

Nepal's Informal Economy

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Introduction

All over the world, the share of informal employment, that is jobs performed outside the formal structures that govern taxes, workplace regulations and social protection schemes, is very high, and increasing. In short, the term informal economy covers *all* activities carried out outside the formal sector including self-employed workers and wage-workers. Informal economy thus refers to “*all economic activities that are – in law or in practice – not covered or insufficiently covered by formal arrangements*” (Husmanns, 2004, p. 2)¹.

On average, over half of all jobs in the non-agricultural sectors in developing and emerging economies can be considered informal. In some regions, including sub-Saharan Africa and South Asia, this rate is as high as 80 percent of all non-agricultural jobs and, for a few countries, even higher (Huitfeldt, Jütting, & Jütting, 2009). If informal employment in agriculture is included, the share of informal employment in *total* employment is even higher: as high as 90 percent in many countries in South Asia and sub-Saharan Africa (Chen, Vanek, Lund, Heintz, Jhabvala, & Bonner, 2005).

Now while informality is not necessary synonymous with poverty and the “working poor” (who earn less than enough to generate a family income of US\$1 per day per capita) and can be found in both formal and informal jobs, it is certainly true that a much higher percentage of people working in the informal relative to the formal economy are poor, and even more true that a larger share of women relative to men working in the informal economy are poor. Workers in the informal economy do face major deficits, which must be addressed by both state and non-state actors. Other than a lack of recognition and protection under the legal and regulatory framework of the state, informal workers and entrepreneurs are characterized by a high degree of vulnerability² (ILO, 2002).

Nepal ranks first in Asia among both the poorest states and the most unequal societies. 50.4 percent of those working do not earn enough to lift themselves and their families above the US\$ 1.25 a day poverty line, and the US\$ 2 a day poverty line is being undercut by 74.1 percent of workers (ILO Country Office for Nepal, 2010, p. 9). Inequality is being expressed in Nepal in a number of ways such as economic inequality, religious inequality (mostly caste), traditional regional inequality and gender inequality. Hence, the

¹ Striking differences exist between the terms ‘informal economy’ and ‘informal sector’. Although the most common term is probably informal sector, the by definition wider and in most cases applicable term is informal economy. Also one needs to distinguish between ‘informal employment’ and ‘employment in the informal sector’ since by definition they refer to different (but overlapping) groups of workers. This study will highlight analyze all four terms in more detail below.

² In the context of decent work, ILO mentions four decent work deficits explicitly – rights deficit, social protection deficit, representation deficit and employment deficit. These deficits will be discussed in more detail in the third section of this study (ILO Country Office for Nepal, 2004, p. 2).

inclusiveness of economic growth (the most effective way to reduce poverty in a country) and employment creation measures are on the very forefront in order to secure long-term stability.

This study sets out to provide an overview of the informal economy in Nepal. The study is organised as follows:

- I. First, it will give an introduction into the statistical definition of informality. In particular, it will highlight and explain the important difference between informal employment and employment in the informal sector.
- II. Second, it will give an overview over the informal sector in Nepal including statistical data from the 2008 Nepal Labour Force Survey (NLFS). This section will also include two brief case studies of workers in the informal economy in Nepal.
- III. Third, it will discuss the decent work deficit in Nepal's informal economy under the heading of employment deficit, rights deficit, social protection deficit and representation deficit as outlined by the ILO in 2002. Where appropriate, it will also present information and data applying to the formal sector.
- IV. Finally, this study will discuss the particular case of home based work in Nepal in more detail.

The Informal Economy – Theoretical and Conceptual Framework³:

The distinction in economic terminology between the formal and informal sector was first introduced by J. K. Hart in his influential paper on urban employment in Ghana. Hart used the concept of informal sector to describe a part of the urban labour force, which works outside the formal labour market. Although dualist thinking had in general existed already before this, it was Hart who divided the economy into formal (analogous to the previously used term 'modern') and informal (previously 'traditional') sectors and put emphasis on the significance of self-employment and small enterprises and the degree of statistical under-recording in the informal sector (Bromley, 1978).

Today, the terms 'informal sector' and 'informal economy' are widely used in writings on both, developed and developing countries. They are invoked to refer to street vendors in

³ This first section of the study will deal with the concepts of 'Informal Sector' and 'Informal Economy' and introduce the statistical background used to measure informality. Although it cannot cover the subject entirely due to its magnitude, it does deal with the subject perhaps more extensively than necessary to understand the rest of this study. This is thought to give the reader a thorough understanding of the matter. The reader who is familiar with the concepts and statistical background of the informal economy may skip this section.

Bogota, shoeshine workers in Calcutta, specialized knitwear makers in Modena and producers of fashion garments in New York. What those activities appear to have in common is a mode of organisation different from the unit of production most familiar in economic theory, the firm or corporation. These activities are also likely to be unregulated by the state and excluded from standard economic accounts of national income (Swaminathan, 1991, p. 2).

The informal economy encompasses a multitude of dispersed operational units and activities; it essentially differs from the formal economy in terms of technology, economies of scale, the use of labour intensive processes for producing goods and services, and a virtual absence of well-maintained accounts. The informal economy is informal in the sense that the government does not regulate it, and - given this lack of state controls - the probability of exploitation is much higher (ILO, 2004).

Box 1: Key differences between the formal & informal economy

Formal	Informal
Formal Contract & 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

Source: ILO, Social Protection for People in the Informal Economy of Nepal, 2004

Terminology and concept:

The terminology regarding the ‘informality’ of employment is however not uniform and the concepts can be confusing. Informal sector and Informal economy are the most commonly used terms, but one will also find a variety of other terms referring to informality such as non-standard, atypical, alternative, irregular, precarious, unorganised etc. Informal sector and Informal economy are often used interchangeably but feature an important difference that needs to be highlighted. Informal economy is a wider term, which includes the narrower term informal sector. Informal economy is defined as “all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements” (ILO, 2002). The ILO report on ‘Decent work and the Informal Economy’ defined employment in the informal economy as comprising two components: (i) employment in the informal sector as defined by the 15th ICLS (see below),

and (ii) other forms of informal employment (i.e. informal employment outside the informal sector).

This leaves two different concepts which need clarification, since both are used to measure the informal economy and because the Nepal Labour Force Survey (NLFS), which provides the statistical data for this study, uses both concepts. *Employment in the informal sector* as well as *informal employment*.

Statistical definition of 'employment in the informal sector':

The 15th International Conference of Labour Statisticians (ICLS) defined ***employment in the informal sector*** as comprising all jobs in informal sector enterprises, or all persons who, during a given reference period, were employed in at least one informal sector enterprise, irrespective of their status in employment and whether it was their main or a secondary job (Husmanns, 2004 p. 4).

Since this definition is enterprise based, a further definition for *informal sector enterprises* becomes necessary. According to the 15th ICLS, informal sector enterprises are private unincorporated enterprises owned by individuals or households that are not constituted as separate legal entities independently of their owners, and for which no complete accounts are available that would permit a financial separation of the production activities of the enterprise from the other activities of its owner(s). This includes unincorporated enterprises owned and operated by individual household members or by several members of the same household, as well as unincorporated partnerships and co-operatives formed by members of different households, if they lack complete sets of accounts. Excluded are units which produce goods solely for their own consumption, units in the agricultural sector and units above a certain threshold to be determined according to national circumstances⁴ (Husmanns, 2005 p. 3).

The NLFS of 2010 uses accordingly three questions to determine whether a person whose main job is not in agriculture will be counted as being employed in the informal sector⁵: (1) Employment (economic) status (2) Institutional sector of employment (3) Number of employees. From this the following table can be derived. If a person fulfils all criteria in a single row, he/she will be counted as working in the informal sector.

⁴ The threshold level is dependent on the law of the individual country. In India, for example, companies with more than 20 employees are considered to be in the formal sector and this number is even lower if the respective company is connected to the local grid. The Nepal Labour Force Survey used 9 as the maximum number of employees for units to be categorized as belonging to the informal sector.

⁵ Due to the difficulty of defining informal economy activities in the agricultural sector the NLFS, as most other labour surveys on the informal economy following ILO recommendations, only considers the informal economy with respect to the non-agricultural sector.

Box 2: Basis for classifying non-agricultural jobs into the informal sector according to ILO & NLFS

Economic Status	Institutional Sector	Number of Employees
Paid Employee	Private unregistered company or <u>other</u>	Less than 10
Operating own business with no employees	-	-
Operating own business with regular paid employees Or unpaid family members Or <u>other</u>	-	Less than 10

Note: other refers to the respondent specifying an answer, which was not provided in the questionnaire.

Adapted from: Nepal Labour Force Survey, Central Bureau of Statistics, National Planning Commission Secretariat, Government of Nepal, 2008

It becomes obvious that the concept of employment in the informal sector only refers to informal establishments or micro enterprises; that is, the informal sector looks at employment in terms of characteristics of the production units (enterprises) in which the activities take place (enterprise approach), rather than in terms of the characteristics of the persons involved or of their jobs (labour approach). It does not make any mention regarding informal activities or informal employment which may fall outside the concept and thus the statistical framework. As this leaves gaps in the statistical coverage of the informal economy, it has been heavily criticised. Thus the need for a broader definition arose which encompasses the whole informal economy (see: Hussmanns, 2004, p. 1). For this reason the 17th International Conference of Labour Statisticians added in 2003 the concept of 'Informal Employment' to the existing set of international standards. Together, they make up the informal economy. The differences become more obvious when viewed from the perspective of statistical information gathering.

Statistical definition of 'informal employment':

The conceptual framework of informal employment as endorsed by the 17th ICLS relates the enterprise-based concept of employment in the informal sector to a broader, job-based concept of informal employment. Since a person can have two or more formal and/or informal jobs (multiple jobholding), jobs rather than employed persons were taken as the observation units for employment. The jobs can be described by various job related characteristics and the jobs are undertaken in production units (enterprises) that can be described by various enterprise-related characteristics. Thus the framework uses two dimensions: type of production unit and type of job.

Production units are classified into three groups: (1) Formal Sector Enterprises, (2) Informal Sector Enterprises and (3) Households. Jobs are distinguished according to status-in-employment categories and according to their formal or informal nature. The following five groups are used for status in employment, each one is then again split into formal and informal: (1) Own-account Workers, (2) Employers, (3) Contributing Family Workers, (4) Employees and (5) Members of Producers' Cooperatives⁶.

Box 3 shall clarify the statistical differences between **Informal employment; Employment in the informal sector** and **Informal employment outside the informal sector**. It has been adapted from the ILO Working Paper 53; 'Measuring the informal economy: From employment in the informal sector to informal employment', 2004.

Box 3: Basis for classifying jobs as recommended by the ILO

Production Unit by Type	Jobs by Status in Employment									
	Own account workers		Employers		Con-tributing family members	Employees		Members of producer cooperatives ⁷		
	Informal	Formal	Informal	Formal	Informal	Informal	Formal	Informal	Formal	
Formal Sector Enterprises										
Informal Sector Enterprises										
Households										

Note: Cells shaded in black refer to jobs, which, by definition, do not exist in the type of production unit in question. Cells shaded in light grey refer to formal jobs. Un-shaded cells represent the various types of informal jobs as outlined below.

Employment in the informal sector encompasses the cells in the second row. **Informal employment** encompasses all white cells. The white cells in the first and third row are called **informal employment outside the informal sector**.

Adapted from: Hussmanns, Working Paper No. 53: Measuring the informal economy: From employment in the informal sector to informal employment, 2004

⁶ Home based worker constitute a statistical problem since they belong in more than one section and are notoriously hard to account for. Please refer to the last paragraph for a more in depth discussion.

⁷ The NLFS has not separately identified members of producer cooperatives and does thus not provide data for the specific field. This is a pity, since there is an abundance of cooperatives in Nepal!

Informal economy typologies:

Having established the statistical boundaries it makes sense to take a look at what the informal economy typically looks like? In order to gain a better 'applied' understanding of what the informal economy is all about, the second part of the chapter shall shed some light on the less statistical side of the informal economy. Quite obviously, there are large definitional differences, since informal economy can include the street vendor in Nepal as much as the software consultant moonlighting in Silicon Valley. Both developed and developing countries are host to an informal economy but the works content naturally differs. To get a clearer picture it makes sense to look at informality from the perspective of 'what the informal sector in a less developed country will look like'. Typically, such a perspective will come up with the following characteristics that can, but not necessarily have to be features of jobs in the informal economy:

- Labour-intensive
- Use of simple techniques and technologies
- No or little qualification
- Small and micro businesses such as family run business
- Processing of mostly local raw materials
- Lack of social security
- Comparatively low payment and poor working conditions

However, considering these characteristics, one must not confuse the informal sector or employment in it with a set of survival activities performed by destitute people on the margins of society. Although most of the individuals engaged in informal economic activities are poor, particularly in the third world, informal economic processes cut across the whole social structure. Thus informal economy is not a euphemism for poverty. Quite to the opposite many studies point out the economic dynamism of unregulated income generating activities and the relatively high level of income that can even lie above the income level of workers in the formal sector (Castells & Portes, 1989, p. 12). Indeed, a survey in 1992 in Benin, Africa, showed that the street vendor's income was 1.1 to 4.5 times higher than the legal minimum wage (Van Ginneken, 1997). It is nevertheless true that a much higher percentage of people working in the informal relative to the formal economy are poor, and even more true that a larger share of women relative to men working in the informal economy are poor (ILO, 2002).

In developing countries, involvement in the informal economy is generally less a matter of choice than a sheer lack of options. In other words, most people do not choose to work in the informal economy but are forced to do so for obvious reasons such as lack of jobs in

the formal economy, lack of qualifications and skills necessary to work in the formal economy coupled with easy entry into the informal economy. However, it has also been suggested by some authors that quite a few working people may actively choose informality to avoid paying taxes and complying with regulations, and also to opt out of social insurance schemes and other public services that they consider low quality (Huitfeldt, Jütting, & Jütting, 2009, p. 96) or of which they might not understand the benefits at all. Usually, employment in the informal economy lacks the benefits that can (but not necessarily must) be found in the formal sector, such as social security provisions, labour rights, agreed working hours, long term employment (contract) etc. Hence, while a job in the informal economy may be viewed as a stepping-stone to one in the formal economy, it can also be a desirable end in itself, and even shifts from the formal to the informal economy cannot be ruled out (Swaminathan, 1991).

In most of the developing countries, many economic units try to escape the administrative, legal or statistical framework in force. It is tempting to label such units as the constituents of an “informal economy”. The major weakness of such a definition is that it is country-specific, depending on the prevailing administrative, legal or statistical framework; the sector will expand or contract with a change in the underlying yardstick over time. Somewhat along the same vein, the informal sector is sometimes considered as that sector which falls outside the scope of planned development efforts and thus remains uncared in terms of productivity, social security and, of course, statistics. In view of this, countries have the flexibility to adopt their definition which is appropriate to their needs and the system of data collection for the same (Sharma & Chitkara, 2006) (Suwal & Pant, 2009, pp. 3-5).

The Informal Economy in Nepal – Figures and Facts

Nepal's informal part of the economy is extremely large and is growing compared to its tiny formal counterpart. It employs more than 96 percent of Nepal's economically active population (Suwal & Pant, 2009, p. 2). The informal economy is characterised by unregistered and unorganised production. Most of the informal activities are outside the government's tax frame. The largest sector of the Nepalese economy – agriculture – is for the most part informal. The importance of the informal economy for Nepal can best be summed up in three points. (1) It is a growing part of the local and national economy; (2) Although incomes are low, they are collectively large and valuable; and (3) It contributes significantly to employment (ILO Country Office for Nepal, 2004).

As in other developing countries, Nepal's informal economy is of rather diverse nature. In addition to the broad category of paid workers, wage employed and self-employed labourers; there is also the often neglected category of unpaid family workers. In particular

in the agricultural sector, one earning family member might come with one or more unpaid family members attached. The informal economy in Nepal roughly features the following types of employment:

- Farm and Farm related work – such as farmers, farm workers, cattle herders etc.
- Trading – such as street vendors, hawkers etc.
- Craft workers – such as bamboo, wood, metal craftwork etc.
- Construction workers – such as builders, carpenters, road builders etc.
- Transport – porters, drivers, rickshaws, transport helpers etc.
- Micro enterprise – family based shops,
- Other – barbers, domestic workers etc.
- Home based work (which will be discussed in a separate section at the end)

The NLFS 2008 estimated that around 2142000 people in Nepal aged 15 and over are currently employed in the non-agricultural informal sector (70 percent of total non-agricultural employment) which actually constitutes a slight decrease compared to the 73 percent of the 1998/99 NLFS. In informal employment this number is significantly higher, with 86.4 percent of all non-agricultural jobs.

Employment in the Informal Sector

Of those in employment, a much higher proportion of women than men are to be found working in the informal sector. 77.5 percent of females and 66.0 percent of males have their main jobs in the non-agricultural informal sector. In absolute numbers, women have about 984.000 jobs outside agriculture, but 763.000 of these are in the informal sector. Since almost the complete agricultural sector is informal (99.7 percent of those employed in the agriculture industries are informally employed), the NLFS - like most other surveys on the informal economy - distinguishes between employment outside the agricultural sector and employment within. This is due to the difficulty of defining informal sector activities in the agricultural sector and is supposed to give a better understanding of the actual size of the informal economy. Due to the fact that almost 100 percent of agricultural jobs are informal and the difficulty in measuring this, numbers for the agricultural sector have been omitted in this study.

A great deal of persons working in the informal economy is paid on a piece rate basis. In particular workers in the craft and related trades and workers in elementary jobs that require low levels of skills are affected. Low skill workers are also more likely to be paid on a daily basis as is shown for elementary occupation, subsistence agriculture and crafts and related trade occupations. Those more likely to be paid on a monthly basis are professionals, technicians, clerks, and machine and plant operators (Central Bureau of Statistics, 2008).

Box 4: Example of a typical employment situation in Kathmandu's informal sector

This is not an example of extreme poverty or extreme inhumane working conditions. It is an example of average, medium skilled, young Nepali workers in more or less permanent employment in an unregistered (informal economy) motorcycle workshop in Kathmandu. Data has been collected in an interview with the workshop manager who wishes do remain unnamed.

Workers are being paid 4000 NPR (2100NPR below minimum wage) per month but do obviously not receive any form of social insurance or securities. One of the customers is however a doctor and provides affordable treatment should a worker fall sick but workers will have to pay for drugs and diagnostic imaging such as x-ray etc. themselves. There is otherwise no provision for payment in the event of sickness, accident or disability.

Workers start at between 8 and 9 in the morning and work as long as the workshop is open, which can mean until 10 or 12 in the night. Workers work 7 days per week. There is no planned holiday although the workshop closes for major public holidays such as Tihar.

In accordance with Nepali custom, on major Hindu holidays such as Tihar or Dashain a bonus of approximately one to two thousand NPR is being paid.

There is no age limit to the work but most workers seem to be in their twenties or thirties. The older and hence more experienced workers get, the more increases their responsibility. The lower end tasks such as changing tires or washing motorcycles are usually given to the young workers with some of them being under the age of fifteen.

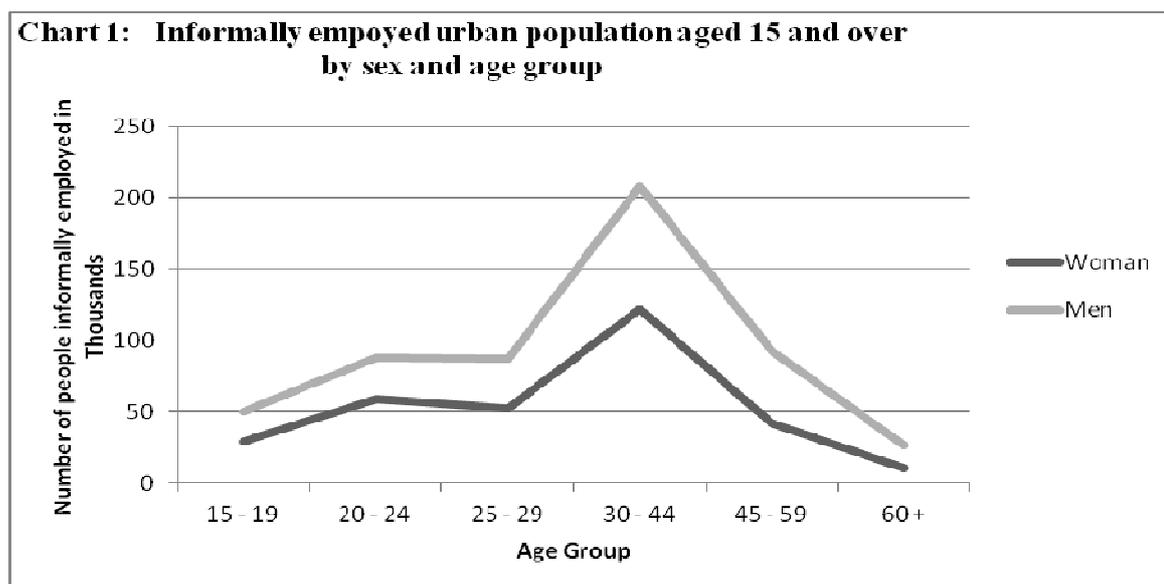
Source: Informal interview with workshop manager, 25.10.2011

Table 1: Percentage of currently employed persons aged 15 and over in the non-agricultural informal sector according to occupation

Occupation	Total number of people in the Non-Agricultural Sector	Men		Woman	
		Number in the Non-Agricultural Sector	Percent of which are employed informally	Number in the Non-Agricultural Sector	Percent of which are employed informally
Total	3074000	2090000	66.0	984000	77.5
Legislators, senior Officials	70000	57000	83.3	13000	85.0
Professionals	203000	155000	12.2	48000	7.0
Technicians	228000	147000	25.9	82000	12.2
Clerks	117000	96000	7.4	21000	12.4
Service workers	854000	512000	87.5	343000	95.6
Agricultural workers	10000	8000	75.1	2000	70.4
Craft & related trade workers	915000	626000	84.7	289000	91.0
Plant & machine operators	150000	140000	52.0	10000	53.5
Elementary occupations	519000	342000	61.8	177000	78.5
Armed forces	8000	7000	2.3	0	0.0

Adapted from: Nepal Labour Force Survey, Central Bureau of Statistics, National Planning Commission Secretariat, Government of Nepal, 2008

Table 1 shows that women are in general more likely to be employed in the informal economy (apart from the professions where woman are generally under-represented). In absolute numbers, women have 984,000 jobs outside agriculture, 77.5 percent of which are in the informal sector compared to 66.0 percent among men. A large part of jobs requiring low skills are in the informal sector. Of the five low-skills occupation groups the largest proportion can be found in group 5, "Service workers", which has 90.7 percent of jobs in the informal sector. It can also be observed that women have a large share of informal sector jobs in the low skill professions (up to 91.0 percent for "Craft workers") while the share is negligible in the high skill professions such as in group 2, "Professionals" (10.9 percent for both sexes) and group 3 "Technicians" (21.0 percent for both sexes).



Data taken from: Nepal Labour Force Survey, Central Bureau of Statistics, National Planning Commission Secretariat, Government of Nepal, 2008

Informal Employment

In 2008 the NLFS also measured for the first time the concept of informal employment as outlined in the above section. In 2008 there were 11,332,000 people aged 15 years and above (96.2 percent of total employment aged 15 years and above) who were classified as in informal employment in all industries. After excluding the agriculture and fishing industries, the number of non-agricultural informally employed persons was 2,655,000 (or 86.4 percent of total non-agricultural employment). This is also the total number of informally employed persons used in the tables below.

Main components of non-agricultural informal employment aged 15 years and above were:

- 1,054,000 (39.7 percent of non-agricultural informal employment) who were employees without any social security or benefits (not having paid annual leave or where the employer does not pay social security contributions for the worker);
- 106,000 (4.0 percent of non-agricultural informal employment) who were employers and others⁸ in the informal sector;
- 969,000 (36.5 percent of non-agricultural informal employment) who were self-employed without employees; and
- 525,000 (19.8 percent of non-agricultural informal employment) who were contributing family workers.

⁸ 'Other' refers to the respondent specifying an answer, which was not provided in the questionnaire.

Table 2: Informally employed population aged 15 and over (excluding agriculture and fishing industries), by sex, age and urban-rural

Sex / Urban - Rural	Type of Informal Employment									
	Total		Employees without formal conditions		Employers and others in informal sector		Self-employed without employees		Contributing family workers	
	Percent of Total	Relative Percent	Percent of Total	Relative Percent	Percent of Total	Relative Percent	Percent of Total	Relative Percent	Percent of Total	Relative Percent
Total	100		39.7		4.0		36.5		19.8	
Urban	32.7		12.9	32.4	2.1	52.8	11.5	31.4	6.3	31.8
Rural	67.3		26.85	67.6	1.9	47.2	25.0	68.6	13.5	68.2
Men	66.0		31.7	48.0	3.4	5.1	24.9	37.7	6.0	9.1
Urban	20.2	31.6	9.4	30.0	1.7	52	7.5	30.3	2.1	35.2
Rural	45.1	68.4	22.25	70.0	1.6	48	17.4	69.7	3.9	64.8
Woman	34.0		8.0	23.6	0.6	1.8	11.6	34.1	13.8	40.4
Urban	11.9	35.0	3.4	42.7	0.4	62.5	3.9	33.8	4.2	30.2
Rural	22.1	65.0	4.6	57.3	0.2	37.5	7.7	66.2	9.6	69.8

Note: Percent of total always relates to the total 100 percent in the top left corner. Relative percent always relates to the next greater value. For example the relative percent column under 'Total' meeting the 'Urban' row under man shows how many percent of men are informally employed in an urban context relative to a rural context. Where there is no division into total and relative percent, relative percent is not applicable and the value given stands for total percent.

Source: Nepal Labour Force Survey, Central Bureau of Statistics, National Planning Commission Secretariat, Government of Nepal, 2008

Table 3: Informally employed population aged 15 and over (excluding agriculture and fishing industries), by sex, age and urban-rural

Sex / Urban Rural	Total		Age Group											
			15 - 19		20 - 24		25 - 29		30 - 44		45 - 59		60 +	
	Percent of Total	Relative Percent												
Total	100		11.2		15.9		16.0		34.4		16.5		5.9	
Urban	32.7	3.0	8.7	5.6	13.7	5.3	14.1	12.4	14.2	5.1	10.7	1.5	8.6	
Rural	67.3	8.2	91.3	10.4	86.3	10.8	85.9	22.0	85.8	11.5	89.3	4.5	91.4	
Men	66.0	6.4	14.4	9.2	11.2	10.2	10.6	23.5	27.9	12.5	22.5	4.3	13.4	
Urban	20.2	31.6	1.9	10.3	3.3	17.8	3.3	17.9	7.8	17.0	3.5	11.9	1.0	8.8
Rural	45.1	68.4	4.6	89.7	5.8	82.2	6.9	82.1	15.6	83.0	9.0	82.1	3.2	91.2
Woman	34.0	4.7	15.2	6.8	14.8	5.9	12.6	10.9	31.1	4.0	18.9	1.7	7.8	
Urban	11.9	35.0	1.1	7.3	2.2	11.0	2.0	11.5	4.6	12.0	1.6	9.7	0.4	8.3
Rural	22.1	65.0	3.7	92.7	4.6	89.0	3.9	88.5	6.3	88.0	2.4	90.3	1.2	91.7

Note: This table follows a similar structure as the table above. For example the value in the 'Relative Percent' column under age group '25 – 29' meeting the 'Urban' row under 'Men' shows the relative percentage of men aged 25 – 29 in an urban setting against men in the same age group in a rural setting

Source: Nepal Labour Force Survey, Central Bureau of Statistics, National Planning Commission Secretariat, Government of Nepal, 2008

Unemployment and Underemployment

While current underemployment in Nepal is widespread in all segments of the population, actual unemployment is unsurprisingly low. Despite a 42 percent increase in unemployment over the last decade, unemployment at the time of the Nepal Labour Force Survey (NLFS) was still only around 2.1 percent. Unemployment is slightly higher among men compared to woman and much higher in urban areas compared to rural ones. Unemployment is highest for men aged 20 to 24 and then steadily decreases. Among woman, unemployment peaks in the 25 to 29 age group and also decreases from then on. Among those not looking for work (about 40 percent of those unemployed) the by far most prominent reason given for not looking was the unavailability of jobs.

One explanation for the rather low unemployment rate in Nepal is the high labour underutilisation rate. Labour underutilisation includes four components; unemployment, time-related underemployment, those with inadequate earnings and those with skills mismatch. Time-related underemployment includes basically everyone who does work but does not work 40 hours per week and would like to work more, for example agricultural workers during off-season when only a limited amount of work is available. Those with inadequate earnings are those who earn less than 16.38 NPR per hour or 3000 NPR per month. The NLFS did however only collect data on those in paid employment and not on those considered self-employed. It seems that a large part of those with inadequate earnings has not been accounted for. It should also be pointed out that before the October 2011 nation wide pay rise, the daily minimum wage for agricultural workers stood at exactly 3000 NPR per month for a five day week. Finally, skills mismatch refers to all those who are, according to their education, supposed to be working in higher level jobs than they actually do, that is, whose job is not on par with their skill or training.

In the 2008 NLFS, 30.0 percent of the total currently economically active population was classified as underutilised (49.9 percent in urban areas and 26.9 percent in rural areas and 32.2 percent of male and 22.8 of female economically active persons). Almost 7 percent of the labour force is in time related underemployment that means those who would like to work more but can not find work. In terms of industry, underemployment seems to be mostly a feature of the agricultural sector since almost 84 percent of time-related underemployed are engaged in agriculture, hunting and forestry and only 16 percent of the time- related underemployed are engaged in other sectors. This also explains the much higher underemployment in rural compared to urban areas.

As expected, labour underutilisation is most significant among the young, aged 20-24 years, where the overall labour underutilisation rate was 46.0 percent, with a 4.2 percent unemployment rate and 8.2 percent time-related underemployed. 10.0 percent of the labour force aged 20-24 years had inadequate earnings, and 23.6 percent were categorised as skills mismatch.

Children in the informal economy

Although the NLFS provides data on the informal sector and the informally employed only for the population 15 years and over, it does provide some data on economic activity of those aged 5 to 14. Among the 2 million employed children, around 90 percent work unpaid within their family or as attached labour for their working parents. According to

NLFS statistics, only 3 percent of the economically active⁹ children are in wage jobs (ILO, 2004, p. 18). The proportion of children aged 5 to 14 years who were currently economically active has dropped from 40.9 percent in 1998/99 to 33.9 percent in 2008, with a greater fall in terms of percent points in rural areas than in urban areas. It should be said however that while current economic activity among children has decreased, usual economic activity among 5 to 14 years old has increased by 4 percent from 20 to 24 percent.

Box 5: Child labour conditions

Most economically active children in Nepal work in agriculture manual trades and industry including a number of services. Children are also being exploited as domestic workers, porters and rag pickers.

ILO reports that about 42,000 children are used in transporting goods and construction materials in rural areas while another nearly 8,000 carry goods in many urban market centres and bus parks. Although Nepalese law prohibits minors from carrying more than a load of 25 kg at a time, it is found that average child porter loads are as high as 56 kg. Such heavy loads and poor living conditions are expected to reduce life-expectancy by 20-30 years.

55,000 children under 18 are working as domestic servants in urban Nepal with about 22,000 in Kathmandu alone. Children are also included in the bonded labour category to pay parental debts and others are trafficked into prostitution. The number of children working under a *kamaiya* (bonded labour) arrangement is estimated at 17,000 employed on farms and the domestic front. Almost half the work involves slave like conditions.

Further, it is estimated that every year 12,000 girls under 18 are removed from their families, houses and work places by force, coercion or deception and involuntarily transferred into urban centres and across the Indian border. As many as 200,000 Nepalese girls are believed to be spending miserable lives in Indian brothels.

Maoists also used children aged 14-18 as insurgent soldiers. Their number has been estimated at about 30 percent of an estimated 16,000 Maoist soldiers.

In terms of total numbers, the current economically most active groups in Nepal are adolescents aged 15 – 19 with 1.750.000 currently active person. This group is closely followed by the children aged 10 – 14 with 1.713.000 currently active persons. In rural

⁹ The NLFS collected data on economic activity for two reference periods namely "activities measured over a short time period" and "activities measured over a longer time period". The former – the current economic activity – is based on questions targeting only the economic activity over the last 7 days of the questioned individual and gives the estimates of persons who are currently active and those who are currently inactive. The estimates for persons who are usually active and usually inactive – the usual economic activity – are based on questions targeting the last 12 month. An individual is classified as usually economically active, if the period of time spent working or available for work over the last 12 months exceeds 50 percent.

areas however, children aged 10 – 14 represent the strongest workforce in terms of real numbers.

As expected, 60.1 percent of persons aged 15 to 29 years were economically inactive because they were attending school (with 85.3 percent of inactive males and 43.9 percent of inactive females in this age group being inactive because of school attendance). Similarly, a high proportion (41.6 %) of inactive females in the same age group gave household duties as the reason for inactivity compared to only 3.4 percent for inactive males aged 15 to 29 years. Probably, this is in line with the social practice of not sending girls to school as compared to boys. In the age group 30 years and higher, more males are inactive due to sickness or old age as compared to females (Central Bureau of Statistics, 2008, p. 58).

The Informal Economy in Nepal – The Decent Work Deficit

This section shall attempt to provide an analysis of the scope of decent work policies at different levels in Nepal. After a short introduction into the ILO concept of decent work and its relevance for the informal economy this section will analyse one by one the four decent work deficits in Nepal's informal economy.

The state's work and employment legislation in Nepal is almost exclusively directed towards the formal sector. In Nepal's particular context this is to mean any enterprises where there are more than 10 employees as set by the 1992 Labour Act. For this reason, most of the informal economy is excluded from protection under labour laws. The social protection schemes which do cover individuals in the informal economy are not per se designed to help informal economy workers but rather are directed at other target groups (single woman for example). Workers in the informal economy only benefit by chance.

The ILO has adopted the view that the most meaningful way of looking at the situation of workers in the informal economy is in terms of decent work, or for that matter, its absence. Poor-quality, unproductive and unremunerated jobs that are not recognized or protected by law, the lack of rights at work, inadequate social protection, and the lack of representation and voice are most pronounced in the informal economy, especially at the bottom end among women and young workers. Formal and informal economies are however not entirely separated. While deficits in decent work are naturally greater in the informal economy, the working poor for example (those earning less than US\$1 per day) can be found in both the formal and informal economy. Further what happens in the informal economy can have an impact on the formal economy and vice versa. Enterprises in the informal economy also have an unfair advantage against those in the formal by not paying tax and not having to comply with laws and regulations. The ILO has adopted the

useful view that formal and informal enterprises and workers coexist along a continuum, with decent work deficits most serious at the bottom end, but also existing in some formal jobs as well, and with increasingly decent conditions of work when moving up towards the more formal end (ILO, 2002, pp. 2-4).

Decent Work Deficit

The 90th session of the International Labour Conference discussed the informal economy in the context of the Decent Work Deficit. Decent work deficits in the informal economy are specifically imminent in four areas; *employment, rights, representation and social protection* (Shrestha, 2004). The concept of decent work aims to combine these four objectives and integrates them into a development strategy. Considering the decent work deficit in the informal economy in Nepal makes particular sense, since it provides a good overview of key policies, programs and actors in the informal economy and at the same time points out deficiencies.

Employment Deficit is the situation when people cannot find employment at all or only insufficient employment (underemployment). This draws people from the formal into the informal economy and forces them to accept any other drawbacks associated with informal employment in return for work.

The *Rights Deficit* exists due to insufficient, inappropriate or missing labour legislation. Without doubt it is greatest in the informal economy. According to ILO, in many cases, progress could be achieved rapidly through legislative action and appropriate development policies. The greatest deficits exist in terms of freedom of association, collective bargaining, forced labour, discrimination at work etc.

Social Protection Deficit is the lack or insufficiency of social protection. As with the other deficits this is most prominent in the informal economy which, at the same time, is obviously the sector where it is most needed as this sector features the most working poor. In most of the world, just as in Nepal, social protection reaches only a tiny fraction of the working population.

Representational deficit refers to the lack of organization and representation to peruse economic and social goals. Although obviously present in both the formal and informal economy, the representational deficit is much stronger in the informal economy due to the absence of employer-employee relations at work and also the inability to organize resulting from the temporary nature of work in the informal economy (Shrestha, 2004) (ILO, 2001).

Employment Deficit

At the heart of the informal economy problem is the problem of employment deficit – or, to be more precise, the problem that arises from a lack of jobs in the formal economy. Keeping this in mind, any decent employment policy must therefore pivot around the creation of jobs. In the words of the Director-General of the ILO addressing the 2001 International Labour Conference:

There is no overstating the priority of job creation. Access to work is the surest way out of poverty, and there are no workers' rights without work. Moreover, getting people into productive activities is the way to create the wealth that enables us to achieve social policy goals (ILO, 2004, p. 9).

As already pointed out by the 1991 International Labour Conference however, while “*job creation is undeniably at the heart of solving the employment deficit, [...] this does not mean creation of unrecognized, unprotected jobs in the informal economy*”. Looking at the manifold difficulties which not only arise for workers in the informal economy but also for a country with a large informal economy in general, the informal economy must not be promoted as a convenient low-cost way to create employment. “*The goal of decent work can be met only through ensuring that the jobs created are productive and observe fundamental principles and rights at work, and that both workers and businesses have the capacity and flexibility to be able to move up the continuum to increasingly better jobs in the formal economy*” (ILO, 2002, p. 99).

In the case of Nepal, this means that the challenge of creating jobs for the country's burgeoning young population is a major one, which, unless managed properly, could put the country's economic growth prospects at risk. Some 450,000 workers enter the labour market annually. More than half of them seek—and get—jobs in the Middle East and East Asia, particularly low-end work in construction and manufacturing. But it is Nepal that bears the social costs. The nationwide unemployment rate for young people is twice the national average. It is even worse in urban areas, where the decade-long conflict, lack of job opportunities in rural areas, and the concentration of higher level education institutions have contributed to an influx of younger people (Asian Development Bank, 2011, pp. 164-167).

The Government of Nepal had addressed these issues in December 2007 with the Three Year Interim Plan (TYIP) for the period from July 2007 till June 2010. The Interim Government of Nepal had identified productive and decent employment growth for people as pressing issues and accorded it a high priority within the framework of the national socio-economic policy. The TYIP states that “*the government will play the lead role as well*

as a facilitator in creating opportunities for employment according to competence and skill of the new entrants to the labour market, while making the education system employment oriented". Further, it aims at providing a "working environment suitable for humans, for workers and labourers in both the formal and informal sectors". It also targets the informal economy in particular; "In the informal sector, for the enhancement of skills, training and transfer of technology for labourers, matching their absorption capacity will be made". The TYIP also aims at a high annual economic growth rate of 3.6 – 5.5 percent in the agricultural sector and 6.5 percent in the non-agricultural sector and a reduction of the poverty rate from 31 to 24 percent (ILO, 2008).

However, after three years, the Government of Nepal has failed to achieve the targeted annual growth rate (in the last year the farm sector grew only by 1 percent against the targeted 3.6 percent) and while poverty came down to 25 percent¹⁰, the gap between urban and rural poverty is still wide (14 percent). Among excluded minorities poverty is still double the national average. Also, employment and income generating activities in rural areas were not effective (Dhital, 2010). The new TYIP for 2010 to 2013 does not differ too much from the previous one. It has two major objectives that include 'poverty alleviation' and 'establishment of sustainable peace through employment' and 'centric inclusive and justifiable economic growth'. To achieve these objectives, the plan has also focused on the generation of employment opportunities, development of infrastructures, inclusive and justifiable development, and good governance (Chalise, 2010).

Despite these efforts by the Nepalese Government to address the issues of employment, a paper presented by Duncan Campbell at an ILO conference draws a rather bleak picture insofar as it points out that if both – new entrants into the labour market and those currently underemployed – are counted together, Nepal would have to achieve a GDP growth rate of 6.3 percent in order to absorb those under or unemployed, which is highly unlikely - even according to the most optimistic prediction (Campbell, 2011).

Rights Deficit

Labour rights in Nepal are in theory numerous. In practice however, they apply only to a very limited number of workers. The Labour Act, 2048 (1991/1992) (LA) indicates in its preamble that the Act applies to workers and employees in enterprises of various sectors. In practice it applies only to enterprises where at least ten workers or employees are

¹⁰ The poverty level is determined by converting the rate of food consumption - 2,144 calorie per people per year - into price. According to the Kathmandu Post, a UNDP report prepared by Oxford University, sets Nepal's poverty rate at 65 percent. The report determined the poverty rate on the basis of nutrition, electricity, food, energy, drinking water and sanitation, maternal mortality, student enrollment, livelihood and availability of property (Kathmandu Post, 2010)

employed, unless the enterprise is situated in industrial districts established by the Government (sec. 2(b), LA). In addition to the LA itself there exist a number of additional legislative documents regulating the formal economy¹¹. Since the focal point of this study is foremost on the informal rather than the formal economy, it will not analyse formal economy labour law in depth. However, in order to provide a complete picture, there will be a brief discussion of labour law first. This section will look at the laws regulating everything from employer – employee relations to protection of workers rights. This section will not look into social protection or security provisions. This shall be the concern of the Social Security and Protection deficit section below.

Formal Economy

In general, there is as little information on labour legislation for the informal economy in Nepal as there is protection for workers itself. Discrimination, hire and fire, long working hours, underpayment, denial of basic rights etc. are all common practices and can be found in the informal as well as the formal economy although of course to a much lesser degree. The 2048 Labour Act outlines gratuities, provident funds, sick leave, Medicare and compensation following accidents and injuries at work. Yet, even in the formal sector there is no integrated system to ensure, manage, or police these different forms of labour law and social security. It is thus not uncommon that existing law is not being put into practice. A recent International Trade Union Conference (ITUC) study, which surveyed workers in the industrial and service industries in Nepal's urbanized areas, found that the overwhelming majority of workers (74.7%) have not signed a contract as demanded by Nepal's labour law. Of those that had a contract very few (5.7%) understood what was written in their contract and even fewer (0.8%) had a written copy of the contract¹² (Uprety & Singh, 2011, pp. 6-7). Given the poor condition of social security mechanisms in Nepal's formal sector it takes little imagination to see how remote the country's informal sector is from the social justice and benefits of a modern labour law (ILO, 2004, p. 19).

The LA and its amendments and additions regulate law for public and private sector enterprises. The law also regulates the establishment of the Labour Courts as well as the settlement of disputes/worker demands raised individually or collectively. Two types of employee are recognised through the act – permanent and temporary. A worker (even

¹¹ Legislation is too wide for this study to go into detail, but a very comprehensive list can be found in the ILO's NATLEX database. See: <http://www.ilo.org/dyn/natlex/natlex_browse.country?p_lang=en&p_country=NPL> accessed 26.10.11

¹² The ITUC survey features a large part of respondents who either fall into the 'don't know' or the 'no answer' category. While this might obviously compromise the study somewhat, it is also not a far fetched assumption that somebody who understands what a written copy of his contract is and possesses a written copy of the contract might state so while somebody who does not, might for a variety of reasons opt not to answer the question.

'piece-rate' workers) should be made permanent after undergoing one year of probationary period. However, the ITUC study shows that only 42 per cent of the workers are regular; the rest of the respondents indicated that they are contractual (not permanent), trainees and temporaries. The law also requires a 'compulsory letter of appointment' which spells out the terms and conditions of work. A worker/employee can work up to age 55. Employers can not fire workers unless this is done in accordance with the law and by providing sufficient reasons.

There are mandated labour standards: working hours are fixed at eight hours a day for six days a week with a half-hour rest period during the eight hour work day; a weekly day off; overtime pay of 1.5 times the hourly rate; no forced overtime and no overtime beyond four hours a day; a minimum wage (or "minimum remuneration"); 13 days paid holidays in a year; 18 days annual leave; 15 days of half paid sick leaves in a year; 13 days of kriya (mourning) leave; 52 days of paid maternity leaves up to two times; and up to 30 days of unpaid special leaves in a year. According to the above mentioned ITUC study, a total of 26 percent of respondents admitted that they do not enjoy any weekly rest.

While there are no provisions for social insurance or pension, the law has introduced compensation and gratuity for those who wish to retire and whose resignation has been approved. Enterprises are also required to establish a provident fund through equal contributions of 10 percent by employer and employee.

Box 6: Protection for whom?

Creating a labour law that protects workers is of great significance but creating a law that does not threaten employers is almost equally important. The LA, while making necessary provisions for employees, could also be viewed as putting a burden on employers.

In the case of an employee suffering injury at work the employer must bear the full treatment expenses and pay the full salary as long as the employee is hospitalized. If treatment takes place or continues at home the employee is entitled to half his salary. In both cases the employer has to pay for up to one year. If after one year the employee will be unable to work on health ground her/his contract may be terminated however, the employer will still have to pay gratuity of between fifty to one hundred percent of the monthly salary per annum depending to the years of employment. Further, in case of disability the employer has to pay compensation of up to five years worth of salary and in case of death three years.

The obvious problem arising from these laws is the additional burden the employer has to bear which creates reluctance among employers to join the formal economy and to offer their employees services they might not be able to afford.

Health and safety is regulated insofar as all firms must have medical kits, and enterprises with more than 400 workers must have a health clinic with a health assistant, and enterprises over 1000 workers must have a health centre. All companies must maintain clean, well- lighted, aerated, spacious and hazard-free facilities. Again the ITUC study shows that this is rarely implemented. The 2048 LA also regulates dispute settlement of individuals or groups of workers and the right to strike (Upreti & Singh, 2011, pp. 3-7).

The Trade Union Act of 1993 is considered complementary to the Labour Act and covers the freedom of association right and the institution of collective bargaining. It will be looked at in the section on representation deficit below.

Minimum wages are also not unheard of. There exists a Nepal wide minimum wage for industrial workers, which has recently been raised to 6200 NPR per month - despite strong opposition from employers (Shrestha R. , 2011). In the agricultural sector, the minimum wage for farm workers has been raised to 221 NPR per day in October 2011 (Thapa, 2011).

Informal Economy

The informal economy in Nepal is for the most part outside regulations and laws. Other than as a conceptual framework, the 2048 Labour Act seems to have little importance for workers in the informal economy. Data and statistics relating to the implementation of workers rights in the informal economy, if available at all, is very case specific and segregated. No holistic study seems to be available.

From the Government side, little has been done to address the problems of informal workers, which accords with the lack of laws targeting the informal economy and contrasts with the set of legislation directed towards the formal economy. Considering the large number of the Nepalese workforce that is employed informally, this leaves most workers unprotected. In recent years (I)NGOs and Trade Unions have increasingly lobbied for rights and social protection for workers in the informal economy. While these organisations have helped to set up small and individual schemes of social protection, all-encompassing legislation and programs can only come from the state.

Legislation wise, the 2007 interim constitution mentions labour laws and workers' protection but does neither go into detail, nor clarifies to whom exactly they refer (if one was to use the definition of workers and employees from the earlier Labour Act, the below mentioned rights would only apply to workers in the formal economy; but despite the need for further clarification let us assume for the sake of argument that it is supposed to refer to all workers in all sectors). The following labour rights can be found in the interim constitution:

Paragraph 18 'Right regarding Employment and Social Security':

Section (1) Every employee and worker shall have the right to proper work practice.

Section (2) Every employee and worker shall have the right to form trade unions, to organise themselves and to perform collective bargaining for the protection of their interest in accordance with law.

Paragraph 20 'Right of child':

Section (5) No minor shall be employed in factories, mines or in any other such hazardous work or shall be used in army, police or in conflicts.

Paragraph 30 'Right Regarding Labour':

Section (1) Every employee and worker shall have the right to proper work practice.

Paragraph 33 'Responsibilities of the State' The State shall have the follows responsibilities:

Section (I) To follow a policy that increases investment for promoting industry, trade and export, and creates opportunity for employment and income generation, by ensuring the professional rights of labourers.

It should further not be assumed that because workers in the informal economy are generally outside national labour legislation, they are also outside the scope of application of international labour standards. The ILO – without doubt the most important international actor in this sector – stresses that the fact that international labour instruments may not be widely applied in practice in the informal economy does not mean they are not relevant to it. Several of the ILO Conventions and Recommendations have provisions referring specifically and explicitly to the informal economy (ILO, 2010, p. 81). Nepal has, despite pressure from international and local organisation, not made any major move towards producing a legislative framework that protects people in the informal economy on its own. Therefore, the perhaps most comprehensive answer to what labour legislation exists (or perhaps will exist in the future) in Nepal can thus be provided by looking at which ILO conventions Nepal has ratified and of course implemented so far. At the same time, this gives an idea in which areas Nepal is still lacking behind.

The ILO has produced a document listing the most relevant Conventions and Policy Recommendations for the informal economy. Since this is a rather lengthy list, which includes detailed information on the advantages of each ILO Convention for workers in the informal economy its recapitulation would be unnecessary and overly complicated for our

purpose. The following overview is therefore limited to the Conventions, which are relevant for the informal economy. For more details please refer to ILO, 2010.

Of the ILO Conventions which ILO regards as fundamental for workers in the informal economy, Nepal has ratified all but one, the Freedom of Association and the Right to Organise Convention (No. 87), 1948; As stated below, there is however hope that the Government of Nepal will ratify Convention 87 soon. Of the Conventions, which ILO considers priority Conventions, Nepal has ratified only Convention 144 and failed to ratify the Labour Inspection Convention (No. 81), 1947, the Labour Inspection (agriculture) Convention (No. 129), 1969, and the Employment Policy Convention (No. 122), 1964. Further, ILO makes recommendation on 20 more Conventions, which are relevant to the informal economy and should be ratified and implemented – out of these, Nepal has ratified only one. It becomes obvious from the table below that the new-formed Constituent Assembly has not ratified a single ILO Convention. The two conventions ratified after the 2006 peace agreement were ratified by the interim parliament.

Table 5: List of ILO Conventions ratified by the Government of Nepal

ILO Convention	Date Ratified	ILO Declaration
C 14 Weekly Rest (Industry) Convention, 1921	10.12.1986	Not Applicable
C 29 Forced Labour Convention, 1930 (No. 29)	03.01.2002	Fundamental
C 98 Right to Organise and Collective Bargaining Convention, 1949 (No. 98)	11.11.1996	Fundamental
C 100 Equal Remuneration Convention, 1951 (No. 100)	10.06.1976	Fundamental
C 105 Abolition of Forced Labour Convention, 1957	30.08.2007	Fundamental
C 111 Discrimination (Employment and Occupation) Convention	19.09.1974	Fundamental
C 131 Minimum Wage Fixing Convention, 1970	19.09.1974	Not Applicable
C 138 Minimum Age Convention, 1973	30.05.1997	Fundamental
C 144 Tripartite Consultation (International Labour Standards) Convention, 1976	21.03.1995	Priority
C 169 Indigenous and Tribal Peoples Convention, 1989	14.09.2007	Recommended
C 182 Worst Forms of Child Labour Convention, 1999	3.01.2002	Fundamental

Source: International Labour Standards Department, 2011; International Labour Organisation, 2010

Of particular interest for the informal sector is the fact that the ILO Convention 102 on Social Security and the ILO Convention 183 on Maternity Protection have still not been ratified by the Government of Nepal. Also, the ILO Convention 189 on Decent Work for Domestic Workers, which was adopted at the ILO's 100th session in Geneva, Switzerland,

and voted for by Nepal, and the ILO Convention 87, which provides the labourers the right to be affiliated to any organisation and guarantees core labour standards to all workers, have not been ratified. As a consequence, the entitlements outlined in these conventions continue to be absent from the country's Labour Law. Recently however, there have been efforts by the ILO and other organisations to urge the Government to ratify and implement at least the latter two of the above mentioned ILO Conventions. Having clarified that Convention 87 does not apply to the army and the police, the Nepalese Government seems now more willing to ratify this convention (ILO, 2004, p. 23), (Republica, 2011).

Social Security and Protection Deficit

Legislation for social protection in Nepal has certainly picked up since the 2006 peace accord. There are a number of programs run by different actors such as the State, NGO/INGOs, Civil Society, Trade Unions, Financial Co-operatives, Health Providers, and Community Initiatives etc. However, despite all efforts, social protection in Nepal only reaches an estimated 5 percent of the working population.

Social Protection and Social Insurance are by definition not exactly the same and the differences need to be pointed out. *Social insurance* refers to a government-sponsored insurance program that is defined by statute, serves a defined population, and is funded through premiums or taxes paid by or on behalf of participants. Participation is either compulsory or the program is subsidized heavily enough so that most eligible individuals choose to participate. Medicare, retirement program, unemployment insurance programs and others are examples of social insurance. Social protection on the other hand refers to a set of benefits available (or not available) from the state, market, civil society and households, or through a combination of these agencies, to the individual/households to reduce multi-dimensional deprivation, which can affect both economically active and non-active persons. In most cases social protection is Government (or third party) financed and thus non-contributory for the individual.

In the context of a widespread informal economy such as in Nepal, social insurance is only available to a very small percentage of the population. Therefore, social security is more applicable the conditions prevalent in developed countries, where large numbers of citizens depend on the formal economy for their livelihood. In developing countries on the other hand, the broad framework of social protection makes this concept more applicable than the concept of social security (Gajurel, 2010).

Since both the Labour Act and the Labour Rules are applicable only to those organizations established as per Nepali laws where more than ten workers are employed, this law is not applicable to those companies with less than ten workers. In addition, it is of course not

applicable to the entire informal economy. Social security applies only to workers with permanent status, in organised sectors. Despite this the formal sector social security and health insurance has been included in the list of social protection schemes below as the first point to provide a more complete understanding of social protection in Nepal. Otherwise, this paper will not discuss formal sector security in greater detail.

The current formal social protection system consists of social and health insurance, social assistance programmes (including the old-age pension, a disability pension, widow-allowances and a maternity scheme), microcredit schemes, and labour market programmes. Social insurance is limited to a provident fund, in place since 1962 that covers civil servants, the army, the police and teachers. Less than 10 per cent of the labour force has formal old-age protection. Informal sector workers benefit mainly from income-generating programmes such as public works, funded by the Food for Work Scheme and block grants. An important component of the social protection system is the old-age allowance, a universal non-contributory social pension in place since 1995 that was expanded in 2008 (Köhler, Cali, & Stirbu, 2009).

According to the 2011/2012 budget, the most important and wide reaching state sponsored, social protection (and insurance) transfer schemes are:

- *Formal sector social security and health insurance*
Insurance against unemployment, sickness, accident and for old age. Covers only a small segment of the population in the formal sector – government civil servants, army, police, and teachers. There is no comprehensive social security system under the Nepali labour law¹³.
- *Nationwide Old age allowance*
Allowance of 500 NPR per month for all citizens over age of 70, and over 60 in Karnali Zone, or if identified as Dalit community. Distributed quarterly at VDC offices upon presentation of certificate of entitlement.

¹³ Employees are entitled to receive the following benefits as part of social security under the 2048 Labour Act and Rules:

Provident fund: Provident fund is a contributory old- age benefit under the labour law. The employer deducts 10 per cent of basic salary of the employee, adds 10 per cent to it, and deposits the amount in any commercial bank or the Karmachari Sanchaya Kosh, the autonomous provident fund authority in Nepal.

Gratuity: Gratuity is also part of an old-age benefit. Employees serving for three years or more and retiring from the service are entitled to get gratuities at different rates depending on the years of service.

Employees are also entitled to treatment expenses; salary during treatment; disability compensation; compensation in case of death; insurance and compensation; termination on health grounds; housing fund; welfare fund; pension (limited to Government employees in civil services, police and armed forces, including some public corporations); retrenchment; sick leaves; maternity leaves (Köhler, Cali, & Stirbu, 2009 pp. 60-67).

- *Education grants*
Government grant for socially excluded groups such as Girl children or Dalit children.
- *Disability cash grant*
300 to 1000NPR per month depending on severity of disability. Available to all disabled.
- *Cash for work grant*
The 'one family one employment' infrastructure development program which was previously limited to the Karnali region will according to the 2011/2012 budget gradually be extended to guarantee employment in all district that fall behind the human development index. So far jobs in the program paid 180 to 350NPR per day.
- *Widows' grant*
500 NPR per month for single woman / widows. According to the 2011/2012 budget, the age bar of 60 years and over has been dropped and the grand is now available to all widows from the date of becoming widow¹⁴.

As expected, the above outlined social security provisions fail to reach the entire population or even the entirety of the target group of people they have been created for.

The provident fund, which has originally been created as a fund for government and semi-government organizations, today counts 450000 members, which accounts for about 2.5 percent of the total economically active population. Any private enterprise counting more than 10 employees can voluntarily join the fund, but is not obliged to do so. Therefore only just over 20 percent (Table 6) of the funds members are actually employed in the private sector the rest consists of civil servants, army, police and education sector employees (Karmachari Sanchaya Kosh, 2008). Disregarding of formal or informal economy, there are no mandatory social insurance provisions for the private sector (Asian Development Bank, 2009).

¹⁴ List of state sponsored social protection schemes compiled from the following sources: Köhler, Cali, & Stirbu, 2009; Koehler, 2011; Ministry of Finance, 2011; Gajurel, 2010

Table 6: Number and percentages of contributors to the Employees Provident Fund

Area	Number of Contributors	Percentage
Civil (Government organizations)	89000	19.8 %
Nepal Army	93000	20.7 %
Nepal Police and Nepal Armed Police	81000	18 %
Private organizations, corporate sector	97000	21.6 %
Education	90000	20 %
Total	450000	100%

Source: Karmachari Sanchaya Kosh (Online), 2008

The cash for work program is one of the major programs which tackles the deficit in employment, and is designed to provide 100 days of paid employment at 180 to 350 rupees per day on government infrastructure programmes for persons willing to do unskilled manual work, at a wage fixed at the district level. Modelled after the Mahatma Gandhi National Rural Employment Guarantee Act of India it aims to exclude no one and indeed all castes seem to be included however women and youth employment impact are lagging. Koehler points out, that 60,000 households are currently eligible for participation, which would suggest a need for 6 million workdays each year, if every eligible household applied. The 2010 fiscal budget allocations allow for roughly 878,000 to 1 million work days at a daily wage of 200 rupees, averaging 15 days per person. The new budget has raised the amount of money allocated for the program but at the same time greatly extended its reach (Koehler, 2011, p. 12). Similar problems appear in other state-sponsored programs which seem to be insufficiently funded to reach the entire target group.

Just as with labour rights, there is no state funded social protection programme particularly directed towards workers in the informal economy. Programs from which informal economy workers profit are those, which are geared towards poor or underprivileged persons in general, and of those persons, most simply happen to work in the informal economy. The nature in which these programs will benefit people is hence a general one and not connected to their informal work. Programs from which persons employed in the informal economy benefit mainly include the cash for work grant and other block grants. An ILO report analysing the decent work deficit in the infrastructure and construction sector points out that because the main problem in developing countries is underemployment rather than unemployment the creation of short-term jobs (such as in the 'one family one employment' program) corresponds well to needs. This means that instead of creating a small number of long-term jobs in the capital-intensive sector, labour-based methods create a large number of jobs of shorter duration for poorer workers. If and when labour-based methods are well absorbed into the regular infrastructure investments, substantial aggregate employment creation for unskilled workers will result. Thus while

employment-intensive programmes directly create short-term jobs, they indirectly create long-term employment (ILO, 2004).

Without doubt, some of the other state-sponsored programmes such as the old age allowance, the widows' allowance and the disability grant will benefit those employed or formerly employed in the informal economy. Other state run initiatives such as the child care facilities at all district headquarters, the stipends to poor and talented students, the Government run hospitals or the development of educational facilities on VDC level will also benefit workers in the informal economy. However, despite the fact that all of these programs appear to be implemented half-heartedly and there are serious questions to be asked about the effectiveness of the services provided and the state of their resources, the problem remains that these programs are in no way directed at the informal economy and must thus be considered social protection for the poor and not workers in informal employment.

Informally there exist a large number of social protection schemes for different target groups run by (I)NGOs, Civil Society, Trade Unions, Financial Co-operatives, Health Providers, Community Initiatives etc. These schemes provide invaluable service to the large part of the population who is not as lucky as the few covered by formal social insurance schemes. Roughly, informal social protection can be classified in the following categories:

- NGOs/INGOs and Civil Society Initiatives
- Micro-finance Institutions
- Livestock and Life Micro-insurance Programmes
- Health Micro-Insurance and Health Care Financing schemes
- Trade Union Initiatives (covered in the next section)

Since a separate study could be written on each of the above points, this paper will only briefly point out the qualities of the different schemes. Further, reliable and current studies on non-formal social protection are notoriously hard to find. Predominantly, information presented below has been taken from two studies: ILO, Social Protection for People in the Informal Economy of Nepal, 2004 and ILO, An Inventory of Micro-Insurance Schemes in Nepal, 2008. Since over the last two decades the situation in Nepal has been subject to frequent change, some of the information presented here might not be up to date, incomplete or out-dated.

NGOs/INGOs and Civil Society Initiatives

Non-governmental organisations have been providing social welfare and protection services in Nepal already since the 1950's. With the re-establishment of multi-party

democracy in 1990, the number of (I)NGOs has virtually exploded. Today, activities of (I)NGOs are being regulated by the Social Welfare Council SWC. (I)NGOs can be found working in almost any area of human rights and development with many of them contributing in one way or another to social protection and the contribution they make is hugely important. However, since the majority of these efforts is scattered and not recorded in a coherent and consolidated matter it is difficult to measure overall (I)NGO contribution to social protection.

Micro-finance Institutions

Although technically not directly related to social protection, micro finance is widely considered an important tool for poverty alleviation. In particular people in the informal economy profit from micro financing as it supports poor people who have the willingness and desire to engage in some form of business activity (or expand on the activity they already engage in) but who otherwise lack the financial opportunities to start from. Most beneficiaries of micro financing live in rural areas and have little opportunity for employment. Women are affected in particular. Commercial banks and other financial institutions normally do not like to work in those areas because of the geographical constraints, underdeveloped infrastructure and other physical constraints.

Microfinance practices in Nepal reflect the diversity of landscape and population density. In the more densely populated Terai region with better transport infrastructure and easier access to clients, the Grameen Bank model has been adapted by a large number of organisations. It is also a region where traditional financial organisations, such as commercial and development banks, operate. In the hills and mountains, community-based organisations, such as Self Help Groups, Credit and Savings Associations and Cooperatives, seem the most adapted to the remoteness and isolation of local communities.

Nepal's vibrant micro finance landscape comprises a rather detailed network of commercial banks, development banks, finance companies, rural microfinance banks, savings and credit cooperative societies, financial intermediary NGOs, informal community-based organisations at different stages of institutionalisation, such as self-help groups and informal savings and credit organisations. Further Moneylenders, traders, friends and relatives can also be included in this list. On top sits Nepal Rastra Bank (NRB) (official bank), which regulates micro financing up to a certain extend and imposes 'priority sector' lending on to commercial banks, which entails lending a certain percentage of their deposit liability to deprived population, including the usual microfinance clients. NRB has also directed other micro finance oriented programs such as the Production Credit for Rural Women (PCRW) and Micro-Credit for Women (MCPW).

Apart from the money lending itself, many of the organisations also engage in training, community development, capacity building, management training, etc. for the respective group they lend to (ILO, 2004), .

Livestock and Life Micro-insurance Programmes

Micro insurance provides an important feature for people - particularly in the informal economy -, who are not protected by other schemes. The Centre for Micro Finance has conducted a number of studies into the major risks and vulnerabilities faced by the poorest of Nepal's people. CMF studies have shown that major risks include illness, the death of an income earner, enterprise and life cycle risks most of which can be best dealt with through individual self-insurance. Also informal group based mechanisms -such as a community mobilization of labour, the collection of money or food from community members - are used in the event of deaths, marriages, or crop failures (ILO, 2004, p. 30).

Micro Insurance schemes in Nepal are run by a number of actors such as Community based organisations, NGOs and INGOs, National and District level trade Unions, health service providers and other service providers. Livestock insurance offers farmers the possibility to insure their livestock against death and life insurance offers compensation in case of death of the premium holder.

Health Micro-Insurance and Health Care Financing schemes

Since only 10 percent of Nepal's population are covered by formal health insurance (with the actual number probably being even lower), the attempt to get the remaining 90 percent into some form of health insurance is both important and a daunting task.

The Government run hospitals at zonal and district level and the health posts contribute centrally to Nepal's health infrastructure. However, as social welfare expenditure is being decreased, so infrastructure and resources of those hospitals decrease. In addition effectiveness of services provided constitutes an issue. As most Nepalis are simply unable to afford the costly services of the private health care sector, a real need for alternative methods such as health micro-insurance and health care financing has arisen.

A health micro-insurance scheme is defined as a voluntary, non-profit insurance system in which resources are pooled to cover medical expenses. It is built on mutual aid, solidarity and collective pooling of health risks. The community usually owns the system and is involved in the management and functioning of the scheme. Health micro-insurance schemes comprise a range of risk-sharing arrangements with different policy, management, organizational and institutional characteristics and various strengths and weaknesses (ILO, 2004, pp. 30-31).

Coverage comes depending on the institution implementing it and the program in many forms. Often insurance is provided to groups or families. Major service providers and actors include the Public Health Concern Trust (phect-NEPAL), BP Koirala Institute of Health Sciences and BP Memorial Hospital, Lalitpur Medical Insurance Scheme, GEFONT's Health Co-operative Scheme, Centre for Community Development and Research (CCODER). Also the ILO/STEP program which provides technical support to civil society groups in setting up health micro-insurance schemes can be mentioned here.

Most of the insurance programs work through health cooperatives, which can reach from financial cooperatives turned health cooperative to worker's cooperatives as set up by GEFOND to health cooperatives encouraged by one of the insurance schemes often supported by an NGO such as phect-Nepal. Usually health cooperatives are based on the pillars of participation of people and ownership by the people (phect-NEPAL, 2006).

In addition to micro-insurance schemes, there is a range of community-based health care financing schemes in Nepal, which work through the principle of beneficiaries themselves sharing the costs of risk in a collective way. These are mostly emergency funds set up by financial cooperatives, farmers' cooperatives and women's groups. All of these programs provide important, low-cost coverage to workers especially in the informal economy who would otherwise not have access to health care at all.

Representation Deficit

Representation of workers of Nepal's informal economy is for the most part from the side of Nepal's trade unions. There exist a large number of trade unions in Nepal and their individual contribution is sometimes hard to overview or even measure. For the sake of simplicity, this section will therefore limit itself to the three large national trade union confederations: the General Federation of Nepalese Trade Unions (GEFONT), the Nepal Trade Union Congress (NTUC) and the Democratic Confederation of Nepali Trade Unions (DECONT) (ILO, 2004, p. 36).

Next to the number of social protection schemes that trade unions have initiated and run (see Box 7 below) – often in cooperation or with support from the ILO and other international actors -, trade unions also continuously lobby for the improvement of social protection, workers rights, gender equality and the abolition of child labour. Officials of trade unions, especially leaders of the trade union associations and federations, have over time developed the capacity to engage in bipartite and tripartite social dialogues at the enterprise, industry and national levels. Further unions conduct training programs, studies and research activities on relevant issues. They have publications, workers' education materials and advocacy campaign projects (Uprety & Singh, 2011, p. 6).

Box 7: Summary of schemes run by Nepal's trade union confederations

Scheme	Trade Union
Occupational Safety and Health (OSH) programmes	All
Trade Union Committee for Gender Equality and Promotion	All
Education and Health Protection Programme of NTUC	NTUC
DECONT's Education and Health Protection Programme	DECONT
DECONT's Small Cooperatives Programme	DECONT
GEFONT's integrated social protection scheme	GEFONT
GEFONT's Emergency Fund Scheme	GEFONT

Note: This brief overview is not meant to be exhaustive. There are a number of other programs in particular from smaller, individual trade unions, which are not covered here.

Source: ILO, Social Protection for People in the Informal Economy of Nepal, 2004

Yet, despite the strong growth of unionism in Nepal over the last decade and the relative influence that the unions possess, the weaknesses in the labour law and the anti-union attitude of many employers still contribute to the problem of a lack of representation of workers. As pointed out above, labour laws (in the formal economy) are weak and in addition (although – according to a ITUC study – many workers have a high level of awareness about unionism and their right to strike), unions themselves seem to be either unwilling or simply refuse to negotiate with employers. Uprety and Singh put this down to a lack of understanding of Nepal's labour law system (in particular the CBA process) and a tendency of unions to make demands based on mass action. "In short, unions are fighters, not necessarily negotiators" (Uprety & Singh, 2011, pp. 7-8). Now, while this refers in particular to negotiations and unions in the formal economy, it gives a short glimpse into what social dialogue and representation in the informal economy in Nepal looks like.

Despite the good efforts by unions as outlined above, activism is, as far as the research of this study goes, mainly directed at social protection for people in the informal economy. The literature research has brought little to light, which could point towards a real representation of informal sector workers. Most literature tackles the problem of social protection of informal workers or the labour law gap, and although unions themselves do highlight some achievements (such as for example GEFONT which writes in its own publication: "Issues of informal sector workers raised in all national and local forums by

GEFONT and successful to attract attention of all actors towards informal sectors” (GEFONT)), there seems to be little research on the work of trade unions in the informal sector. An obvious need for further research thus exists regarding the representation deficit of informal sector workers.

Home based workers

This last section of the study will deal in some more detail with the issue of home based workers in Nepal. It is supposed to provide additional relevant information on the very specific case, which home based workers present in the informal economy.

There is no generally recognised definition for home based workers; different states and organisations use slightly different definitions depending on their needs¹⁵. While the most commonly used definition is provided in the ILO Convention 177 on Home Work; The most suitable and developed definition of home based work in particular for the context of South Asia is provided by the Delhi Group, a gathering of Government officials, Networks of Home-based Workers, trade unions, NGOs and researchers from Bangladesh, India, Nepal, Pakistan and Sri Lanka. Unlike the ILO's definition which only refers to workers in some form of employment status, where the work takes place at home, the Delhi Groups definition also takes into account own-account workers and contributing family workers helping such own-account workers and having their workplaces in their own homes (Delhi Declaration, 2007) (ILO, 1997).

Thus as a direct outcome from the Delhi Group meetings, home based workers have been defined as follows:

- a) own-account workers and contributing family workers helping the own-account workers, involved in the production of goods and services, in their homes, for the market;
- b) and workers carrying out work in their homes for remuneration, resulting in a product or service as specified by the employer(s), irrespective of who provides the equipment, materials or other inputs used; and those contributing family

¹⁵ One must be clear about the difference between 'home based work' and 'domestic work'. The ILO paper 'Social protection for people in the informal economy in Nepal', 2004, defines home based workers according to three main categories: domestic helpers, water fetchers and firewood collectors. This is not the application of the term 'home based workers' that this study focuses on but rather a definition usually used in connection with the term 'domestic worker'. Therefore, the term 'domestic worker' needs to be strictly separated from 'home based worker'. What is meant by home based work is defined in this section of the study. Domestic work on the other hand is more a kind of household help, in Nepal commonly referred to as 'Didi', and according to the ILO's Convention 189, on domestic work may include tasks such as "cleaning the house, cooking, washing and ironing clothes, taking care of children, or elderly or sick members of a family, gardening, guarding the house, driving for the family, even taking care of household pets" (International Labour Office, 2011).

workers helping such workers.

With *home* being defined as (i) dwelling unit and/or (ii) structure attached to dwelling unit and/or (iii) open area adjacent to the dwelling unit (Sudarshan & Sinha, Making Home-Based Work Visible: A Review of Evidence from South Asia , 2011, p. 9)

Home based work can be found in two forms. Home based workers may work either as subcontracted piece rate workers or as self employed workers (own account workers) or some may also try a combination of the two. Just as with the rest of the informal economy, home based workers are not covered by laws regarding labour or social protection. The real problem of home based work lies in its very nature. Home based workers work in the background where nobody can see them – at home (Doane, 2007, p. 3). A certain visibility both, to the public eye and as a value in labour statistics is however important because home based workers have specific vulnerabilities that will and can be addressed if they are visible (in particular to policy makers) as a group with particular needs and interests.

In terms of employment status and type of employment, as often recorded in labour surveys, home based work “cuts across the analytical categories of “industry,” “occupation” and “activity status” by which workers are classified” (Sudarshan & Sinha, 2011, p. 5), which makes it so much more difficult to separate them from other workers. A common and well-known problem is the under enumeration of woman workers in labour force census and surveys. In South Asian countries, where there are often strong social and cultural barriers to women’s work, this is in particular problematic. The respondent in a survey might for example not perceive unpaid family work or home based work as work for the purpose of remuneration while the interviewer might share this bias (Sudarshan & Jhabvala, 2006, p. 15).

The difficulties involved in measuring home based work in statistics are directly related to many of the problems home based workers face. Ela Bhatt brings this to the point:

“A small farmer works on her farm and if it’s not a good season, on other’s farms as a labourer. When the agriculture season is over, she goes to the forests to collect gum or other forest produce. Year round, she produces hand embroidered items either at a piece-rate for a contractor or sells it to a trader who comes to her village to buy goods. Now how shall we categorize her trade? Does she belong to the agricultural sector, the forestry sector, or the handicraft sector? Is she the farmer or the farm worker? Is she self-employed or a piece-rate worker? For the lack of fit into a category, her work status suffers and her right of representation in the union movement is unrealized. The tyranny of definition has condemned her to be a nobody” (Sudarshan & Sinha, Making Home-Based Work Visible: A Review of Evidence from South Asia , 2011, p. 5).

In Nepal, there exists a particular lack of comprehensive statistics that deals separately with the home based sector. The Nepal Labour Force Survey does not recognise home based work as a separate category. Indeed the term 'home based worker' is used only once in a definitional context (Central Bureau of Statistics, 2008, p. 17). Also, unlike the NLFS of 1998/99, the 2008 edition does not include the question on 'place of work', which since there are no other means to measure home based work, was at least a starting point in order to get an idea of the extend of home based work.

Despite the lack of comprehensive research on a larger scale, some more general information and data from micro and meso-level studies is available, mostly thanks to the work of organisations such as Home Net South Asia. This data needs to be viewed with caution however since samples are usually very small (this is also true for the two tables below showing the activity status and the average earnings per month as reported by home based workers in Nepal). With this in mind such research is a valuable contribution to get a better picture of the situation of home based workers but should not undermine the great necessity that exists for more comprehensive large scale research on the home based sector.

In Nepal, home based work is mostly associated with both traditional handy crafts which have been passed down from generation to generation and new handy crafts that developed due to their economic viability. Increasing tourism and export potential seems to lead to a growth in home based work. Some manufacturing establishments have also adopted the practice of subcontracting or outsourcing work to home based workers although this practice is much less common in Nepal as it is for example in India. Candy wrapping, beedi making (cigarette making), slipper finishing, bead work are examples for production processes that have been outsourced to home based workers¹⁶. According to Chapagain, it is the trader/exporter/industrialist/intermediary, who provides the raw materials and the design to the home-based worker and hires their service to make the desired product on piece rate basis (Chapagain, 2000). Without going into too much detail, home based work in Nepal can be summed up as including the following production processes (Upadhyaya, 2000):

¹⁶ The absence of laws and regulations in the informal economy is in particular attractive for employers since it allows for a more intensive exploitation of workers. This is in particular true for home based workers where a whole range of service activities and manufacturing relies on outsourcing to home based workers. One survey for example reports of a woman in Nepal who stitches *Kurtas* on a piece rate basis and asked for a pay rise after which the owner of the garment threatened to give her work to other workers (Ghosh, 2004, p. 7), (Sudarshan & Sinha, 2011, p. 70). With the least of doubt this not an exception and shows the urgent requirement for laws regulating in particular the sector of home based work.

- Food processing
- Textile Dhaka weaving
- Beads Painting - fabric and boutique
- Packaging
- Garment & tailoring
- Animal husbandry
- Carpet & Pashmina weaving
- Cash crop farming
- Handicraft – bamboo, wood, metal, clay
- Knitting
- Ceramics
- Paper

The two tables below only show data for Handmade paper, Weaving and Garment making and thus represent the typical lack or incompleteness of data for the home based sector. However, the two tables also provide a good first insight into the home based sector. Inter country analysis between the countries of Bangladesh, India, Pakistan, Sri Lanka and Nepal also shows that, on average, Nepal's home based workers seem to have the highest income during both the lean and the peak period.

Table 7: Activity status as reported by home based workers in Nepal

Sector	Self-employed	Piece-rate workers
	<i>Percentage of workers</i>	
Handmade Paper	76	24
Weaving	75	25
Garments	37	63

Note: The survey which provides data for Bangladesh, India, Pakistan, Sri Lanka and Nepal also accounted for unpaid family labour but does not list any results for Nepal

Source: Sudarshan & Sinha, Making Home-Based Work Visible: A Review of Evidence from South Asia , 2011

Table 8: Average earnings per month in US Dollar (after deducting costs, and as a percentage share of per capita income)

	Lean period	Peak period
Handmade Paper	21.00 (16%)	38.00 (30%)
Weaving	20.71 (16.6%)	37.60 (30.1%)
Garments	29.59 (24%)	49.49 (40%)

Note: The figures show that sectors do relatively well during peak times but it should be noted that these are usually very brief such as for example around festival times.

Source: Doane, CPRC Working Paper 97: Living in the Background: Home-based Women Workers and Poverty Persistence, 2007

When dealing with the issues of home based work one must keep in mind that it is for the largest part the work of women. It is estimated that there are around 50 million home based workers in South Asia, of whom 80 percent are women. It is therefore no surprise that most research is focused on the situation of women workers, since it is women who are most vulnerable and who tend to belong to the lowest income group (within home based work).

Although it seems that, due to Nepal's economic backwardness and its informal economy, home based workers in Nepal are not as severely affected by World or Asia wide economic changes as for example their Indian counterparts. The Gender and Caste dimension on the other hand features quite strongly in determining the fate of home based sector workers in Nepal. As elsewhere, the woman's role in Nepal is very much tied to the home. It involves the care of children, elderly and other responsibilities. Thus even if a woman wanted to work outside the home, social convention and social pressure she might face would make it much harder. Home based work segregates women into units defined by the male and isolates them from a public setting they would experience, if they were working in a factory or similar. Also it might deny women access to education, training, credit, raw materials or information regarding market prices. Women are thus most likely dependent on the male household members, and their products will go into a family 'pool', which is usually marketed by the male household member. This again might lead to financial dependency despite the fact, that in many cases, women contribute a critical part of the household earnings due to their husbands' underemployment. In more severe cases, social isolation in home based work can lead to physical and emotional sickness (Doane, 2007, pp. 8-10), (Sudarshan & Jhabvala, 2006, p. 71).

Next to gender, the second major issue in home based work is social exclusion, mainly on the basis of religion and tradition. This can mean for example exploitation of the home based worker on the basis of caste by middlemen, who take the bulk of the profits because the excluded worker would not be able to market his products himself. Similarly, minorities (e.g. of a scheduled caste) might be denied access to resources such as education, credit etc. purely because of their status, which again puts them in an exploitative situation. The Home Net South Asia (HNSA) survey for example reports that while there was no gender based division found in the garment industry in Nepal, tailoring seems to be the traditional activity of the Damai community who are a marginalized (untouchable) group. Tailoring is not accepted as a decent occupation. A non-Damai woman, who started sewing, tells that she struggled a lot to convince her parents and friends that she had taken up a decent occupation (Doane, 2007, p. 10), (Sudarshan & Jhabvala, 2006, p. 66).

In addition to exclusion on the basis of gender and/or ethnicity/caste, there are a number of other very problematic conditions for home based workers. As mentioned above, global or Asia wide economic developments do not seem to affect Nepal in the same way as they affect for example home based workers in India or in South East Asia, where outsourcing by large manufacturing plants to home based workers is again on the decline as manufacturers move on to countries with less labour regulation and lower wages. For Nepals home based workers, the most difficult situations to deal with arise from unforeseen circumstances. The HNSA survey found that home based workers are most concerned about illness and joblessness. Illness is in particular problematic for the unprotected home based worker, since, on the one hand, it can mean a reduction of income due to a lack of ability to work, and, on the other hand, increased costs for doctor/hospital treatment and/or medication. Thus the consequences of illness come close to joblessness insofar as both mean a lack of income. It is naturally very difficult to cope with both short term and chronic illness, if one lives in fear of losing her/his job (Doane, 2007, pp. 14-17).

With the concern about illness comes along the concern about health due to poor working conditions. Home based workers face a number of health problems that are directly tied to the home based work itself such as repetitive stress, wounds from sharp objects, and other chronic and acute physical problems. Environmental problems that affect the health of the entire family are also common, such as the effects of dust, dyes, and other chemicals, the adverse effects of which are most hazardous for children (Doane, 2007, p. 16). The Newar community in Kathmandu, for example, which produces hand made paper and is generally better off than most home based workers - due to their work offering higher returns and their traditionally high social standing -, still copes with the fear that the chemicals and

other materials used in the paper production create an unhealthy environment and bad smells, which will affect their children (Sudarshan & Jhabvala, 2006, p. 269).

Finally, there are a number of other difficulties, which affect those close to or below the poverty line, which often also applies to low-end home based workers. Natural and man-made disasters would be an example, which will affect a wide range of people in the informal sector but surely hit home based workers the hardest. Child labour is another major problem that the HNSA survey reports. Child labour does of course not only affect the home based sector but is particularly affecting young girls of home based women and often goes along with a lack of, or insufficient education, which in turn can be seen as a guarantee for the perpetuation of poverty (Sudarshan & Jhabvala, Social Protection for Home-Based Women Workers in South Asia : Learning from Action and Research, 2006, p. 269).

In addition, policy makers, (I)NGOs and International Organisations like to focus on the more prestigious home based craft workers on the upper end of the social scale, while the Home Net South Asia and Home Net South East Asia studies indicate that the real circumstances of home based workers in the region are far more problematic and that they remain far from the minds and projects of policy makers and (I)NGOs (Doane, 2007, pp. 16-17).

Conclusion

This study attempted to provide a comprehensive but not too lengthy introduction into the informal economy in Nepal. After clarifying some basic terminology and giving an introduction into theoretical and statistical concepts used to describe the informal economy, this study has – in section 2 – provided (mainly numerical) data on Nepal's informal economy. Section three discussed the problematic of the decent work deficit in Nepal's informal economy. Divided into the four deficits as proposed by the ILO – *employment deficit*, *rights deficit*, *social protection deficit* and *representation deficit* – the study has shown how each deficit is in particular relevant and problematic in the informal economy.

Regarding the *employment deficit*, Nepal's politicians seem to have grasped the problem. As the Three Year Interim Plan shows however, unsurprisingly for Nepal's political environment, measures were perhaps overly ambitious and did not meet the targets. It remains uncertain how all the 450000 new entrants into Nepal's labour market every year shall be brought into employment – in addition to the currently unemployed.

Regarding the *rights deficit*, it became obvious that although labour rights exist for the formal sector, there is a big deficit in terms of implementation. Constitutional labour rights and some of the ILO conventions that have been ratified provide a theoretical framework for a labour law for Nepal's informal economy. Theoretical, because it is unclear whether the few laws mentioned in the constitution do actually refer to the informal economy. Theoretically, because despite the fact that ILO conventions are clearly directed towards the informal economy, their implementation is weak and some of the most important conventions have not even been ratified yet.

Social protection is mainly available for workers in the formal economy – in particular government employees – and even this is not very extensive. Workers in the informal economy are not covered by any government schemes. The few social protection schemes that are available in the informal economy come from (I)NGOs, International Organisations, Trade Unions etc. and are usually directed at the poor rather than workers in the informal economy. The lack of social protection leaves workers exposed and vulnerable. Although services exist, such as Government run hospitals at the zone and district level, these services notoriously lack financing and are often unable to supply necessary treatment.

The *representation gap* is certainly wide and although some unions do lobby for informal sector workers there is certainly more that needs to be done both in depth where unions have to strengthen their efforts for particular groups and in width so that not just certain groups of informal economy workers are covered but the whole of the informal economy.

The fourth and last section of the study discussed the specific case of the home based workers, and, on the one hand, found difficulties in the definition of home based work for labour statistics, which in turn affects home based workers badly as it leaves them invisible to policy makers and NGOs, and, on the other hand, took a look at the hardships due to discrimination based on gender, caste, poverty, etc., which in particular woman home based workers (as the vast majority) have to endure.

What became obvious throughout this study is the lack of information and medium- and large-scale data regarding the informal economy. To move informal economy workers in the focus of international donors, (I)NGOs, policy makers and the public in general and to be able to formulate effective policies and protective labour laws, it is necessary to have a good grasp of what the informal economy in Nepal looks like and what the main vulnerabilities and needs of workers are. The case of the home based workers gives a clear example. It therefore seems essential to invest more in further research on Nepal's informal economy.

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