

Informal Economy New Challenges for Trade Unions

by Bishnu Rimal

The Conceptual Frame

There is no universal definition of Informal Sector. Generally, we only discuss on more visible segments of economic activities as informal sector. However, there is a limitless boundary of informal sector in modern world. Moreover, it is a hidden segment of economic activity with a vast number of labour force.

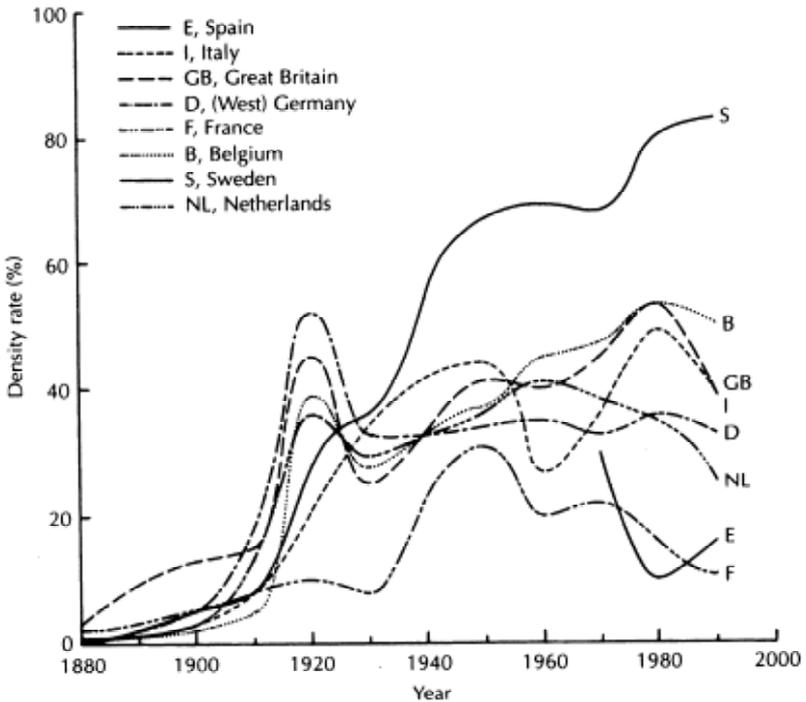
Many authors have often defined informal sector in a negative sense. To them, those are informal labourers who are not in "formal" sector, not protected by any labour law, not in formal 'employee-employer relationship' and not getting any benefits entitled to them as employee. Besides, they are hardly recognized as a labourers who are not included in the 'economic statistics'. Based on this argument, workers in Informal economy are termed neither **Blue** nor **White** collars; they are recognised as '**No-Collar**' workers.

On the contrary, one of the Nepali scholars Dev Raj Dahal argues, "The benefits of informal economy are always underestimated despite its meaningful contribution to the livelihoods of the poor people. Obviously, informal sector continues to grow in direct proportion to the decline of formal economy. New technology tends to marginalize once formal economy by expanding the space of new economy. In Nepal, its contribution to national economy is more than fifty percent."

The informal sector is not disassociated from the formal sector. There exists a certain type of interdependence through backward or forward production linkages with formal enterprises and through contract of labour or services.

As a home for large number of workers, we shouldn't forget that Asia is the home for the **workers in Informal** sector as well.

The report entitled **'Industrial Relations in Europe'** presents a statistics showing the change in union membership over the period of 100 years between 1890 and 1990. The statistics shows the reduction in union membership in the developed countries of Europe. Except in Sweden, the membership has decreased in the UK, Belgium, Italy, the Netherlands, France and Germany starting from 1980s. The 1997 survey of the International Labour Organisation also confirms to this fact. The ILO report shows that the trade union membership has increased in Asian and newly democratic countries (Eastern Europe and South Africa). It is actually a reflection of invisible change in socio-economic frame of labour use. The process of formalisation of labour started from the era of industrial revolution has now reversed. Informalisation of labour has geared up. As a result, formal sector workers are being pushed towards informal sectors through various types of outsourcing and sub-contracting. Thus, the natural outcome is the decline in union membership, where unions are basically focussed on the formal employment.



Informal Sector in Nepal

As in other developed and developing world, Nepal's informal sector also has been divided into two major parts. They are: Rural Informal Sector and Urban Informal Sector.

Among the Nepal's informal sector, agriculture is the single largest sector. In agriculture, there are two main divisions. The worker who works on yearly wage or cultivates small piece of land as a tenant or somehow self-employed agricultural worker comes under the first category. Mainly wage labourers in agriculture, who perform their work in daily wage or monthly or yearly basis fall within the second category. The word Hali (those who plough the land), Gothala (the cattle herders) and Khetala (daily wage labourers) denote such workers in this connection. The former Kamaiya¹ of western Nepal also became part of this category after official liberation.

Out of this number, about 81 per cent is active only in agriculture. Apart from the peasants and the non-wage agricultural workers, there are two categories of agricultural wage labourers. The first covers those wage labourers whose means of survival is only their wage; whereas the second category covers those whose means of livelihood is the wage and their self employment. It is estimated that there are 2 Million wage labourers in Nepalese agriculture, where 500,000 families are landless. These families cover 1 million workers. Of the total labour force 8.779 millions, only 7-10 per cent are in formal segments. Thus, it indicates that the remaining number of total labour force is in informal sector.

Non-agricultural rural informal sector includes various establishment of traditional and non-traditional cottage industries². Because of the heavy

¹ *Kamaiya, a Nepali terminology denotes those bonded labourers in Agricultural sector of Western Nepal. They have been officially declared free on July 17, 2002.*

² The traditional cottage industries in Nepal are: hand loom, pedal loom, semi-automatic loom, wrapping, dyeing, printing, sewing, knitting, local carpet, woollen-carpet, pashmina, woollen garment, carpentry, wooden handicraft, bamboo and cane goods, materials made from natural fibers, hand made paper, gold, silver, brass, copper work and ornaments, image making, precious and semi-precious stones, honey, big cardamom processing, pottery, leather cutting, drying and village tanning and leather works, jute, babio choya and goods from cotton thread, leather goods, artistic goods from bones and horns, stone carving, stone studded metal goods, painting, pauwa, batik, materials made from hand made paper, dolls, toys and stone studded metal filigree commodities.

underemployment and disguised unemployment, agricultural workers normally work in non-agricultural sectors too.

Due to Nepal's geo-political condition, the urban informal sector is not so large. It includes mainly non-agricultural activities. Major portion of the labour force in this sector is active as "self-employed" workers.

In summary, based on the nature of work, informal sector in Nepal can be classified as rural and urban. An **ILO publication** entitled **The Informal Economy & Workers in Nepal** has specified this classification as follows:

1. **Farm and farm related:** self employed, very small land holders, landless farm workers, tillers, cattle herders, former Kamaiyas, Haliyas, daily wage workers, exchange labour under *parma*³ tradition and non registered large segment of economic activities concerning livestock, poultry, kitchen –gardening' dairy, fisheries, sericulture, bee farming
2. **Trading:** Street Vendors, Hawkers related to different products including very small traders
3. **Craft-workers:** Related to clay, metal, bamboo, wood and others
4. **Construction:** Normally daily wage workers related to building, wood work, road, stone quarrying, brick kiln
5. **Transport:** Porters, cleaners, Khalasi, loader, Rickshaw pullers, auto-mechanics and helpers
6. **Micro enterprises:** Family based enterprises workers in various types of production and services
7. **Other services:** Barbers, cobblers, tailors, blacksmith, traditional entertainers

It is to be noted that construction is the second largest sector where workers are scattered both in rural and urban informal sectors.

Nepali informal sector is often considered as a female dominated sector, which absorbs a big number of women workers. Data indicates that , 94 per cent of the total female labour force is active in rural areas . Among

³ *Exchange labour system in Nepal*

them, 91 per cent are engaged in agriculture, whereas only 4 per cent of the female labour force is in the formal sector.

Nepal has a severe problem of underemployment rather than unemployment. Of the total population, 35 per cent are getting jobs for only 7 months. As estimated by the Ninth Plan, out of the total labour force of Nepal, only 46 per cent are well employed, where 14 per cent are totally unemployed and 40 per cent are under-employed. As for instance, if a construction labourer gets job for 2 months, s/he has to wait about one month in the mean time. In this way, it is the informal sector which is badly affected by underemployment.

Informal sector, Its trend & magnitude

Though Nepal has a vast area of informal sector traditionally, even the formal sector is being converted into informal these days. The effects of globalization including casual labour, contract labour, home based work etc. can be visualized in our organised sector. The Multinational Companies are in search of "cheapest means of production". To their convenience, if the work of organised sector can be performed in an informal way, it would be "cheap and easy". The company can save the cost of building, machine, wage and various benefits of the workers. In this way, an employer gets clean cheat for unfair labour practice practically and escapes from labour laws.

This trend has been intensified not only in Asia-Pacific, it is a common phenomenon in Europe and America nowadays. A painful condition of non-registered hundreds of thousands garment workers is a bitter reality in the labour market of the most developed country.

The Australian construction industry, once most defamed informal sector in the world, can be referred in this connection. A romanticised notion that "informal sector worker is an entrepreneur and breaking away from formal work structures" has been recognized here practically as well as legally. In Australia, any worker should sign an 'individual contract' prior to be an employee. For this, the worker should register a fake private company in government entity and should submit its certificate to the principal employer. During the time of labour disputes, the principal employer denies to recognize the employee as company's employee based upon this reality. In this way, the principal employer declines from his/her responsibility. Defamed as Bogus Contract, this

process has informalised the workers within the formal labour market in Australia and the Pacific.

"Workers are not a commodity of market!" This statement is being propagated for long. Either in political philosophy (through Marxism) or by the declaration of International Labour Organisation (ILO), this statement has been endorsed by everybody. But our labour market practice is just opposite.

In India, as a '**Mandi**' (market) of daily consumption goods, the Mandi of labourers is also in practice. Those who need labour, go to the Mandi, fix wages after bargaining and hire the labourers for a fixed period of a few days or for a fixed work.

This trend has already been started in Nepali labour market. too. Here it is getting bit '**modern**' dimension. Take an example- though **pager** was considered as a 'fancy' equipment among the Kathmanduties even 5 years back; in some places of Kathmandu, it is being distributed among the local *Bhariyas* (the individual load carrier) from the wholesalers, big furniture shops, hardware sellers etc. aiming that they would be tied-up with their respective shops in necessary. Through this **new** technology, the employers are enjoying 'flexibility' – when customers come, they Paged to the *Bhariyas* --- settle dealings. The Bhariya themselves identify telephone number which *Shahuji* (the shop-keepers) is calling him. Poor Bhariya unknowingly fell down the trap; s/he who was paid regularly earlier now automatically turned into casual labourers!

The Nepali Carpet industry can also be taken as an example. The workers of carpet industry which consumes more labourers seldom recognize their principal employer. A contractor often drives out them in group from rural areas. He himself fixes the price by head counting and receives cash advance by the employer. The poor worker never knows what is the exact wage of his labour. The contractor exploits them until harmonious relationships continue with the employer. The next day either if relationship turns into 'cold' or he gets more cash advance by another employer, he betrays to the former one and drives out the group of workers without any notice. Because of this trend of the labour market, the formal sector's industry like carpet is being transformed towards heavy informalisation. Industry itself as a result, is operating under an unstable position.

Outsourcing and 'Fabrication' of work in Nepali garment industry has taken place since its establishment. It has been creating a 'Satellite' in the informal sector. When workers start to be organised in the industry, contract system gets entrance. With an illusion that the non-Nepali workers are "efficient and productive", our garment industry nourishes them with a high pay. But on the other hand, it is blamed with prejudices to the Nepali workers that they are "less committed & competent to their job". It has even fueled the labour disputes by not adding single penny on declared minimum facilities. The controversial demands of our garment industry (rights of hire and fire of the workers in a reference of liberalized market economy and more privilege than other organized industry in reference of its export oriented nature) is the product of such defective employment strategy.

Among the organised service industry, informalisation of work is taking place in hotel and restaurant sector. "Recruitment of labour by labour suppliers is easy and secure!", the idea set by the star hotels is a latest example in this regard. Besides, the textile, jute, cigarette, etc.; industries are the examples which are changing from formal to informal by the introduction of contract labour. In this way, Nepal's labour market is facing an additional complication.

Challenges and issues

As stated above, informal labour is an unprotected labour. Poverty and underemployment have compelled them to work in whatever terms and condition. The National Living Standard Survey (NLSS) carried out in 1995/6 has shown 42 percent Nepali people below the poverty line. The government assessment at the end of the Ninth Plan confirms it at 38 percent.

Official statistics show a reduction in poverty, however evaluating the poverty situation on the basis of the global standard of earning US\$1 a day shows that 53 percent Nepalis are below the poverty line.

Table 1: exhibits working-time and purchasing capacity of the workers analysed on the basis of **International Metal Federation**. This table however indicates a **magnitude of poverty of Nepali workers** which manifests gaps between developed, developing & underdeveloped world.

SN	Commodity	Unit	Working time to purchase (In hours & minutes)				
			Nepal	India	China	Japan	USA
1	Rice	1 kg	1hr 33	0 hr 28.5	0 hr 22	0 hr 13.5	0 hr 5
2	Potato	1 kg	0 hr 41	0 hr 9.5	0 hr 22.5	0 hr 9.5	0 hr 4
3	Sugar	1 kg	2 hr 25	0 hr 27	0 hr 14	0 hr 7.5	0 hr 4
4	Milk	1 ltr	1 hr 43	0 hr 25.5	0 hr 33.5	0 hr 7	0 hr 3.5
5	Cooking Oil	1 ltr	5 hr 12	1 hr 19	0 hr 49	0 hr 12	0 hr 10.5
6	Shoes	1 set	17 hr 20	15 hr 51	8 hr 23	7 hr 42	4 hr 25
7	Women Dress	1 set	26 hr 1	14 hr 32	12 hr 34	22 hr 11	5 hr 54
8	Male Suit	1 set	346 hr 55	58 hr 9	75 hr 25	30 hr 47	14 hr 45
9	Radio	1 pc	43 hr 22	39 hr 38	15 hr 5	6 hr 9	3 hr 41
10	Colour TV	1 pc	1387 hr 40	396 hr 25	82 hr 47	19 hr 15	14 hr 45
11	Car	1 pc	43365 hr 8	7928 hr 7	4818 hr 10	1159 hr 33.5	1327 hr 44

Illiteracy and the resultant ignorance is another big problem in this sector. There is a “harmonious relationship” between our society dominated by the social conservatism and the unaware informal sector’s labour force. This is a hindrance in our progress.

Informal labour has been scattered here and there. Because of its scattered nature, it is extremely difficult to organize them. Moreover, after the implementation of the liberalization policy, the terms and conditions of contract labour system has further scattered them.

Contractual arrangement of work often recruits labour through the individual contact rather than by public vacancy announcement. It does not follow any legal formality. Even the employer denies to offer appointment letter. The number of employer in informal sector is registered nowhere and the employees perform their job just in an informal understanding. Due to the lack of legal proof during the time of labour disputes, workers are often sidelined and kicked out of the job in an inhumane manner. Thus, “job security” is an unimaginable notion to them.

On the one hand, employers always escape safely by using legal loopholes, and on the other, because of weak legal ground, workers

themselves do not expect any legal treatment. Further, the employers and the contractors have been employing workers from their own native places. Some of the workers have found such jobs by “**source-force**” from their respected honourables. Because of such psychological factor, workers hesitate to complain against exploitation of cunning employers.

There is a contrast between problems of formal and informal sectors. Thus, the experience gained by unions in the formal sector is not sufficient. Normally, the grievances of informal sector are hardly solved by dealing with a single employer. We have encountered so many incidents that the workers have frequently changed their employers for benefits. And, the principal employers have changed different contractors to escape from the legal formalities. We have witnessed various incidents when legal provisions were misused even by the formal sector.

Labour migration and heavy influx of foreign migrant labour is another big problem of the formal sector. An open border with India and privilege to Indian citizens to get any type of work has displaced remarkable number of Nepali workers. Access of Indian Migrants from Terai to High Mountain ranging from street vendor to skilled labour indicates the magnitude of its seriousness.

In addition to this, there are crucial challenges such as **mismatch** between **Demand** and **Supply side** of Nepali Labour Market. For instance, in demand side there is an Informal Sector roughly covers 90 per cent and Downsizing formal sector. On the contrary, in supply side- the annual labour force growth rate estimated as 3 per cent gives 300,000 new job seekers entering into our labour market every year. They are generally Illiterate/unskilled, based on Agricultural background. Thus mismatch is Scarcity amid plenty and in various points Unemployment/Underemployment, Foreign Migration and heavily Brain-drain. Due to the violent conflict launched for the past 10 years,, internal displacement is also creating some crucial challenges.

Gender Issue is an alarming issue in the Informal Economy. Theoretically gender division of the society is a **social division** which has divided working class based on sex; thus a poor male worker subordinates capitalist system to exploit poor female comrade. Known as patriarchy, this value has resulted number of challenges in labour market, which can be summarised as follows:

- Women hold fewer formal jobs, they are largely in informal sector compared to men
- Women are discriminated in getting opportunity including employment, education, training, promotion and right to get property
- Women are getting jobs mostly in those workplaces where working condition is vulnerable
- Women are heavily discriminated in terms of wages compared to men
- There is sexual harassment in workplace and in the society against women

In Nepal's specificities, **Dalit⁴ labour relation** in informal sector is also a key challenge.

Union's Strategy: Our experience for sharing

GEFONT has taken various initiatives to address informal sector since its inception. Through its various National Federations different activities have been carried out. Following is the summary in brief:

Transportation: Independent Transport Workers' Association of Nepal (**ITWAN**) is providing various kinds of services to its members since its establishment in 1979. Members' financial contribution and various services of organizations are the basic features of the ITWAN work. It has started welfare programmes when there were no insurance schemes in Vehicular accidents. Through the Welfare Fund, ITWAN started providing assistance to the workers covering transportation field.

ITWAN has wide areas of activities . It organises activities similar like other trade unions from the membership dues, however it collects dues separately every day in order to provide assistance for health and safety and post-accidents care. Obviously the ITWAN does not spend this special due for other area of activities.

The ITWAN collects such dues in 109 places throughout the country. The rate of dues varies depending on vehicle and distance it travels. In this process, ITWAN collects about NRs. 26,419 everyday. Monthly income thus comes to be about NRs. 792,440. The expenditure of the Union is also quite remarkable. There are several headings of expenses such as **Police custody**

⁴ Dalit are considered 'untouchable' persons under Hindu religious social division

allowances, medical allowances, assistance to family in **death, accidental** costs of the members, **legal assistance** expenditure etc. **Contingency** cost is also provided by ITWAN, which includes token assistance to **dismissed** workers, **hospital** allowances, **sickness benefits**, passenger treatment cost, assistance to seriously injured and **disabled** cost etc.

'No drivers and the transport workers would spend single night in Jail'- this slogan is popular among the ITWAN members. It means all of the legal & procedural treatment has been provided by the union itself in case of incident. This became the departure point to organise transport workers in our experience.

Agriculture: The very slogan **'let's make slave --- poor'** was propagated since 1994 in order to organise and liberate Bonded agricultural workers known as *Kamaiya*. First, people questioned saying us- 'what's a funny demand!' Slowly they understand difference between **Enslave Kamaiya** & the free **poor**. Following days was totally concentrated to liberate Kamaiya from the slavery, we formed new organisation separately known as **Kamaiya Liberation Form, Nepal**. Then after it became a dynamic engine inside the **Kamaiya Concerned Group (KCG)**- the group consisted with all of the NGOs, INGOs, Govt. organisations, donor institution including ILO and the people's organisation working in the field of Kamaiya. This initiatives pressurised all of the social actors and in 1999 **Trade Union Act** was amended providing right to form union to the **Agricultural Labourers**. Thus, GEFONT launched a **giant** Federation with 75, 000 membership- Federation of Agricultural Workers, Nepal (**FAWN**). It was pioneer union in this field which ultimately could open a new horizon. National minimum wage for Agricultural labourers declared for the first time in 2000. Bonded Kamaiya were declared free by the Parliament In July 17, 2002. Further new law to prohibit bonded labour has been enacted.

Thanks to the co-operation extended by the Italian social partners- particularly the trade unions, they extended their financial support through ILO/ISPI/IPEC project in order to carry out non-formal & formal education to the Kamaiya family, capacity building of union to organise. Similar assistance was extended by ILO then after as well under its declaration programme. Recently GEFONT has launched Health Micro-Insurance Scheme to protect families of former bonded labourers. We are even launching 4-years long participatory research in collaboration with **Anti-Slavery International** to identify the socio-

political dimension of bondage and good practices conducted by various organisations.

Construction: Challenging negative nature of labour-*mandi* in construction sector, GEFONT **affiliate in construction industry-CUPPEC-Nepal** has also developed new labour meeting place to deal with informal employer. In Kathmandu and few more places in the country, everyday early in the morning the workers with their leaders in respective branch converge in this fixed meeting place. They deal collectively with various individual employers who need labour on that day. Those who remain with no jobs for the day participate in urgent union activities or they go back. Some times they make rotation or some times they allocate job to the most needy comrades. If any employer cheats to any person, they invite him/her in the union central office and settle the outstanding dues formally. In absence of eligible law, some time they also forward case to the Government Administration office.

Nowadays, CUPPEC is launching **study circle** for workers education programme to the construction workers. Thanks to the LO/TCO assistance through IFBWW where CUPPEC is developing **organising capacity**. As an affiliate federation of IFBWW, CUPPEC no doubt has been successful to expand its membership tremendously.

Similarly, other workers affiliated to the sector such as **Auto-mechanics, Trekking-rafting-porters, Street Vendors** are also using various strategies. Nepal Auto- mechanics Trade Union (**NATU**) has introduced uniformity in Rates to repair and asked weekend **holiday** followed by **saving-credit schemes** in order to attract new members. Trekking workers Union (**UNITRAV**) is facilitating with agencies for the life insurance of porter, guide, trekkers and Himalaya climbers. Newly launched federation- **Street Vendors' Union** is confronting with local governmental authorities to find out safe place to sell their items and searching way out to protect their members from the harassment. They are working through their informal type of cooperatives to protect their members.

Conclusion

Informal sector is not an isolated sector; it has interdependence with the formal sector. That's why, it is not only surviving, but also increasing day by day. The word 'informal' has already demanded that we should change it into 'formal' form.

For this, the state should take an initiation first. Country like Nepal, where more than 90 per cent labour force is in informal sector, institutional development of labour force cannot be expected without bringing it into formal boundary. That's why, there should be appropriate legal provision to cover all informal sector.

Agricultural sector, which covers 66 per cent of total labour force has been still ignored to increase productivity of agriculture, right to organize and collectively bargain for agricultural worker should be guaranteed. Besides, land reform should be the major agenda in our policy. We should seek negative lesson by previous reform activities in this regard.

Labour market is rapidly feminising day by day. Keeping it in mind, a comprehensive perspective package should be prepared to empower women economically. In order to bring gender in mainstream, Nepali Trade Union movement has formed a net-work popularly known as Trade Union Committee for Gender Equality Promotion (**TUC-GEP**). It has finalised 10-point gender agendas at workplace.

Employment should be the first economic objective for Nepal. Expert opinion is that, an employment target should not be less than 3 per cent to meet such objectives. To generate employment and to attract direct foreign investment, an additional and interlinked policies should be pursued.

Open border with India should be regularized to protect Nepali labour displacement by the heavy flow of Indian Migrant labour. Nation should be saved by brain drain and skill drain.

Informal sector workers can be protected by proper package of social security. Now trade union movement is engaging with employers' organisation on 7-point agenda for labour law reform; where unions are trying to equate **social security** in exchange of employers demand of **labour market flexibility**.

These days, working condition in informal sector has been deteriorating rapidly. The condition is further worst in Terai region. Planners say, the choice for Nepal is "Now or Never". It cannot be denied that it will create new challenges if Nation would go on 'low-wage strategy' based on 'low-level of productivity.' It would be a short-sighted approach which will ultimately increase poverty only.

Job creation and the direct foreign investment is a great concern both for the formal as well as informal sectors. It is obvious that there is less possibility of foreign investment if they feel 'means of production in Nepal is not cheap'. On the other hand it would be great mistake if we try to destroy rampant structure and permit to limit labour right for foreign investment. It is a dilemma and it is also a reality.

In summary basic four issues are to be addressed by policies & programmes such as **issue of livelihood, issues of labour right, issue of gainful employment and issue of social protection.** Welfare approach from government and right based approach from Trade Unions should be matched & exploitative feudal attitudes of employers have to be changed.

However, currently, Nepal is facing a serious crisis due to triangular conflict among the political forces. Though it is not a **failed state**, however Nepal is seriously torn-up due to violent insurgency. Thus, basic question for Nepal is how to trade-off peace & bring back in track to the derailed democracy! This will ultimately direct most of the complex issue to solve.

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