



**Dealing with the informal economy: Challenge for Trade unions in
Southern Africa**

***Conceptualising the Informal Economy:
Characteristics of the IE and their importance for
Trade Union***

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Introduction

The issue under discussion and debate today has occupied the academics, labour activists and policy makers over 30 years, since the ILO mission study of employment in Kenya and Ghana in 1971-72¹.

However, without going deeply into the historical dimension of these discussions and debates on the informal 'sector' or now 'informal economy', we need to go the recent ILO conference held in 2002 which adopted a resolution containing conclusions concerning decent work and the informal economy, and this represented a new departure in the understanding of the informal economy.

What is the 'informal economy'?

The first step in the new consensus was the move away from the use of words "informal sector," to "informal economy" since informal activity is quite diverse, and occurs in many economic sectors.

The new expanded conceptual framework describes the informal economy as comprising informal employment –employment without secure contracts, worker benefits, or social protection) both inside and outside informal enterprises.

Informal employment in informal enterprise (small unregistered or unincorporated enterprises), including: employers, employees, own account operators and unpaid family workers in informal enterprise.²

This means that the term "informal economy" covers a wide range of informal enterprises and informal jobs- despite the diversity- there are many ways of classifying its component segments, including: by type of economic unit and employment status.

Informal enterprise consist of micro-enterprises (with an employer plus some employees), family businesses (with an owner operator and, sometimes unpaid family workers) and own account operations (with an individual operator).

Informal employment relations consist of employees of informal enterprises as well as domestic workers without regular contract, casual day labourers, without fixed employer, temporary workers who get work through an agency, part time workers for fixed employer,

¹ International Labour office, Employment, *Incomes and Equality: A strategy for Increasing Productive Employment in Kenya* (Geneva 1972).

² In the earlier conceptualization of informal sector, informality was seen as characteristic of enterprises not of employment relations. For reason, the 1993 ICLS definition of the informal sector includes all employment, both formal and informal, inside and outside informal enterprises.

industrial outworkers for formal or informal firms, and unregistered and undeclared workers.

This then implies that the informal economy is not, by definition, formal economy-because the informal economy is understood to be outside the world of regular, stable and protected employment and of legally regulated enterprises.

The informal economy is not the criminal economy-while production or employment arrangements in the informal economy are often semi-legal or illegal, the informal economy produces and distributes legal goods and services, while the criminal economy deals in illegal goods and services.

The informal economy is not the care or reproductive economy which comprises of unpaid domestic work and care activities- This is because the informal economy is defined as part of the market economy: that is producing goods and services for sale or some other form of remuneration.

What characterises informal employment?

These different groups have been termed “informal” because they share one important characteristic: *they are not recognized or protected under the legal and regulatory frameworks*. This is not, however, the only defining feature of informality. And because they lack protection, rights and representation, they remain trapped in poverty.

Why should the Trade Unions organise in the informal economy?

One of the greatest challenges facing trade unions today is the growth of the informal economy. Without a serious and sustained effort in organising workers in the informal economy, it is impossible to even think of organising a majority of workers on a global scale - and thereby changing the existing global power relationships.³

In the informal economy workers suffer exploitation and poor working conditions. There is discrimination against women workers, migrant workers. Child labour and forced labour will be found. Workers here are more likely not to be covered by social security schemes. The informal economy is not usually a question of choice by workers who want ‘flexibility’ and to become an entrepreneur. The vast majority of workers are in the informal economy because there is no place for

³ Dani Rodrik, *Has Globalisation Gone too far?* (Washington, D.C., institute for International Economics, 1997)

them in the formal economy. Working in the informal economy is the only way to survive. They are poor and their only asset is their labour.

Many argue that organising informal economy workers needs to be a priority of the international trade union movement because: (1) it is here to stay; (2) it is growing, whilst the formal sector is declining in terms of organisational potential; (3) these two trends are linked and are irreversible in the short and medium term; (4) consequently, the stabilisation of the formal sector organisations and building trade union strength internationally depend on the organisation of the informal economy. Organising the informal economy serves the interests of the majority of workers worldwide.

A program of organising the informal economy and at the same time defending the informal economy workers' interests has to have two aspects: an **external** and an **internal** one. The external program consists of the demands directed outside of the labour movement (to employers, public authorities, international organisations, etc.). The internal program focuses on what the labour movement itself has to do to improve its capacity to organise and represent informal workers.

External

- Using *international labour standards* relevant to the informal economy as organising and campaigning tools.
- *Social protection and services* under the guiding principle that all workers need social protection (health, life and property insurance, old age security and safety nets) as well as social services (health, education and child care), irrespective of their position in the process of production.
- *Pressuring states* to strengthen and help develop alternative systems that may be developed by informal economy organisations, through funds, political and technical support, and making employers accountable. Political support includes providing the legal space and framework for trade unions and informal economy organisations to provide social support services for all workers.

Internal

- Developing *coordinated organising strategies* and practical cooperation in organising as well as building coalitions and alliances and developing a program of common demands.
- *Developing contact points for coordination* of the informal economy so as to provide permanence and continuity to co-operation in organising and in pushing common demands.
- The creation of *cooperatives* as an important flanking support measure for informal economy workers organisations as it already is for unions in many countries.
- Conducting *worker education programmes* to build organising e.g. the production of popular materials about existing organisations could be developed, people from these organisations could be

identified who could talk about their experience and, resources permitting, exchange programs and visits could be organised.

- Struggling for the *representation and recognition* of informal economy workers by those with whom they need to bargain (public authorities, contractors, etc.) with at different levels

Obstacles to organising

The reality of a restructured and fragmented economy and the changing nature of employment relationships makes trade union organising more difficult. Many unions world-wide face the challenge of both finding and applying strategies for effectively organising workers in the informal economy, or being reduced to very small and weak organisations as their traditional membership base dwindles to little or nothing. Strategies are needed to defend and promote the rights of the ever-growing number of informal economy workers and to get them to become members of and fully integrated into the trade unions.

Several national trade union centres have had a negative view and have neglected the organising in the informal economy, four basic attitudes can be identified:

- there is still a belief that the sector is a transitory phenomenon and not an enduring, even growing element of the new economies;
- they believe that, since they face problems in maintaining and mobilising membership in the formal sector, they are not in a position to dedicate scarce resources to the informal;
- they have difficulties in locating informal sector workers and come up against barriers to organising, so that they feel it is not an efficient use of resources;
- Self-employed workers are seen as entrepreneurs and not potential trade union members.

If unions still want to be relevant to today's workers, they will have to overcome their misgivings and fight to attract the unorganised. In doing so, they unions will need to consider the following:⁴

1. **Political will and clarity of direction**: getting trade union leadership to prioritise the organisation of workers in the informal economy, and to make human and financial resources available to implement this. This may require attitudinal shifts.
2. **Legal changes**: if a country's laws are an obstacle to organising workers in the informal economy – for instance, it only recognises organisations of wage workers with clearly identifiable employers – unions need to lobby for the necessary changes to the laws.

⁴ See IFWEA manual: Building Democratic Worker Organisation and Representation in the Informal Economy pp.20-28.

3. **Constitutional changes**: changing trade union constitutions where this is the obstacle to organising informal workers.
4. **New organising strategies**: learning new organising strategies that are more appropriate for workers in the informal economy. This could mean identifying new negotiating partners (e.g. municipalities in the case of street vendors, rather than employers) and new collective bargaining strategies and demands (e.g. industry based collective bargaining and mediation strategies, rather than firm-based). Recruitment methods must be adapted to the situation of informal workers, targeting in particular women and young workers.
5. **Appropriate policies and services**: becoming acquainted with and devising services for workers in marginalised sectors and for the self-employed; shifting from the services that are primarily concerned with labour relations, dispute settlement and collective bargaining on behalf of wage workers to polices and services linked to determining new bargaining counterparts, accessing micro credit and extending the scope of labour laws.
6. **Technical competence in small business and cooperative development**: learning the technical aspects of enterprise development, including business opportunity identification, management of enterprises, financial schemes, social credit and cooperative formation and development, land reform etc. that could enhance the capacity to pay dues and to elicit the desire to secure union membership.
7. **Organising women and developing women leadership**: organisation of workers in the informal economy depends on the ability to organise women workers and to cooperate with women's movements. This requires major changes in the prevailing culture and traditional male bias in formal sector trade unions in order to have significant leadership by women in the informal economy. This means introducing affirmative action programmes within the union structures, moving women's demands to the top of the bargaining agenda and changing cultures, customs and practices.
8. **Learning from those doing it already**: by means of exchange visits or other engagement, unions can learn from the experiences of those who are already organising in the informal economy, avoid some of the mistakes and replicate the more successful strategies – rather than re-invent the wheel. There are many different models operating in different countries – so sometimes a combination of different models can be applied where no single one fits exactly. Positive examples of trade union centres and federations which have successfully combined informal and formal economy workers within their constituency would provide inspiration and guidance.

9. **Organising workers in the informal economy as workers and as equals:** because of the greater marginalisation of workers in the informal economy, their often lower levels of formal education, there is often a tendency for formal workers to want to do things on their behalf instead of organising for them to represent themselves and set their own organisational agenda. Formal workers need to be always conscious and well disciplined to avoid this tendency – remembering the struggles they previously had to wage to represent themselves instead of being represented by others.
10. **Joint campaigns:** it needs to be borne in mind that, for successful joint campaigns, there must be demands set by the workers in the informal economy as well as the demands of the formal workers. If the formal workers set all the demands and the agenda and expect the support of workers in the informal economy when there is nothing in it for them, it will not work.
11. **Tackling globalisation:** workers need to confront the negative consequences of globalisation in a unified way (i.e. formal and informal workers should identify their common ground and organise around that) in order to find ways of influencing or acting on the way in which they are affected by globalisation. This must include popularizing and encouraging debates on the economy especially in terms of its impact on households and work systems, and for clarifying issues which concern informal economy workers.
12. **Taking a lead in civil society:** if trade unions are sufficiently representative of the working people (which is usually the majority of adults) in any society, they are the natural leaders of any civil society or social movement. They become much more representative of the wider working class if they genuinely represent the workers in the informal economy, and are then much better equipped to take up a leading civil society role.

Conclusion

A key goal should be to promote decent work along the entire continuum from the informal to the formal end of the economy, and in development-oriented, poverty reduction-focused and gender-equitable ways. A progressive approach must involve an improvement of working conditions for informal economy workers. As informal economy workers are better protected and as they earn higher incomes they are potentially assuming more formal characteristics, ascending the transition upwards along the continuum toward the formal, decent and protected end. This would also be part and parcel of a decent work approach to poverty reduction.

