

# Migration, Refugee and Conflict

Week 8– Informal Sectors in Nepal

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# Understanding Informal Sector

- The informal sector has become an important discussion in the world of work.
- The question of safety nets is a major concern in regards to informal sector.
- The concept of informal sector was first purposed by Keith Hart in 1971 study of economic activities among rural migrants in Accra, Ghana.
- The concept of informal sector used by Hart was limited to small self-employed and individual workers.
- Hart distinguished formal and informal on the basis of self-employment.
- The relevance of informal sector in today's economy is witnessed.

## Contd...

- The informal sector being a source of livelihood is seen in the contemporary world of work.
- The majority of poor population, unskilled population, socially marginalized population and female population are more a part of informal sector.
- Informal sector has become a means of survival for people in countries where they have no proper safety nets such as insurance and social security schemes.
- In addition, lack of adequate skills also restricts formal job markets.
- The literature incorporated informal sector in 1970s that explained dualism that existed in the production processes.

# Why 1970s?

- At that period of time newly developing countries were experiencing the development of economy and the urbanization was taking place.
- The economic development was taking place in urban areas hence the people from rural areas shifted for job.
- The formal sector not being able to generate enough job opportunities, the informal sector accommodated workers.
- The post 2<sup>nd</sup> World War also saw rise of informal sector.
- In the seventies some thoughts were generated that the informal sector would fade away once the countries attain high economic growth. But in contemporary time the informal sector has grown and the employment in this sector is more in developing countries

# Theory and Origin of Informal Sector

- Keith Hart an anthropologist coined the term “Informal Sector” in 1971 in a conference at the Institute of Development Studies in Sussex in the theme entitled “ Urban unemployment in Africa”.
- His paper was based on the study he conducted in Southern Ghana.
- His major highlight is on informal sector being a part of urban Labour force and these work outside the formal Labour market.
- Later, in 1972 International Labour Organization (ILO) also included the concept of informal sector in its World Employment Programme to Kenya. The report was entitled “ Employment, incomes and equality”.
- Several school of thoughts have clarified the understanding of informal sector.

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- a. Dualistic school : It explains informal sector as marginal activities undertaken by workers. It further clarifies that distinction exists between formal and informal sectors. This thought comes with two notions. First notion explains that due to lack of jobs in the formal sector people choose informal sector. Second notion explains that due to inability of formal sector to generate adequate job opportunities .
- b. Structuralistic school: It focuses on the co-existence of both sectors. In formal sector subcontracting jobs are provided to the informal sector and benefit is gained by both
- c. Legalist school: It emphasizes that government regulations and lengthy processes and a complicated process leads to people to work informally. The word “plucky micro-entrepreneuers” is used.
- d. Illegalist school: Deliberately informal entrepreneurs seek to avoid regulations and taxations. This perspective is associated with underground or black economy.

*ILO .(2004). Social Protection of People in the Informal Economy of Nepal.*

| <b>Formal</b>                             | <b>Informal</b>                                 |
|---|---|
| Formal Contract and letter of appointment | Verbal Contract and no Appointment              |
| Regularity of Employment                  | Irregular employment                            |
| Fixed wage rate                           | Uncertain wage rates-Low income                 |
| Fixed working hours                       | Long & uncertain working hours                  |
| Legal provisions of protection            | Non existence or poor level of legal protection |

# Defining Informal Sector

- Diverse scholars have termed informal sectors. They are :

- a. Underground economy
- b. Subterranean economy
- c. Shadow economy
- d. Informal economy
- e. Hidden economy
- f. Parallel economy
- g. Clandestine economy
- h. Second or household economy

# ILO(1972) on Informal Sector

Describes informal sector as ;

Informal activities are the way of doing things and is characterized by

- a) Ease of entry
- b) Reliance on indigenous resources
- c) Family ownership of enterprises
- d) Small scale of operations
- e) Labour-intensive and adapted technology
- f) Skills acquired outside the formal sector system and
- g) Unregulated and competitive markets

## Contd..

- Basically, the characteristics of informal sector includes small-scale, labor-intensive, largely unregulated and unregistered, low-technology manufacturing.
- Sethuraman(1976) defined informal sector as
  - a. All unregistered commercial enterprises
  - b. All non commercial enterprises that have no formal structure in terms of organization and operation.
  - c. The criteria to identify informal sector enterprises were also identified.

# Contd..

## Criteria's

- Employing ten persons or less
- Operating in a illegal basis
- It opposes the government regulations
- Has no fixed hours/days of operation
- Not dependent with formal financial institutions for its credit needs
- Output is distributed normally to the final consumer
- Those working in this sector have low level of school attainment ; education.

(The size of informal sector is small, more labor-intensive with little capital to work and use of technology is simple)

# Defining Informal Sector

- Tokman (1992 ) and Portes (1994) define on the basis of characteristics.

It includes;

- a. Low entry barriers in terms of skills, capital and organization
- b. Family ownership enterprises
- c. Small scale of operation
- d. Labour intensive production with outdated technology
- e. Unregulated and competitive markets
- f. Low levels of productivity
- g. Low levels of capacity for accumulation

## Contd...

- The formal and informal sector can be distinguished also on the basis of mode of production . The mode of production in the formal sector constitute of superstructure whereas, it is opposite in the case of informal sector. The formal sector has highly developed characteristics of division of Labour but in informal sector it is not developed (Davis,1979).
- In addition, the informal sector despite huge contributions are not recorded in the national income Gross Domestic Product (GDP) of country (Farrel,2000).
- Moreover, it also is defined as the workers with no security of employment,they receive few or no benefits and are often not protected by labour laws (Huang's,2009).

# Contd..

- Informal sector is also defined as a sector that consists of the Own Account Enterprise also connoting 9 or less number of workers working. This enterprises operates at low level of organization having little or no division between capital and labors as the factor of production.
- It is on a small scale basis. In addition , the labour relationship is based mostly on casual employment, kinship or personal or social relation rather than contract related arrangements with formal guarantees (Upadhyay,2007).
- Also, informal sector is describes as the non-factory sector including those employed in small establishments, the self employed, the casual labour and home workers. The conflicting employer-employee relationship, presence of underemployment, scattered nature of work place and presence of low wages ( Chandra & Pratap,2001).

# Informal Sector and Linkages

- Informal sector has its linkages between both the formal and the informal sectors.
- The United Nation report entitled “ Informal Sector Development in Africa” has suggested five major linkages. It included,
  1. Forward linkages
  2. Backward linkages
  3. Technology linkages
  4. Consumer linkages
  5. Credit linkages

# Contd..

- Forward linkages: the firms in the formal sector buy inputs from those produced in informal sector.
- Backward linkages: the formal sector firms supply inputs to informal sector via communication, technology advancement etc.
- Technology linkages: It transfers technology from one sector to other
- Consumer linkages: The consumers from all sector buys the final products from the informal sector. The goods and services of informal sector are bought by consumers.
- Credit linkages: The credit obtained by informal sector is from formal sector.

# Contd...

- Informal sector includes business not legally regulated, the employment relations are not legally regulated or socially protected, workers are contracted informally. The social security scheme is zero and no any benefits is provided.
- Salaried informal work includes;  
employees of informal businesses, occasional workers or pieceworkers, temporary or part-time workers, paid domestic workers, contract workers, unregistered workers, industrial workers who make house calls (also referred to as subcontracted workers)

"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“.

- Dev Raj Dahal ( Nepali Scholar)

# Informal Sectors in Nepal

- Divided into two parts

Rural Informal Sector and Urban Informal Sector.

- Agriculture is the single largest informal sector. In agriculture also two main divisions were found.
- This included workers working on yearly wage and workers working on daily wage.

The labourers were those who plough the land (*Hali*), the cattle herders(*Gothala*), daily wage labourers (*Khetala*).

In Nepal Kamaiya practice was their but now they have been officially liberated on July 17,2002. *Kamaiya*, is a Nepali terminology denoting bonded labourers in agricultural sector of Western Nepal.

# Classification on the basis of Nature of Work

- The ILO publication entitled “The Informal Economy & Workers in Nepal” have classified nature of informal sector. They are;
- 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* tradition and non registered large segment of economic activities concerning livestock, poultry, kitchen gardening' dairy, fisheries, sericulture, bee farming trading.
- 2. Craft-workers: related to clay, metal, bamboo, wood and others
- 3. Trading: Street Vendors, Hawkers related to different products including very small traders

# Contd...

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

Construction is the second largest sector where workers are scattered both in rural and urban informal sectors.

# Informal economy in Nepal

- According, to ILO more than 70 percent of the economically active population is involved in the informal economy.
- The change of patterns in employment has also been seen . The existence of platform economy is one major changing patterns in employment. It includes , ridesharing apps , food apps etc.
- The regulation mechanism in informal sector is limited hence encountering multiple challenges occurs.
- These multiple challenges is interlinked with diverse aspects of rights at work.
- The exploitation of workers are a consequences of these multiple challenges raising concerns on labor rights in considerations to human rights.

## Contd..

- Informal sector plays an integral role in employing the economically active population in Nepal.
- In Nepal employment is the main considerations to uplift people from poverty. The contribution from informal sector is found.
- According, to The Nepal Labour Force Survey (NLFS) 2017/2018 around 62.2 percent of the total workforce that is around 4.4 million Nepalese are engaged in the informal sector.
- The survey furthermore shows 66.5% women and 59.7% male are in the informal employment.
- The minimum wages, decent working conditions, social protection coverages are lacking.

# Contd

- While talking about the national data on informal workers, Central Bureau of Statistics only recognizes the informal economy by the contribution to GDP.
- It measures it in terms of establishment by industry and persons engaged. However, it excludes unregistered establishments that are mobile in nature.
- The mobile in nature meaning the movement from one place to another without having fixed location to operate their activities.
- In Nepal the registered establishments is 50.1% and unregistered in 49.9% known as informal enterprises.
- The share of number of persons engaged by registration are 74.20% whereas not registered are 25.80% as per the analytical report informal sector, 2018 by Central Bureau of Statistics.

# Contd..

- The CBS reports exclude domestic paid helpers. The work they undertake is in one household or in several households).
- Transportation drivers who undertake jobs from others on wages or salaries
- Individuals involved in different type of jobs depending on the availability of work . This includes; street vending, transportation helpers in loading and unloading, helping a mason or a carpenter as a construction workers and individuals working without being associated to national economic database system.
- In addition, the difficulty arises in finding exact number of households and individuals engaged in informal economy.
- Sectors include agriculture, street vending, construction, transportation and domestic workers.

# Contd..

- Social protection for the workers in the informal economy is one of the emerging issues in Nepal.
- ILO conducted a research on social protection for people in the informal economy of Nepal.
- This study has come up with an analysis of the scope of the existing social protection schemes. It highlighted the vulnerability nature of workers in the informal sector.
- Moreover, the workers in informal economy face multiple of challenges and constraints because government is not in a position to regulate it.
- Nepal has certain legal frameworks that also includes informal sector, The special provisions have been mentioned in the labour act of Nepal.

# Labor Act of Nepal

- The chapter 13 of Labor act of Nepal has provisions relating to Industry or Service of Special Nature.

This chapter has also highlighted the informal sector.

- The provisions are as follows;
  - a. Provisions relating to tea-estate labours
  - b. Special provisions relating to construction labours
  - c. Provisions relating to transport labours
  - d. Special provisions relating to tourism labours
  - e. Provisions relating to domestic workers
  - f. Provisions relating to seasonal enterprises

# Social Security Fund related provisions

- Mandate all workers and employers to register with social security fund .
- To contribute 31% of the employer's basic salary to the fund
- To provide citizens with the social security numbers
- To disburse protection schemes( health,accidents,retirement,etc.) to workers and benefits to recipients identified by government.

Informal employment includes employers, contributing family workers, informal sector's own-account workers who are employed in informal sector, as well as employees and paid apprentices who do not have paid annual leave or sick leave benefit and whose employers do not contribute to their social security

Nepal Labour Force Survey , 2018

# Data presentation and Analysis

- Calculating the informal sector is important as it signifies the sector wise representation and contributions.
- In Nepal around 70 percent of total non-agricultural employment aged 15 and over were employed in informal sector. This was the data by Nepal Labour Force Survey, 2008. The recent Nepal Labour force survey of 2018 depicts that both informal and non-agriculture sector accounts only 41 % of all jobs.
- 62.2% of employment in informal sector and 37.8 % in formal sector clearly indicates that role of informal economy is integral to generate employment in the country.

# Total Formal and Informal Employment by Sector (NLFS, 2018)

| Sector of Employment | Male % | Female % | Total % |
|----------------------|--------|----------|---------|
| Formal               | 40.3   | 33.5     | 37.8    |
| Agriculture          | 1.3    | 1.2      | 1.3     |
| Non-agriculture      | 39.0   | 32.3     | 36.5    |
| Informal             | 59.7   | 66.5     | 62.2    |
| Agriculture          | 13.4   | 31.8     | 20.2    |
| Non-agriculture      | 45.7   | 32.9     | 41.0    |
| Private Households   | 0.6    | 1.8      | 1.0     |

# Formal and Informal Employment (in percent) (NLFS, 2018)

- The persons employed informally do not have sick leave and paid annual leave benefits and their employers do not contribute towards social security. 59.2 % are employed informally and informal employment is higher in comparison to formal employment.

| Occupation      | Formal employment | Informal Employment |
|-----------------|-------------------|---------------------|
| Total           | 15.4              | 84.6                |
| Formal Sector   | 40.8              | 59.2                |
| Informal Sector | 0.0               | 100.0               |

# Share of Informal Employment by Sector (NLFS, 2018)

- The informally employed people above 15 years are 84.6%
- 73.6% are in informal sector and 26.4 percent are in formal sector.

| Occupation      | Informal Employment (in thousands) | In percent |  |
|-----------------|------------------------------------|------------|--|
| Total           | 5994                               | 100        |  |
| Formal Sector   | 1583                               | 26.4       |  |
| Informal Sector | 4411                               | 73.6       |  |

# Contemporary Scenario of Nepal

- Transition from the informal to formal economy is a major challenge. ILO also has come with R204 – Transition from the informal to the formal economy.
- The close interrelationship is seen between poverty and informal sector. The wages differences is largely seen in formal and informal works. Hence, to alleviate poverty informal sector should be prioritized.
- Women are more involved in informal employment than men. They work in precarious conditions as well as they are low paid.
- The belief of equal wage for equal amount of work done is not seen in practice. The practice of principle of non-discrimination in terms of wage distribution remains in legal framework however is rarely seen in the workspace.

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- The social problems is also interlinked to informal economy. Large number of youths are engaged in informal economy. For short period of time their contribution is seen but in the long run their social security issues remains in shadow.
- Despite, Nepal has come up with contribution based social security acts its implementation still remains a challenge.
- Presence of Legal mechanisms such as **Constitutional provisions, Labor Act 2017/2074 ,Social Security Act,2017/2074 and Social Security Regulations 2018 for establishment and operation of social security fund, Social Security Scheme Operational Directives, 2018**

# Necessity issues to focus on still remains in

- Equal Pay for equal work (Remuneration)**
- Maternity protection / Breast feeding area/ Child care space**
- Forced labor**
- Working Hours**
- Child Labor**
- Skilled development**
- social security**
- Gender lens (LGBTIQ)**
- Occupation, Health and Safety (OHS) provisions**
- Sanitation issues**
- Labor inspection / Labor audit**
- Decent Work**

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