

## Social Protection for Workers in Informal Economy

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### 1. General Background

Social Protection as the system of providing security to the members by a society against socio-economic contingencies and difficulties through public and collective measures has become more relevant these days.

The contingencies basically generated by sickness, maternity, injuries during the work, invalidity-disability, old-age, unemployment and death is quite visible and mainly talked in the formal sectors of employment.

The consequence may be the reduction in income or stoppage of income because of these causal factors. The ILO Convention No. 102 covers nine contingencies and provisions in the formal security system:

- Old-age benefits like provident fund, gratuity, pension
- Medicare
- Sickness benefits
- Maternity protection
- Workmen's compensation
- Unemployment benefit
- Disability – invalidity
- Family benefits
- Survivors benefit

Medicare, benefits to family members and children of the workers and survivors' benefit in case of the death of the bread winner of the family are also included within the system.

However, a small proportion of working masses is benefited by these provisions and the small portion is also being smaller and smaller with the changing pattern of employment as a result of globalization and labour flexibility. Thus the concept of social protection in a broader

perspective to cover entire working masses has developed in the contemporary world.

**2. Increasing insecurity – The present day reality**

- Declining employment in the formal sectors and fast growing contract, sub contracting and in-formalization.
- Fast erosion of traditional joint family system and loss of family based collective base of protection
- Land being more and more insufficient for providing employment and livelihood
- Declining welfare expenditures of the State and GOs
- Market being pushed as a more powerful mechanism than the government
- Instability and insecurity increasing basically on political grounds
- Poverty being more and more acute.

Thus for informal sector and informal economy workers, separate thought and protection system has become more and more essential mainly because:

- Formal social security system based on ILO Convention 102 is focused on middle income groups and urban middle class
- Informal sector always overcrowded by agricultural and construction workers, where there is no provision of social protection system
- If some protection measures could be introduced and effectively implemented, the majority of the rural workers will be covered.

**Difference between formal & informal sector**

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

**3. Informal workers in Nepal**

Of the total population of 23.15 millions, size of labour force is 11.2 millions with an annual growth rate of 2.4 per cent. Female labour force

covers 47 per cent of the total labour force, but female accounts for only 4 per cent of the formal sector employment. Agriculture is the female concentrated sector, where approximately 62 per cent labour force is made up of women workers. About 87 per cent of total female labour force and 67 per cent of total male labour force is engaged in informal part of the economy.

Only 16 per cent of labour force is engaged as regular paid employees in various sectors, whereas 40.3 per cent is engaged in self-employment. The proportion of unpaid family workers is very high at 43.3 per cent of the total labour force. In a gender approach, 52 per cent of males and 28.7 per cent of females are self-employed, while 24.3 per cent of males and 7.7 per cent of females are in regular paid jobs. Consequently, 63 per cent of females and 23.3 per cent of males are in the status of unpaid family workers.

Both unemployment and under employment are at a serious juncture. On the other hand, number of children at work is nearly 2 millions, where half a millions are from the age group 5-9 years. Out of the two million working children 54 per cent are girls and 46 per cent are boys.

**Table 1:** Formal & Informal Employment of Persons  
Aged 15 Years and Above

Sector	Agriculture	Non-agriculture	
		formal	informal
Total	7,203 (76.1)	603 (6.4)	1,657 (17.5)
Male	3,176 (67.1)	509 (10.7)	1,052 (22.2)
Female	4,027 (85.2)	94 (2.0)	605 (12.8)

(in '000)

Source: NLFS, 1999.

*Note: Figures in the parentheses are percentage of total workforce, of total males and of total females.*

Though formal sector of the economy is being pushed towards fast informalization, it is observed that a process of gradual formalization of the agricultural sector is going on simultaneously as agriculture is in the initial stage of modernization. So it is unrealistic to consider the entire agriculture as informal sector. Thus if we exclude the market agriculture workforce from total agriculture workforce and add it to formal sector to take it in a broader sense, the picture seems a little different (Table 1.6).

**Table 2:** Broad Categorization of Labour in Formal and Informal Sectors

(in '000)

Sector	Broad formal	Broad informal
Total	879 (9.3)	8584 (90.7)
Male	655 (13.8)	4,082 (86.2)
Female	224 (4.7)	4,502 (95.3)

*Source: NLF5, 1999.*

*Note: Figures in the parenthesis are percentage of total workforce, of total male and total female.*

If we add market agriculture workforce to formal sector and the rest of agriculture to informal sector, the broad formal sector workforce would be 9.3 per cent of the total labour force. Here, alarming is the gender distribution; only 4.7 per cent of the female labour force is engaged in the formal sector compared to 13.8 per cent of the males. As informal sector workforce is predominant in number and in percent (91 per cent) of the workforce, any intervention for social protection limited to formal sector workforce will definitely have a limited coverage and accordingly very limited success towards achieving welfare and covering social risk in a real sense.

The various groups of informal economy workers in Nepal can be categorized as below:

**Farm & Farm related workers:** Self employed, very small landholders, landless farm workers, tillers, cattle herders, former kamaiyas, Haliyas, daily wage workers, exchange labour under parma tradition, workers engaged in livestock, poultry, kitchen gardening, dairy, fisheries, sericulture and bee farming and so on.

**Trading:** Street vendors, hawkers related to different products including very small traders

**Craft workers:** Workers related to clay, metal, bamboo and wood works

**Construction:** Daily wage workers related to building construction, carpentry, road, stone quarrying, brick-kiln etc

**Transport:** Porters, cleaners, *Khalasis*, loaders, rickshaw pullers, repairing workers, *mistris*, auto-mechanics and helpers

**Micro Enterprises:** Family based enterprise workers in various types of production & services

**Small Scale & cottage Industry workers:** Workers in enterprises with less than 10 workers engaged in variety of production and services

**Traditional Occupational services:** barbers, cobblers, tailors, blacksmith etc.

#### 4. The Risks

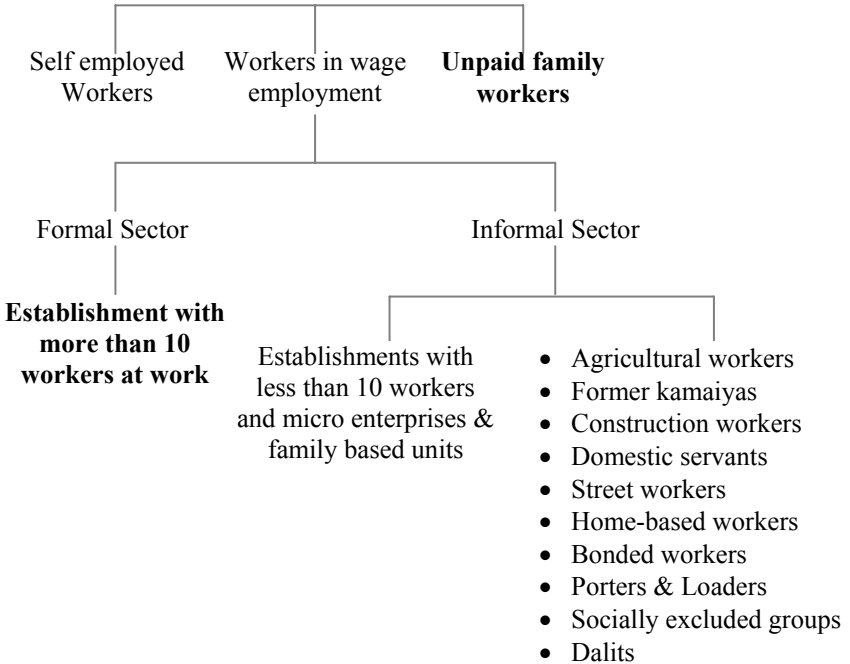
While talking about the social security also in terms of workers in informal economy, the nine-point social security system will be insufficient and not practicable in many cases. Therefore, all those collective and public interventions or measures are social protection which helps individuals, families and communities to become safe from a number of risks and help poor to become free from poverty trap. Thus in a broader sense, the objective of social protection system is to provide safety net from following risks:

<b>Natural</b>	Landslide, floods, earthquake, famine etc.
<b>Social</b>	Discrimination, crime, terror, domestic violence, civil war
<b>Economic</b>	unemployment, economic crisis, crop damage
<b>Environmental</b>	Pollution, deforestation
<b>Health</b>	Sickness, accident, injuries, maternity, invalidity, disability, old-age, death, epidemics

For the purpose, the efforts of any single organization, any single fund and any single programme will be insufficient in Nepal. Therefore, social protection system needs numerous activities and initiatives from a large number of organizations. Following organizations can be mentioned in this regard.

State → employers' organizations → trade unions
NGOs → co-operatives → welfare organizations
Insurance companies → hospitals & health providers
Community based organizations → Traditional/caste-ethnicity based/religious institutions and groups

## 5. Who Needs Social Protection



### Vulnerable Groups In Existing Socio-economic relations and conditions

- Disadvantaged due to caste, religious discrimination and class based discrimination,
- Occupational groups such as *Kami, Sarki, Damai, Gaine, Chamar, Doom, Musbar* etc.
- Porters and loaders
- Street vendors and *Nangla Pasales*
- Women workers in low income groups,
- Disabled,
- Child workers,
- People with HIV/AIDS, sexual diseases and leprosy
- Victims of prostitution and trafficking
- All Dalits

The **number in the vulnerable groups** can be summed up as follows:

Total Poverty stricken population	8,797,540
Landless agricultural population	5,540,896
Landless urban poor	581,018
Dalits	1,542,931
Disabled	77,846
Child workers	1,987,000

*(Source: Based on Population Census 2001 and National Labour Force Survey 1998/99)*

Number of wage earners is smaller among the vulnerable groups, and majority is in self-employed category. In each of the category, number of women is almost half. It is also to be noted that the vulnerable groups under poverty are not in the formal segment of the employment and hence a negligible number can be excluded as formal sector workforce. Therefore, addressing the informal economy and informal economic activities is urgent. So the priority in social protection should be directed towards:

- Access to assets and food security
- Micro finance and micro credit activities
- Skill training and promotion to micro enterprise activities
- Varieties of health protection schemes
- Other forms of social protection and social fund mobilization

**While prioritizing the groups, activities should be** landless focused, women focused, Dalit focused and disability focussed.

## 6. Existing Protection System in Nepal

With poverty incidence at 38 per cent the issue of working poor under extreme hardship suffering always from hand-to-mouth problem is the bitter reality in Nepal. It urges for maximizing the employment potential of informal sector and widening the degree and coverage of social protection.

There exist some provisions for social protection in the government sector covering civil servants and public sector employees. The benefits include maternity leave of 60 days, sick leave, limited medicare-work injury-work accident, death or invalidity, gratuity based on service years, provident fund of 10 per cent of the wage/salaries, and pension in the formal part of employment. (Annex 1)

Similarly, the schemes for regulated private sector include negotiations covering maternity leave (maximum 52 days), some coverage of work accident-work injuries-death-invalidity, gratuity based on service years and provident fund. (Annex 2)

However, informal economy workers are outside the formal system of social protection and are only benefited to a negligible extent through charity and welfare arrangements. The need for broad based social protection is increasing more and more not only for the wage earners but also for the self-employed poor in various castes, communities and socially excluded groups.

Under scattered initiatives from formal/institutional mechanism, some important government initiatives are as follows:

- Senior Citizen and Helpless Widow Allowance
- Small Farmers Development Programme
- Intensive Banking Programme
- Production Credit for Rural Women
- Banking with the Poor
- Rural Development Bank programmes
- Baal Mandirs
- Livestock Insurance & Crop Insurance
- Programme for Disabled
- Health services of government Hospitals and Health Posts
- Social Assistance through Centre and Local government
- Rehabilitation and relief works

Similarly NGO/INGO/Civil society initiatives are in charity type works including some income generation, education support, and health support programmes.

Trade Union initiatives in non-formal education, health camps, income generation activities, covering of relief during strikes/lockouts and natural calamities are important. Health cooperatives and programmes against accidents are significant.

Other health providers like Public Health Concern Trust, Kathmandu Model Hospital, BP Koirala Institute of Health Science and BP Memorial Hospital, Lalitpur Medical Insurance scheme are also significant but their coverage is small.



Financial cooperatives, farmers organizations, women organizations are also working basically for informal sector working population but they have no particular social protection schemes.

Apart from the formal mechanisms, there are informal traditional ways to protect from emergencies and difficulties, which are outside the conscious arrangements of modern society. These informal mechanism cover the protection through family, community, kinship groups, religious institutions, caste-ethnicity based arrangements for various groups.

## 7. The Way Ahead

A Mix-up programme with 4 dimensions may prove to be fruitful

**Occupation-based methods**

**Caste/Ethnicity-based methods**

**Area-based methods**

**Gender-based methods**

Broad based package having separate initiatives of different actors and also the packages of tripartite or bipartite collaborations have to be launched. The role of state and VDCs/Municipalities/DDCs is most significant. Equally important is the role of trade unions and employers organizations. As the fourth partners, NGOs, civil society organizations, micro fiancé institutions, cooperatives, welfare organizations, and informal organizations of the people would be suitable. The spirit of community self-help and protection needs to be capitalized for initiating extended protection activities. Mobilization of VDCs/Municipalities is inevitable to implement schemes of all actors in local level. There is an immediate need to start research and document the scattered informal systems of social protection across various group of population with a view to extend the coverage in social protection. In addition, launching of few experimental social protection schemes covering geographical pockets and groups of population has potential to pave way to evolving informal systems to extend protection to informal labour force and vulnerable population.

## 8. Actors and their Revised Roles

### The state

- Selection of target groups and designing Schemes for predetermined specific target groups - may be in a phase wise manner
- Introducing Tax-based funds and contributory funds to support the targeted population
- Designing and effective launching of Health Insurance schemes through Zonal hospitals, District hospitals and local health posts and linking local doctors and health workers with working masses.
- Registration of wage workers and workers as well as unemployed from poverty stricken groups in each of the VDCs/Municipalities for the purpose of social protection initiatives.
- Special arrangement for pregnancy and maternity care by VDC/Municipality assisted by DDC and Ministry of Health.
- Extended labour inspection mechanism (to ensure minimum wage and labour rights) in each district by sound networking of labour offices of the government.
- Mobilizing compulsory contribution of private sector health providers i.e. Private hospitals, Medical collages, nursing homes, clinics etc. in health insurance schemes and ensuring free medicine contribution by drug companies both internal and outsiders
- Proper utilization of existing National Welfare Fund for formal as well as informal sector by introducing new regulation on it. (National Welfare Fund is based on undistributed portion of bonus in the formal sector enterprises in addition to the Local Welfare Fund for the workers of concerned enterprise workers, which at present has reached up to Rs. 130 millions and is increasing).
- Separate Social Protection fund for informal sector with special schemes and phasewise implementation based on registration and membership.
- Ensuring incentives through legislation, decentralization and maximum utilization of social funds with higher emphasis to the

protection-providers and other actors focusing mainly health protection.

- Revising the nature of Senior Citizen Allowance as selective in favour of poor citizens rather than existing universal scheme.
- Introducing housing scheme for rural landless and urban poor in cooperation with international community, for which landless dalits and helpless widows can be targeted in the first phase.
- Promotion to cooperatives, micro cooperatives and self-help groups and to encourage collective efforts for social protection and social assistance.
- Food Security Schemes in cooperation with local and international actors.
- Channelling poverty alleviation funds for working poor and unemployed groups mainly in remote rural areas also by developing the road infrastructure and creating market for more economic activity.
- Establishing a broad based relief fund for protection against natural calamities and emergencies
- Separate and special programmes for socially excluded groups with basic focus on Dalit population, disabled, T.B.-Leprosy-HIV/AIDS victims, sex-workers, trafficked women.
- Research, database preparation and publication.
- Classification of various viable schemes for implementation in short run and long run to go in phase wise manner.

### **Employers' Organisations**

- Obligatory arrangement to cover employment injuries and work accidents by the individual employer not only in the informal sector but also in the informal employment to the maximum possible extent.
- Ensuring employers' contribution in VDCs/Municipalities in local funds for social protection and social assistance.
- Awareness creation among individual employers in favour of social protection and its higher productivity effects.

- Ensuring regular contribution from individual employers in the Relief Fund for protection against natural calamities and emergencies.
- Skill training and technological adjustment training directly or indirectly through the support to other institutions.
- Obligatory arrangement to implement minimum wages effectively.

### **Trade Unions**

- Lobbying and pressurizing the government and employers for new initiatives for social protection and for further improvement
- Organizing and sensitizing the workers in all informal employment covering both self employed and wage workers
- Establishing and operation of self-help groups and workers cooperatives
- Skill training and training for making workers familiar with fast changing technologies
- Operation of specific schemes for specific groups from the unions in centre as well as local level
- Special programmes against natural calamities and emergencies.

### **Cooperatives**

- Development of health cooperatives among all self employed and wage earners
- Cash crop cooperatives and dairy cooperatives among small and marginal farmers
- Developing cooperatives in the sectors of public utility services

### **NGOs**

- Special activities of protection in particular sector like child labour, bonded labour, women, girl children, agricultural workers, and construction workers.
- Protecting through intensive work on special issues like prostitution, environment, income generation, health, and natural calamity management.

- Lobbying and advocacy
- Skill training and adjustment training with new technologies for both self employed and wage workers in collaboration with other actors
- Support services in education, health, sanitation, income generation
- Research and publication

### **Micro-finance Institutions and Micro Finance Units of Banks and Non-bank Financial Institutions**

- Saving Credit activities towards rural poor specially those targeted by the national policies and programmes
- Promoting financially and technically the income generation activities with intensive inspection system so as to avoid misutilization of financial resources
- Introducing and operation of various insurance schemes related to health, livestock, crop etc.
- Research and publication.

### **Welfare Organizations of National and International Levels**

- Supporting and Capacity building of local organizations which are working on various types of protection activities and providing incentives to social organizations in the field of social protection
- Extending various support services for education, health and income generation focused on dalits, disabled and women and child workers
- Funding genuine and revolving type of funds in national and local level
- Policy Lobbying with the government for extension and improvement of social protection system
- Research and publication

### **Informal Organizations of People**

- Promoting indigenous schemes and practices to modernize and to widen the coverage whether those may be caste-ethnicity based or locality-community based.

**Annex 1: Schemes for Civil Servants and Other Public Sector Employees**

<b>Contingencies</b>	<b>Benefits</b>
Maternity	60 days paid leave, 2 times during service tenure
Work Injury	If overseas treatment is needed, Medicare (mentioned in the last row) + amount decided by a committee formed under regulation based on recommendation of Medical Board + paid leave
Work Accident	Full medical expenses + medical facility mentioned below + paid leaves If job is terminated due to invalidity, payment of Rs 10000 + 20 percent of monthly salary as invalidity pension + normal pension
Death by Work Accident or Life Long Invalidity	Pension + 50 percent of the pension + salary of 3 months <b>Survivors benefit and family benefits</b> Pension for 7 years to the spouse as survivors benefit Education allowance of maximum Rs 2400 per year for 2 children up to the age of 18 + maximum 15 percent of basic salary Rs 1800 in case of non-gazetted employees
Voluntary Retirement	<b>Gratuity based on service years</b> For 5-10 years of service – ½ month's salary per year For 10– 5 years of service -1 month salary per year For 15-20 years of service –1.5 months salary per year
Old Age	<b>Provident fund</b> 10 percent contribution from employee's monthly salary + matching contribution by the employer (HMGN) is deposited to PF account and paid in lump-sum along with compound interest to the respective employee/heir on his retirement/death <b>Pension</b> Monthly pension = salary at retirement X service years/50
Death During Job Tenure	Administered through EPF from welfare fund ranging from Rs.40 to 75 thousand Employees in health service Rs 150,000 For Maoist Victim Police Families Rs 700,000
Sickness	12 days paid leave per annum
Medicare	Officers = 12 month's salary in the entire service years Non gazetted I = 18 month's salary Non-gazetted others = 21 month's salary In case of fatal disease, assistance up to Rs. 100,000 in recommendation of Medical Board.

**Annex 2: Existing Schemes for Private Sector Employees in the formal sector**

<b>Contingencies</b>	<b>Benefits</b>
Maternity	A paid leave of 52 days two times during service period 45 days in tea estates
Work Injury	Full medical expenses under certification of Doctor + paid leaves in case of hospitalization, but half-paid leaves if not hospitalized.
Work Accident	Maximum 5 years' salary depending on the quantum of disability Maximum 4 years' salary in tea estates A detail of the quantum of disability and compensation is provisioned in Regulation under Workmen's Compensation.
Death by Work Accident or life long invalidity	Salary of 3 years to the nearest family member + priority in employment to one of the family member
Voluntary Retirement	Gratuity based on service years for tea estates For 4-10 yrs- 10days salary per year For 10-15 yrs-15 days salary per year For 15+years -20 days salary per year Retrenchment benefit For 3-7 years- ½ months salary per year For 7-15 years-20 days salary per year 15+ years- 1 month's salary per year Retrenchment benefit is alternative to gratuity
Old Age	<b>Provident fund</b> 10 percent contribution from employee's monthly salary + Equal contribution by the employer to be deposited to PF account Total amount with compound interest pay back to the respective employee/heir on his/her retirement/death 5 percent of monthly salary contribution in the case of tea estates
Death During Job Tenure	Payment depends on practice of the enterprise and strength of the union
Sickness	Half paid leave for 15 days per annum
Medicare	First aid to all Compensation to all from National & local welfare fund created through bonus fund under Bonus Act 1974 (70 % of fund remaining after bonus distribution goes in Local Welfare Fund and 30 % in National Welfare Fund) Immediate relief from welfare fund to family member also in case of accident or sickness.

**Annex 3: Traditional Community-based Protection Activities in Nepal**

- Guthis: A kind of family held or community held welfare trust basically associated with religious institutions/ temples
- Dhikur or Dhikutis: Collection of mutually agreed amount in a group and provision of credit turn by turn through lottery working automatically as a rotational financing system.
- Dharam Bhakari: A grain bank of villagers in local level, where villagers of the small locality deposit for future use of the village households.
- Mutual Aid Arrangements: Cooperatives and self help organizations as well as small welfare fund arrangements.
- Paincho: A loan in kind not in cash for a short duration which is common in all Nepali households in every community and caste/ethnicity.
- Parma: Exchange of labour in village among households and families during peak farming season which ensures labour supply without any payment.
- Saghau: Helping in kind and labour to each other in the Magar community.

Traditional cultural and religious arrangements in local levels and Caste-ethnicity-based Arrangements like Marwadi /Jain/Agrawal/Tamu /Langhali/ Sherpa/Thakali service trusts

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