the overhead for Module II and asks participants at random to summarize one of the topics in a sentence or two. This is informal, with comments from other participants who may present an alternative summary, or where the topic has been inadequately described by another participant (15 minutes max.).*

MODULE III: DEVELOPING THE POTENTIAL OF THE INFORMAL ECONOMY

(It is suggested that this be completed by the end of the morning, with a tea/coffee break mid-morning.)

Objectives of Module III

(The trainer should present the objectives on an overhead and discuss them briefly.)

- To create a clear picture of the economic and social value of the informal economy and the essential elements of a local policy for the development of the sector.
- To identify the main issues that need to be addressed, if impediments to the development of the informal sector are to be removed.
- To describe a number of specific initiatives that can help enhance economic and social conditions of the poor who are currently active in the informal sector.
- To make participants aware of the local legal context within which the informal sector currently operates and identify how and where this can be amended to provide a more appropriate basis for developing the capacity of the informal sector.

Overview of Module III

- *The trainer should present the overhead (see the end of this Module) listing the five topics and briefly summarizing them, followed by a short description of the nature and intentions of the round table or the field visit.*



Topic 1: Objectives of Enhancing the Capacity of the Informal Economy

- **Recalling the Importance of the Informal Sector**

Module I pointed out that the informal sector of the economy varies between from 20% to over 90% in some Asian cities, but usually represents well over half the total labour force. The first objective must be to raise a general awareness of the importance of the informal sector for ensuring that the majority of the population is able to earn a livelihood.

- *The trainer should ask the participants to suggest reasons why local authorities and other community members and organizations should be concerned about how informal sector actors live and work. Why should they want to develop the capacities and improve the conditions in the informal sector? Here are some examples that the trainer may use to augment or add to those suggested by participants.*

- **Poverty Alleviation and Equity Considerations**

Until recently, local economic development was seen as assisting the formal sector by providing incentives, infrastructure and so on. This raises the question of the relevance of economic development programmes to the increasingly urgent problems of urban poverty and the unequal treatment of informal sector actors. The basic principle of equity relates to equal and non-discriminatory treatment of persons, without good reason for differentiation (such as “positive discrimination” quotas favouring women, for example).

In most Asian countries, equity is supposedly guaranteed by the national Constitution. It follows that people working in the informal economy should be provided the same local services and social protection given to enterprises and workers in the formal sector. However, it is rare to find individuals working in the informal economy receiving the same rights and services as those in the formal sector. This is a factor in the growing problem of urban poverty, where the poor are excluded from the means to an income and from municipal services that underpin welfare.

Indeed, informal sector workers are often forced by necessity to accept terms and conditions of work that are exploitative, such as being paid below the minimum wage, long hours of work, poor working conditions or environment, and lack of security of tenure. In addition, local authorities often ignore their need for rights and services, or harass them where they are operating illegally (albeit under legislation that is inadequate or inappropriate).

Local authorities are in a position to redress this situation with local legislation and the provision of infrastructure and services on an equal basis or through positive discrimination to the advantage of people and enterprises working in the informal sector. However, this requires political will and the cooperation of all municipal departments.



- **Improving Links between the Formal and Informal Economies**

The dividing line between the formal and informal sector is neither sharp nor fixed. Many formal sector enterprises buy from or subcontract to people operating informally. The fact is that the informal sector links the formal sector to the majority of the poor, in the sense that the informal sector provides cheap labour to produce the goods and services that are affordable and/or that reduce costs to formal sector enterprises.

Another linkage is through the recycling of waste products of the formal sector such as garments and textiles, metals, plastics, carton and paper, where operators in the informal sector process these materials, either to return them to the formal sector as cheap material inputs or to produce cheap goods.

Local authorities can play two major roles in enhancing these links, with the aim of more and better jobs for the poor. First, local authorities can formulate incentives addressed to formal sector employers, to hire or use the services of informal sector operators. Second, they can strengthen the sub-contracting mechanisms between the formal and informal sector. Local authorities also need to work towards the prevention and elimination of exploitative practices on the part of the formal sector. At the same time, local authorities should support informal sector operators to organize and to advocate their legitimate right to decent work.

- **Upgrading Indigenous Entrepreneurial Skills**

Without doubt, operators in the informal economy are highly inventive in finding new markets for new products that are sold at prices affordable to the poor. Despite their limited access to education, nutrition, health, and other forms of human capital, the informal sector makes a significant contribution to the local economy. In this sense, they possess indigenous entrepreneurial skills. Local authorities should contribute to the further development of such skills by supporting capacity-building programmes that will enable informal sector operators to increase the size of their markets and to open up new ones.

- **Improving Social Protection**

Major attention needs to be given to reducing the vulnerability of actors in the informal economy, in particular women and children, to exploitation, abuse, health hazards and the insecurities of poverty. This means monitoring contracts and conditions of work and establishing basic social insurance. It also means ensuring that the poor have access to affordable basic health, educational, legal and other social services, regardless of income or other aspects of their status. An important aspect here is the encouragement of communities and people working in the same industry or field to associate, in order to be able help one another to provide or, collectively, gain access to services.

- **The Political Dimension**

The magnitude of the informal sector – in terms of economic initiative and housing conditions – makes it politically expedient for mayors and local authorities to address the needs of the informal sector, in view of the pressure their voting power may exert. Programmes of relevance here include: improved access to basic services including health, education, water and sanitation, etc. and to public housing provision or the upgrading of informal housing or settlements.

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- *Discuss the many reasons why local authorities and other community actors should focus serious attention on addressing the needs of actors in the informal economy and see them as an important component of the local development process.*

Topic 2: Efforts to Improve Capacities and Conditions

- **Lack of Urban Focus in Development: 2001**

Unfortunately, the needs of urban authorities and populations have not been given the attention they deserve. National governments have been spending most of the national budget according to their own priorities. Although decentralization is becoming more firmly institutionalized, national governments are still spending the majority of national funds on programmes and projects that do not have a specific local focus. These often fail to address the details of the urban social and economic development process. Similarly, international and bilateral development agencies have been spending only a small part of their effort on urban programmes and projects.

- **Poverty Reduction Programmes**

Recently, international and bilateral development agencies, but also national and local governments in countries of the South, have experienced a considerable upsurge in concern regarding urban poverty. This has resulted in new programmes of which local actors should be aware and which they should use to enhance the capacities of the local informal sector.

The persistence of poverty – and indeed in recent years the increasing division between rich and poor – has resulted in greater attention being paid to the need to address the economic conditions of the poor in countries of the South. The collapse of the Southeast Asian currencies from July 1997 gave further impetus to the implementation of poverty reduction programmes in this region. Three examples from the Asian region are:

- **Philippines:** The Social Reform Agenda (SRA) is a national programme in which each local authority is encouraged to design a broad programme to address the need of the poor within their own area, within guidelines provided by the national government and with special funds earmarked for implementation. This has a strong focus on developing the capacity of the informal sector through training and organization and ensuring access to social and economic programmes of the government.

- **Thailand:** In recent years a number of different funds have been established around different programmes, aimed at improving the urban development process. These include the Urban Community Development Fund, the Education Fund and the Environment Development Fund, but they only address the needs of informal economic activity as a secondary issue. Following the economic shock of 1997, a Social Investment Fund, originally proposed in the early 1990s was provided with funds by the World Bank (US\$120 million) and further supported by UNDP and AusAID with a stronger focus on developing the urban informal economy.



- **Indonesia:** The severity of the collapse of the Indonesian currency following the 1997 financial crisis caused a wide range of international and bilateral agencies to finance schemes aimed at improving the capacity of the informal sector. Programmes include the UNDP *Breakthrough Initiatives in Local Development* (BUILD) which is pioneering new approaches to participatory practice in urban programmes and projects. Two major World Bank programmes, the *Kecamatan Development Project* (US\$250 million) and the *Urban Poverty Reduction Programme* (initially US\$100 million), were directed to the establishment of community-based, participatory-determined development programmes and included local funding instruments.

- The trainer should have a detailed knowledge of the current programmes in both the country and city where the course is being held. S/he should make specific reference to these programmes.
- *Discussion: Do participants know of other programmes and initiatives? Do they understand the basic objectives and components of these initiatives?*
- **Urban Enterprise Development**

Many national, provincial and local governments in countries of the South have also initiated programmes to improve the capacities of local small enterprises to generate more jobs for the urban poor. International and bilateral development agencies often support these efforts. ILO-supported research and technical assistance in recent years have included the following themes:

- development and strengthening of the informal sector statistical data base;
- identification of the determinants of stagnation, growth, and transformation of the informal sector enterprises;
- review of the existing legal and regulatory framework with the view to identifying imperatives for reform;
- mobilization of resources and facilitation of access to financial and business development services;
- improvement of working conditions in informal enterprises;
- expansion of coverage of social protection schemes; and
- strengthening of self-help associations to further enhance the provision of access by members to local productive resources.

The main focus of this work has been on encouraging the growth of micro-and small enterprises (MSEs). A problem with these efforts is the difficulty they have in providing support for the very poor and, in particular, for the increasing numbers of homeworkers – predominantly women. The potential for gender bias and the risk of ignoring these special problems of poverty needs balancing, either in parallel programmes or within the urban micro- and small enterprise development programmes.



Topic 3: How can the Performance of the Informal Economy be Improved?

- **Legitimization**

In general terms, the most urgent need of informal sector operators is for their activity and the place where they conduct it to be legitimized. This includes:

- providing secure tenure, to build up the confidence to invest in a business;
- registration, that provides rules but also access to local government programmes; and
- accreditation, that forms a basis for developing workers' organizations in particular sub-sectors.

- **Business Development Services**

The ILO and a number of other development agencies including the World Bank, UNCTAD, UNIDO, the EU and a number of the European bilateral development assistance agencies, have been active in promoting the development of small and medium enterprises (SMEs) in countries of the South. They have formed a working group to evaluate experience in this field with the intention of finding how best to support the further development of SMEs.

The focus of attention is to develop entrepreneurship and in a general a more efficient and effective private sector at the level of small business. The programmes which have been promoted in many Southern countries by these agencies in collaboration with local partner agencies and NGOs cover all aspects of enterprise start-up and growth:

- technical and managerial training;
- the provision of extension services to advise SMEs;
- the creation of commercial or brokerage entities that can market or otherwise promote business in particular subsectors;
- technology development and transfer
- provision of information about registration, taxation, prices, support programmes, etc.
- linkages between SMEs and larger formal sector enterprises, including the development of "business clusters" where similar and related industries create local centres of expertise and competitiveness.

In some countries and localities support units have been established to promote the development of SMEs and where these exist, they must have an important place in any local strategy to develop the informal economy. In some cases these are NGOs, in others they are membership organizations (association with a task of providing extension and other support services for their members). The majority of services, however, are provided by the local private sector. In general, units run entirely local authorities have not been successful. Most of the units have also failed in successfully providing services for the very poor, if they do not have the basic incentives to become involved.

- **Public-Private Partnerships**

It is important to understand the directions of change that are taking place in the role of local governments (discussed in more detail in Module IV). In the past there has been a strict division of labour between the public and private sector with government assigned to provide a range of public services which the private sector was assumed to be incapable of or uninterested in carrying out. These included water supply, wastewater management, solid waste management, local health services and also the supply of energy (gas and electricity).



It became apparent, however, that the private sector was not necessarily particularly efficient at delivering these services and that the private sector might be interested in participating in their delivery under certain circumstances. During the 1980s and 1990s, various approaches for re-dividing the provision of public services between local government and the private sector resulted in improvement in efficiency and effectiveness in certain cases. The essence of these “public-private partnerships” is that they require the right design, so as to ensure that each partner plays its appropriate role.

The most important point is that while many services can be put out to private competitive tender, once contracts are let for private companies to provide services, these must be adequately monitored and regulated by the local government, to ensure that the work contracted for is properly done. In the case of countries of the South, the provision of services to poor areas may not be profitable for the private sector and so these cannot be privatized without public subsidy. In some countries privatization through community-organized initiatives based on enterprise principles has proved to be an effective alternative to address this situation.

At present, local authorities everywhere are increasingly subcontracting services or collaborating in other ways with the formal private sector (e.g. including it in public decision-making). Informal sector enterprises and actors were initially excluded from these forms of collaboration. In future, much more attention needs to be paid to ways in which the public sector can sub-contract to, or otherwise work together with, informal actors. These might include cooperatives, local community associations or women’s associations, who would be paid to provide local services.

- **Capacity Development**

Informal sector actors are often skilled in their work and inventive in developing new capacities. But there are also many areas where they lack knowledge and skills. Local authorities and other community actors, including the private sector, can help to develop capacities. To improve the capability of informal sector actors is to increase the wealth of the local economy. Capacity-building activities can:

- Improve technical capabilities which might include skills in production, knowledge of new machinery and techniques and management of the use of materials to minimize health hazards at work and also external environmental impacts;
- Improve entrepreneurial skills to include the obtaining and managing finances, discovering and developing markets and
- Social skills needed to work with others to build enterprises and to serve the needs of local communities.

- **Provision of Urban Services**

All too often urban local authorities have focused their attention on providing services for the formal sector, perceiving the informal sector as temporary, unimportant and able to be neglected. It is an urgent necessity, however, to ensure that all citizens have access to basic services without regard to their status. If the children of poor citizens are excluded from schooling, then the inability to participate effectively in society is perpetuated. If health services are not accessible to the poor – who are often more subject to disease due to environmental conditions – then the economic burden to the community is greater. A broad social safety net needs to be put in place to cover the poor for the eventualities of illness, disease, maternity. Furthermore, the provision of physical infrastructure – paved accessways, cheap water supply, sanitation and so on – is an important contribution to improving the efficiency of work and of enterprises.



Local authorities need to understand how, indirectly, good urban service provision can achieve significant improvements in the morale and efficiency of informal settlement dwellers. Settlements that were initially informal and which become more formal thus fully integrate the efforts of the local authority, when working closely with community groups.

- **Better Representation and Networking in the Informal Economy**

A significant reason for the lack of interest of local authorities in the needs of informal sector actors and enterprises is their lack of organization. In recent years there has been increasing recognition of the need for collective action for informal sector actors. For the common good, they need their concerns voiced, heard and attended to. There is still a long way to go before the capacity of the informal sector is sufficiently developed in terms of modernized trade unions and effective business associations.

Local authorities have been resistant in the past to recognizing collective organizations. They should, however, see that these organizations can help to organize and implement tasks and not perceive them solely as avenues for informal actors to complain about their needs. Community groups and business associations, on the other hand, should also become more constructive and proactive, so that they gain more recognition and become more respected. This is an important issue and is discussed in more detail in Module IV of this course.

- *Discussion of these and any other related concerns of participants*

Topic 4: Financing the Informal Economy

- **Availability of Formal Sector Finance**

In order to develop, the informal sector requires finance. In a few cases (for example, when formal sector enterprises subcontract or put out work to informal enterprises), finance is made available from formal sources, including related private sector enterprises or from banks.

However, almost universally, the informal sector (if acting on its own initiative to seek access to funding) is discriminated against by the formal banking system. A major stumbling block is the lack of collateral available to informal enterprises which can, in some cases, be overcome by legalization of tenure.

- **Usury**

Lack of access to formal financial institutions makes under-financed informal enterprises prone to debt and opens the way for local money-lenders, who often lend money at extortionate rates of interest or create exploitative dependencies. It is very important for local authorities and other local interests to help informal sector actors avoid the use of such finance.



- **Traditional Financing by Community-Based Mechanisms**

Community-based financial circles (under various local names) are very usual throughout Asia. These involve families (usually represented by women) paying into a common fund which is then lent in turn to members of the circle, to finance anything from weddings to house repairs and new economic initiatives. This mechanism has strengthened in recent years, with the encouragement of certain international and national projects, particularly through the activities of some NGOs. Community-based financial circles can provide a significant source of funding for the development of the informal sector and should be further encouraged.

- **Innovative Financing Mechanisms for the Urban Informal Sector**

Numerous new local financing instruments have been introduced or invented in the countries of Asia in recent years, many organized by NGOs and some also fostered with international assistance. The Grameen Bank of Bangladesh is a very well-known example (see later in this Module). This has been very successful in organizing women in hundreds of villages (it is not an urban initiative) to borrow small amounts of money to invest in start-up businesses. The money is not borrowed by individuals but is supervised by circles of local women.

In Thailand, from the early 1980s, urban community savings and credit groups sprung up, initially supported by the NGOs Credit Union League and Foster Parent Plan International. Now numbering several hundreds, they were initiated as a means to improve housing conditions. Recently they have extended their range and now also cover emergency needs and income-generating investments. In 1992 the Urban Community Development Office was established at the national level and this has further encouraged the formation of local community savings and credit circles.

- **Role of International and Bilateral Development Agencies**

Several international and bilateral development agencies have also initiated local financing mechanisms. The UNICEF Urban Basic Services Programme has established financing circles and revolving funds in poor urban communities around the world. In Nepal the German Technical Cooperation Agency initiated a scheme (that also included World Bank funding) and encompasses both grant and loan facilities for urban development in all the municipalities of the country. Most recently, the World Bank has become more interested in helping to establish such financing mechanisms at the community level in conjunction with the *Urban Poverty Reduction Programme* referred to earlier in this Module. A number of projects have also been initiated to support formal sector banks to establish special financing mechanisms for informal sector actors who may have inadequate collateral but where there is a good chance that their businesses will succeed.

- **Limitations to Informal Sector Financing**

By no means *all* informal sector investments are successful, which is why formal sector banks are on the whole unwilling to lend money in this sector. It should be noted also that financing mechanisms such as the Grameen Bank, or revolving funds for urban community investments, have sometimes been initiated and have then failed, through funds disappearing or being purloined openly by powerful members in the scheme. It is therefore crucial that adequate safeguards be built into any initiative to form effective financial mechanisms for investment in informal sector activities.



Topic 5: The Legal Framework

- *The legal framework within which informal sector activities are undertaken can either discourage or encourage enterprises to legitimize their activities. (See Module II, Topic 2, The Legal Basis of Regulation.)*
- *Here the trainer should present a sketch of the main points of the national legal framework of the country (or relevant province) and the local authority, pertaining to the rights and duties of economic actors – especially where these reflect on the rights and duties of informal sector enterprises and actors. The following provides an example of relevant legal framework at the national level in the Philippines and the problems and opportunities which it raises.*

The Philippines Constitution of 1987: *This states that: “The State shall afford full protection to labour, local and overseas, organized and unorganized, and promote full employment and equality of employment opportunities for all. It shall guarantee the rights of all workers to self-organization, collective bargaining and negotiations...” In view of this, labour is considered as a primary social and economic force and must therefore be protected and promoted. It is important to note that the constitutional policy does not differentiate between formal and informal workers; thus by law all workers have equal protection. However, it does not address some particularities pertaining to the informal sector, such as protection of the unregistered and the absence of an employer-employee relationship.*

*Nonetheless, even before the constitutional declaration, several labour and social laws for the protection of the rights of workers and the promotion of **their welfare were already in place.** **These are:** several labour and social laws for the protection of the rights of workers and the promotion of their welfare were already in place. These are:*

Labour Code: Presidential Decree 442: *The basic policy of the Labour Code is stated that: “The State shall afford protection to labour, promote full-employment, ensure equal work opportunities regardless of sex, race or creed, and regulate the relations between workers and employers. The State shall assure the rights of workers to self-organization, collective bargaining, security of tenure, and just and humane conditions of work.”*

*Despite this policy of the Labour Code, there are groups of workers who are denied protection and promotion of their rights and welfare. These are the informal sector operators who are not insurable in accordance with law, but could reasonably be included by local ordinances. All workers who are paid on piece-work results and whose hours of work may be irregular or intermittent, as determined by the Secretary of Labour and Employment, are affected by these exceptions, women in particular. **However, in the Philippines local authorities can pass local legislation to address the gaps.***

*Even when a clear employee-employer relationship exists, employees in retail and service establishments with less than 10 workers are denied service incentive leaves. Although these workers are covered by the other provisions of the Labour Code with respect to the protection of their rights as labourers, they are denied their rights to service incentive leaves. No rational basis for their exclusion is given. Small infringements by workers can also lead to their being denied access to the State Insurance Fund. **All of the examples cited here exhibit gaps in the law where local authorities may intervene by passing local legislation.***



Local Government Code: Republic Act 7160: This Code empowers local authorities to create development committees to strengthen participation by its constituents in the development process. Its significance lies in the bottom-up decision-making process whereby interventions generated are a product of consultations and consensus among stakeholders. The creation of a development committee for the informal sector can be used to assist the local legislative council in crafting a policy framework and formulating concrete interventions for the sector. Area-based (Barangay) development committees can form an umbrella committee to represent them.

Urban Development and Housing Act: Republic Act 7279: This law aims to strengthen access of the urban poor to basic housing. Sections 7 and 8 of the law mandate local executives to compile inventories of land within their constituencies for the purpose of identifying land available for public housing. Likewise local authorities are mandated to identify beneficiaries through a system of registration and accreditation. Finally, local authorities are mandated to enforce public housing policy by requiring subdivision developers to allot either 20% of the total subdivision area for public housing, or 20% of the total subdivision project cost, at the developer's option.

The Social Security Law: RA No. 1161: This is the policy of the Republic of the Philippines to “establish, develop, and promote a sound and viable tax exempt social security service suitable to the needs of the people throughout the Philippines, which shall provide protection for employees and their families against the hazards of disability, sickness, old age, and death with a view to promoting their well-being in the spirit of social justice”. But this law does not cover a significant proportion of the population and will require either revision of the law or local supplementary legislation to make up for current deficiencies.

- **Discussion**

Topic 6: Selected Case Studies

- *The trainer should develop case studies, relevant to the city where the training is held, related to one, two or all three topics here under.*

- **The Grameen Bank, Bangladesh**

The Grameen Bank is a well-known example of developing the means to finance micro-investments in the informal economy. Initiated in rural Bangladesh, the experience has been copied in many countries and contexts with mixed results. The focus is women in poor households who are working at home, to earn some income at the same time as maintaining their families. The system involves bank personnel working as outreach workers in particular communities. They identify poorer households and the needs which could be alleviated with small investments. Community groups are established and trained in managing finance. This avoids bureaucratic practices and the necessity for literacy, and instead of individual collateral being required for a loan, the group is made responsible for repayments. Clearly, unless the group sees an investment as being sound, they will not support an individual taking out a loan. Loans are only for income-generating activities and both disbursements and repayments are closely supervised by the bank workers.



- **Informal Waste Workers**

At almost any waste disposal site on the edges of town and cities in Asia, poor people are recovering waste such as glass, metal, plastic and sometimes other materials or damaged goods that can be repaired. Until recently these waste workers were treated as outcasts and many local authorities attempted to stop the activity, despite the fact that it provides a real economic service (recycling) and makes a living for significant numbers of people. Now many local authorities are supporting the informal activities of waste workers. Initiatives include the provision of basic protection in terms of clothing (boots and gloves) and in a few cases even assistance with housing. Economic initiatives include local authorities registering informal waste workers, providing facilities for composting and even providing conveyor belts that greatly improve the efficiency of material recovery. It has become clear that informal waste workers perform a useful environmental service and that they deserve to be provided with various services by the local authority.

- **Experiments in Social Protection**

Workers in the informal economy are generally either inadequately covered or not covered at all for social security benefits. When family emergencies arise, such as the illness or death of a breadwinner, or old-age care, people with no social protection rely on the financial help of relatives or on savings, both of which may be unavailable in a situation of poverty. In the Philippines, the Trade Union Congress, the Federation of Free Workers and other workers' organizations have been exploring the options of augmenting officially provided insurance with ad hoc community and enterprise social protection arrangements or insurance. It is important that advice and assistance is given on the extent and coverage of whichever system is most appropriate. It is equally apparent that labour unions and associations are the most appropriate institutions to undertake this work, even among workers where there is no employee-employer relationship, such as cooperatives and own-account workers or operators.



Round Table Discussion or Field Visit

- *The trainer may choose one of two options for the afternoon of Day Three. Either s/he should assemble a number of actors from the informal economy to conduct a round table discussion or s/he should organize a field visit.*

Round Table Discussion

- *The trainer should invite between five and seven representatives of informal sector associations and/or individuals active in the informal economy to recount and discuss their experiences. This will need some preparation to ensure the following:*
 - *People asked to participate will be able and willing to speak in public;*
 - *A good cross-section of activities from the informal economy is represented;*
 - *Participants have prepared a statement of circa 5 minutes on their circumstances and the problems which they face vis-à-vis the official structures of economic management and any help that they have had;*
 - *No obvious antagonism exists that will reduce the usefulness of the discussion.*

Ideally, Round Table members should also attend at least the morning session and possibly also other sections of the course.

The session should be divided into two parts: 1. the presentations from the Round Table members 2. discussion. Discussion should be first conducted among the panel members. Later, course participants are given the floor to ask questions or comment.

Objective: To provide course participants with a clear idea of the problems, contingencies, hopes and requirements of informal actors, with a view to improving their economic performance and their circumstances.

Field Visit

- *The trainer should have arranged this field visit beforehand, including making appropriate transport arrangements and agreeing with the people to be visited on how the visit will be organized at the site (place to meet, things to see, etc.). Those visited should be clear of the purpose of this visit and be prepared for the eventuality of making a short presentation, possibly in conjunction with the relevant local authority department, but at a minimum to answer questions.*



- *The trainer should choose an appropriate place/group to visit, in discussion with the local authority. Some suggestions are:*
 - *Waste workers who have been assisted by the local authority to improve their working conditions*
 - *A local funding organization or agency to finance informal sector activities*
 - *A Cooperative or Enterprise making and selling products from waste*
 - *A women's group undertaking specific income-generating activities*
 - *Etc.*
- **Objective:** To see and discuss with an informal sector initiative that has organized itself, with or without external assistance, to address a specific local need or set of needs.

The visit should encompass the following:

- Where the initiative found its inspiration (local or from outside)
- Where the initiative found support and of what kind;
- Problems faced by the initiative in getting organized;
- Specifically the local authority role (Is the initiative registered? Does it receive any government benefits?)
- Assessments of improvements in conditions and circumstances.



List of Background Materials

1. Shelter provision and employment generation, HABITAT/ILO, 1995
2. Building on both sides of the bridge: Employment through privatised waste management in Dar es Salaam, ILO, Saskia Bakker, Jaster Kirango, Kees van der Ree, 2000
3. Workshop report, Planning for sustainable and integrated solid waste management, Manila, 2000
4. The ILO's Social Finance Unit's web page
www.ilo.org/public/english/employment/finance/index.htm
5. Donor committee on business development services web page
www.ilo.org/public/english/employment/ent/sed/bds/donor/index.htm
6. Support programme, Strengthening public-private partnerships to promote and create urban employment BRIEF, ILO/SEED, 2001
7. Community Contracting in urban infrastructure works, Practical lessons from experience, ILO, Jane Tournée, Wilma van Esch, 2000
8. Socio-economic Development Initiative (SDI): A discussion paper on Planning and Implementing Socio-economic Investments, Arend van der Goes and Sabina Mastwijk, 2001
9. Reinventing social security: Learning from community-based insurance schemes, The Institute on Church and Social Issues, Reginald Indon, 2000
10. Social health insurance manual, Practical guidelines and recommendations for developing a social health insurance system, Social Health Insurance Networking and Empowerment (SHINE) Project, Elmer Soriano, 1999
11. From the shadows to the fore, Practical actions for the social protection of homeworkers in Indonesia, ILO, 1993



Objectives of Module III

MODULE III: DEVELOPING THE POTENTIAL OF THE INFORMAL ECONOMY

- To create a clear picture of the economic and social value of enhancing the capacity of the informal sector and the essential elements of a local policy for the development of the sector.
- To identify the main issues that need to be addressed, if impediments to the development of the informal sector are to be removed.
- To describe a number of specific initiatives that can help enhance the economic conditions of the poor who are currently active in the informal sector.
- To make participants aware of the local legal context within which the informal sector currently operates and identify how and where this can be amended to provide a more appropriate basis for developing the capacity of the informal sector.



Contents of Module III

MODULE III: DEVELOPING THE POTENTIAL OF THE INFORMAL ECONOMY

Topic 1: Objectives of Enhancing the Capacity of the Informal Economy

- Recalling the Importance of the Informal Sector
- Poverty Alleviation and Equity Considerations
- Improving Links between the Formal and Informal Economies
- Upgrading Indigenous Entrepreneurial Skills
- Improving Social Protection
- The Political Dimension

Topic 2: Efforts to Improve Capacities and Conditions

- Lack of Urban Focus in Development: 2001
- Poverty Reduction Programmes
- Urban Enterprise Development

Topic 3: How can the Performance of the Informal Economy be Improved?

- Legitimization
- Business Development Services
- Public-Private Partnerships
- Capacity Development
- Provision of Urban Services
- Better Representation and Networking in the Informal Economy

Topic 4: Financing the Informal Economy

- Availability of Formal Sector Finance
- Usury
- Traditional Financing by Community-Based Mechanisms
- Innovative Financing Mechanisms for the Urban Informal Sector
- Role of International and Bilateral Development Agencies
- Limitations to Informal Sector Financing



Topic 5: The Legal Framework

- The legal framework within which informal sector activities are undertaken can either discourage or encourage enterprises to legitimize their activities.

Topic 6: Selected Case Studies

- The Grameen Bank, Bangladesh
- Informal Waste Workers
- Experiments in Social Protection

Round Table Discussion or Field Visit



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Round Table Discussion or Field Visit

MODULE III: DEVELOPING THE POTENTIAL OF THE INFORMAL ECONOMY

ROUND TABLE DISCUSSION

Objective: To provide course participants with a clear idea of the problems, contingencies, hopes and requirements of informal actors, with a view to improving their economic performance and their circumstances.

- The course participants will hear first-hand accounts of the experiences of a number of people active in the informal economy. They will then listen to a discussion where these informal actors compare and generalize their experience. Finally, course participants will have the opportunity to ask questions or make their own contributions.

FIELD VISIT

Objective: To see and discuss with an informal sector initiative that has organized itself, with or without external assistance, to address a specific local need or set of needs.

- The visit should encompass the following:
 - Where the initiative found its inspiration (local or from outside)
 - Where the initiative found support and of what kind;
 - Problems faced by initiative in getting organized;
 - Specifically the local authority role (is the initiative registered? Does it receive any government benefits?)
 - Assessments of improvements in conditions and circumstances.



DAY FOUR

Recapitulation of Module III: Developing the Potential of the Informal Economy

- *The trainer now shows the overhead for Module III and asks participants at random to summarize one of the topics in a sentence or two (one participant per topic). This is informal, with comments from other participants who may present an alternative summary, or where the topic has been inadequately described by another participant. (15 minutes max.)*

MODULE IV: PARTNERSHIP BUILDING FOR PROMOTING DECENT WORK IN THE INFORMAL ECONOMY

(It is suggested that this section be completed by the end of the morning, with a tea/coffee break mid-morning.)

Objectives of Module IV

(The trainer should present the following objectives on an overhead transparency and discuss them briefly.)

- To define clearly the main groups of actors responsible for local economic development and the ways in which they can improve their interaction to promote the development of the informal economy.
- To define clearly the types of organization through which economic activity is undertaken and promoted and which provide models for further developing the capacity within the informal economy.
- To discuss steps to enhance synergies and improve cooperation among relevant actors to strengthen the capacity of the informal sector.
- To discuss key initiatives that can be taken to enhance the capacity of local authorities and other major actors to design and implement strategic actions to promote the local economy.

Overview of Module IV

- *The trainer should present the overhead (see the end of this Module) listing the six topics and summarizing them briefly, followed by a short description of the nature and intentions of the field visit.*



Topic 1: Key Actors and their Role in Local Development

- *Here the trainer should augment or alter the inventory of actors to reflect the local situation in the city in which the course is being held.*
- *It may also be useful for the trainer to pause after presenting each heading and call for questions and a short discussion, to draw out participants' attitudes to the actors in question (e.g. hostilities between NGOs, local government and private sector, views on externally assisted programmes etc.) To be discussed and put in perspective.*

- **Local Authorities**

The traditional role of local authorities has been to lead in the running of local affairs, within the framework of national legislation and taking their orders from national government agencies. They have thus been responsible for the provision of infrastructure and services and have regulated the activities of citizens and local organizations. As we have seen earlier in the course, their role has not been particularly effective, as evidenced by the extent of informal settlements and the informal economy.

In today's globalizing world, the role of local government is shifting significantly. The hierarchical approach to government is being abandoned, meaning that central governments no longer determine everything that local governments should do, leaving them considerably more freedom to design their own programmes. Decentralization is also giving local authorities a greater share of the national budget to spend.

At the same time, local authorities are abandoning the role of being providers and embracing a new role that involves more local actors. These participatory local actors are providing infrastructure and services, along with the necessary framework for "civil society" to take the lead in development. As we saw in Module II, local government still has an important role to play in the regulation of local activities, but its main focus is centred on providing facilitatory frameworks and enhancing the capacities of others to undertake the development and management processes.

(Examples: privatization of municipal services, participatory planning initiatives, etc.)

- **Local Communities**

At a more local level, on the one hand, local governments in most countries include lower level units that are responsible for the administration of some aspects of local government services, such as population registration and solid waste management. On the other hand, most cities also have independent community organizations. These were often traditional local-level non-government community organizations such as religious groups or savings and loan groups, for example, but recently more "all purpose" community development groups are emerging and taking on significant activities aimed at improving local conditions and local welfare.

The community level and the new forms of community self-organization are seen by many as an important potential foundation for a more coherent development of the informal economy.



- **Non-Government Development Organizations (NGDOs)**

The term non-government organization (NGO) entered the development debate only 20 years ago but NGOs are now important actors in the development process. When discussing and analysing the role of NGOs it should be borne in mind that these organizations are of varying types with varying aims (the natural environment or historic conservation or religion etc.). Of particular importance to the development of the local informal economy are the so-called non-government development organizations (NGDOs), sometimes also referred to as community development consultants (CDCs).

The main role of NGDOs and CDCs is to assist in the development of various community initiatives. Initially this was almost entirely independent of local governments, but increasingly there has been cooperation between NGDO and local government initiatives. In many cases, it is proving to be a successful formula, because it enhances the effectiveness of the local government contribution to development at grass-roots level.

- **Universities and other Training Institutions**

Universities and training institutions traditionally designed their curricula internally or in relation to national priorities. With the exception of some vocational courses specifically related to certain local industries, little attention was paid to vocational needs concerning the development of the local economy. This is now changing: learning institutions are developing initiatives and sometime specific units, courses and consultancy activities oriented towards addressing local development needs, including development of the informal economy.

There are valuable potential resources in these institutions that are beginning to make an impact on local development processes and that need to be drawn into the local development planning process in all respects, and especially regarding the informal economy.

- **The Formal Private Sector**

In practice the local formal sector is made up of different components that do not necessarily have the same interests, outlook and influence. There are large multinational and national enterprises with branches in many cities; there are locally-based large and medium-size manufacturing enterprises. There are also large and small real estate and commercial enterprises with yet other interests.

These might be organized into two or three associations at the city level and, in the case of small commercial enterprises, into associations at a more local level. These include Chambers of Commerce, Rotary Clubs, trade-based Employers' Organizations and the like. Traditionally, these associations exist to look after the interests of their members but they often show some interest in the welfare of the communities in which they are located – not least because this also serves their own interests. They are important organizations, to be incorporated into any enhanced community-based approach to developing the capacity of the informal economy.



- **National Government**

Although the efforts to develop the local informal economy must focus predominantly at the local and the city level, nevertheless national government agencies and the national government in general need to be taken into account, for two main reasons.

First, changes in the law and institutional arrangements at the national level (including decentralization initiatives) can have a significant impact on what can or cannot be achieved locally. Local actors must be aware of what is happening at the national level.

Second, local actors and their organizations, such as local authority associations or leagues, can influence national policy. There may therefore be a need for active local participation in initiatives to influence national policies and programmes, both to enhance the framework for local economic development and to defend localities against national government policies that might reduce the effectiveness of local measures.

- **External Support Agencies**

This refers to a wide range of organizations that have programmes to assist in the development process in the countries of the South. International agencies, including the International Labour Organization (ILO), the United Nations Development Programme (UNDP), the United Nations Commission of Housing and Shelter (HABITAT), the World Bank and many others, increasingly support programmes for community and municipal development with a component that focuses on development of the informal economy.

Bilateral development agencies such as the Japanese JICA, the Canadian CIDA and the German GTZ are also involved in similar urban development programmes. Finally, there are many Northern development NGOs and foundations such as Caritas, Plan International and the Friedrich Adenauer Foundation that also support local development initiatives.

Trainer: Add local examples here, or examples from elsewhere in the country.

- ***General discussion***

Topic 2: Synergies and Cooperation in Improving the Performance of the Informal Economy

- *This topic aims to provide the general context within which the informal economy is seen and developed as an integral part of the urban development process. The trainer should read the following topics but formulate the material in an informal way, encouraging participants to discuss the general approach.*



- **Planning and Managing the Urban Development Process**

As discussed in Module III, until recently local authorities have been viewed as the executing agencies of a number of sectoral programmes and projects, mainly determined by central government agencies. Politically the authority may have been perceived as a relatively independent entity with a mayor and councillors, concerned to address local concerns in an appropriate manner, but in practice most local authority activity was neither locally determined nor sensitive to local needs.

The main consequence was that a gap opened between official development programmes and activities and those which people undertook without much reference to the official structures. This has been referred to in terms of “informal settlements”. Parallel to this, the local economy became divided into “formal” and “informal”, with the formal economy observing the rules of the official urban administrative systems and benefiting from formal support programmes. This contrasted strongly with the informal economy which, in many cities, has determined most of the development. The majority of the informal settlements population from benefiting from official programmes and in many respects was defined as “illegal”.

Today there is concern to ensure that the urban development process is undertaken in an integrated way, so that it answers the needs of *all* citizens and does not discriminate between those who conform to formal rules and thus benefit from official programmes and projects, and those who do not. Some refer to this as “bringing the informal sector into the formal sector”, although it is more a process of redesigning the urban development structure so as to incorporate all citizens into a single planning and implementation framework.

- **Rethinking the Framework: Main Points of Focus**

Local authorities are responsible – the more so as decentralization becomes a reality – for the design and provision of the overall framework of development. This includes general planning, involving the broad-based participation of citizens, and then main infrastructure issues (water supply and drainage, main roads, hospitals). The local authority would then continue to play a regulatory role in the development process and in the operation of the economy, the social system and services.

Local authorities usually have numerous and separate departments to address these issues. With decentralization, it is important that administration is rethought (and possibly reorganized) into three main branches. This would integrate planning and operation more than has previously been the case. Each branch would focus on one aspect of the urban infrastructure development:

- Planning and administration of land use and building: This branch would ensure that as land comes into urban use, it is subject to proper infrastructure installation and management and that buildings comply to certain basic standards of construction.
- The construction and operation of social and physical infrastructure: This includes the provision of paths, roads and their use, physical services such as water supply, drainage and waste management (subsuming basic environmental management), and such social service facilities as schools and health centres.



- Economic and social welfare: Economic needs and adequate social support systems go hand in hand. Networks for seeking work and systems that provide access for all to basic social services is the only way to ensure the social inclusion of the whole population, including the informal sector.

A major, accepted change in the approach is that local authorities would need to collaborate much more closely and on a more equal basis (no longer as a distant “authority”) with the citizens whose needs they are there to serve. On the one hand this means public-private partnerships in the provision of goods and services – and, as noted, this should concentrate particularly on the needs of those who are unemployed and those within the informal economy. On the other hand it means development of the capacity of local community organizations to contribute to the designs and management of appropriately decentralized local services.

- **The Role of Local Community Organizations**

New types of community organization are appearing in many neighborhoods in cities around the world (the countries of both the North and the South) and are taking over many of the tasks that traditionally were assumed by local government. However, in informal settlements, local authorities generally have done very little – usually without prior consultation of the inhabitants and often involving forced removal of settlements.

A variety of roles can and are being taken on by community organizations, from the self-provisioning of basic infrastructure such as local drainage systems and solid waste management to basic preventive health programmes and organization-building, in order to voice the interests of communities in the urban political decision-making process.

In some cases community organizations are learning to plan for their needs by designing projects that will create infrastructure and facilities, using funding from various sources. Connected with some of these are local funding mechanisms such as revolving funds, which are stocked from their own resources and/or the local authority and/or external sources such as the World Bank. These provide a basis for evolving programmes and projects that can create local paid jobs in the informal economy. Although to date there is little experience of this, such community organizations can also generate an appropriate local institutional context for developing and regulating the local informal economy more generally.

- **Tripartism and Social Dialogue**

In the context of employment and economic activity, there are specific sets of interests with traditional means of organizing, but also specific ways of reaching the consensus necessary for enterprise and the local economy to run smoothly. Tripartism is a well-developed negotiation structure for this purpose. In the countries of the North, it involves three negotiating parties – employers’ organizations, trade unions and the government.



If tripartism is defined as the direct interaction between representatives of these three parties to shape economic and social policies through consultation and negotiation, then in the countries of the South, it is necessary to include in the equation the interests of those who work in the informal economy. Tripartism – or in this context “social dialogue” – is a tool for addressing the common concerns of all three parties, through various kinds of interaction aimed at developing the economy. These are:

- information-sharing;
- tripartite consultation;
- tripartite negotiation; and
- shared decision-making.

In the cities of the South, social dialogue needs to involve the business and employers’ associations, trade unions and local government. While trade unionism in Asian countries is generally not developed and informal enterprises are equally unorganized, there is good reason to strengthen workers’ organizations and encourage the development of representative structures in the informal economy. This will improve the effectiveness of the framework for development of local tripartite negotiation structures as an adjunct to the process of local economic planning.

Action needs to be taken by all potential partners to form a broad platform for local economic planning and management. How this is organized will depend on the presence and capacity of local development institutions. It will involve representation of the local authority, possibly through the economic development unit, employers’ organizations, the chamber of commerce, representatives of local trades unions and of workers in the informal sector. Formats for developing such local platforms are discussed further in Module IV.

(More detailed information on tripartism is provided in the appendix to this Module.)

Topic 3: Involving Actors in the Informal Economy

- *The trainer should open this topic by asking participants to list the options that informal sector enterprises have available to organize themselves into associations and to promote their interests. The trainer should then comment and augment the list where necessary.*

- **Business and Trade Associations**

Formal sector businesses generally organize themselves into associations which include local chambers of commerce, chambers of industry, real estate associations, neighbourhood commercial associations and so on. Enterprises operating in the informal economy sometimes also organize in this way, such as informal taxi associations and street vendor associations. Likewise, market women maintain many collaborative relations among each other and sometimes formalize into associations, to better represent their members’ interests. However, recognized small-business associations are much less common. Most entrepreneurs and workers in the informal economy have few linkages with others working in the same field, with whom they could fruitfully exchange information and combine with, to give a voice to their needs in the wider political arena of the neighbourhood and the city.



- **Cooperatives**

In most countries, cooperatives are recognized as a specific kind of small enterprise and given special encouragement. In essence, a cooperative is an association of persons to achieve a common end through the formation of a democratically controlled organization, making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking in which the members actively participate. Cooperatives are particularly relevant to the informal sector where in many activities there is already a loose working relationship between workers (e.g. between women homeworkers). Nevertheless, formalizing informal workers into cooperatives does require their taking on administrative responsibilities that they usually do not have; they will need training and other support, for the cooperative to operate successfully.

- **Trade Unions**

Trade unions are a form of association related to trade associations where *workers* in particular industries combine to pursue their interests in negotiation, in particular with employers but also in relation to wider policies of local and national government. Informal workers are generally excluded from trade unions or fail to form their own unions because of the loose structure of workers in the informal sector. However, both in the case of work put out by formal sector industries and in small enterprises within the informal economy, unionization can provide a basis for combating exploitative practices and in general ensuring basic standards of wages and working conditions among workers, in the informal as well as the formal economy.

- **Other Associative Forms of Organization: Not-For-Profit Organizations**

Micro-enterprises can often be encouraged to be created by community-based organizations (CBOs). They sometimes provide a footing for local enterprises to undertake activities that improve the environment, provide local services or engage in the small-scale production of goods. Such a local enterprise, if perceived as carrying out work needed by the community, can be constituted as an arm of an existing CBO. The CBO will, however, need to formalize the relationship in the form of a not-for-profit organization if the enterprise intends to maintain its community-serving focus.

An extension of this principle is for one or more people, even from different communities, to form a not-for-profit organization as a non-government development organization (NGDO), discussed earlier in this Module, to undertake some aspect of local development work that could, for instance, organize the building of a local drainage system or improvements to housing. In most countries of Asia NGDOs are also required to register with the local government but, increasingly, registration makes it possible for them to bid for projects funded by the local government.



- **Sourcing Local Procurement in the Informal Economy**

Local authorities are significant purchasers of goods and services. Although there are unfortunately many cases where local entrepreneurs obtain contracts through corrupt practices, often there is little thought given to the actual and potential impact of local authority procurement on the local economy. This is true both for the goods consumed by the local authority and for the investments in infrastructure for which the local authority is responsible.

Local authorities need to develop procurement and contracting policies that address the question of local economic development and in particular the needs of unemployed persons as well as enterprises and individuals operating in the informal economy. This can be extended to designing specific infrastructure development programmes that will satisfy both existing shortfalls in informal settlements and the need in these areas for jobs.

- **Linkages with the Formal Sector**

Formal sector businesses always require inputs of goods and services from other enterprises and produce “wastes” (for example, off-cuts in the metal and paper industries, packaging, etc.) which are usable material inputs for other industries. There is also a long history of formal sector industries putting out work to people – particularly women – in informal units or at home. In most towns and cities it can be expected that the informal sector is already responding to formal sector possibilities provided in this way. However, all potentially fruitful linkages may not yet be recognized and established. Once discovered and responded to, they can significantly expand local employment opportunities.

In many of the areas of work arising from such linkages, the formation of cooperatives (see Cooperatives, earlier) is an appropriate approach to strengthening the organization of the workers in these areas. Such cooperatives can guard against exploitative practices and poor working conditions that arise easily out of these linked work patterns.

Topic 4: A Local Informal Sector Development Unit

- **Support for the Informal Sector at the Municipal Level**

It should be clear at this stage in the course that “support” for the informal sector is already provided in many cases and a variety of ways. Most of the operators in the informal economy obtain some services that help their businesses. In very many cases this is restricted to friends and family members (family networks) that includes advice by others operating in the same sector. Many other potential ways could be participated in by local authorities and local social actors to improve the performance of the informal sector and the conditions within which it operates.

- **Existing Support Structures and Initiatives in Practice and in Principle**

At this point the trainer should ask participants the existing types of support structures they know or which they think could be developed, to assist



informal sector enterprises and workers to improve their performance and conditions. The research carried out by the trainer prior to the course should have provided information on what structures and practices already exist and the trainer should summarize these after the discussion. Examples include:

- Is there a **local economic development unit**? Most municipalities appoint staff member/s who are entrusted with local economic development. These tend to be oriented almost entirely to attracting and satisfying the needs of formal sector businesses. Frequently, the attitude of local authorities to the informal sector is to try to control and restrict their activities. But where more positive attitudes are taken towards the potential of the informal sector, development units can play a key role in promoting employment in the informal sector.
- Is there an **investment promotion centre for micro/small and medium enterprises** (MSE or SME) in the municipality? Such centres aim to “pick winners” and promote the development of many smaller enterprises out of the pool of potential in the informal sector. This is an important part of addressing the problems of the informal economy but should not be viewed as a holistic solution, since many informal sector operators lack the confidence or organizing ability to achieve the first basic steps in starting a formal enterprise.
- Some local authorities where important investments have been made by **formal sector enterprises** – such as branch plants of multinationals or large national enterprises – give much assistance to the main enterprise but pay scant attention to actual and potential add-on effects of the plant. These can include support for potential local subcontractors and service industries catering for the needs of the major enterprises and their personnel. This is an activity that could be undertaken by a unit within the local authority – but where these subsidiary enterprises and services are informal, it is also necessary to ensure that some organization assumes **responsibility for social aspects**, such as exploitative practices or the organization of enterprises into associations.
- Is the local authority **privatizing** some of its activities? A few local authorities do take into consideration what form of privatization might support the development of local enterprises, but most often this is not the case. Privatization is rarely seen as an opportunity to improve the capacities of informal sector operators.
- Is **local authority procurement** oriented towards **buying in goods and services from the local informal economy**? In general, local authorities do not have any specific policy regarding sources of procurement. This can provide a significant flow of employment in the informal economy, if the local authority makes efforts to use and develop local sourcing of goods and services.
- Does the local authority have a programme to **upgrade informal settlements**? Many local authorities are involved in programmes to upgrade informal settlements. In a few cases this already includes measures to assist the formation of economic initiatives (micro-enterprises) through the provision of loans, training and so on. Organizing these initiatives may be the responsibility of the local authority unit concerned with upgrading or another unit of the local authority. These initiatives are, however, still the exception and
- there is clearly scope for initiating such assistance where it has not yet been included as an aspect of settlement upgrading.



Are any local projects being undertaken by **local universities and development NGOs**, national or international, to assist the poor to improve their conditions? Many of these initiatives are either directly or indirectly concerned with developing a wide range of local economic initiatives ranging from upgrading local infrastructure to small businesses to local financing mechanisms. Local actors should be aware of what is already happening locally and also find out what is happening in other towns and cities.

- Are there any programmes or projects supported by **international or bilateral development agencies** to develop local economic capacities in the informal sector? Local actors should be aware of what is already happening locally, what is happening in other towns and cities and what has been undertaken at the national level, such as research and assistance of relevant national organizations and agencies to promote the development of informal sector capacities.
- Do **local vocational and entrepreneurial training programmes** pay attention to satisfying the training needs of the informal sector as an important step towards improving the performance of the sector?
- Are **trade unions and related associations** promoting organizing activities among informal sector workers and operators?

- **Coordinating Support for the Improvement of Informal Sector Performance**

There are various measures that can be taken to enhance the capacity and effectiveness of the informal sector as a means both of developing the local economy as a whole and improving the economic and living conditions of the poor. Here are some key possibilities for institutionalization.

- The local authority economic development department or unit could expand and reorient its activity to pay more attention to the informal economy. This unit would need to liaise closely with the department(s) concerned with social security and development (and probably other departments) to ensure that the social aspects of developing the informal sector are adequately considered. This arrangement has the potential disadvantage of insufficient input from the informal sector itself, with a possible conflict of interest between promotion of formal sector business and the development of the potential of the informal sector. This would include outreach functions and a “one-stop shop” arrangement for registering informal sector enterprises (discussed further in Topic 5 of this Module).
- The local authority could set up an independent unit specifically to address the concerns of the informal economy, both in terms of social as well as economic development. The unit could contain the one-stop-shop for enterprise registration, complete with outreach and advisory services. This would overcome the potential conflict of interest and also the problems that sometimes arise in local authorities experiencing difficulties in the coordination of various departmental functions.



- A more independent unit could be established to support the development of the informal sector. A board, composed of local authority personnel (even the mayor) together with other interests, could oversee the unit and should include representatives of informal sector groups and associations, universities and training institutions and any NGO or development agency projects operating in the local field of economic development. Such a board would be advantageously closer to the interests of informal sector operators and workers. It is unlikely, however, that it would be able to take on roles that belong legally to local government, including registration.

The above institutional possibilities serve as general models, to be discussed and adapted to specific local circumstances in particular towns and cities.

- ***Discuss these or other institutional possibilities***

Topic 5: Getting Organized: Strategic Activities

- **A System for Developing the Capacity of the Local Informal Economy**

The trainer should re-examine this topic prior to the course and design it as far as possible to take off from the existing local situation in the municipality where the training is taking place; each subsection requires a separate discussion.

In principle the preferred option is for a unit that is established to undertake various initiatives aimed at developing the potential of the informal economy. A board comprising both local authority and non-government representatives would oversee this unit.

If a support unit for the informal economy is established at arm's length from the local authority, here are some suggestions regarding the governing structure:

- The board should be composed one-third of key local authority officers and two-thirds the representatives of both formal and informal sectors of the local economy (e.g. Chamber of Commerce, Association of Street Traders, etc.); relevant university/training establishment staff; local NGOs and relevant local externally funded projects.
- It should be made up of sub-units dealing with the various issues outlined below but mechanisms should exist for ensuring close collaboration between sub-units.
- It is likely that for legal reasons some aspects of the work will have to be undertaken directly by the local government and in these cases strong links must be established between the local government functions and the relevant sub-units of the support unit.



- **Task List for a System to Build the Capacity and Effectiveness of the Informal Economy**

- **Liaison with Other Local Authority Functions**

Many local authorities are now undertaking programmes of community development and upgrading in poor communities. Whereas this rightly focuses on improving environmental conditions, there should also be social and economic programmes that focus attention on the need to develop the informal economy in poor districts. This might involve close liaison with a unit created to deal specifically with development of the informal economy. There may be other initiatives or departments where close liaison is needed (refer to the local situation).

- **Data Collection, Information, Outreach and Campaigns**

This is a cluster of essential activities that can either be dealt with by a single sub-unit or by different sub-units/departments working in collaboration. This involves:

- Data collection on the informal economy by survey or participatory methods (as mentioned in Module I).

Organization of information in appropriate and accessible forms, including computer systems (databases, LIS/GIS) and published forms. The sub-unit should also be proactive in disseminating information to other local authority departments and to the general public, including media liaison.

- An outreach programme that may be directly linked to data gathering concerned with identifying the size and structure of the informal economy and the perceived needs of actors in this sector.
- Campaigns to involve various groups operating in the informal economy to become involved in different activities and programmes (with a significant focus on the needs of women who are performing both paid and unpaid work in the informal economy).

- **Road Map, Easy Access, One-Stop-Shop**

This concerns the registration and accreditation of operators and enterprises in the informal economy. It is important that once identified, informal sector actors can see the advantages of registration and that this process is made as cheap and easy as possible. This means providing guidance – in a situation where most actors know little or nothing of official procedures, may be daunted by them, and may also be illiterate. It means ensuring that the procedures are affordable or free. If more than one department is involved, the various components of registration should be managed by one sub-unit, so that applicants have only one procedure.



➤ Enterprise Development

This involves a cluster of business development service (BDS) activities as follows:

- Providing advice and assistance to actors in the informal economy to form enterprises. Options should include one-person enterprises, partnerships and full enterprises, cooperatives or other forms relevant to local law;
- Investment promotion for existing micro- and small enterprises (advice and assistance in finding finance to build an enterprise);
- Linking with local authority departments to promote local authority procurement and contracting in the informal economy;
- Making connections with the formal sector to develop subcontracting and other linkages that provide jobs in the informal economy.

➤ Project Liaison

In many towns and cities programmes and projects organized and/or funded by local universities, NGOs or external support agencies (World Bank, UN, bilaterals, etc.) and concerned wholly or in part with developing the informal economy are ongoing, or may be arriving in the near future. These should integrate with the activities of the local informal economy support unit and/or related activities of the local authority and will require specific attention to ensure that this happens effectively.

➤ Training

Once the needs of actors and enterprises in the informal economy have been identified, it is certain that, besides the need to strengthen their organizational aspect, a variety of training needs will arise.

- Training in entrepreneurship, including observing requirements of the local authority, administration and, where appropriate, personnel management;
- Training in accessing and managing the finances of an enterprise;
- Training specific to the technical or technological needs of enterprises, management of working conditions and control of external environmental impacts;
- Training in community participation and social self-development, to gear enterprises to serve the community and also the needs of their employees.

The informal economy support unit will need to develop links with training institutions and help develop relevant training initiatives – or organize initiatives themselves through a training sub-unit focused on on-site training.



➤ Provision of Work Space

Many informal enterprises have no fixed work space. The most obvious case in most cities is street vendors. Conflict often arises between the vendors and the local authority because the latter fails to recognize the need and the benefit of providing secure spaces for informal sector vendors.

There are, however, many other informal sector activities that take place in the streets or wherever workers can find a free space – often temporary (e.g. at night). Activities include informal recycling of materials, sometimes even metal and wood fabrication, food processing, etc. The informal economy support unit should work towards the provision of space, most likely involving close cooperation with the local government department responsible for local community development and informal settlement upgrading.

➤ Social Protection

As noted, one of the major problems facing actors in the informal economy is the insecurity they face, from lack of secure tenure (reducing their willingness to invest) lack of access to medical facilities, and sometimes even education and training. Once identified and brought into the procedures of the support unit, there should be a sub-unit proactive in addressing the need for social protection. Aspects to address are:

- Provision of secure tenure or otherwise provision of space for informal activities;
- Provision of legal framework for activities where appropriate (influence national laws but particularly develop local laws and regulations);
- Provision of basic social insurance to cover health, sickness and disability, maternity, labour standards and possibly also unemployment and pension benefits.

➤ Development of a Tripartite Platform for Social Dialogue

Efforts need to be made by the informal economy support unit or otherwise by a coordination of relevant actors to build a tripartite platform for social dialogue on economic development issues to include all the main actors. Traditionally this would include employers' associations, trade unions and (local) government.

To this, voices specifically from the informal economy will need to be added, which entails social dialogue creating and/or reinforcing associations of various actors, such as informal sector taxi and pedicab drivers, women homeworkers in specific industries, street vendors and so on. The outreach activities of the support unit should develop associative capacities and should also support local trade unions in drives to incorporate workers in the informal economy into unions. Finally, the unit should cooperate with the various parties to form the local tripartite negotiating platform.



- **Local Economic Planning**

Until recently, local authorities have been minor actors in influencing the development of the local economy. With decentralization now becoming operative in many countries, local authorities are gaining greater leverage and a greater say in how the local economy can and should be developed. However, the following must be said:

- The local authority is clearly not an independent actor in terms of the local economy but influences other local economic actions and actors.
- This needs to be recognized. Local authority needs to direct its activities at enhancing the positive and discouraging the negative impacts in the local economy.
- Although there is little or no experience of this in the past, many aspects of local economy development can be designed and agreed between all the local economic actors, if steps are taken to organize this.
- In recent years “economic planning” (derigisme) has had a poor reputation because it was carried out behind closed doors with inadequate regard for the capabilities and needs of those receiving instructions on what to do and what outputs were required. Local economic planning can be undertaken through participatory planning processes to include private sector and other civil society actors, together with local government.

Local authorities, in opening up the local budgeting process to public participation, can also extend the process to private, including informal, sector interests to include their own plans and activities. This can be articulated in larger municipalities (large cities) into a staged process of community planning feeding into a municipal social and economic planning framework. Insofar as the informal economy gains a voice through the measures discussed above, this voice needs to be included in the municipal social and economic planning process as a whole.

- *Discussion of the existing arrangements for social and economic planning at the municipal level in the city where the training is taking place, and the possibilities for incorporating planning for the informal economy within an expanded local planning framework.*



Topic 6: Selected Case Studies

- **The Maligaya Women's Multi-Purpose and Transport Service Cooperative (MWMPTSC) Lagro, Quezon City, Philippines**

Informal women's groups are common in communities throughout Asia. This case provides an example of the way in which such associations can lead to a process of employment generation and local economic development.

The MWMPTSC was formed as a women's club in a poor urban community of Metro Manila in 1989, with 158 members. The club's initial concerns were local cleanliness and social events. In 1991, 16 of the members decided to form a credit cooperative which was registered with the Cooperative Development Authority. Based on its original collection of savings, the cooperative initiated various activities. As these burgeoned, membership increased and some grant money and resources in kind were obtained from national and international sources. By the end of the 1990s there were 500 members and the cooperative was operating a revolving fund of 4 million pesos.

The MWMPTSC is involved in a wide range of community support activities. These include: community banking; the operation of local water supply and waste recycling undertakings; a day-care centre and various welfare activities, including managing a welfare fund and assisting street children. The cooperative has organized courses for members in aspects of their work and also in gender awareness.

The cooperative has been almost entirely self-organized with little reference to the activities of the local government, albeit taking over responsibilities that in the past would have belonged to local government.



- **Developing Community Planning and Management Initiatives in Surabaya, Indonesia**

Indonesia has a long tradition of the legalization of informal settlements and in their upgrading through basic public works, including the provision of concrete walkways, water supply, basic drainage and public toilets. While in most town and cities the programmes have been determined centrally, the city of Surabaya had a different experience. An enlightened mayor, appointing the housing research laboratory of the Surabaya Institute of Technology, opened the way to a participatory planning process whereby the inhabitants of the informal settlements were able to influence in great measure what improvements should be made to their neighbourhoods.

In the late 1990s, accelerating after the fall of the Soeharto regime and the passing of legislation decentralizing substantial powers and resources to local authorities, the city of Surabaya has experienced a new wave of participatory community planning and management initiatives. The focus has been to renew the capacity of local government at the community level with assistance from a number of external agencies including the World Bank, USAID, German Technical Cooperation and the NGO Plan International. These have collaborated to assist in training local planning fora and establish local revolving funds to finance improvements in local infrastructure and local economic initiatives.

Initial results show that local communities are very capable of identifying their own problems and organizing the means to combat them and to produce a better local environment using local labour. The next stage in the decentralization process will be to consider how such local initiatives can be built into the municipal planning system of a large city such as Surabaya.

- **Support for the Informal Economy in Thai Municipalities**

In Thailand government remains highly centralized. Programmes to support the informal economy, like all other programmes in Thailand, need to be supported from the centre rather than relying on local government. A number of central government agencies have programmes on aspects of local economic development with a specific focus on small and medium enterprises. But in practice much of this support is benefiting larger enterprises in the formal sector. Note that a “small” enterprise is defined as one of 50 employees or less, while enterprises in the informal economy generally involve people working on their own or in enterprises of five or less employees.

However, although official *economic* development policy focuses little attention on the genuinely informal economy, there are nevertheless *social* policies that are concerned with the welfare of those working in the informal economy. At the same time there are active programmes among national and international NGOs to support, for instance, the interests of women homeworkers, and to help to organize them into mutually supportive associations or to unionize them. It is thus important that support for actors in the informal economy in each country and city is approached in a way appropriate to the particular conditions prevailing.



Field Visit

- *The trainer should have organized this field visit beforehand, including appropriate transport arrangements and agreeing with the people to be visited on how the visit will be organized at the site (place to meet, what to see, etc.). Those visited should be clear on the purpose of the visit and be prepared for the eventuality of making a short presentation, possibly in conjunction with the relevant local authority department, but at a minimum to answer questions.*
- *The trainer should choose an appropriate place/group to visit, in discussion with the local authority. Some suggestions are:*
 - ✘ *A community-based planning exercise that has been successful in supporting job-creating programmes.*
 - ✘ *A project supported by the local authority or a national or international development organization or NGO that promotes local initiatives to improve the capacity of the informal economy.*
 - ✘ *A local economic development support agency or unit or SME investment promotion agency.*
- **Objective:** To meet and discuss with a broad-based informal economy support organization that has a proven record of supporting job-creating enterprises or initiatives.

The visit should encompass the following:

- Where the initiative found its inspiration and support (local or from outside)
- The connections which the initiative has into the local authority and the community;
- Problems faced by initiative in getting organized;
- An assessment of the impact which the initiative has made on the local economy;
- Anything missing from the initiative that could be added to increase its effectiveness.



List of Background Material

1. The local authority's role in economic development: A handbook for councillors and officials: The International Republican Institute (IRI) and the National Business Initiative (NBI); 1998
2. Local governance manuals: Training for Elected Leadership Series - set of 13 volumes ; Languages: English, French, Spanish; UNCHS (Habitat); 1995
3. Participation and partnership in urban infrastructure management; Peter Schübeler; Urban Management Programme; Habitat; 1996
4. Policy options for urban poverty reduction: A framework for action at municipal government level; Franz Vanderschueren, Emiel Wegelin and Kadmiel Wekwete; UNDP/UNCHS (Habitat)/World Bank; 1995
5. Public services through private enterprise: Micro-privatisation for improved delivery; Malcolm Harper; 2000
6. Strategic training partnerships between the state and enterprises: Employment and training papers 19; Ayse G. Mitchell; ILO; 1998
7. Social security for the informal sector: investigating the feasibility of pilot projects in Benin, India, El Salvador and Tanzania. Issues in Social Protection, discussion paper 5, Geneva, ILO, Social Security Department, Van Ginneken, 1997
8. Trade Unions and the informal sector: Towards a comprehensive strategy (Background paper) International symposium on trade unions and the informal sector, ILO, 1999
9. Local Economic Development Agencies: International co-operation for human development, democratic economies and poverty reduction. UNOPS, 2000
10. Durban's Informal Economy Policy, approved and adopted by the joint executive committee – North Central and South Central Local Councils in South Africa, 2000



OHT: Mod.4.1

Objectives of Module IV

MODULE IV: PARTNERSHIP BUILDING FOR PROMOTING DECENT WORK IN THE INFORMAL ECONOMY

- To define clearly the main groups of actors responsible for local economic development and the ways in which they can improve their interaction to promote the development of the informal sector.
- To define clearly the types of organization through which economic activity is undertaken and promoted and which provide models for developing the capacity of the informal economy.
- To discuss steps to enhance synergies and improve cooperation among relevant actors to strengthen the capacity of the informal sector.
- To discuss key initiatives that can be taken to enhance the capacity of local authorities and other major actors to design and implement strategic actions to develop the local economy.



OHT: Mod.4.2

Contents of Module IV

MODULE IV: PARTNERSHIP BUILDING FOR PROMOTING DECENT WORK IN THE INFORMAL ECONOMY

Topic 1: Key Actors and their Role in Local Development

- Local Authorities
- Local Communities
- Non-Government Development Organizations (NGDOs)
- Universities and other Training Institutions
- The Formal Private Sector
- National Government
- External Support Agencies

Topic 2: Synergies and Cooperation in Improving the Performance of the Informal Economy

- Planning and Managing the Urban Development Process
- Rethinking the Framework: Main Points of Focus
- The Role of Local Community Organizations
- Tripartism and Social Dialogue

Topic 3: Involving Actors in the Informal Economy

- Business and Trade Associations
- Cooperatives
- Trade Unions
- Other Associative Forms of Organization: Not-For-Profit Organizations
- Sourcing Local Procurement in the Informal Economy
- Linkages with the Formal Sector

Topic 4: A Local Informal Sector Development Unit

- Support for the Informal Sector at the Municipal Level
- Existing Support Structures and Initiatives in Practice and in Principle
- Coordinating Support for the Improvement of Informal Sector Performance



Topic 5: Getting Organized: Strategic Activities

- A System for Developing the Capacity of the Local informal Economy
- Task List for a System to Build the Capacity and Effectiveness of the Informal Economy
 - Liaison with Other Local Authority Functions
 - Data Collection, Information, Outreach and Campaigns
 - Road Map, Easy Access, One-Stop-Shop
 - Enterprise Development
 - Project Liaison
 - Training
 - Provision of Work Space
 - Social Protection
 - Development of a Tripartite Platform for Social Dialogue
- Local Economic Planning

Topic 6: Selected Case Studies

- The Maligaya Women's Multi-Purpose and Transport Service Cooperative (MWMPTSC) Lagro, Quezon City, Philippines.
- Developing Community Planning and Management Initiatives in Surabaya, Indonesia
- Support for the Informal Economy in Thai Municipalities

Field Visit



OHT: Mod.4.3

Field Visit

- **Objective:** To meet and discuss with a broad-based informal sector support organization that has a proven record of supporting job-creating enterprises or initiatives.

The visit should encompass the following:

- Where the initiative found its inspiration and support (local or from outside)
- The connections which the initiative has to the local authority and the community;
- Problems faced by initiative in getting organized;
- An assessment of the impact which the initiative has made on the local economy;



APPENDIX TO MODULE IV: MORE DETAILS ON TRIPARTISM

Tripartite negotiation structures do not generally exist in Asian countries where trade unions have until recently been either treated as peripheral organizations or proscribed outright. In developing local negotiating structures between key organized actors at the local level in Asia, it is necessary to start from the existing situation. *There is no one system of tripartism applicable to all countries. Effective tripartism will reflect and accommodate the national characteristics unique to each country and city.* The tripartite model is historically based on industrial relations as they developed, particularly in Europe.

In the formal sector, trade unions represent workers. In the countries of the South, the widespread development of the informal sector, and its lack of formal organizations of any kind, is influencing local trade-union thinking. Increasing attention is being given to the role trade unions might play in the organization and representation of informal sector workers in the formal political process of economic and social development planning.

Local authorities have little or no experience in this field and it is important for all parties in the private sector – formal and informal enterprises and workers in both sectors – to collaborate in drawing local authorities into the arena of tripartite negotiation.

Objectives of Tripartism

Tripartite interaction generates the following objectives:

- a. Tripartism enables relevant parties to actively pursue issues of mutual concern, thereby promoting a better understanding of their common and conflicting interests.
- b. Through tripartism a balance can be found between economic, political and social concerns, as well as between the individual interests of all three parties and overall national interests.
- c. Through tripartite cooperation the specific knowledge and interests of each party can be taken into account in addressing economic and social questions. For example, policies and laws acceptable to each party, and addressing each party's specific needs, can be formulated.
- d. Tripartite cooperation can result in a broader consensus in decision-making, thereby enhancing the legitimacy of the parties and of the process itself.



- e. Real tripartism can lead to reduced conflict, and greater industrial peace and harmony.
- f. Through each party's active involvement in formulating new policies, tripartism builds commitment to implement these policies effectively.
- g. Tripartism can lead to improved economic performance, for example, when parties agree on wage restraints in the face of economic difficulties, or reach a tripartite agreement on ways to improve productivity.

Tripartism is not an end in itself. Through consultation and cooperation, it aims at achieving an acceptable balance of interests and viewpoints on economic and social policy and operational issues.

Features and Dynamics

1. Interaction can be **either individual or through organizations**. For example, for consultations on policy development and the drafting of laws, the social partners would comprise government, informal sector workers' organizations and employers' associations. In the context of the informal sector, workers' organizations are seen as the organizations representing informal workers and operators. Employers' associations are envisaged as composed of entrepreneurs with micro- and small enterprises.
- Effective tripartism requires that each social partner be representative. For informal sector workers' and employers' organizations, being representative implies:
 - Speaking on behalf of most of the workers and employers in the locality, or a sufficient number of them, to give credibility and recognition to their organizations.
 - Having effective contacts with their members to ensure members' interests and ideas are considered.
 - Being able to nominate whom they want as their representative on the tripartite body. In some countries, the leaders of employers' and workers' organizations are insufficiently aware of their members' needs and problems. In such circumstances tripartite consultation will be limited by a lack of information, and any tripartite agreement negotiated between non-representative organizations will be difficult to implement.



2. It should be noted that, while workers' and employers' organizations should represent the true interests and needs of their members' tripartite bodies, they must also make an effort to take account of the views of minority groups of those workers and employers who are not affiliated to the organizations represented on tripartite bodies.
3. Effective tripartism requires that employers' and informal sector workers' organizations be independent. This means that each social partner remains separate from the government and political parties, operating according to its own objectives and procedures and not influenced by government or other special interests that may conflict with those of members.
4. Tripartite interaction can be either formalized by law, or operate informally without specific legislative intervention. In both cases, however, the government usually takes the initiative in bringing the three parties together.
5. Tripartite interaction can take several forms, with different outcomes. The forms can be: a) information-sharing; b) tripartite consultation; c) tripartite negotiation; and d) shared decision-making. Tripartite dealings should include bargaining and negotiation, at least of an informal nature. If information-sharing and tripartite consultation are not followed by an exchange of views and a degree of bargaining, the parties will lose interest.
 - a) **Information-Sharing.** In this form of tripartism, the government and partners exchange information on certain issues. Through information-sharing each tripartite actor can notify the others of decisions it has taken. Tripartite information-sharing can lead to a better understanding between the social partners and the prevention of disputes. Information-sharing is the simplest form of tripartite cooperation and its necessary starting-point. Sometimes it can be little more than window-dressing – when government provides the social partners with information *after* a decision that affects their interests has been taken, for example. Information-sharing is an essential condition for all other forms of tripartite cooperation.
 - b) **Tripartite Consultation.** In tripartite consultation, the government and social partners share information on certain issues and discuss the information in tripartite meetings. Tripartite discussions may be preceded by separate discussions between the government and employers' organizations, on the one hand, and by government and workers' organizations, on the other. Bipartite discussions between workers and employers may also take place before tripartite consultations.



In its more advanced form, tripartite consultation leads to advice or recommendations to a higher authority, which then takes a decision. In some countries the higher authority is obliged to follow the recommendations; in other countries, no such obligation exists. Recourse to tripartite consultation can be mandatory, as required by law, or voluntary, without statutory support. Consultation can take place on an informal basis or through more institutionalized channels such as consultative councils. Consultative bodies and councils can be set up on an ad hoc basis, as and when necessary, or on a permanent basis.

- c) **Tripartite Negotiation.** In tripartite negotiation, the government and social partners: i) exchange information; ii) discuss and consult with each other; and iii) strive to reach agreement on what should be done to solve economic and social problems. Such an agreement normally is not legally binding, but it is an important commitment to promote common interests.
- d) **Shared Decision-Making.** In shared decision-making, the government and partners share information; discuss and bargain over certain issues; and have powers to make a final decision. Shared decision-making takes place through a formally constituted body, the powers of which are established by laws or regulations. Likewise, in shared decision-making, the government delegates its decision-making powers to a tripartite body, which is empowered to make binding decisions.

Conditions for Effective Tripartism

1. The existence of negotiating parties that are independent and representative.
2. Mutual recognition by the parties of their existence and purpose.
3. Willingness of the parties to consult and discuss matters of common interest such as increasing productivity; creating a better-trained workforce; increasing employment opportunities.
4. A framework in which tripartite cooperation can operate. One question often asked about tripartism is whether a legislative framework is needed. The answer is that tripartism can take place with or without this framework. A lack of legislation is sometimes perceived as an obstacle to developing tripartism, since there is no compulsion to pursue it. However, a legal framework, in itself, will not guarantee effective tripartite cooperation. The foremost requirement remains the willingness of the three parties to cooperate. Tripartite cooperation may thus take place within a framework established by law or one voluntarily agreed by all three parties.



5. Competence of the three parties to interact, including: knowledge of the issues and communication skills.
6. Access to relevant, accurate and up-to-date information by all three parties.
7. Acceptance of the principle of sharing power by the three parties and reasonable balance of power among the three parties. In this regard, political pluralism and democracy can influence the development of tripartite cooperation.
8. A mandate by each party's constituents to make commitments and take necessary action. Whatever arrangements are in place to promote tripartism, the fundamental condition is the willingness of all parties to cooperate.

In sum, such representative organizations of workers and employers have a significant role to play in effecting a community voice for the informal sector, with the local government spearheading the initiatives meant to enhance their capabilities at the community level.



DAY FIVE

Recapitulation of Module IV: Partnership Building for Promoting Decent Work in the Informal Economy

- *The trainer now shows the overhead for Module IV and asks participants at random to summarize one of the topics in a sentence or two (one participant per topic). This is informal, with comments from other participants who may wish to present an alternative summary, or where the topic has been inadequately described by another participant. (15 minutes max.)*

ACTION PLANNING

- *The morning of Day 5 is dedicated to making an Action Plan to promote the development of the informal economy. As with the earlier exercises, participants are divided into five groups, each mixing local authority officers with representatives of non-government interests. Using an overhead slide, the trainer first explains how this exercise is organized.*

Objective of Day 5 : To produce the elements of a plan of action for the Local Government, that will indicate clearly i) what has to be done to improve the performance of the informal economy, ii) identify who has to do what and iii) the resources necessary for effective action.

Five Themes

- *Five groups, five themes. Each group has a different theme to study, defined as follows:*
 1. Orientation and Action of the Local Authority:
 - How might the local authority and other local actors focus more comprehensively on the informal economy?
 - How might good cooperation and coordination be established between local authority departments in actions to support the development of the informal economy?
 - How can external resources be found to assist in developing the informal economy and how should these be monitored and managed?



2. Enterprise Development
 - What new steps should be taken to promote the development of micro-, small- and medium-sized enterprises?
 - What initiatives should be taken to open up spaces (land and buildings) for micro/small enterprises?
 - What are the elements of training necessary to help enterprises develop and how should this be improved?
3. Information and Campaigns:
 - Who should be responsible for organizing and executing the collection of information concerning the informal economy? How should this be stored and disseminated?
 - How should outreach programmes be organized and what campaigns should be mounted to raise awareness of the possibility of registration?
 - How can information be made easily accessible to actors in the informal economy, so as to involve them in assistance programmes?
4. Social Protection:
 - Who should take the main initiative in improving measures to ensure that basic social protection is available for *all* citizens and how should they operationalize this role?
 - Who should be responsible for creating a tripartite negotiating platform and how should they operationalize it?
 - How should initiatives to develop the potential of the informal economy be connected to community development initiatives and who should be responsible for this?
5. Local Economic Planning:
 - What are the basic components of a local economic planning exercise?
 - Who should be responsible for organizing local economic planning and who should be involved?
 - How can local economic planning be operationalized to promote the development of the informal economy more effectively?

Questions to be Answered

- *When discussing their theme, each group should ask and answer the following questions:*
 - What are the main issues we need to consider on this theme?
 - What are the chief obstacles to making progress in this thematic area?



- How should action be institutionally organized to address these issues and overcome the obstacles? (Who should take responsibility and how should this initiative be structured?)
 - What resources are needed to take effective action?
- *Groups discuss their theme for the duration of the morning (with a mid-morning break), setting their ideas out on overhead slides, on flip charts or on cardboards. Groups each choose a member to make a 15-minute presentation of their results during the afternoon session. It is suggested that, to improve the quality of the outputs, a merit prize (e.g. a certificate, the trainer should choose something locally suitable) is offered for the best conceived plan.*

CLOSING SESSION

It is strongly recommended that the Mayor and other senior officials of the municipality – and possibly other civil society leaders including a banker and other private sector representatives and NGOs/CBOs be invited to attend the complete final session (they may also be invited to participate in the final lunch before the closing session).

- *The session starts with the trainer presenting a (20 minute) summary of the course and its intentions. This should emphasize the hope that the training will contribute towards job creation and the capacity of local authority to intervene in the local economy to achieve an improved performance in the informal economy.*
- *Next, the presenters chosen by each group in the morning session should explain their group's Action Plan. A short discussion period follows. If a merit prize was earlier offered by the trainer, then the best conceived plan should be decided now and the prize presented by the mayor (90 minutes).*
- *During the morning of Day Five, the trainer selects three participants (representing different interests), to give their account of the course and evaluate it both from a personal viewpoint and from that of their constituency (30 minutes).*
- *The Mayor or a senior official is invited to make a final closing statement (10 minutes).*



- *To summarize the final afternoon session of Day 5:*
 - Lunch
 - Opening of the final session by the trainer including a summary of the intention and highlights of the course (20 minutes)
 - Presentation of Action Plan by groups from the morning session (choice of winner and presentation of prize) (90 minutes)
 - Three evaluations by selected course participants (30 minutes)
 - Closing speech by the Mayor (10 minutes)

- *The trainer should ensure that the outputs from the Action Plan exercise are edited into a document that is added to the files of participants and also presented to senior officials.*



Action Planning

Objective: To produce elements of a plan of action for the Local Government that will indicate clearly what has to be done to improve the performance of the informal economy, to identify who has to do what and the resources necessary to undertake effective action.

Five Groups: Five Themes

1. Orientation and Action of the Local Authority:
 - How might the local authority and other local actors focus more comprehensively on the informal economy?
 - How might good cooperation and coordination be established between local authority departments in actions to support the development of the informal economy?
 - How can external resources be found to assist in developing the informal economy and how should these be monitored and managed?
2. Enterprise Development
 - What new steps should be taken to promote the development of micro-, small- and medium-sized enterprises?
 - What initiatives should be taken to open up spaces (land and buildings) for micro/small enterprises?
 - What are the elements of training necessary to help enterprises to develop and how should this be improved?
3. Information and Campaigns:
 - Who should be responsible for organizing and executing the collection of information concerning the informal economy? How should this be stored and disseminated?
 - How should outreach programmes be organized and what campaigns should be mounted to raise awareness of the possibility of registration?
 - How can information be made easily accessible to actors in the informal economy, so as to involve them in assistance programmes?
4. Social Protection:
 - Who should take the main initiative in improving measures to ensure that basic social protection is available for *all* citizens and how should they operationalize this role?
 - Who should be responsible for creating a tripartite negotiating platform and how should they operationalize it?
 - How should initiatives develop the potential of the informal economy be connected to community development initiatives and who should be responsible for this?



5. Local Economic Planning:

- What are the basic components of a local economic planning exercise?
- Who should be responsible for organizing local economic planning and who should be involved?
- How can local economic planning be operationalized to promote the development of the informal economy more effectively?

Questions to be Answered

- What are the main issues we need to consider on this theme?
- What are the obstacles to making progress in this thematic area?
- How should action be institutionally organized so as to address these issues and overcome the obstacles? (Who should take responsibility and how should this initiative be structured?)
- What resources are needed to take effective action?

Participants should discuss these issues throughout the morning, with a short mid-morning break. Set your ideas and solutions down on overhead transparencies or flip chart pages or on a cardboard. Each group then chooses one member to present the findings in the afternoon session. (A prize will be offered for the best conceived plan.)