

Economic and Social Council (ECOSOC)

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Research report

Forum: Economic and Social Council (ECOSOC)

Issue: Addressing the rights and protections of informal sector workers in national economic policies

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Introduction

The informal sector constitutes a significant portion of the global workforce. These workers within this sector frequently operate without legal recognition, social protections, or access to formal financial systems, leaving them vulnerable to exploitation and economic instability. This portion includes millions of individuals engaged in economic activities that operate outside formal regulation and protection. Some instances of this include street vendors, domestic workers, and day. Despite making a significant economic contribution to countries, the informal sector is still primarily disregarded by policy frameworks, which leaves its employees with unstable employment and restricted access to social safeguards.

The focus on informal sector workers is crucial for fostering inclusive economic growth and social equity. This report will delve into the complexities of the informal sector, examine the key players involved, and review past efforts to address these challenges.

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Definitions of key terms

International Labour Organisation (ILO)

The International Labor Organisation (ILO), which was founded on the principle that labour peace is a prerequisite for success, is committed to advancing social justice and universally acknowledged human and labour rights.

Social protection

Public measures designed to provide income security and access to essential services like healthcare and pensions, particularly for vulnerable populations.

Legal Recognition

The formal acknowledgement by the state of an individual's or group's rights, status, or activities, is often necessary for accessing legal protections and benefits.

Financial Inclusion

The availability and equality of opportunities to access financial services, such as savings, credit, insurance, and payment systems.

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General overview

A vast share of the labour market, especially in developing countries, consists of an informal sector. It includes a broad spectrum of unprotected, unregulated jobs that frequently don't have official contracts, social security, or labour rights. Countless workers depend on the unorganized sector, yet the existence of this sector continues to be overlooked by the policy frameworks, which all together contribute to the structural problems not only faced by the workers but also extended to the economy as a whole.

Informal employment is characterized by the absence of formal employment contracts, social protection, and legal recognition. Precarious working circumstances, such as long hours, low pay, and limited access to healthcare, retirement benefits, or job security, are commonplace for workers in this industry. In addition to sustaining poverty and inequality, this lack of formalization impedes economic growth by lowering the possibility of tax income and the expansion of the formal sector.

The impact of informal employment ranges from the individual workers to their families, the community, and the national economies. Among all of these, workers themselves are made to bear the immediate brunt due to their struggle with the continuous threat of income insecurity, exploitation, and unsafe working conditions. Seeing the barriers to access to formal employment opportunities brought about by discrimination, lack of education, or migration status, women, youth, and migrants are usually overrepresented in the informal sector. Additionally, having such a huge informal sector is significantly detrimental to the economy and society as a whole, entailing lesser economic growth and more inequality.

Informal sector workers' families also suffer since, out of the absent stable income and social security, they frequently become involved in poverty cycles. Entering the labour market at a young age within such families can make children particularly vulnerable due to it perpetuating intergenerational poverty. Lacking health insurance and retirement benefits, informal workers and their family members also run the risk of falling into poverty when they experience illness or old age.

Even though informal workers contribute to the economy a lot, they continue to be excluded from national policies. The result of such exclusion generally is poverty and social inequality. In a global context, this kind of neglect is harmful to the reduction of poverty and social inequalities for sustainable economic development. Extending rights and protection to workers employed in the informal sectors will enhance their living conditions and hence impact the economy. Also, formalizing the unorganized sector would widen the tax base, with more funds available to invest in public services and infrastructure to help the broader society.

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According to estimates from the International Labour Organisation (ILO), over 60% of all employed people worldwide work in the unorganized sector; in some developing nations, this percentage may even reach 90%. This pervasive informality is a result of institutional failures to integrate these people into the formal sector as well as underdevelopment. A major obstacle to achieving several Sustainable Development Goals (SDGs), especially those pertaining to economic growth, decent work, and poverty reduction, is the absence of rights and safeguards in the unorganized sector (ILOSTAT).

The lack of rights and protections for workers in the informal sector is a significant issue since these workers often endure poor working conditions without access to social security, labour rights, or healthcare. This leaves them highly vulnerable to exploitation, unsafe work environments, and income insecurity when they are unable to work. Moreover, the absence of formal recognition means that these workers do not contribute to tax revenues, which can result in lower government income and fewer resources for public services.

The growth of the informal sector can be attributed to various factors, including economic transitions, industrial reorganisation, globalisation, and the inadequacies of the formal economy in providing sufficient employment opportunities. Informal work has persisted and expanded due to the inability of formal economies to absorb surplus labour, the decentralisation of production, and the rise of flexible work arrangements, among other factors.

Formalising informal work can help to reduce the rate of poverty and inequality, while it promotes social inclusion for the development of an economically sustainable society. This is because governments can broaden their tax base by incorporating these informal workers into the economy, enabling them to invest more in social services such as education and infrastructure for economic development. Besides, if these informal works were legally recognized and protected, this might ensure a boost in productivity and well-being. Worker security and job security will enable him to invest in his skills and education, raising the quality and productivity of the workforce. This, in addition, will reduce the risk of sickness and unemployment, as the worker will have access to social security and health care, thereby creating a certain economic stability for the worker and his family.

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Major parties involved

International Labour Organisation (ILO)

The International Labour Organisation, a UN agency, has been instrumental in recognizing and addressing the needs of informal workers through its policies and recommendations, advocating for the extension of labour rights and social protection to this sector.

National Governments

Governments in developing countries are crucial in formulating and implementing policies that recognize and integrate informal sector workers into the broader economy.

Non-Governmental Organisations (NGOs)

Organisations such as the Self-Employed Women's Association (SEWA) in India have played a key role in organizing informal workers and advocating for their rights.

Workers' Unions

In various regions, unions and associations have formed to represent the interests of informal workers, often advocating for better working conditions, wages, and legal protections.

Timeline of Key Events

- 1972 The International Labour Organisation (ILO) first coined the term “informal sector” in a study on employment in Kenya.
- 1993 The 15th International Conference of Labour Statisticians (ICLS) provided a formal definition of the informal sector, paving the way for more consistent data collection and analysis.
- 2002 The ILO launched Recommendation 202 on Social Protection Floors, which emphasizes extending social security to all workers, including those in the informal sector.
- 2015 The adoption of the UN Sustainable Development Goals (SDGs) includes targets related to decent work and economic growth, with a focus on reducing inequalities and protecting labour rights.

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The COVID-19 pandemic highlighted the vulnerability of informal sector workers, leading to increased calls for their inclusion in social protection systems and economic recovery plans.

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Previous attempts to solve the issue

Regarding previous attempts and solutions to the issue of addressing the rights and protection of informal sector workers in national economic policy, the International Labour Organisation has taken centre stage in promoting the rights of workers in the informal sector through the development of international labour standards. One significant step was the adoption of Recommendation No. 204 in 2015, which provides guidelines for transitioning from the informal to the formal economy. This recommendation emphasizes the importance of creating an enabling environment for entrepreneurship, ensuring the protection of workers in informal employment, and extending social security coverage.

The ILO has also conducted various capacity-building programs to assist member states in implementing these recommendations. These programs include training for labour inspectors, the development of labour market information systems, and support for national employment policies that address informality

Another approach has been the promotion of social dialogue and collective bargaining as tools for improving the conditions of informal workers. In many countries, informal workers have organised themselves into cooperatives, unions, or associations to collectively bargain for better wages, working conditions, and access to social protection. For instance, the Self-Employed Women's Association (SEWA) in India has been a pioneer in advocating for the rights of informal women workers, particularly in sectors such as agriculture, construction, and domestic work.

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Possible solutions

Implementing comprehensive legal and regulatory reforms is crucial for recognizing and protecting informal workers. The government should encourage formalisation by reducing bureaucratic barriers that govern business registration, reducing fees, and offering tax incentives for small and micro-enterprises. This way, it's easy for businesses operating informally to enter into the formal economy. Furthermore, labour law enforcement is called for in order to make sure that the basic rights of all workers, regardless of employment status, including minimum wage and occupational safety, are guaranteed. This equally calls for stronger labour inspection and enforcement mechanisms. Further, formalizing the contracts of employment, particularly in the most informal sectors, will establish terms of employment in respect of wages, hours of work, and social benefits for the workers. These reforms are vital in improving the livelihood of informal workers and bringing them into the formal economy.

Creating economic incentives is key to encouraging informal businesses and workers to transition into the formal economy. Governments can implement tax breaks or reduce tax rates for newly formalized businesses, making formalization financially attractive. Simplifying tax reporting procedures can also help reduce the administrative burden on small enterprises. Additionally, access to credit is crucial; by partnering with financial institutions, governments can provide microloans, particularly targeting women, youth, and marginalized groups, enabling informal businesses to grow and formalize. Furthermore, offering technical assistance and training programs can help informal businesses improve productivity, adopt new technologies, and meet the standards required for formal market participation. These economic incentives are essential for supporting the transition from informality to formalization.

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Further reading

For delegates seeking to deepen their understanding of the rights and protections of informal sector workers in national economic policies, the following resources provide valuable insights. ILO Report on the Informal Economy which provides in analyses of the informal sector and recommendations for policy interventions. Such as ‘Working paper on the Informal Economy - Supporting workers in the Informal Economy: A Policy Framework (<https://www.ilo.org/publications/supporting-workers-informal-economy-policy-framework>) which offers a theoretical and normative framework for creating a suitable policy response to some of the issues brought up by the unorganized sector of the economy. Moreover, if delegates want to have a greater comprehension of the concise yet comprehensive overview of the informal economy's scope, significance, and challenges. Visit the World Economic Forum article titled "What is the Informal Economy?" (<https://www.weforum.org/agenda/2024/06/what-is-the-informal-economy/>). The article highlights key issues such as the vulnerability of informal workers, the economic impact of informality, and the importance of integrating these workers into formal economic frameworks. It serves as an essential resource for understanding the broader context of the informal economy, which is critical for informed policy discussions.

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