

# THE INFORMAL ECONOMY

THE EMPLOYERS' APPROACH

INTERNATIONAL ORGANISATION OF EMPLOYERS

*November 2006*



# **THE INFORMAL ECONOMY**

## **THE EMPLOYERS' APPROACH**

### *PREFACE*

The informal economy is a highly complex entity covering broad aspects of economic and social activity. It impacts on all countries and, in certain regions, can account for the vast majority of economic activity.

Understanding the informal economy – its causes and its consequences - is not an easy undertaking. Providing workable policy solutions is even more complex. However, there is an increasing recognition of the untapped potential of the informal economy and there is an increased focus by policy makers on tackling its root causes, such as onerous and cumbersome bureaucracy and legislation, low productivity and access to finance and training.

This paper is an update of the IOE's background paper that was presented to the IOE Management Board in 2001. It attempts in broad terms to outline the employers' approach to this complex issue and identifies specific areas for action by employers themselves, governments and the international development agencies.

## PART I

---

### WHAT IS MEANT BY THE INFORMAL ECONOMY

The “informal economy” in broad terms refers to economic activity that is – in law or in practice – not covered or insufficiently covered by formal arrangements. Those operating in the informal economy reflect a wide degree of situations, which can include for example individuals who are unable to find employment or business opportunities in the formal economy (and in whose case it is a survival strategy); those who find that the costs of conforming to the regulations and laws in pursuing economic activities in the formal economy often exceed the benefits. There can also be individuals or enterprises that *choose* to remain informal for reasons of competitive advantage.

The growth of the informal economy can often be traced to an inappropriate national legal and institutional framework that is not conducive to the development of formal businesses, where compliance with the law is often made more difficult because the law is in itself burdensome or imposes excessive compliance costs. In addition, many developing countries inherited legislation and policy methodologies from a colonial power; even today much outdated legislation is still on national legislatures.

A large informal economy is bad for economic and social development because it in most cases excludes individuals from basic protections and reduces tax revenues. Informality is also often associated with countries with weak institutional arrangements and poor structures of governance, susceptible to corruptive practices.

The importance of the informal economy and its untapped potential have garnered increased international recognition. The report of the UN Commission on the Private Sector and Development entitled “*Unleashing Entrepreneurship: Making business work for the poor*” (March 2004) stated:

*“Many operate outside the formal legal system, contributing to widespread informality and low productivity. They lack access to financing and long term capital, the base that companies are built on.”*

Governments have publicly recognized the importance of developing policy responses to tackle informality, as is reflected notably in the UN General Assembly Summit Outcome Document (September 2005) and, most recently, the United Nations Economic and Social Council (ECOSOC) Ministerial Declaration, which stated:

*“We acknowledge the vital role the private sector can play in generating new investments, employment and financing for development. We encourage Governments to continue to pursue the creation of a conducive environment for enterprise development in both rural and urban areas. Particular attention should be given to policies that promote micro, small and medium-sized enterprises and women’s participation and entrepreneurship in formal and informal sectors through, inter alia, simplified and improved administrative regimes for the registration of small businesses, access to microcredit, social security systems and information on markets and new technology, as well as better regulations. Such policies should contribute to the integration of informal economic activity into the mainstream economy.”*

## **MAIN CHARACTERISTICS**

“*Informal activities*” are conducted across a very broad range of sectors such as tourism, vending, agriculture, manufacturing and the provision of many types of services. When we talk of the ‘informal economy’ we are not talking of one singular entity, where policy solutions can be transposed from one nation’s circumstances to the next. *The informal economy is highly complex with often very specific national problems.*

However, even though no single definition of the informal economy will suffice due to its complexity and the multitude of forms it takes in different countries, it should nevertheless be recognized that it may be characterized by economic activities at *different levels* of sophistication so that:

- at the lower end can be mostly self-employed people trading in basic commodities like food or providing basic transport or other basic services;
- at the middle level are those engaged in more organized trade and small and simple manufacturing of basic goods for customers in the informal economy;
- at the upper end are those engaged in small scale manufacturing with low levels of technology (these can be part of more elaborate supply chains in the formal economy).

Importantly, the issue of *being ‘formal’ or ‘informal’ is not always a black and white issue – there are grey areas.* Some larger companies can be technically ‘formal’ but display elements of ‘informality’ such as avoidance of certain fiscal or social responsibilities – this is often facilitated by inadequate means of legal enforcement.

Because of their very nature (i.e. being outside the law) *compiling reliable information on informal activities is extremely difficult.* However, it is clear that in developing and some transition countries the informal economy can account for anything between a quarter to over three quarters of the economically active population, producing up to half of GDP. In developing countries the majority of people work in the informal economy and most new enterprises are created there - in recent years it has grown rapidly in almost all regions.

*Informality is not the result of globalization* because the origins and main development of the informal economy pre-date the current phase of globalization. It is policy and institutional failures that continue to contribute to informality, thus resulting in the informal economy as a shelter for those who would otherwise have no employment, business opportunities or income sources.

## **GENDER ASPECT**

The importance of women to overall economic activity can often be underestimated as, in the first instance, available data does not always distinguish by gender and, second, because women are more likely to run businesses in the informal economy and to operate through domestic service and homework. Such activities by their very nature are less likely to be counted in official statistics.

The available evidence indicates women’s enterprises tend to be smaller both in terms of workers employed and in terms of the presence and value of fixed assets. It also indicates that more women than men are self-employed in informal activity and generally informal employment is a larger source of employment for women than for men. Women’s enterprises

also tend to be concentrated in low investment, less remunerative sub-sectors which build on traditional skills, while men tend to be concentrated in more dynamic sub-sectors. Additionally women engaged in economic activities may not perceive themselves as “business women” and therefore not register their business, restricting access to business development services.

The overlapping of productive and reproductive roles is an important influence over female entrepreneurial behaviour. This may have implications as to women’s choice of economic activity and investment behaviour. Women may prefer businesses that maintain close links between the personal and business. Women may invest less in their business and more in their family than men.

## **PART II**

---

### **WHAT ARE THE CAUSES AND CONSEQUENCES OF INFORMALITY**

The majority of those who conduct activities in the informal economy do so because they have no other choice, as opportunities in the mainstream economy are not available to them.<sup>1</sup>

The causes of informality are diverse. They range from: a dearth of policy incentives to facilitate job creation; inadequate education and training policies; weak institutions; high transaction costs; overregulation; administrative systems that are prone to corruption and inefficiency; complicated and prohibitive taxation; the absence of property rights; a lack of access to credit and the absence of a facilitative and stable legal and judicial system. Such problems are compounded by a lack of access to technology and market information, labour market rigidities and rural-to-urban migration.

By its very nature the characteristics of the informal economy are largely negative. It can trap individuals and enterprises in a spiral of low productivity and poverty. It constrains the ability of individuals to access capital, credit, technology, markets and institutions. For governments and local authorities it entails the loss of revenue from taxes and licensing fees. For workers it can mean inferior working conditions, job insecurity, lack of access to state benefits and social security. Above all it can inhibit growth. According to World Bank Research hypothetical improvements to the top quartile of countries on the ease of doing business is associated with up to two percentage points more annual economic growth.<sup>2</sup>

As informal operators and workers tend not to pay taxes and social contributions, they can be engaged in unfair competition with formal businesses. Indeed a large segment of the informal economy can consist of medium-sized companies that manage to evade all or part of their regulatory and fiscal obligations, often through connections with government officials.

The shortfall in tax and contribution payments, which is sometimes very significant, places an unfair burden on those businesses which are registered and do fulfil their obligations in this respect. The consequent lack of national financial 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.

---

<sup>1</sup> See IOE publication “Approaches and Policies to foster entrepreneurship” 2005 in the ‘papers’ section of the IOE website [www.ioe-emp.org](http://www.ioe-emp.org)

<sup>2</sup> Uganda launched its program <sup>me</sup> of investment climate improvements in the early 1990s after a period of civil conflict. Reforms covering many areas of the investment climate provided the basis for growing its economy by an average of more than <sup>four</sup> percent a year during 1993–2002 (or <sup>eight</sup> times the average in Sub-Saharan Africa)

Yet, precisely because it is so large in many countries, there is undoubted economic and social 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.

## **PART III**

---

### **POLICY OBJECTIVES**

**The main policy objectives should be to identify the root causes of the existence of the informal economy and the barriers to formalization and to put in place policies to assist informal entrepreneurs to more easily formalize.**

Developing country governments need to focus on creating the conditions to reduce informality and change the composition of the private sector ecosystem over time, namely by bringing into the formal sector large elements of economic activity. Transplanting policy and regulatory approaches from one country to another would be a wrong-headed approach.

A clear recognition of the informal economy will need to be accompanied by rapid steps to analyze its local characteristics and put in place the measures to improve its access to finance and support from the formal sector. The focus should be on measurable outcomes.

National and local governments should provide the necessary conditions which will encourage people to move to the formal economy and create a conducive enabling environment for national enterprises to develop and prosper. In parallel, efforts to achieve this shift should not result in the destruction of existing informal employment. Governments additionally need to examine more imaginative ways of 'encouraging' formalization and applying the law (for instance by enabling informal operators to bid for public sector contracts on condition that they initiate formalization).

There should be a key focus on improving the quality and sustainability of laws – bad, inappropriately designed laws are a key cause of informality. This can be achieved through the application of new law-making approaches (for instance, putting in place impact assessment mechanisms and supportive measures for effective implementation of laws); strengthening the direct and regular participation of the business community in the making of laws; exposing drafters of legislation to international experiences and practices; and ensuring that domestic institutions are strong enough to carry out effective reform and implementation.

Developing country governments have to make a strong and unambiguous policy commitment to sustainable private sector development, and combine that with a genuine commitment to reform the regulatory environment by eliminating artificial and policy-induced constraints thatacerbate informality. This needs to be executed in a pragmatic manner that focuses on actual improvements in an entrepreneur's dealings with public institutions or regulations. Above all, governments need to see the private sector and its organizations as key partners in these endeavours.

There are also gender-specific constraints to entrepreneurship that require specific policy responses. Frequently, however, business laws, policies and services do not adequately consider the needs of women entrepreneurs and sometimes further exacerbate gender-specific constraints to entrepreneurship. Policy choices need to be cognizant of this factor, particularly taking into account cultural considerations.

## **A. IMPROVING THE REGULATORY ENVIRONMENT**

Excessive regulation and bureaucracy directly lead to informality. What is more, a heavily regulated (and poorly designed) environment has a direct link with corruptive practices. The more licensing arrangements, the more paperwork required; the more agencies involved, the more scope for bribery.

In recent years, policy makers are beginning to focus more and more on improving the regulatory and investment climate in which enterprises operate. In broad terms, we are talking about the ease of ‘doing business’<sup>3</sup> and putting in place polices (and especially reforming existing bad polices) in order to make enterprise creation and development thrive.

A good regulatory environment means that enterprises can formalize easily. It should not take over 200 days to register a business, nor 19 different procedures, if some jurisdictions need just one. Contract enforcement should be straightforward and not involve multiple procedures (nearly 70 different procedures in some countries). Laws should require key types of disclosure to protect equity investors. The debt value to enforce a contract should not be prohibitive in terms of cost to small and micro businesses. It should be straightforward to register commercial property in a few short straightforward procedures. If debtors become insolvent and enter bankruptcy, creditors should have adequate and realistic protection. The minimum capital required to start a business should be affordable (or not necessary at all). Fees for utility connections and compliance with building regulations should likewise be moderate and affordable. Speedy, efficient and effective access to courts and other low level dispute resolution mechanisms (for instance in dispute resolution with a supplier) needs to be guaranteed. Taxation should to realistic – excessive fiscal demands will be a key driver of informality.

A good regulatory environment for business does not mean no regulation - far from it. In cases more regulation will be required (in the case of property rights). Essentially, it is ‘smarter’ regulation that is required – regulations and laws that have been tested, that are workable and applicable to that national or regional situation and, above all, are affordable, sustainable and enforceable.

## **B. SIMPLIFY BUSINESS REGISTRATION**<sup>4</sup>

Perhaps the most important area of reform is the first step out of informality - registering a business. Importantly, such reforms are relatively speaking less complicated, less costly and less politically difficult than. for instance. labour legislation reforms. However, entrepreneurs – new or informal – will look at the overall regulatory cost when deciding to register a company; and start-up procedures are only one part of the overall costs.

---

<sup>3</sup> The World Banks Doing Business is a useful resource for employers in examining and comparing business environments globally. <http://www.doingbusiness.org/>

<sup>4</sup> Most of the arguments in this sub-section has been taken from “Business Registration Start-Up: A Concept Note”, by Liliana de Sa of the ‘International Finance Corporation

That said, reforms on business start-up procedures can be complex because they require the coordination among various government agencies. In most countries starting a business tends to involve many more steps and interactions with multiple public sector entities at different levels of government, typically also involving regional or municipal authorities. The complexity of start-up procedures is often reflected in the documentation requirements; an individual often needs to go back multiple times to the same office or have to provide the same information to different offices. This perhaps can be the first policy recommendation - eliminating multiplicity of licensing.

Solutions can include: creating a single access point for business registration purposes, which is centrally located; a single business registration form and a single identification number; merging overlapping licenses (required by numerous government agencies) and procedures; making available the registration information to different government offices such as the tax administration, customs and statistical office.

Policy makers should eliminate the non-value added steps which are sometimes only in place to generate additional fees. Forms should use plain language in order to make regulations clearer and easier to understand for the layperson and should be able to be filled-in simply and quickly. Complex forms are often a source for mistakes leading to rejection of an application. Additionally, efforts should be made to publicize any changes to processes and eliminate 'perceptions of complexity'. Making such registration available on line can also remove scope for duplication.

Some jurisdictions have successfully introduced a "silence-is-consent" rule. This means that, if entrepreneurs have not heard from the government agency within a given number of days, approval is automatic and they may start their business operations or continue with subsequent procedures.

Minimum paid-up share capital should be reduced or eliminated as it can be an important barrier to the formation of a limited company.<sup>5</sup>

Direct court involvement should be abolished. In a large number of countries, registration procedures are done directly by the court system. This typically results in lengthy procedures, while tying up scarce resources. Therefore, increasingly countries opt for an administrative treatment of registration with dedicated administrative staff responsible for the registration process.

In practice, most governments require additional formalities to start a business beyond simple registration and these should be streamlined in a singular cohesive process that does not place onerous demands on the entrepreneur.

Employers' organizations need to advocate for transparency in areas such as registering a business. For instance, registration processes should be conducted in as open an atmosphere as possible (e.g. in a physically visible location without back-up offices) to limit the opportunity for corruption.

---

<sup>5</sup> While there are different arguments for maintaining the minimum capital requirement such as protecting potential claims of investors and creditors, cross-country comparison reveal no correlative link between business failure and the level of minimum capital: For the whole argumentation refer to final report of the European Commission Enterprise Directorate: "Benchmarking the Administration of Business Start-ups", January 2002, Chapter 11.

## C. PROPERTY RIGHTS

A key element in policy responses is security of tenure. Individuals with confidence in their rights to their property are more likely to look to expand and develop the business and reinvest their profits than those who do not. Property rights are tools for empowerment and play a key role in helping entrepreneurs develop into fully-fledged and growing enterprises, in particular in terms of collateral for lending. Companies that believe their property rights are secure reinvest between 14 and 40 percent more of their profits in their businesses than those that do not, according to the World Bank.<sup>6</sup>

Reforming systems of property rights can often require a broad long-term programme of reform, encompassing additional elements such as improvements in the land registry, collateral registry and access to the courts. Solutions need to be sustainable – the key objective is to enable assets to *remain* formal. If the formal cost of selling the property is high, titles will lapse by being traded informally. In this respect ‘reform’ is in fact a constant process and not a one-off.

## D. CONDUCTIVE LABOUR LAW

Many developing countries have extensive labour law protections. In reality in many of these jurisdictions such labour protections only apply to a tiny percentage of the total workforce (mainly public sector workers). According to the World Bank’s *Doing Business Report 2007*, in Bolivia 400,000 workers have formal jobs in the private sector, out of a population of 8.8 million. In India 30 million workers have such jobs. in a country of 1.1 billion people. In Malawi, 50,000 out of a population of 12 million. In Mozambique, 350,000 in a country of 20 million.

Given that the reform of labour laws is often, contrary to popular perception, in the interests of workers, what governments need to do is have this topic debated and explained so that workers, instead of opposing such reform, become its advocate. Governments need to tackle the vested interests that resist such reforms.

“A number of developing countries have excessively complex labour codes, more than developed countries”

Strengthening the role of the private sector and entrepreneurship  
in financing for development Report of UN Secretary General (May 2005)

It is clear that often in these jurisdictions rigid or inappropriate labour legislation does the exact opposite to what it was designed to do – it protects *some* workers to the detriment of the workforce as a whole. There is also increasing evidence that more vulnerable groups such as women, the young and low-skilled workers are hurt the most by such legislation. Comprehensive international comparisons lend support to the view that, while stricter employment protection legislation reduces the risk of layoff, it also makes the hedge between non-employment (including those in informal work) and employment more difficult to jump over.<sup>7</sup> Any approach that tries to ‘legislate’ the problem out of existence is doomed to failure. If the issue is ineffective and largely non-applicable law then the solution is not ‘more law’. Practical, sustainable responses need to underline any policy approach.

<sup>6</sup> World Bank 2005 world development report , A Better Investment Climate for Everyone.

<sup>7</sup> OECD – POLICY BRIEF “Employment Protection : The Costs and Benefits of greater job security” September 2004

Certainly a focus on effective labour administration systems is part of the equation.<sup>8</sup> An effective labour administration system provides for a stable business climate. Legal compliance helps ensure a level playing field in that all are required to respect the same rules and standards. Proper labour inspection can help companies benchmark this compliance and, rather than being purely a fine-imposing service, the labour inspectors can help educate and assist business in meeting these obligations. Where informal economies operate it is important for government - with the support and engagement of the social partners - to extend its functions to these informal enterprises. This should be done in a way which encourages compliance. For this purpose, information and training are the best tools used to engage them. To merely step in and start fining businesses for non-compliance will further exacerbate their reluctance to enter into the formal economy.

## **E. FOCUS ON PRODUCTIVITY**

A key element in informality is the issue of ‘access’. Informal operators can have limited or no access to a whole range of elements that are vital to developing and expanding successfully, such as access to training, technology, support services, markets and investment capital, even in the form of small loans. Often they lack formal skills. 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.

Policies that improve skills and productivity therefore need to be addressed. Linkages between education and training institutions and informal enterprises can assist enterprises in productivity and skills improvements. Mechanisms can be put in place to identify informal businesses with the potential to supply goods or services to larger enterprises and then to facilitate contacts between such informal operators and larger companies.

*“Many of those in the informal economy (in Kenya) engaged in making products have a clear idea of what they should produce for the market, but they need guidance, advice and training in order to produce market-driven and sustainable higher quality products”*

Charles Nyang’Ute, Senior Adviser  
Federation of Kenyan Employers (FKE)

## **F. ACCESS TO CREDIT**<sup>9</sup>

Those operating in the informal economy have limited access to finance and, as a consequence, fewer opportunities to expand their business or respond to opportunities, or improve productivity. Lack of collateral can freeze many informal operators out of formal credit institutions.

Microfinance and credit can make a powerful contribution to employment generation and wealth creation. Conceptually it is driven by the simple idea that individuals need access to affordable financial services that will allow them to make deposits, transfer funds, access

---

<sup>8</sup> See the IOE publication ‘Labour Administration Systems’ (2006) for more information in the ‘papers’ section of the IOE website [www.ioe-emp.org](http://www.ioe-emp.org)

<sup>9</sup> See IOE publication “Microfinance Employers’ Guide” 2005 in the ‘papers’ section of the IOE website [www.ioe-emp.org](http://www.ioe-emp.org)

insurance and invest in what they consider most important. Often, the lack of access to these services inhibits individuals from managing risk and planning for the future, and does not provide an important buffer for sudden emergencies, business risks and seasonal slumps.

Policy options include assisting in the creation of credit institutions to which informals can have access. These can be done through associations of informals to assist with access to credit, perhaps in some cases by underwriting the loans.

## **PART IV**

---

### **ROLE OF EMPLOYER'S ORGANIZATIONS**

Employers' organizations, as representatives of mainstream formal economy enterprises, have an important role vis-à-vis the government on macro-economic and social policies and in influencing government legislation and policies that create an enabling environment for all levels of enterprises. They 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 in the informal economy.

Employers' organizations can also: extend their representation throughout the informal economy; assist economic units operating there through access to information, access to finance, insurance, technology and other resources; and extend business support and services for productivity improvements and entrepreneurial development.

They can also act as a conduit for the establishment of links between informal and formal enterprises, and initiate activities adapted to the needs of the informal economy that can yield important results such as improved safety and health and improved labour-management cooperation.

In terms of the interests of their member enterprises, employers' organizations can make contributions to achieving a more level playing field by ensuring that informal competitors are subject to the same requirements as their members, and by 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.

One of the characteristics of the informal economy 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. Employers' organizations can play a role in this respect – for instance, in providing information on formalization procedures such as registering a new business.

In practical terms these priorities encompass some of the following elements:

- facilitate the establishment of national administrative, fiscal and financial mechanisms likely to encourage a move from the informal economy to the mainstream formal economy;

- analyze and raise awareness of the issue of competition between the formal economy enterprises and informal economy operators;
- encourage and support the creation and development of member-based, accessible, transparent, accountable and democratically-managed representative organizations catering for informal economy operators;
- assist in developing a lobby agenda for small and micro enterprises;
- act as a conduit for establishing linkages between informal economy operations and mainstream formal economy enterprises;
- extend business support and basic services for productivity improvement, entrepreneurship development to informal economy associations or groups of operators;
- utilize national processes such as the Poverty Reduction Strategy (PRS) processes in effecting policy and regulatory change<sup>10</sup>;
- via particular sectors within the membership of the employers' organization, demonstrate possibilities or take initiatives of formalization of informal economy operators. This would also demonstrate the mutual interest between the mainstream formal economy and the informal economy operators in formalizing the informal economy.
- develop and implement a lobbying agenda geared to addressing the causes of informality through simplification of regulations covering business activities, reducing transaction costs, etc.
- help to facilitate access to finance, insurance, technology, networks and other resources, as well as to public authorities.

In many of these endeavours, in order to maximize efforts, collaboration and partnership with other organizations representing business can be advisable. The ILO Bureau for Employers' Activities has developed a number of case studies of employers' organizations activities in tackling the informal economy.<sup>11</sup>

## **PART V**

---

### **RESPONSE FROM THE INTERNATIONAL COMMUNITY**

The United Nations Economic and Social Council (ECOSOC) Ministerial Declaration underlined the international community's support for the reform efforts of developing country and transition economy governments:

“We further resolve to continue to support efforts by developing countries and countries with economies in transition to create a domestic environment conducive to attracting investments through, inter alia, achieving a transparent, stable and predictable investment climate with proper contract enforcement and respect for property rights and the rule of law and pursuing appropriate policy and regulatory frameworks that encourage business formation.” (para 25)

<sup>10</sup> See IOE publication “PRSPs: Employers' Guide” 2006 in the ‘papers’ section of the IOE website [www.ioe-emp.org](http://www.ioe-emp.org)

<sup>11</sup> These case studies are available at <http://www.ilo.org/public/english/dialogue/actemp/index.htm>

Many international organizations are working in this domain. In particular the World Bank, UNDP and the ILO continue to be important partners for the IOE. The IOE continues to highlight the work of the International Finance Corporation (IFC) in providing comparative data on business environment globally. It encourages IFC to continue working with employers' organizations, in particular in facilitating their advocacy efforts.

The IOE encourages UNDP to continue in its efforts to implement the Recommendations of the Report of the Commission on the Private Sector and Development *"Unleashing Entrepreneurship: Making business work for the poor"* .

The 2002 International Labour Conference general discussion on the Informal Economy gave the ILO a strong mandate to develop work in this area. While employers remain supportive of this mandate, they however feel that the work of the ILO must be focused. In terms of developing policy solutions to the informal economy there can be a temptation to take too broad an approach, to include too many different aspects. Employers strongly feel that a more direct and targeted approach has a better chance of achieving results.

Above all international organizations need to work with the private sector and its organizations in tackling the informal economy. Most recent global declarations such as the ECOSOC Declaration and the UN Global Summit Outcomes document have noted the importance of public-private partnerships

*"They (governments) need to channel private capabilities and resources into stimulating the private sector in developing countries through actions in the public, public/private and private spheres to create an enabling environment for partnership and innovation that contributes to accelerated economic development and hunger and poverty eradication."*

The 2006 International Labour Conference likewise noted :

*"Public-private partnerships have potential as a source of funding. The ILO, in its partnerships for technical cooperation, should make use of the expertise and contributions of private enterprises in creating decent and productive jobs"*

Representative business organizations can play a crucial role in the creation of an enabling environment conducive to enterprise creation and development and are natural partners for development agencies in delivering on practical demand-driven policy solutions. Ultimately, the reforms needed to tackle informality must take place through national political processes that require national actors. National representative business organizations are such actors, with distinct roles, respected in their communities with clear and definable values and objectives.

\* \* \*



**INTERNATIONAL ORGANISATION OF EMPLOYERS (IOE)**

26 chemin de Joinville  
1216 Cointrin / Geneva  
Switzerland

Phone : +4122 929 00 00  
Fax : +4122 929 00 01  
E-mail : [ioe@ioe-emp.org](mailto:ioe@ioe-emp.org)  
Website : [www.ioe-emp.org](http://www.ioe-emp.org)

© 2006, International Organisation of Employers