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# Employers' Organizations and Enterprise Development in the Informal Economy: Moving from **informality** to **formality**



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## Employers' organizations and the informal economy

### Introduction

The informal economy accounts for a large proportion of national economic activity in many regions of the world. In recent years, it has grown rapidly in almost all regions. It is not therefore a temporary or residual phenomenon. Indeed, a large part of new employment and businesses, especially in developing countries, are created in the informal economy.

### Why is it important for employers' organizations to take action on the informal economy?

Employers' organizations, particularly in developing and transition countries, are strategically well-placed to provide policy guidance on how best to address the issue of the informal economy and to reach out to informal operators.

Over recent years, the ILO, its Bureau for Employers' Activities (ACT/EMP), and an increasing number of employers' organizations at the national and branch levels have reached a broader understanding that, by adopting initiatives in the area of the informal economy, representative organizations of employers:

- can play a significant role in drawing attention to the pressing need for action and in bringing into the mainstream the considerable potential for employment and wealth creation that is currently marginalized in the informal economy;
- in terms of the interests of their member enterprises, they can make contributions to achieving a more level playing field by ensuring that informal competitors are subject to the same requirements as their members, thereby spreading the tax and social protection burden more evenly and equitably – moreover, any simplification of administrative rules and regulations is likely to benefit both formal and informal businesses in equal measure; and
- they can also enhance their own standing as important national actors by helping to show viable ways of addressing a problem which has taken on enormous proportions in many developing and other countries.

### Guidance for action by employers' organizations

For this reason, over the past couple of years, ACT/EMP has been carrying out a programme to assist employers' organizations take action on the informal economy.

Drawing together the lessons learned from the programme, this CD-ROM is intended as an information tool to guide action by employers' organizations in relation to the informal economy. It is designed to raise a number of basic questions, provide brief answers and point users to further information sources. The principal questions are:

- What is the informal economy?
- What can employers' organizations do about it in practice?

The action taken by employers' organizations in the context of the ACT/EMP programme is then examined briefly with a view to highlighting the approaches adopted to identify and remove specific barriers preventing the integration of informal operators into the formal economy.

### What is the informal economy?

While there is no universally accurate or accepted definition of the term "informal economy", a broad understanding of the phenomenon has emerged in recent years. This is perhaps best reflected in the *Conclusions concerning decent work and the informal economy*, adopted by the International Labour Conference (ILC) in 2002.

The value of these conclusions lies in the fact that they are the product of in-depth discussion and broad agreement reached on the subject among the employer, worker and government representatives of the vast majority of the

ILO's 178 member States, who represent widely differing interest groups and countries.

### **The definition of the informal economy**

While acknowledging the lack of a clear and precise definition, the ILC Conclusions indicate that the term "informal economy" refers to "all economic activities by workers or economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements. Their activities are not included in the law, which means that they are operating outside the formal reach of the law; or they are not covered in practice".

### **How large is the informal economy?**

Because definitions vary and it is inherently difficult to compile statistics on activities that are not registered, estimates of the size of the informal economy in the various countries tend to diverge, often widely. However, it is clear that in developing and some transition countries the informal economy can account for anything between less than a quarter and over three quarters of the economically active population, and up to half of GDP (for example, in certain Central American countries).

### **Which sectors are most affected by the informal economy?**

Informal operators are to be found in a very broad range of sectors, including tourism, vending, agriculture, manufacturing and the provision of many types of services. By way of illustration, a study of the informal economy in Grenada, undertaken by the national employers' organization as part of the ACT/EMP programme, provides insight into the sectors in which informal operators are principally to be found in the context of an island economy.

### Main economic sectors covered by the informal economy

Informal operators are principally found in the following sectors in Grenada:

- **transport** between Grenada and other countries, particularly of fruit and vegetables, basic food necessities and spare parts for vehicles – with a significant growth in such activities over recent years;
- **small-scale agriculture**, involving the cultivation of crops on tiny plots of land and the keeping of animals;
- **fishing**, although not at the commercial scale;
- **cottage industries**, based on agro-processing on a very small scale – this is another area of growth in recent years.
- **small-scale construction and building maintenance**, often consisting of builders and carpenters who have worked for a formal enterprise but who supplement their income, especially when the economy is slow, by working in the informal economy;
- **tourism related products and services**, including "water taxis", "walking taxis", vending and the production of items to be sold by vendors;
- **services for private houses**, such as lawn-mowing, gardening and simple maintenance services;
- **vending for local demand**, particularly food, cooked meals and small household items, both in traditional markets and on the streets (sometimes in direct competition with formal shops); as well as
- **drug producing and/or trafficking**, which is a criminal rather than informal activity, but employs a significant number of people.

### **Why do people work in the informal economy?**

Most people work in the informal economy because they cannot find jobs or are unable to start businesses in the formal economy.

However, the growth of the informal economy can often be traced to inappropriate, ineffective, misguided or badly implemented macroeconomic or social policies, normally developed without tripartite consultation. The legal and institutional framework may well not be conducive to the development of formal businesses. In practice, compliance with the law is often made more difficult because the law is in itself inappropriate, burdensome or imposes excessive costs. There is also normally a lack of good governance for the effective implementation of policies and laws.

### **Poverty, low productivity and unfair competition**

There is a close correlation between poverty and working in the informal economy. Workers in informal activities are not recognized, registered, regulated or protected by labour legislation. Nor are they normally covered by social protection systems. In many countries, women make up a majority of informal workers. Workers in the informal economy, and their families, therefore tend to be composed of the poorest and most marginalized categories of the population. Moreover, they are not normally organized and therefore do not benefit from collective representation, particularly in relation to the public authorities.

Informal operators often lack formal skills and have difficulty in obtaining access to training, technology, support services, markets and investment capital, even in the form of small loans. The existence of the informal economy therefore tends to perpetuate a large area of low productivity and poor competitiveness in the national economy, both as a cause and a result of the poverty of informal operators.

Because informal operators and workers tend not to pay taxes and social contributions, they may be engaged in unfair competition with formal businesses. The shortfall in tax and contribution payments, which is sometimes massive, places an unfair burden on those businesses which are registered and do fulfil their obligations in this respect. The consequent lack of resources also acts as a major barrier to the extension of social protection and other systems which are vital to national development, such as education and health systems.

### **The potential of the informal economy**

Yet, precisely because it is so large in many countries, there is undoubted potential in the informal economy. Not only does it act as a vital lung allowing those who are excluded from the formal economy to find a means of survival, but it also offers broad entrepreneurial potential.

Many of those who are forced to work in the informal economy show glimpses of real business acumen, creativity, dynamism and innovation. There is a good chance that this entrepreneurial potential could flourish if effective strategies were developed to remove the obstacles to their integration into the formal economy. In certain ways, the informal economy, particularly at its top end, can be regarded as an incubator for business potential and an opportunity for on-the-job skills acquisition.

### **What can employers' organizations do?**

The ACT/EMP programme on the informal economy was designed to give effect to the 2002 ILC Conclusions, and particularly the resolution points: 27, 31, 32 and 33 (see library section for further details), which spell out the ways in which employers' organizations can assist informal operators. They can do this by focusing on the development of a conducive policy and legal environment, extending the representation of employers' organizations and functioning as advocates for small enterprises and operators in the informal economy. The programme, which has focused on several countries in the Caribbean and Latin America, as well as Bulgaria, Kenya, Mongolia and Turkey, has shown that there are several effective forms of intervention by employers' organizations in relation to the informal economy.

## Two main pillars of the ACT/EMP programme on the informal economy

ACT/EMP's programme on the informal economy assists employers' organizations address the issue of the informal economy by strengthening two of their main functions:

- **lobbying:** as the representatives of mainstream formal enterprises, employers' organizations have an important role to play in raising awareness among their members and the authorities concerning the needs and barriers faced by informal operators, and therefore in providing policy guidance and influencing legislation so that the national environment is made more conducive to the development and integration of informal operators into the formal economy; and
- **representation and the provision of services:** employers' organizations can also extend their representation in the informal economy and provide services which help informal operators to strengthen and enter the formal economy: these services may include facilitating the supply of training, access to information, technology and finance, and the provision of other business support services.

## Information and awareness

In very many cases, the first step is to gather together the available information and to raise awareness of the characteristics and difficulties of informal operators. This is often necessary, not only in relation to the public authorities, but also the members of employers' organizations and the public in general. Indeed, even though the informal economy is a major phenomenon at the national level, it is very often the case that knowledge is sorely lacking of its main characteristics and the types of action which can help to alleviate the situation.

In the majority of the countries covered by the programme, the main efforts have been concentrated on this first information and awareness stage and reports have been produced for most of the countries concerned. These are included in the present CD-ROM (in Spanish in the case of Latin American countries) and contain valuable information on the various national situations.

The recommendations made in the reports focus on a variety of areas of potential action, including social protection for self-employed workers and persons in the informal economy (Mexico), linkages between informal businesses and larger firms (Peru), local economic development initiatives (Brazil) and training for potential entrepreneurs (Jamaica and Dominica). But in almost all cases, the major recommendation is for a simplification of the bureaucratic procedures required for the registration and operation of businesses.

In several cases, programme activities have included the holding of a seminar for the sharing of experience on the action taken. A sub-regional seminar was held for this purpose in the Caribbean and a sub-regional seminar was organized in Bulgaria to inform interested employers' organizations from other Central and Eastern European countries of the steps that had been taken for the establishment of payroll administration services.

## Lobbying

Implicit in the information and awareness activities carried out by employers' organizations is the use of the information produced to influence policy and practical measures. In certain cases, lobbying has, often successfully, been directed at obtaining changes in specific policies and legislative provisions. These include Bulgaria (the size of enterprises allowed to be members of payroll administration services), Mongolia (policy and legislation relating to informal gold miners), Kenya (the small enterprise development policy) and St. Kitts and Nevis (lobbying for the adoption of the Small and Medium Scale Enterprises Bill).

## Linkages between informal operators and larger enterprises

Programme activities in Kenya have focussed largely on the identification and development of informal businesses with the potential to supply goods or services to larger enterprises, and the organization of meetings and other forms of links

between the businesses concerned. The project in Mongolia has also endeavoured to improve relations between informal gold miners and mining companies, while a pilot project has been implemented in Peru to develop linkages between informal and large businesses.

#### **Skills development**

In several of the countries covered by the programme, the activities carried out have included a skills development component. In Kenya, this consisted of identifying young engineering graduates and engaging them to work in informal businesses so that they could suggest technical and process improvements which would strengthen their performance with a view to becoming suppliers to larger firms. In Mongolia, young persons withdrawn from informal gold mining have been provided with training in skills which will allow them to find alternative employment opportunities. In Jamaica and Dominica, the training activities focussed on business skills and the procedures for starting up a formal business.

#### **The provision of business services**

One of the characteristics of the informal economy found consistently by all of the studies carried out in the context of the ACT/EMP programme is the lack of access of informal operators to the types of business support services that are normally available to formal businesses. In addition to training, these include services such as the provision of advice and assistance in coping with tax, social security and other formalities.

In several countries, programme activities have included the provision of such services by the employers' organization concerned. In Jamaica, the employers' organization has started to hand out the forms required for the registration of new businesses. But it is in Bulgaria where the provision of business services has been pursued the furthest, with the establishment at the regional level of several payroll administration services, based on the model of those that are often available in some Western European countries, to help small businesses cope with requirements related to the tax and social security authorities.

## Setting up payroll administration services in Bulgaria

During its transition from a centrally planned to a market economy country over the past decade and a half, Bulgaria has been progressively developing the infrastructure and institutions for an efficient modern economy with a competitive labour market and production system.

The transition has included the reform of the fiscal and social protection system, with efforts being made in recent years to simplify the procedures. Nevertheless, the administrative complexity and cost, not just in financial terms, but also the time that has to be spent in fulfilling the related requirements and the risk of mistakes, mean that barriers exist which have been instrumental in maintaining certain small firms in informality.

### Payroll administration service

A payroll administration service can facilitate, and ensure that, each employer, whatever the size of his/her firm operates in conformity with social and fiscal legislation, collective agreements, the various sector and social insurances, as well as rules regarding the deduction of taxes. It is a service which, which the individual employer has to subscribe to and pay for.

A payroll administration service essentially involves:

- calculating salaries (with optional periods), holiday money and various payments, with an integral interpretation of social, tax and employment law (collective agreements, indexation, bonuses);
- complete responsibility for the administrative work arising from employing staff (family allowances, educational leave, time credit, sickness, unemployment, inability to work, etc.);
- drawing up declarations, paying contributions and contacting official, semi-official and even private authorities.

### Contribution Payment Centres (CPCs)

In recognition of the growing complexity of the social security system, and the related requirements for firms, the amendments to the Social Insurance Code adopted in 2000 included provision for the establishment of services for the collection of social contributions from the self-employed and from small enterprises with up to ten employees.

These services would take the form of Contribution Payment Centres (*Regionalna Osiguritelna Kassa – or CPCs*) at the level of the regions (*oblast*) in the country. As they have to be registered with the National Social Security Institute (NSSI) and local NSSI offices are under the obligation to help and inspect them, only CPCs are allowed to collect money from enterprises and transfer the contributions to the NSSI. Accountants, to whom small enterprises have traditionally turned to address their needs in this area, do not have this possibility.

### ILO/BIA cooperation for the development of Contribution Payment Centres

Although a number of CPCs had already been set up in Bulgaria, including one in Varna by the regional industrial association, there was a clear potential for the development of CPCs by the Bulgarian Industrial Association (BIA), the country's largest employers' organization. As part of its Programme on the informal economy, ACT/EMP therefore developed a project with the BIA to encourage and assist selected branch organizations to set up a payroll administration service for their members. The general strategy for project activities was based on a recent successful intervention by the BIA, with ILO assistance, for the development of occupational safety and health services in its branch organizations. The activities are also designed to act as a model and provide guidance for employers' organizations in other Central and Eastern European countries.

These activities are intended to contribute to the programme of fiscal and social reform in Bulgaria, which included the introduction of a requirement in 2003 for employers to register all labour contracts and the establishment, at the recommendation of the World Bank and the IMF, of a common office for the

Established in 1980, the **Bulgarian Industrial Association (BIA)** is the most representative employers' organization of Bulgaria, with a staff of 75 professionals and well-developed internet-based services (BIA-net).

Membership of BIA comprises 87 branch (sector) organizations, 26 regional organizations and 58 local bodies, the Bulgarian Academy of Sciences, universities and scientific and technical unions, the Central Cooperative Union, over 150,000 commercial companies, out of which 263 are among the largest 300 companies in Bulgaria.

BIA's core mission is to defend the interests of its members, represent



their interests before state bodies and international organizations and assist its members in the realization of their economic activities by providing specific services such as the organization of business forums, meetings and business contacts between Bulgarian and foreign companies; assistance for technological renovation and implementation of innovations in production; facilitating the information exchange of members including through ensuring their participation in international exhibitions and fairs, and providing market information about developing strategies on competitiveness. In addition, the BIA provides information on a number of issues concerning licenses, property rights etc.

collection of both fiscal and social contributions from employers and enterprises.

### Project activities

The initial project activities included the holding of meetings and seminars to explain the concept of payroll administration services, using as a model the licensed social secretariats in Belgium, which have been in operation since the end of the Second World War. An analysis was also undertaken of the performance of the Varna CPC, which identified the need to develop a much broader client base (it only had between 20 and 30 member enterprises), an effective marketing strategy and the application of electronic data management techniques. The need was also identified for a change in the legal regulations to allow enterprises with over ten employees to continue using CPCs, with the dual objective of allowing CPCs to expand their client base and ensuring that members are not obliged to leave as soon as they expand over the ten employee level.

The following activities were therefore undertaken:

- a series of meetings and workshops were held to present international experience of payroll administration services, contacts were made with branch associations, their interest assessed and feasibility studies and business plans set in motion;
- a marketing strategy was developed for existing and potential CPCs, starting with Varna and progressing to Stara Zagora and Targovishte: the marketing strategy involved creating a logo, identifying potential clients, with assistance from NSSI local offices, the design and mailing of promotional materials, telephone interviews and the organization of a special event for potential clients and the regional media;
- an IT plan was prepared, assessing the activities of CPCs that could be automated, examining possible software solutions and contacting software producers concerning updates, solutions for the use of an electronic signature, proposing the establishment of a national association of CPCs to represent them, maintain a website (<http://rok.bia-bg.com>), which was developed through the project, and negotiate the development and purchase of specialist applications; and
- a lobbying campaign was pursued for an amendment to the legislation to raise the ceiling of ten employees for members of CPCs.

### Achievements

The project activities assisted in a number of respects:

- the lobbying campaign successfully achieved its goal of removing the ten employee limit for membership of CPCs, with the ceiling being raised to 50 employees in the amendments to the Social Insurance Code of 27 December 2005;
- the CPCs in Varna, Stara Zagora and Targovishte have all obtained a licence from the NSSI, with the establishment of other CPCs expected by mid-2006;
- the CPC in Varna has had ten new members since February 2006, while the CPCs in Stara Zagora and Targovishte have 42 and 19 member enterprises, totalling over 130 and 160 employees, respectively.

Marketing campaigns are also being continued. A group of trainees is visiting potential clients in Stara Zagora, while information on the Targovishte CPC has been widely published in the local media. However, following the establishment of a new National Revenue Agency in January 2006, combining the NSSI and the General Tax Directorate, the CPCs are having to adapt to the new system before expanding further.

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## Improving products and developing linkages between formal and informal enterprises in Kenya

The informal economy, known as *Jua Kali*, or “fierce sun”, in Kenya, accounts for nearly 18 per cent of GDP and 90 per cent of all businesses in the country. Some 4.1 million people (out of a total population of approximately 30 million) were estimated to work in the informal economy in 2001, and their numbers are steadily increasing.

For some years, the Federation of Kenya Employers (FKE) has been advising and working with the Government, with ILO support, to integrate and maximize the employment and wealth-creation potential of informal small-scale activities. The FKE played an active role in the consultations leading to the adoption by the Kenyan Government in early 2004 of its policy framework for small and medium-sized enterprise development. By bringing the *Jua Kali* sector into an integrated economy, it is hoped to promote the creation of durable, decent and productive employment, stimulate economic growth, reduce economic disparities and strengthen linkages between firms.

### The Federation of Kenya

**Employers (FKE)** was established in 1959 as an association representing the collective interests of Kenya employers. As of 2005, the Federation had a membership of 2,400 organizations. The Federation also acts as a Secretariat to nine employers' associations, coordinates the activities of several industrial groups in negotiations with their unions and acts as a one-stop centre for its members on matters related to their industrial relations and other business concerns.

While FKE has maintained industrial relations as its core function, it has expanded its role and functions over time, and in response to the needs of employers, to include: management training, management consultancy, executive selection, entrepreneurship development for micro- and small and medium enterprises, corporate social responsibility, total quality management, ISO 9000 quality management systems, ISO 14000 environmental management systems, productivity improvement programmes, elimination of child labour programmes, implementation of international labour standards, workplace HIV/AIDS prevention and management, and research and public policy advocacy.

### The FKE supporting small and micro-enterprises

In 2001, in consultation with the ILO, the FKE developed its own Small Enterprise Strategy. More recently, the FKE has outlined its support for small and micro-enterprises (SMEs) in the context of this Strategy. Some of the key considerations which led to the FKE developing its Strategy include:

- the comparative advantage of the FKE as a large private sector association with a diversity of membership in terms of trades;
- the need to maintain the FKE's political leverage as an organization representing employers;
- the need to increase its membership, and hence maintain a credible representation; and
- the objective of helping the *Jua Kali* sector become part of an integrated economy, with the potential to build stronger linkages with the *Jua Kali* sector and between *Jua Kali* and formal enterprises.

### Small and micro-enterprise support programmes

The FKE has been involved in a range of programmes and projects over the past decade to support the development of SMEs. These have been based on collaboration, not only with the ILO, but also with partners as diverse as UNDP, UNIDO, USAID and the Government of India. The programmes and projects have included: an enterprise to enterprise cooperation programme, focussing on the promotion of technological cooperation between Indian and Kenyan small-scale enterprises through study tours to India; the establishment of business service centres for SMEs; and a series of interventions targeting micro-entrepreneurs in the food sector.

### FKE/ILO programme on product improvement and inter-firm linkages between micro- and formal enterprises

Building on its experience in the field of SME development, the FKE, in collaboration with the ILO, therefore developed a programme to contribute towards enterprise development in Kenya and the upward mobility of *Jua Kali* operators. Based on the belief that FKE members and informal operators will both benefit from a stronger economy if they work together, the aim was to develop linkages and subcontracting arrangements between *Jua Kali* enterprises and large private enterprises in Kenya through the nurturing of young engineering graduates.

### Programme activities

One of the main activities of the programme has consisted of the identification of young engineering graduates and their attachment to selected SMEs to analyse their production processes and suggest and implement improvements in such areas as product process and quality, so that they are in a better position to meet the demands of large enterprises.

Another aspect of the programme is the identification of large enterprises with the

potential to subcontract the manufacture of certain SME products which could be purchased by larger enterprises. Programme activities and achievements have included:

- the selection of micro-enterprises and the placing of young graduates with them to work intensively on improving product design and processes;
- the development of a database of products which SMEs can potentially supply to large enterprises;
- awareness-raising activities, including the preparation of a programme brochure and the organization of workshops in several technical training institutions;
- a series of training events for the young graduates and micro-enterprises, including the ILO's widely applied Start and Improve Your Business (SIYB) courses;
- discussions with a number of university engineering facilities; and
- collaboration with the Kenya Bureau of Standards to facilitate the testing of specifications and the quality control of SME products.

### Achievements

Examples of SME product improvements include:

- **reconditioned shock absorbers**, produced by APA Industrial Shocks: fitting of new replacement parts and a thorough inspection of the machining process. APA has begun delivery of reconditioned shock absorbers for Securicor Kenya and Budget/Pay Less car hire and tour company vehicles.
- **plastic bushes**, made by ASCO Agencies: thorough cleaning of recycled plastics to remove all impurities, greater supervision and quality control, and the packaging and branding of the products.
- **essential oil of plants**, produced by Benmah Engineering Services: use of a more efficient heat source and biochemical analysis of end products by professional institutions. Benmah has given offers to Sara Lee and Interconsumer. However, the final arrangements have not yet been established.
- **outdoor aluminium shades**, manufactured by Wroughton Creations: greater precision in fabrication, including investment in a jig, more supervision and product branding. Wroughton aims and expects to do maintenance for major banks such as Kenya Commercial Bank as well as Kenya Breweries Ltd.
- **firewood or charcoal fired boilers and deep fryers**, produced by Nyaweco Engineering Works: use of quality steel instead of scrap metal, greater precision, supervision and checking. Nyaweco has given offers to Henkel, Frigoken and Booth Manufacturing. However, the final arrangements have not yet been established.
- **platform weighing scales**, made by Zing Engineering Works: use of quality steel instead of scrap metal, greater precision in manufacture and closer supervision of the production process. Zing has begun having its products certified by the Kenya Bureau of Standards. Formal outlets include the major supermarkets.
- **tamper proof seals (for gas cylinders) and tab seals (for drums)**, made by Diemould Machinery: heating of plastic to a specified temperature and replacement of dies after long usage.

### Continuation of the programme

As of March 2006, the FKE assumed overall responsibility for continuing the implementation of the programme as part of its ongoing activities in support of SMEs. It will work closely with a number of partners for this purpose, including the Department of Small and Micro-Enterprises of the Ministry of Labour and Human Resource Development, the Ministry of Trade and Industry, the International Finance Corporation, the Directorate of Industrial Training, as well as selected other institutions, SMEs, large enterprises and micro-finance institutions.

These institutions and enterprises will be represented on the programme committee, which is intended to provide guidance to the programme on increasing its information-sharing, providing additional services and strengthening its engagement with educational institutions with a view to adapting the training

provided to the skill requirements faced by young persons on the formal and informal labour markets.

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## Informal gold mining in Mongolia

The phenomenon of informal, or “ninja” gold miners (so-called because of the green plastic tubs

that they carry, which make them look like the cartoon Ninja Turtles), has developed rapidly in recent years in Mongolia. The “ninjas” are partly made up of unemployed miners and partly of members of traditional Mongolian herder families which have been unable to continue their semi-nomadic lifestyle due to the loss of livestock caused by the severe winters suffered in recent years.

Mining and mineral production, particularly gold mining, account for over 50 per cent of Mongolia’s industrial output, and over 60 per cent of national export revenues. Estimates place the number of “ninja” gold miners at around 100,000 (out of a total population of 2.7 million). They are believed to produce around 7.5 tonnes of gold a year, which is the same amount as all the formal mining companies combined.

**The Mongolian Employers’ Federation (MONEF)** was established as a non-governmental organization in 1990 with 35 members. MONEF is a nationwide employers’ organization with branches in 21 *aimags* (provinces) and its membership, which consists of some 7,800 enterprises, is entirely drawn from the private sector. It is self-financing and entirely independent of government. MONEF’s income comes from membership subscriptions, advocacy and mediation, information and training.

### **The Mongolian Employers’ Federation (MONEF)**

The Mongolian Employers’ Federation (MONEF) has nearly 8,000 member enterprises and branches in 21 districts or towns. Its members include 50 mining companies, as well as the Mongolian National Mining Association (MNMA). The MONEF is represented on many national tripartite committees and councils and participates in parliamentary working groups responsible for drafting laws affecting the private sector. It is therefore in a good position to act as an intermediary with the Government, the authorities, mining companies and “ninja” miners.

Since its establishment in 1990, the MONEF has maintained close relations with the ILO, particularly in the fields of training and business development. It is coordinating an ILO project on the informal gold mining sector, which covers such issues as child labour, health and safety and the integration of the informal sector.

### **Project activities**

The activities planned are based on the characteristics of informal gold mining, which include the

prevalence of young persons and the dangerous conditions in which they work, with a high risk of accidents and the presence of hazardous substances, such as mercury. The components of project activities therefore include:

- awareness-raising, including the holding of meetings with the parties concerned, including informal miners, formal mining companies, the public authorities at the local and national levels, to increase knowledge and understanding of the situation and needs of all the parties, with particular reference to the “ninja” miners;
- lobbying for the adaptation of proposed new legislation on informal gold mining to the requirements and interests of all the parties concerned;
- training activities for “ninjas” in safety and productivity in informal gold mining;
- the development of formal relationships between mining companies and informal gold miners, including the establishment of a model agreement; and
- action to identify young informal gold miners, withdraw them from work, train them for alternative employment and place them in contact with potential employers.

Originally its purpose was to help entrepreneurs in economic and organizational matters, but by 1993 it had acquired a role in the social area as well. MONEF’s main role is to influence the policy environment so as to promote business growth. In order to do this it makes use of the access it has to the President,

### **Achievements**

The ILO/MONEF project activities have undoubtedly contributed to *raising awareness* of the plight and importance of “ninja” gold miners, both within the country and at the international level. The Prime Minister of Mongolia indicated in a television interview in 2005 that informal gold mining offered an important opportunity to reduce poverty. He also organized a meeting in August 2005 on gold mining and other related issues attended by representatives of various

Parliament and the Government. It participates in eight National Tripartite Committees and Councils and in working groups of Parliament that draft laws which touch on private sector interests. MONEF also provides direct services to members in the form of advice and consultancy in the areas of business problems, accessing credit, and dealing with bureaucracy. It provides training in taxation, management, business development and labour relations through the use of other institutions, and also provides information on laws and policies.

ministries, the MNMA, MONEF and informal miners.

Articles have been published, including one in the *Daily News* in August 2005 on the situation of informal gold miners in Zaamar Soum, which was prepared by project coordinators.

A large project to support artisanal mining in the country has also been initiated with Swiss financing and has used some of the ILO/MONEF project materials and some of the experience acquired. The Swiss project will cover the three main areas of safe equipment, the transfer of new technology and the improvement of the environment.

Several meetings have been held of the parliamentary sub-working group on the legal environment and regulation of informal miners. Draft legislation, incorporating comments provided by the ILO, has been forwarded to the Prime Minister's Office for submission to the Great State Khural.

A survey has been carried out on occupational health and safety (OSH), which revealed a limited awareness among informal miners of risks and safety issues. This led to the development of an OSH manual and training programmes. Eight training sessions have been conducted for a total of 200 informal miners.

By October 2005, a total of 142 young persons engaged in gold mining had been withdrawn from their work and provided with non-formal and/or formal education, and several of them offered technical training, for example as bulldozer drivers, solderers or computer operators. The MONEF has entered into agreements with technical colleges for this purpose, which have in turn reached agreement with several employers to offer jobs to the persons concerned. The MONEF has also concluded an agreement with a mining company to take on several young persons trained as bulldozer drivers.

MONEF and the MNMA have initiated discussions between gold mining companies and informal miners to examine with all the parties, including the local authorities, issues such as how to allocate land for informal mining.

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## Promoting employment and addressing informal/unregistered employment through social dialogue in Turkey

### Background

According to estimates, informal employment in Turkey currently stands at over 53 per cent. About one in three workers in urban areas and three in four in rural areas are not registered. Informal economy employers in Turkey tend to be small-scale producers of labour-intensive, low-quality goods and services; they make poor use of available technologies and modern management practices and rely mainly on low labour costs and the avoidance of taxes and related costs to remain competitive.

In the context of an ILO project to follow-up to the International Labour Conference Resolution concerning tripartism and social dialogue (2002), the tripartite parties in Turkey agreed on *Employment Promotion and Addressing Informal Employment* as a priority theme to be addressed through social dialogue. While social dialogue at national level is overall well developed in Turkey, this is not the case at provincial level. Therefore, it was decided to involve tripartite partners at provincial level as well. As pilot provinces, Gaziantep and Corum were identified.

TISK was founded in 1961 when six employer associations were organized under the title of the "Union of Istanbul Employer Associations" and then changed in 1962 to the "Turkish Confederation of Employer Associations".

TISK represents the Turkish employers in industrial relations. Its membership presently covers 21 employers' organizations grouping some 9,000 mainly big and medium-sized enterprises, both public and private, from the following sectors of economic activity: mining & quarrying, manufacturing, public enterprises, heavy industries, pharmaceuticals, construction, wood, glasswork, cement, leather, food, paper, chemicals, metal, sugar, textiles, clay, maritime transport and tourism. TISK represents organizations and enterprises with an aggregate workforce of over 1,200,000. This constitutes 60 per cent of workers covered by collective labour agreements and 22.5 per cent of the total registered workforce.

TISK's key objectives are to maintain peace in the field of labour; pursue free enterprise and liberal market economy concepts; enhance the international competitiveness of enterprises and the economy; promote production, productivity, investment and export; safeguard and develop productive employment and reduce unemployment; improve bipartite and tripartite cooperation; increase the vocational training and lifelong training opportunities of the workforce and forge a link between training and employment.

### TISK position on the informal economy issue

TISK sees the informal economy as a priority area for action. For one thing, the informal enterprises create unfair competition for registered enterprises. On the other hand, integrating the informal economy into the formal economy could help reduce the present high levels of taxation and social security contributions. TISK is also of the view that informal employment impacts on productivity growth, social and economic stability, and sees it as an obstacle to EU accession.

TISK acknowledges that the informal economy is a complex issue that requires multi-faceted approaches at various levels, which need to be carefully coordinated. Social dialogue is seen as one important approach. As most informal businesses are SMEs, TISK considers addressing SMEs to be of key importance in order to make progress. One option would be that the Turkish Social Security Institution (SSK) opens offices in each industrial zone, providing services and assistance to SMEs. In TISK's view, this could reduce the informal economy by 15-20 per cent. Moreover, employment policies in Turkey should focus on vocational training and employment of women and young persons. The issue of illegal migration also needs to be seen in connection with the informal economy problem.

### Activities

A number of workshops were held at national and provincial level in Gaziantep and Corum, including participation of representatives of the informal economy. In these workshops, advice on international and regional best practices regarding mechanisms, institutions and processes of social dialogue was given. Moreover, strategies to address the informal economy through social dialogue were discussed and adopted. The workshops provided opportunities for constituents from both provinces to learn from each other, to establish contacts for ongoing cooperation and to reinforce their respective links with their counterparts at national level. While the provincial constituents considered that an important part of the issues had to be solved at national level, e.g. as regards reduction of the high tax and social security contribution levels, they also recognized their own share of responsibility and identified action for themselves at provincial level.

In Gaziantep, this concerned the following:

- Awareness raising: it was decided to organize a large seminar, including a press conference, in mid-2006 in Gaziantep, where key actors, including TISK representatives, would discuss the problem of unregistered work and outline a series of actions to address the issue vis-à-vis the public. Further activities would concern the development of brochures with information on "what you can do", and how companies could register

workers. Websites of the key organizations and confederations in Gaziantep would carry this and other relevant information.

- **Institution building:** a local steering committee would be established to organize the seminar, identify and engage other stakeholders, and develop key messages.
- **Outreach to SMEs:** outreach would be undertaken to employers in SMEs, through the many associations, chambers and NGOs. Heads of these associations would be engaged in this process to convey the necessary messages to their members.

In Corum, the following action was identified:

- **Awareness raising:** a public awareness campaign would be organized using a slogan such as “unregistered employment weakens your faith” and making use of as many media as possible. A public meeting with broad participation would be held to explain the costs of unregistered work to Turkish society.
- **Promotion of best practices:** good policies and approaches to unregistered work would be identified, disseminated and perhaps rewarded. Research to be undertaken on the differences in quality and competitiveness between enterprises with registered and unregistered workforces. A mark or label could identify goods that are produced by registered workers.
- **Organizing employers:** meetings would be held among brick manufacturers to discuss flexible work, and among construction firms to discuss seasonal work. These discussions would enable employers to better advocate for policies.
- **Improved Provincial Employment Board (PEB):** the PEB would meet three times annually, selecting topics and preparing members for the meetings. The Turkish Employment Organization (IS-KUR) would provide the labour market analysis, so that decisions would be based on evidence, and employers would bring their expertise in project management.
- **Incentive programmes:** the Small and Medium Industry Development Organization (KOSGEB) would list all (40) available incentives, credits and other related programmes for SMEs. Some of these already include: a credit/loan scheme with VakifBank, where only formal employers can access employment loans, payment of part of new employees’ salaries, no-interest loans to upgrade technology, business development centres and training for women entrepreneurs. Incentives should be linked to formalization.

The discussions in the workshops also revealed a certain lack of trust between the formal and the informal economy - unregistered entrepreneurs were said to be reluctant to take advantage of existing services offered to them by competent institutions (e.g. KOSGEB). On the other hand, employers’ organizations hesitated to represent unregistered employers and to consider them as partners in the search for solutions, rather than the problem. Promotion of trust and a cooperative attitude between employers of the two segments of the economy represent important elements to addressing the unregistered economy without increasing unemployment, poverty and social exclusion.

## **Achievements**

In both provinces, Gaziantep and Corum, rapid assessment studies on the situation of employment and the informal economy, based on interviews with key actors in both the formal and informal economies of these two provinces, were prepared. On the basis of these studies, the tripartite constituents elaborated provincial employment strategies, which are now in place and being implemented.



As a further result, the institutions and mechanisms of social dialogue in the two provinces were activated and strengthened in that constituents meet more frequently and cooperate more efficiently.

#### **Continuation**

TISK is interested in extending the project activities to other provinces in Turkey to multiply their positive effects. Within the context of an EU/ILO successor project, Bursa has been identified as a province for further action. In this regard a study has already been carried out in this province.

A territorial diagnosis study has been prepared on the basis of which the employers proposed more intensive efforts to improve vocational training in the province. Functioning and capable vocational training structures are seen as a major approach to address the informal economy by increasing worker productivity and attracting investment. In Turkey, the employers and workers in the metal and construction industries have taken the initiative on this in the past. Their experience may serve as a model for emulation in this province.

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## The Caribbean

In the Caribbean, the programme on the informal economy has involved cooperation with national employers' organizations in Belize, Dominica, Grenada, Jamaica, St. Kitts and Nevis and Suriname. Programme activities have been designed to contribute to the efforts of national employers' organizations to promote an enabling environment for private sector development at all levels, and in particular for SMEs in the informal economy. The programme also focuses on influencing the national economic and social policy environment to promote private sector development and contributing to the development of training strategies which respond to the specific needs of SMEs.

In most of the countries concerned, the first step was to prepare a diagnostic study on the characteristics of the informal economy, containing recommendations for action by the authorities and employers' organizations. In certain countries (Jamaica and Dominica), the employers' organizations concerned have launched training activities for SMEs and informal operators. In addition, a subregional workshop was held to enable the employers' organizations concerned to exchange experience and focus on action strategies.

### Subregional workshop for Caribbean employers' organizations

On the basis of the programme activities carried out, participants at the workshop, organized by the ILO in collaboration with the Jamaica Employers Federation (JEF) in Ocho Rios, Jamaica, May 2005, agreed that, as in other regions, SMEs were taking on added importance in job creation, particularly in view of the pressures resulting from globalization, including downsizing, lay-offs and the restructuring of more traditional sources of employment and wealth creation.

The workshop also pointed to a number of factors which contribute to the spread of the informal economy, including:

- lack of government support, combined with excessive bureaucracy and "cronyism";
- the minimal size of the manufacturing sector;
- the lack of synergy between governments and the relevant associations and public agencies;
- lack of access to financing;
- failure to achieve the necessary standard to compete globally;
- inadequate dissemination of the information necessary to improve capacity;
- regulatory barriers, taxes, fees, time-consuming customs formalities.

### Dominica

In Dominica, the informal economy, which makes a large contribution to GDP, has grown in recent years as the unemployment rate has reached 23 per cent. Downsizing and lay-offs, particularly as a result of the decline in the formerly dominant banana industry and the effects of Hurricane Ivan in 2004, as well as the increase in services as the dominant economic sector (58 per cent of GDP), have forced many micro-enterprises to emerge.

### Lack of support for the development of micro-enterprises

Despite a number of initiatives to support SMEs, particularly through training and access to credit, the needs of entrepreneurs in the informal economy are not being met fully, especially as business service providers in the formal economy normally cater for larger enterprises.

In recognition of this need, the Dominica Employers Federation (DEF), which has been engaged in a series of training of trainers workshops, collaborated with the ILO to conduct a survey of the informal economy with a view to providing data and determining the training strategies that should be adopted to help informal operators realize their full potential.

In so doing, the DEF's objectives are to:

**The Dominica Employers Federation (DEF)** was established in 1966 as an organization to represent the interests of employers, to offer conciliation services and legal services, to promote social justice, social dialogue and capacity building; it is also a member of the Health and Safety Board. The main objectives of the Federation are the following: a) to promote good relations between

employers and between employers and employees and to promote the cause of good industrial relations within the Commonwealth of Dominica; and (b) to afford facilities for the interchange of information and ideas among employers and others and to foster and develop education in all matters affecting industrial relations.

- influence the national and social policy environment by promoting private sector development and contribute to training strategies that respond to the specific needs of SMEs and micro-enterprises; and
- extend representation and provide services to businesses operating in the informal economy.

The survey identified a number of problems faced by SMEs and micro-enterprises, including: the lack of financing (for start-up, expansion, training and promotion, as collateral is difficult to obtain and the cost of financing is usually prohibitive); the lack of good dependable workers; a shortage of inputs; difficulties in gaining market access (there is no research and development agency in Dominica); the lack of marketing knowledge and experience; the insufficient potential for expansion; weak organization and planning; and the low level of cooperation among SMEs and micro-enterprises.

### Training needs

The survey therefore suggests that training is needed by SMEs and micro-enterprises in the following main areas:

- **marketing:** many SMEs and micro-enterprises are going into business without any clear idea as to how and where to market their goods;
- **skills training:** training is needed in many service areas (such as carpentry and plumbing) to achieve world-class status;
- **management training:** human resource training is required to help in the management of employees and to improve productivity;
- **organization and record keeping:** many support agencies cite this as a common omission;
- **time management and forward planning:** many SMEs and micro-enterprises operate on an ad hoc basis with no idea how they will operate from one day to the next.

Other areas of the operation of SMEs and micro-enterprises which require attention are the lack of cooperation between small and micro-enterprises and the special situation of women, who are accounting for increasing numbers of micro-entrepreneurs.

### Jamaica

The informal economy is clearly large in Jamaica. It has been variously estimated over recent years that it generates over 40 per cent of GDP and that small and micro-enterprises account for over one-third of GDP and employ around 300,000 persons out of a total population of 2.6 million.

In recognition of the importance of SMEs, the Government has taken several measures. Efforts have been made to determine the extent to which macro and meso policies have created barriers to the development of SMEs, and the findings have been taken into account in the National Industrial Policy. There have been various initiatives to provide loans to SMEs on advantageous terms and to offer them other forms of assistance. Small businesses are represented by the Small Business Association of Jamaica (SBAJ), which also provides business services.

### Study of SME development in the informal economy

In collaboration with the ILO, the Jamaica Employers Federation (JEF) undertook a study of SME development in the informal economy. Based on the responses to a questionnaire sent out to a small number of informal operators, the study found a high level of women informal operators, with a majority of informal enterprises in the market vending sector. Most of the respondents were not aware of the process for the registration of businesses.

The study made a number of recommendations on the role that could be played by the JEF, including:

- the provision of modular courses on the business registration process, including the preparation of business proposals;

The **Jamaica Employers' Federation (JEF)** was established in April 1958 as a representative organization of employers in Jamaica. The membership is now in the region of 350, including individual companies, corporations and associations. The major policy-making body is the Council, which elects an Executive Committee. The Secretariat, headed by an Executive Director, is responsible for implementation. JEF provides its members and others with training as well as information on policies,

conditions of employment, rates of pay, general and specific human resource practices, and industrial relations matters. The Federation also hosts an annual Convention, the first event of its kind in the Caribbean.

- the distribution of the various application forms required for the registration of a business and the provision of related advisory services;
- the holding of seminars and public forums to increase awareness of available credit options for small businesses;
- the facilitation of dialogue involving informal operators;
- the identification of further strategies and measures to assist the registration process, such as a moratorium on tax payments upon registration; and
- the organization of a promotional campaign on the registration process and the benefits to be gained by businesses from registration.

The study also calls for the Office of the Registrar of Companies (ORC) to review and shorten the registration process, develop a one-stop decentralized process and raise awareness of the various requirements and procedures.

Based on the study, the JEF is now finalizing a position paper on the informal economy.

The JEF also held a workshop on 30 November 2005 for potential entrepreneurs on how to start a business and is considering organizing similar events in future, if possible in the various regions of the country. Those making presentations at the workshop included ORC, the Inland Revenue Department, Jamaica Customs and financial institutions.

The **Grenada Employers Federation (GEF)** was registered in 1962 under the Trade Unions Ordinance No. 20 of 1951, as the representative body of employers in Grenada.

Its mission statement then was "To promote and protect the mutual interest of employers and foster a healthy industrial relations environment". This was later changed to "To promote and protect the interest of employers as it affects industrial relations".

## Grenada

The recent past in Grenada has been largely marked by the devastation caused by Hurricane Ivan, which hit the island on 7 September 2004, and the subsequent reconstruction efforts. In these circumstances, the activities of the Grenada Employers Federation (GEF) in the context of the ILO's informal economy programme have been confined to conducting a study, which however offers many insights into the situation with regard to the informal economy in Grenada.

While noting that a thorough statistical survey, based on a stratified random sample of the economically active population, would be needed to accurately ascertain the main characteristics of those engaged in the informal economy, the methodology used for the GEF's preliminary study, namely observations, note-taking and informal chats with informal operators, offers a good basis for understanding the situation.

The study starts by pointing out that Grenada needs its SME sector, and especially its SMEs in the informal economy, more than ever before to alleviate the dramatic downturn in employment, especially among the poorest and most marginalized, in the wake of Hurricane Ivan. It is estimated that around 8 per cent of the workforce was displaced in the immediate aftermath of Ivan, with a parallel mushrooming in the growth of informal micro-enterprises. Initially focussing on importing essential goods, such as fruit and vegetables, tarpaulins, candles, lamps, ice and building materials from neighbouring islands, some of these operations still exist and have grown, such as those importing fruit and vegetables and building materials.

## Reasons for entering the informal economy

Against a background of high levels of unemployment and underemployment, with around one-third of the population estimated to live below the poverty line and two-thirds of adults having no qualifications, the study outlines a number of the main reasons why people seek and find work in the informal economy:

- no specified level of training required;
- no standards or certification requirements acting as barriers;
- low start-up capital requirements;
- low transaction costs and avoidance of taxation and contributions;

- minimal oversight by State agencies, for example in the fields of safety and health and food cleanliness standards;
- no requirement to own land or a building to start an activity.

### The study's recommendations

Finally, after warning that the legislative and policy environment needs to be reviewed in depth, the GEF study points to a number of areas in which measures should be taken to help informal operators, such as:

- the establishment of a system of certification and identification of farmers for their protection;
- the development of a procedure for skill certification in the construction and other sectors, which would also facilitate labour mobility in the Caribbean Community (CARICOM);
- the strengthening of skills training in such areas as construction, hotels and restaurants;
- the age at which people can borrow legally should be reduced from 21 to 18;
- the provision of tax and other concessions to development and similar institutions, such as the National Development Foundation (NDF);
- policy measures to foster the development and collaboration between institutions providing business support services;
- a system of concessionary financing at lower rates for SMEs;
- a system to enable the produce of local farmers to be sold to cruise ships;
- a review of contentious issues between formal and informal operators, such as pavement vendors.

### St. Kitts and Nevis

Since 2001, the St. Kitts and Nevis Chamber of Industry and Commerce (CIC) has been engaged in ILO technical activities focussing on the development of SMEs and informal operators. The technical activities have consisted of several components, including:

- a study on the characteristics of the SME sector and the informal economy in St. Kitts and Nevis, containing recommendations on how to address the needs of the two sectors;
- the organization of two workshops to assess the needs, requirements and concerns of the SME sector, and to finalize a policy document on the sector;
- the promotion of draft legislation to create an environment that enables the development of SMEs; and
- the provision of entrepreneurship training, particularly for displaced sugar workers.

### The informal economy in St. Kitts and Nevis

The study, completed at the end of 2004, was unable to find much firm data on the informal economy in St. Kitts and Nevis, or on its contribution to the national economy. However, it noted that there are few large employers in the country, with the State being the principal employer. The study also noted that there appears to have been a steady growth in SMEs and the informal economy over the past 15 years, with a much larger informal economy in St. Kitts than Nevis.

As agriculture and fishing account for only a low level of social security contributions, it may be assumed that there are many informal operators in these sectors. There is also a certain level of informal vending, particularly of locally produced jewellery, local food, drink and confectionery, and citrus fruit imported from Dominica. A craft market, the Amina Craft Market, has recently been established for such vendors in Basseterre, as well as the "All Kinds 'a Thing Mall". There appears to be a high concentration of informal businesses headed by women. A significant factor in the development of informal sector activities is anticipated to be the closure of the sugar industry at the end of 2005, resulting in the displacement of some 1,500 workers.

### Recommended measures

The study's recommendations were made with a view to assisting in the development of informal operators, equipping them with the tools necessary to

The **St Kitts and Nevis Chamber of Industry and Commerce** was incorporated in 1949 to serve the needs of a post-war, burgeoning local private sector in an economy that had been dominated by sugar for over 200 years. The organization functions as a business assistance and research organization with the mandate to lobby on behalf of its 137 members. The Chamber boasts a 60-member Nevis Division formed in 1996, and a 28-member Manufacturers' Division – being the product of a successful amalgamation of the St Kitts Manufacturers' Association into the Chamber in 1988.

The main areas of activity are: labour market research, training, research and data analysis, information dissemination, enterprise network development and facilitation, public relations, enterprise representation, dispute resolution, SME development, employee compensation guidance and advice, events coordination and the organization/facilitation of international trade missions.

become mainstream businesses and assessing their contribution to the national economy on a continual basis. They include:

- the need for a proper system of statistical data gathering and analysis covering the activities of SMEs and the informal economy and their role in job creation;
- the establishment of a reliable business register;
- an awareness/business education programme to improve understanding of the benefits of membership of associations/cooperatives, and also of the expected impact of major new trade trends and agreements, such as the CARICOM single market;
- public/private sector collaboration on a business incubator programme to assist entrepreneurs with business start-ups and to help them obtain essential skills and knowledge in such areas as designing a business plan, small business management and financial management, with a view to facilitating the development over time of SMEs and informal operators into larger more mainstream entities;
- development of a lower cost pool of loan funds for SMEs.

#### **Draft legislation on SMEs**

Another important recommendation, to which effect has been given, is to lobby actively for the adoption of the Small and Medium Scale Enterprises Bill, which is designed to address many of the information gaps identified in relation to SMEs and informal operators and to create a favourable environment for their development. The CIC has extensively used ILO Recommendation No.189 (Job Creation in Small and Medium-Sized Enterprises Recommendation) for this purpose. The Bill focuses on:

- the proper classification of SMEs and informal operators by turnover and size of staff;
- SME certification;
- establishment of a SME business enterprise register;
- fiscal incentives for registered SMEs, in the form of concessions on consumption tax, a reduced rate of income tax for the first three to five years of operation or restructuring, and lower interest rates for SMEs;
- increased Government procurement of goods and services from SMEs;
- the provision of technical assistance to SMEs by the authorities; and
- representation on a Government SME Advisory Committee.

#### **Entrepreneurship training for displaced sugar workers**

The CIC was also involved in the organization of entrepreneurship training in late 2005 for displaced sugar workers showing an interest in starting their own businesses in a range of areas, including fishing, farming, landscaping, agro-processing, office/residential cleaning, gardening and housekeeping. A seminar was held outlining the main requirements for starting a small business or entering self-employment, the types of assistance available and possible areas for joint ventures, such as producing cash crops for local supermarkets. The seminar was followed by the provision of assistance to the persons concerned for the development of business plans.

The CIC is also planning to organize training for entrepreneurs on the implications of the new legislation once it has been adopted.

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## Latin America

The ACT/EMP programme on the informal economy has covered eight countries in Latin America: Brazil, Chile, Colombia, Ecuador, Guatemala, Mexico, Panama and Peru. In each of these countries, programme activities have focused firstly on carrying out a study of the informal economy, with recommendations for action by employers' organizations and policy proposals for lobbying.

In their diagnosis of the situation and recommendations for action by the public authorities and other concerned actors, the studies paint a fairly homogenous picture of countries with a very large informal economy, although it is smaller in countries such as Chile.

The studies find that the large informal economy is a product, not only of economic crisis, poverty and the failure of the formal economy to offer adequate levels of employment, but also and in particular of a serious lack of adaptation by the authorities and the various State systems to the needs and expectations of those concerned, combined with a high level of bureaucratic complexity and rigidity.

This situation is in turn largely due to a deficit in participation. Those most closely concerned, namely informal operators and their representatives, employers' organizations and associations representing SMEs, have to be involved in the development and adaptation of the various systems, such as business registration, training, taxation, access to credit and business services, if there is to be any chance of establishing a business environment which is conducive to the development of formal enterprises and the integration of informal operators into the formal economy.

Although there are clear differences in the level of awareness of the problem of the informal economy, with the authorities in Chile and to a lesser extent Peru, fairly well advanced in the development of dialogue and policies on the subject, most of the studies adopt a fairly similar position, which is well-summarized by the conclusion to the Brazilian paper:

“The theme of informality cannot be viewed as a problem that is limited to the labour market or product markets. Irrespective of how it is viewed, as a category of workers without contracts, own account and unpaid workers, or through an enterprise perspective (small businesses with up to five workers), the fact should not be overlooked that it is not an adequate response to increase State *enforcement*. The strategy to address the informal economy has to be integrated into a broader policy of economic growth which fosters an increase in activity and reduces inequality. In this respect, the reduction of inequality does not refer to inequality of output, but in particular of access to the various forms of goods which make up the wealth of the actors concerned (including business goods and services).  
(...)

Such an objective cannot be attained by one sector in isolation, and it is therefore essential to be able to count on the participation of the government (at all levels), the private sector and civil society to supply these goods, which are



public, but not necessarily produced by the State.

In breaking the barriers which limit the development of informal businesses, by developing markets and creating a structure of incentives for formalization, informality is no longer seen as an economic ill or deviation from moral behaviour.”

The Chilean study adds that, although there is a belief in certain quarters that the problem of the informal economy can be resolved simply by economic growth and the modernization of the economy, the evidence shows that these elements are not sufficient in themselves. Policies for the modernization and integration of informal operators have to be based on a close analysis of the great diversity to be found in the informal economy and have to be designed to combat the underlying causes of informality. Moreover, formalization, understood as a transition from lack of compliance to compliance with the related formalities, has to be accompanied by incentives for operators which have reached the formal economy to remain in it.

### Brazil

The **National Confederation of Industry** (Confederação Nacional da Indústria - CNI) was established in 1938 as the chief institutional representative of Brazilian industry. The CNI coordinates a system comprising 27 federations of industry which represent all of the country's states and the federal district - with a membership of some 1,016 employers' unions - and oversees the National Industrial Training Service (SENAI), the Industrial Social Service (SESI), and the Euvaldo Lodi Institute (IEL). Over the years the CNI has concentrated on the formulation of policies leading to the establishment of an integrated and diversified industrial structure. As consolidation was accomplished, the focus since the early 90s has shifted to improving the competitiveness of Brazilian industry and integrating it into the world economy. CNI's mission is to promote and support nationwide efforts to attain sustainable and balanced development in both the geographical and socio-economic dimensions.

One of the characteristics of the informal economy in Brazil is that it is in many ways a by-product of the country's highly successful post-war policy of import substitution, which saw a period of rapid economic growth and a massive concentration of the population in urban areas. While many new arrivals from rural areas found jobs in the expanding formal sector, many others had to resort to the burgeoning informal economy. Over the 1990s, the rate of informality in metropolitan areas is estimated to have risen by around 10 per cent, with this increase undoubtedly being closely related to the growth of the service economy.

### Disincentives and barriers to formalization

Many aspects of the Brazilian system, and particularly its bureaucracy, act as a disincentive to the formalization of informal operators, thereby helping to perpetuate the informal economy. These aspects include:

- **the legalization process** for enterprises, which is excessively long and costly. The study cites World Bank figures showing that the 15 or more bureaucratic procedures required to register an enterprise in Brazil take a massive 152 days to complete, compared with four in the United States and two in Australia. Moreover, the cost of such procedures amounts to half of the average annual per capita income in Brazil. It is estimated that, as a result, the level of informality in Brazil is 40 per cent higher than it should be in view of the country's level of development.
- **the tax and contribution structure** makes it costly to operate in the formal economy without offering adequate benefits in return. The tax system in Brazil is not effective in its primary aim of redistributing income and does very little to protect the most vulnerable categories of the population, and particularly workers in the informal economy and their families. More progressive tax rates and a simpler structure could encourage lower earners to be declared. The present system contains numerous disincentives: for example, persons earning just over the minimum wage have to pay pension contributions, even though they are guaranteed the minimum wage in any case and will receive very little more in pension benefits in return for a significant contribution; another example is that companies which hire unskilled workers and dismiss them within one year do not have to pay severance payments, which acts as an incentive to hire them for less than one year.

### Recommended policy changes

The study points out that Brazil is a very entrepreneurial society and, in making

policy recommendations, refers to a number of local initiatives which have been successful in harnessing this energy. One of these is the support programme for the self-employed (ATA) in Rio de Janeiro, created in the mid-1990s to complement the programme that was being carried out to integrate the *favelas* ("slum" areas) into the city's formal structure. Initially focussing on the registration of self-employed builders with a minimum level of skills and the commercialization of their services through the Internet or by telephone, ATA has since developed relations with micro-credit institutions and with a large number of private enterprises and NGOs and is now a self-administered and self-supporting association.

Based on inclusion, participation and the targeting of informal operators, and with the proviso that the full integration of SMEs and informal operators is a long-term objective, the study's recommendations focus on the following areas:

- **access to credit, particularly in the form of micro-credit:** as the estimated 17 million micro-enterprises (from one to five workers), most of which are in the informal economy, have no or little access to financial institutions and micro-credit is in its infancy in Brazil, there should be a clear public policy to promote access to credit. One of the main obstacles to such enterprises gaining access to credit is the difficulty for the financial institutions concerned to obtain reliable information on them. A concerted effort should therefore be made to build up databases on SMEs, establish a credit risk centre (the possibility is currently being examined by the Central Bank), promote awareness of the credit options that are currently available for SMEs and encourage local forms of financing involving collaboration between, for example, commercial banks, credit cooperatives and local development agencies.
- **an improvement in the functioning of markets in general, and for business services in particular:** the experience of Emilia Romagna in Italy, where five decades of stable power and close collaboration between the interested parties, namely the authorities at all levels, employers' associations, trade unions and other institutions, led to a period of extraordinary growth, particularly for SMEs, shows that the functioning of local markets, not just for the products and services supplied by SMEs, but also for services which benefit them, such as training, can be improved through a concerted participatory process. As no single actor can hope to achieve this objective on its own, government will have to share the functions of diagnosis, policy formulation, implementation and evaluation with all the concerned public agencies, the private sector and civil society.
- **the targeting of employment policy measures on SMEs and informal operators:** at the moment, employment policy measures are targeted almost exclusively at employers in the formal economy, and normally large employers. Yet most poverty and the worst conditions are to be found in the informal economy. If the available resources, for example from unemployment insurance funds, were to be focussed on initiatives which could improve conditions in the informal economy, for example by improving the supply of training courses and access to them, or guaranteeing loan schemes for SMEs and informal operators, action would be targeted where it is most needed and would therefore be more effective. The idea is not for public agencies to provide services directly, but to strengthen the supply and demand for such services, for example through the provision of training vouchers.

## Chile

Of the Latin American countries covered by the programme, it is in Chile that the informal economy, although still significant, appears to be smallest in size. Estimates based variously on tax evasion, money supply and compliance with regulations consider that the informal economy accounted for somewhere between 20 and 25 per cent of the economy as a whole at the turn of the century, and that its size had decreased over the 1990s. Around 70 per cent of micro-enterprises (from 2 to 5 persons) pay taxes and VAT. One contributory factor to this situation is the relatively efficient system of inspection in Chile, particularly for taxes.

The **Confederation of Production and Commerce (CPC)** is the leading trade association of Chilean employers and managers. It was founded in 1935 and gathers together the main production sectors of the country.

The CPC's objectives are to promote and defend the conditions that facilitate the creation and maintenance of business initiatives,

and a legal and economic setting that favours free competition and growth of businesses operating in Chile; promote and divulge the ethical principles that the private business sector should use as the basis for the development of its actions; represent the opinion of the private business sector with the government, political entities and other institutions and coordinate the programmes and activities of its branches, with reference to the orientation and defence of the highest commercial and production interests.

In order to comply with its mission, the CPC interacts with the various public authorities, as well as other social entities.

In the area of civil society, it maintains close links with unions, workers, universities, study centres and social media.

Over recent years, the Government in Chile has launched various initiatives to promote SMEs and encourage the registration of informal operators. These have included the simplification of bureaucratic requirements, the introduction of one-stop-shops in certain cities for registration and tax purposes, the promotion of information technology and Internet use for the payment of taxes and contributions and a campaign to simplify bureaucracy at the municipal level. Even so, while at an average of over 25 days, bureaucratic requirements for the registration of enterprises are less onerous than in most other Latin American countries, they still form a considerable barrier for many micro-enterprises.

In 1999, the Government gave a series of undertakings for the promotion of SMEs. These include:

- a permanent dialogue with SMEs and their representative organizations;
- the strengthening of representative organizations of SMEs;
- an increase in resources for SME support programmes, including support for exports;
- the promotion of links between SMEs and universities;
- new mechanisms for the provision of credit to SMEs;
- draft legislation to prevent abusive practices by large enterprises in relation to SMEs;
- promotion of the access of SMEs to the Internet; and
- a reduction in bureaucracy.

### Proposals for further action

The study carried out by the Confederation of Production and Commerce (CPC), in collaboration with the ILO, in addition to an in-depth global analysis of the concept, causes and possible solutions to the problem of the informal economy, acknowledges the action taken by the Government in this respect and makes detailed proposals on how this action could be supplemented. The proposals include:

- the establishment of (and provision of information on) financial incentives for the registration of SMEs, such as the tax- and duty-free purchase of inputs and machinery;
- strengthening the information and advisory functions of the tax authorities, alongside their inspection duties;
- a series of measures to facilitate access to credit by SMEs, including State guarantees, a database on those responsible for enterprises, and reduced prices for official acts by notaries;
- changes in the legislation to allow the progressive integration of SMEs into the formal economy.

Since May 2005, the CPC has also been collaborating with the Ministry of Finance and the Ministry of Finance and the Economy on a public-private Plan for the Promotion of Entrepreneurship. In addition to the simplification of formalities, the Plan includes practical measures focusing on the promotion of SMEs at the international level, based on: international action by associations of SMEs to facilitate technological and commercial exchanges; the identification of potential exporters and assistance in overcoming weaknesses; the organization of trade fairs; entrepreneurship training; promotion of on-line commerce; and support for enterprise associations, especially for SMEs involved in exports.

### Women in the informal economy

The study includes a chapter on the situation of women in the informal economy. It notes that the link between working in the informal economy and poverty is stronger for women than for men. A higher percentage of women than men work in the informal economy, and their numbers have increased more rapidly than those of men. This rise has four main reasons:

- the need to obtain income for the family;
- the need for self-development;
- their desire for financial independence; and
- the existence of one-parent families with women heads of households.

Almost half of women in the informal economy work at home. They tend to be active in sectors traditionally occupied by women, such as the preparation of food products, in which they already have basic skills and which require minimal initial investment. Moreover, women's micro-enterprises tend to be smaller, have a lower level of technology and lower investment levels than those of men. They also involve unpaid family labour more frequently.

The **National Association of Entrepreneurs (ANDI)** was founded in Medellin on 11 September 1944 as a non-profit body with the primary objective of spreading and promoting the economic and social principles of a healthy free-enterprise system based on the dignity of the human individual, political democracy, social justice, private property and individual freedom. In its primary role of promoting the interests of private enterprise, ANDI represents its members in national and foreign bodies concerned with economic, legal, social, environmental and other issues relating to business.

ANDI works with the legislative and executive authorities in developing and adopting national standards, and advises and informs its members in areas relating to business activity with a view to adjusting their management practices and harmonizing their relations with the community.

ANDI coordinates representative activities so as to ensure a unified approach in the private sector towards major national issues, and supports its members in efforts to reconcile business activity with the interests of the environment and society at large and direct the processes of modernization towards sustainable national development.

The **National Federation of Chambers of Industry of Ecuador**, which is the country's leading employers' association, was founded in 1972 and is an organization grouping together all the country's chambers of industry and provincial chambers. The presidency of the Federation alternates annually between Quito (Pichincha Chamber

## Colombia

Official data in Colombia suggest that the informal economy accounts for around 60 per cent of the economically active population in the major urban areas (the 13 metropolitan areas). However, there may be reasons for doubting that the figure is quite as high as this. In the first place, the figures also show that over 60 per cent of workers in the informal economy are affiliated to social security schemes. Moreover, some 13 per cent of informal workers are covered by the pension system. Around 50 per cent of the economically active population is engaged in domestic service, self-employment and unpaid family work, where the rate of informal work is traditionally high.

The Colombia study looks carefully into the definition of the informal economy, as well as precarious employment and micro-enterprises, and one of its principal recommendations is that better definitions and statistics of all three are needed if effective action is to be taken to improve the productivity and conditions of the most vulnerable elements in the economy and the workforce.

Starting from the assumption that the best policy in relation to precarious work, the informal economy and micro-enterprises is to increase the competitiveness of the country, it emphasizes the need for supervision and coercion to ensure that micro-enterprises and other informal operators comply with their obligations in relation to the tax and social security authorities. The study also makes a number of more specific recommendations concerning informality:

- the criterion to be used concerning whether or not a micro-enterprise is formal or informal should be its registration, which would make it possible to produce more accurate data at the national level and would improve the comparability of data between countries;
- a transition period could be established to allow micro-enterprises that have not yet done so to complete the necessary registration formalities;
- while a permissive approach should not be adopted for those failing to comply with the related obligations and regulations, it is necessary to review requirements so that they are adapted to current competitive conditions: in particular, the burden placed upon those complying with the law is too high and is therefore dissuasive;
- there should be a simplification and grouping of certain of the taxes and contributions that have to be paid by small and micro-enterprises, so that they can be paid in a more regular manner involving fewer administrative formalities, which are extremely time-consuming.

The study also examines the factors that have enabled certain small enterprises to be successful. Among the criteria identified, which include educational level and access to credit facilities, emphasis is placed on the development of production chains or networks and the development of business relations with large enterprises, as suppliers and agents, but also in networks as a means of sharing experience, particularly of export markets. Along the same lines, strengthening associations of small and micro-enterprises can be an effective means of improving their competitiveness by facilitating their access to raw materials, technology and services, and by combining their production capacity.

## Ecuador

With an economically active population of around 6.5 million persons, estimates for 2001 show that around 1.5 million people in Ecuador work in the urban informal sector, mainly in urban industrial activities, micro-enterprises and vending, accounting for nearly 40 per cent of all urban workers. Some 17 per cent of the economically active population also work in agricultural activities, where there is traditionally a high level of informality.

Although the population of Ecuador is rising (from 12.1 million in 2001 to 13

of Industrialists) and Guayaquil (the Guayaquil Chamber of Industrialists), and there is a certain well-known rivalry between the two. The Guayaquil employers are demanding greater participation for their sector and greater regional autonomy. One step in that direction, and proof of greater understanding, has been the establishment of the Employers' Committee of Ecuador (CEE).

million in 2004), the economically active population is declining due to migration, particularly to the United States and Spain. It is also estimated that 60 per cent of the population of Ecuador is below the poverty line.

#### **Legislative and administrative complexity**

Small and micro-enterprises and craftworkers in Ecuador are governed by a series of legislative texts, which are intended to protect them and encourage their development, but which in practice make their registration and operation extremely complex. Part of this complexity is due to a duplication of competent State bodies, and therefore a lack of clear areas of competence. Moreover, many of the provisions of the relevant legislation have not been applied in practice, particularly those calling for the establishment of systems of preferential credit facilities for small and micro-enterprises and the creation of a National Council for Micro-Enterprises (CONMICRO).

#### **Recommended policy changes**

The country paper for Ecuador makes a number of policy recommendations to encourage the development of small and micro-enterprises and help the integration of informal operators into the formal economy:

- all the functions relating to promotion, training, registration and statistics for small and micro-enterprises should be centralized in a single State Secretariat with the power to recognize the legal personality of enterprises;
- the procedure for the establishment of associations representing small and micro-enterprises and craftworkers should be simplified so that they can group together to further and defend their interests more easily and effectively;
- the State should improve and intensify its activities to improve the skills of entrepreneurs and craftworkers, without making the provision of such training dependent on their prior registration;
- a reform should be carried out of the tax and social contribution system for small and micro-enterprises, as the present system is subjective and not applied consistently, with social contributions only giving rise to poor levels of social services; and, in particular, the greatest emphasis should be placed on overcoming the principal shortcoming relating to small and micro-enterprises, which is the lack of special credit institutions and facilities for them, despite the provisions in the various laws requiring the establishment of preferential credit facilities through the National Development Bank.

The **Coordinating Committee of Agricultural, Commercial, Industrial and Financial Associations (CACIF)**, established in 1957, is the central association of Guatemalan employers. The umbrella organization is currently split following the breakaway of the Chamber of Commerce, which takes no part in the work of the CACIF. Membership is voluntary, and the organization includes private sector organizations representing all branches of the economy. It is thus a tertiary organization (a confederation which does not admit individual companies). It is based on three fundamental principles: that the general interest takes precedence over that of the individual; that the system of free enterprise is the best means of achieving economic and social progress; and that the basis for reconciling different interests is strict observance of legal and constitutional provisions.

### **Guatemala**

Various estimates suggest that around one half of the economically active population works in the informal economy in Guatemala, with the percentage being higher in rural than in urban areas. However, some estimates go as high as three quarters of the economically active population. Similarly, the informal economy is estimated to account for around half of GDP.

#### **“La Terminal” as an entry point to understanding the informal economy**

The study carried out as part of the ILO programme on the informal economy chose a single entry point, although an important one, for its investigation of the principal characteristics and needs of informal operators. “La Terminal”, the main bus station in Guatemala City, is also the largest market in the metropolitan area, composed mainly of informal stalls and vendors. La Terminal is also a cultural meeting point. However, it is facing a crisis, as the municipal authorities are planning to transfer the bus station elsewhere, and the volume of buses using the Terminal had indeed been reduced by half when the study was carried out. One interesting aspect of the informal operators working in La Terminal is that they are organized in various ways and, through their organizations, have been opposing the authorities' plans for the bus station.

The survey of the informal economy in La Terminal was carried out on the basis of interviews with the leaders of the informal operators in the market, as well as civic leaders. Although the conclusions of the survey have not yet been finalized, the study offers a number of preliminary findings. For example, it emphasizes that, although there is clearly a shortfall in public income because of the size of

the informal economy, care should be taken in condemning the social consequences of informal operators, since the informal economy acts as the lungs which allow the country as a whole to live in view of the chronic lack of employment in the formal economy. Moreover, one of the factors which make people opt for the informal economy is the very widespread perception of the State as being inflexible and of not making good use of the resources collected through taxation and other dues and contributions.

### Recommendations to address the informal economy

In view of the situation described above, the report makes a number of recommendations, the most general of which call for greater openness in the formulation of public policy. Although this does not necessarily go as far as involving public consultations, or the recognition of unrepresentative organizations, what is needed is greater legitimacy in decision-making processes. The authorities should show that: the proposals put forward by the various interest groups are taken into account and the solutions chosen are those that are best adapted to the situation; all those involved (both formal and informal operators) are adequately informed of the action that is to be taken; the advantages and disadvantages of the measures adopted are explained; and it is openly explained why other options were not considered or adopted.

The more specific recommendations consist of:

- reviewing policy on the use of public spaces, where a large number of informal operators, and particularly vendors and those operating market stalls, carry out their activities: for example, raising the level of rents would result in less competition and corruption in the allocation of spaces in markets;
- reducing the costs and complexity of the registration procedures for enterprises through the establishment of decentralized one-stop-shops at the local level;
- offering tangible benefits at the local level;
- including courses on running a business in primary and secondary education and providing accessible high quality health care;
- carrying out an in-depth review of the current labour legislation, particularly in relation to minimum wage-fixing, to take into account the surplus supply of labour and other macroeconomic factors;
- reviewing the non-wage benefits of formal employment with a view to reducing the cost of creating new jobs in the formal economy and making the labour legislation more flexible;
- extending the representation of employers' organizations to the informal economy to help informal operators present their problems and interests in a unified manner.

## Mexico

The **Confederation of Employers of the Republic of Mexico (COPARMEX)** is an employers' association based on voluntary membership which brings together employers from all sectors in order to represent them in work-related and social matters. Its independence, strength and moral authority are derived from its total voluntary membership of just over 36 million individuals. It comprises some 1,500 direct individual employer members, eight federations, 53 employers' associations and 21 delegations representing the various sectors of economic activity throughout the country. COPARMEX strives for harmony in relations between employers and workers by promoting a new work culture; promotes the development of a market economy with social responsibility; encourages the active participation of its members

The Mexican economy is rapidly becoming less competitive, partly because of the emergence of Asian countries, and particularly China, and also in view of the profound restructuring undergone by other countries, such as Chile. But one of the most serious problems facing Mexican society is the size of the informal economy, which is estimated to account for nearly half of all the country's economically active population.

Among the main causes of this situation, reference may be made to:

- the complexity of the fiscal system;
- the disproportionate fees charged for business registration, with the costs being set at the same level for small and large enterprises;
- the very cumbersome bureaucratic requirements for formal businesses;
- the high level of supervision, with over 40 authorities monitoring, auditing and inspecting contributors;
- the trend for mature workers, who are still fully able to work, to be dismissed, with few employment alternatives remaining for them;
- the serious difficulties encountered in finding jobs for new entrants into the labour force; and
- the lack of policy measures to address the informal economy.

with the aim of creating conditions conducive to the common good; defends its members' legitimate rights as employers and encourages the social, economic, legal and political reforms needed to further national development. Its mission is to strive, by uniting and representing its members, for excellence in the enterprise, and for the development of an appropriate model of a market economy with social responsibility and citizens' participation. The ultimate goal is a Mexico that is fairer, more free and prosperous, has greater respect for the human individual, truth and people's rights, and which will consequently be better able to achieve the common good. The organization's aims are: to represent, serve, train, communicate, unite, defend, propose and participate.

The very size of the informal economy, in addition to being inefficient in terms of productivity and competitiveness, has serious consequences for many of the pillars of Mexican society, particularly in the fields of health care, the housing loan system and retirement pensions. For example, even though the economy is growing at around 3 per cent a year, there has been no growth in formal employment, and indeed a decline in the number and volume of contributions to the Mexican Social Security Institute (IMSS), despite the rising cost of health care. While 67 per cent of the economically active population have retirement accounts with pension account managers, a large proportion of these accounts are not active, probably because they were opened by workers in the formal economy, who no longer use them when they revert to informal work.

### Reforming social security for the self-employed: A response to the informal economy

In collaboration with the ILO, the Confederation of Employers of the Republic of Mexico undertook a study to examine ways in which the situation of informal operators could be improved through adaptations to the various social security schemes, with a view to making it easier and more attractive for them to become integrated into the formal economy.

In particular the study notes that over recent years and decades, initiatives have been adopted in the various branches of social security to extend coverage beyond employees in formal enterprises, and particularly to provide better coverage for the self-employed. Although these schemes have in general been successful, their scope could be extended to cover many more self-employed persons and informal operators. The main examples include:

- **health and maternity insurance:** in addition to the IMSS scheme for employees and their family members, alternative schemes have been developed over the years for the self-employed and for family members. Under these alternative schemes, any person not engaged in an employment relationship can pay a fixed rate for themselves and their family members. This scheme could be expanded and adapted to the needs of informal operators.
- **housing loans:** since 1974, there has existed a system of cheap housing loans in Mexico, based on employers' contributions, to help employees buy a house. This system has taken on considerable importance in the country and, in 1981, a special scheme, or trust, was established for self-employed workers with the specific aim of assisting poorer families to buy their own housing. Based on this experience, it is proposed that the scheme for self-employed workers be extended to include persons working in the informal economy.
- **retirement savings system:** despite the transfer from a pension system based mainly on the pay-as-you-go principle to a system with a greater proportion of retirement savings, based on individual retirement savings accounts, pensions in Mexico still tend to be low and only cover part of the population. While the system of retirement savings accounts has the potential to cover a greater proportion of the population, it has not yet done so, particularly since a high proportion of the accounts opened are inactive. The study suggests a number of measures that could be taken to open up the system to the self-employed and workers in the informal economy and to offer incentives for their participation in the system, particularly in the form of a guaranteed minimum pension once a specified number of (voluntary) payments have been made and the reduction of taxes payable on pensions.

Finally, the study notes that considerable progress has been made over recent years in administrative systems, particularly for social security, for large and medium-sized enterprises, in terms of their automation, the development of databases and the rationalization of the related bureaucratic requirements. A number of detailed proposals are made for the extension of these improvements to small and micro-enterprises and the self-employed, together with measures to reduce the potential financial burden of entering the formal economy and to ensure that such a move is accompanied by tangible benefits, such as ready access to health care and other forms of social protection.

The **National Council of Private Enterprise (CONEP)** was established in 1964 as the central association of Panamanian employers. Affiliation is voluntary, and CONEP is a confederation which does not allow direct affiliation of individual companies, with a total of 14 member organizations from the private sector. Its mission is to "unite, coordinate and represent employers' organizations in order to strengthen the private sector with the aim of stimulating the economy, promoting the social, economic and political transformation of Panama and enhancing its international image". It is guided in this by eight major principles: institutionalization, participation, freedom, development, nationalism and Panamanian identity, national unity, respect for the individual initiative of men and women, and improvement of the human condition.

## Panama

Estimates of workers occupied in the informal economy in Panama range, depending on the source of the data and the definitions used, between one quarter and over half of the economically active population, with the number of women informal operators rising in recent years. The growth of the informal economy may be attributed to similar reasons as in many other Latin American countries: the concentration of economic activity and all services in the metropolitan area; the continuing rigidity of labour law (despite flexibility measures); excessive costs of the registration and legal operation of businesses; and the lack of access to credit for SMEs and micro-enterprises.

In addition, many of those concerned do not have the necessary skills to seek formal employment, particularly in the case of agricultural and rural workers who come to find work in urban areas because of the lack of opportunities in rural areas. The problem is compounded by the ever higher skills levels required by formal employers to be able to compete in the global economy and the presence of economic growth based on technology and activities which are not labour intensive. The policy of trade liberalization and investment in export and service industries has resulted in an increasingly two-speed economy concentrated in Panama City, with rural areas being largely left behind.

### An investigation and consultation process

In collaboration with the ILO, the National Union of Small and Medium-sized Enterprises (UNPYME) undertook a study of the informal economy in Panama. It also organized a consultation meeting to make policy proposals for the development of SMEs and micro-enterprises in the country, with particular reference to discussing draft legislation for submission to the legislative assembly.

The study's recommendations cover the following principal areas:

- **the promotion of private investment as a basis for the generation of employment in the formal economy and the fostering of greater equity:** this would require a variety of measures to attract local and international capital investment, including greater legal protection for loans, the strengthening of training, greater involvement of civil society, the promotion of dynamic sectors (such as tourism) and special efforts to develop rural and indigenous areas;
- **improving competitiveness:** through education and training in modern management methods, lifelong learning for entrepreneurs, the improvement of information and communication systems and measures to facilitate the introduction of information technologies;
- **support for SMEs,** which are the principal source of employment generation, but which only require low levels of capital and investment: an assessment should be carried out of their needs and the measures taken in such fields as finance and training, the promotion of competitive business services, and the strengthening of national and international networks of SMEs;
- **raise awareness of the benefits of operating in the formal economy,** through campaigns, greater efficiency by the authorities, including inspection, the creation of incentives (access to credit, training, new technologies, tax exemptions) and the elimination of obstacles to the registration of businesses; and
- **inter-institutional measures,** such as the coordination of information campaigns and institutional measures, data collection, promotion of the exchange of experience on effective approaches, and the creation of a single register for companies and a single access point for the registration of businesses, along the lines of the experiment carried out for two months between November 2004 and January 2005 in the district of San Miguelito.

A consultation meeting was held which focussed on the provisions to be contained in draft legislation on the promotion of SMEs and micro-enterprises to be submitted to the National Assembly. The Bill proposes a series of incentives for registered businesses, which include social security coverage, housing programmes, credit facilities, legal assistance, study grants, low rates for



electricity and exemption from customs duties for imported machinery. It also proposes a one-stop-shop for the registration of businesses and the resulting formalities, with a set limit of two weeks for the completion of the registration process. As legislation already exists envisaging the establishment of one-stop-shops for business registration, it is only necessary to adopt regulations for its implementation.

The **National Confederation of Private Employers' Institutions (CONFIEP)** represents the private employers of Peru at the national and international levels. Its principal objective is to contribute to sustained economic growth based on investment and employment promotion and achieved through private initiative and the spread of enterprise and private property. Increasingly, it is required to review the global context and promote the country's integration into international markets. CONFIEP currently has 18 corporate members representing domestic private companies. It represents the efforts of Peruvian employers to achieve the goal of national development through collaboration with the State in national decision-making by formulating proposals and plans on topics of national short-, medium and long-term concern.

## Peru

The dependence of the Peruvian economy on small business is highlighted by the estimate that SMEs and micro-enterprises account for 84 per cent of all employment in the country and 64 per cent of GDP. Three quarters of small and micro-enterprises are believed to be in the informal economy (the estimate is 37 per cent for small enterprises).

In view of the preponderance of small businesses in the economy, it is not surprising that the Government has taken a series of measures to promote their development. These include the establishment in 2003 of the National Council for the Development of Small and Micro-Enterprises, which embarked upon a broad process of consultation leading to the adoption in the summer of 2005 of the National Plan for Promotion and Formalization for the Competitiveness and Development of Small and Micro-Enterprises. The main planks of the Plan are to: promote the productivity and competitiveness of MSEs; develop an environment that is conducive to their formalization and quality employment; and the development of public-private institutions for the promotion of MSEs and new enterprises.

One of the main measures contained in the Plan is the establishment of a special system of labour regulation for micro-enterprises. Instituted as a temporary measure planned to last for five years, it sets out minimum standards for wages, working time and rest periods, holidays, compensation for unjustified dismissal, as well as optional coverage by social security for health and pensions. However, these minimum standards do not include many of the benefits enjoyed by employees, such as pay on public holidays, family bonuses or special rates for night work.

### CONFIEP's work programme on small enterprises

In recognition of the undoubted importance of small enterprises in the country, the National Confederation of Private Employers' Institutions (CONFIEP) has been undertaking a work programme, in collaboration with the ILO, focussing on strengthening the linkages between small and large enterprises. The components of this work programme, which is coordinated by a Small Enterprise Committee, include:

- a pilot programme for the achievement of effective linkages between small and large enterprises;
- a discussion of the legal framework, including taxation, labour regulation and the formalization process, with a view to proposing measures for adoption; and
- improving the representation of SMEs through good sectoral practices, including the provision of practical services and training.

One component of this work programme is the drafting of a study setting out the proposals of the workshops organized by the Small Enterprise Committee. While welcoming the Government's efforts to promote MSEs, the study points out that Peru remains one of the most bureaucratic countries in the Asia-Pacific region, particularly at the municipal level. Many of its recommendations are therefore designed to promote the process of simplifying the requirements for the formalization of enterprises, both with regard to tax provisions and registration. The proposal for the simplification of formalities centres around the establishment of one-stop-shops and the implementation of a National Plan for the Simplification of Enterprise Formalities at the Municipal Level, based on the broad participation of all the parties involved.

### Pilot programme on linkages between small and large enterprises

The centrepiece of CONFIEP's action for the development of SMEs was its pilot programme to promote linkages between small and large enterprises, which

consisted of two main phases:

- **phase one** consisted of interviewing the public authorities concerned and identifying the initiatives that they are taking, as well as contacting several large enterprises so that they could specify products and services that they would be prepared and willing to subcontract to small enterprises. These include: the manufacture of clothing and uniforms, various repair and maintenance services, office equipment, meals for workers and the painting of vehicles;
- **phase two** involved identifying small enterprises with the potential to supply these goods or services and arranging a meeting between one of the large firms (Luz del Sur), which was seeking suppliers of uniforms for its workers, gardening and gas and electricity equipment maintenance, and a number of small enterprises. At the meeting, the large firm explained its requirements from suppliers, including the approval process for subcontractors.

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