

## Decent Work in the Informal Sector

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"Decent Work in the Informal Sector - CEE/CIS (1) region"

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Abstract on the regional report

The report discusses key factors, characteristics, variations, forms as well as policies applied in and proposed for the region.

It uses a work- and employment-based approach. Informality (3) is attributed to legitimate work/employment that lacks socially accepted employment norms - a wage that covers basic needs and social security, an established employment-relationship, and decent occupational health and safety. In this way, the report suggests a differentiation between the work as such and the conditions under which it is being performed. Informal work is the problem, not the worker.

Formality and informality in transitional societies are inevitably a mixture of existing and new patterns; in the region, they are mixtures of features typical for developed and developing economies. They can only be understood in their unique transitional nature that defies a simple comparison with "known" phenomena in other countries. Informal employment is - maybe more than in any other region - by no means a distinct entity. There is no clear border between a "formal", "organised" and an "informal", "unorganised" sector as it is the case in so-called developing countries.

The "explosion" of informality in the region has developed in two waves: In early 90s, a fierce economic, financial and social crisis followed the "shock therapy" of transition. The de-industrialisation and de-agriculturalisation of the economies, that created a situation of widespread unemployment from previously full employment within a few years, devaluation of the currencies and often hyperinflation with subsequently eroded purchasing power of wages introduced poverty to a majority of the populations. The UNDP called this change the "most acute poverty and welfare reversal in the world". Privatisation has frequently facilitated the depriving formal sector workers of their rights. New owners often ignored existing collective bargaining agreements. Furthermore, privatisation often meant closures or redundancies. For these reasons, people were forced to look for income alternatives in informal and subsistence activities.

Since the late 90s, transition processes have converged more intensively with globalisation and EU-integration. Factors that cause more informal and non-standard employment worldwide also become increasingly relevant in the region. Globalisation is commonly related to the search for more flexible forms of labour to sustain a competitive edge. Labour markets have been deregulated, the mobility of capital increased and global commodity chains have been restructured. The region has become a preferred target for production relocation, outsourcing, subcontracting and assembly production/outward processing trade for Western European companies and markets. All these processes have commonly been linked with the increase in informal work arrangements.

Globalisation pressures add to transition problems. The dramatic downsizing of the public sector and social services e.g. has been seen as an inevitable result of both, globalisation and transition. However, the deteriorated performance of social services has contributed to the weak commitment of employers and employees to paying taxes and making statutory social contributions. It has gendered impacts; the UNDP reported that the CEE/CIS region is the only region in the world where there is a considerable increase of women's household/reproductive workload while their participation in the labour market remains high and their contribution to the household income is badly needed.

The near absence of a critical public that would raise issues of deteriorating working and living conditions, as it does in similar situations in other world regions, contributes further to an atmosphere of "anything goes" and a weak respect for social and labour regulation in the region. Under the economic, financial pressures and social impacts of transition, globalisation and EU-accession, governments are reluctant to enforce effectively social and labour codes that are

generally well developed in the region. Local and foreign employers/clients use such a situation of weak implementation of social and labour rights.

Available evidence suggests that the economic recovery in terms of GDP growth that occurred in some countries did not lead to a decrease in informal employment and could not absorb the high unemployment. Women did not benefit substantially from this recovery. They are increasingly confronted with both discrimination on recruitment and employment and a re-introduction of conservative family roles in many countries of the region. For example, sexual harassment at work and discrimination against female entrepreneurs by creditors, customers or suppliers are reported. Thus, women are less likely to get well protected and well remunerated employment in the emerging private sector, but are more likely to work in informal arrangements well below their generally high levels of formal education. Women are also more likely to be subject to violations of labour rights.

Countries of the region can be roughly grouped into two clusters:

Countries where there is a serious mixture of over-regulation and absence of regulation, yet where there are socially accepted standards that favour formalised patterns. The share of the informal economy in GDP and employment (following the above definition) is estimated at 30 - 50%.

Countries that are dominated by a comprehensive "informal regulation" such as Russia; in these countries, overregulation (as formal regulation) is undermined by "informal regulation". The share of informal arrangements in GDP and employment amounts to 50 - 70%.

Typical forms of informal employment throughout the region are:

Multiple jobholding that combines employment in the remaining public and social sectors, e.g. teachers and doctors, with other activities because of the low purchasing power or non-payment of salaries. A common strategy for women in these situations is to create self-employment as private tutors, translators, consultants/assistants to foreign organisations or companies. Men tend to create self-employment in technical services or consultancy. These include high as well as low-income activities.

"Classical" informal economy activities such as cross-border/suitcase trade, street-vending and home-based production of services or goods for local markets. These activities are highly gender-segregated, as in other world regions.

Migrant labour in seasonal, temporary, or other casual, sub-standard employment in West Europe, mainly in Italy and Germany (domestic work, construction, agriculture).

Subcontracting and particularly assembly production arrangements (4) within global or European supply chains. This is one of the most important areas of informal employment and can take place in home-based, micro-enterprise-based or in factory-based locations. Typical sectors are garment, footwear and food processing. Apparel constitutes the highest share of exports of many countries in the region and the EU is the major importer. Usual signs of informality in this sector include a lack of labour contracts and the weakness of effective labour organisation or collective bargaining. (5) Moreover, workers are often "officially" paid the legal minimum wage (that as a rule does not cover basic needs) while for any extra they work off the books.

Foreign clients employ subcontracting arrangements in the region because of the absence of basic labour rights, which enables them to exercise high production and labour flexibility. It is no coincidence that feminised sectors are targeted for this kind of ultra-tayloristic production that profits from flexibility and time advantages, which are derived from the availability of skilled and "obedient" labour. Time and flexibility ensured by low labour costs and bad protection of workers, motivate subcontracting in the region. Women's wages are seen as supplementary and complementary according to conventional "breadwinner" patterns, even though the social reality in the region contradicts this sharply (6). The fact that legal minimum wages in the region do not cover basic needs and are well below a living wage, and instead are derived from recommendations by international financial institutions, constitutes one of the heaviest downward pressures on living conditions and on decent work.

In addition, EU trade regulations facilitate the assembly production pattern by favouring re-imports in terms of customs and tariffs.

Weak bargaining power of local producers/suppliers vis a vis multinational enterprises that source from them means that subcontracting (particularly assembly) arrangements that are highly mobile and fragile with low profit margins and high dependency on the client are linked with informal and unprotected working conditions. Besides, national economies are trapped in dead-end roads of economic development. Whereas in other world regions, some countries have managed to attract more full-package production and improved positions within global commodity chains, this region witnesses an opposite trend of down-grading supply chains with only the assembly operations taking part there, which has the described social impacts.

This form of informality clearly shows that informal employment is subsidising the formal economy and that formal and informal employment can only be understood in their mutual linkages and correlations.

When it comes to strategies, the report tries to transcend a focus on evasion of taxes or social contributions that would lead to a simplistic policy dichotomy - whether or not to tighten legal enforcement, or whether or not to raise taxes. Informality indicates that major policies and legal and institutional frameworks often do not correspond with the socio-economic realities, such as people's strategies to cope with poverty. Moreover, intensive informal labour relations show that economic practices may depart considerably from the regulatory/legal/institutional system. This is not to say that institutions and regulatory frameworks would not exist and function. The interlinkages between legal and economic relations, between regulations and their de facto impact need to be better understood. Only then meaningful strategies for formalisation and decent work be derived that would not be detrimental to the employees involved.

Organisations to represent employees/workers in the informal economy are crucial to formulating strategies. In the region, only few organisations exist. Among trade unions that are present in the formal sector awareness is growing. However, informal employment still creates a challenge to the labour movement around the world and particularly in the region. Trade unions in the region could learn from existing organisational efforts in the informal economy such as Homenet and Streetnet and their member organisations.

Together with organisations in the informal economy, the concept of an employment-based definition of decent work needs to be operationalised in terms of the concrete labour standards to which it makes reference. For workers in garment and sportswear supply chains, a set of labour standards derived from basic ILO-conventions has been developed [\(7\)](#) that is widely accepted by labour and multi-stakeholder initiatives worldwide.

The importance of global supply chains for the region and the prevalence of informal work arrangements suggests that strategies for decent work should and can use a supply chain approach. As practised by multi-stakeholder initiatives in the garment sector [\(8\)](#), these strategies should comply with the following requirements:

Certain labour standards must be implemented and verified for all workers that are involved in the production of a good or service regardless of their legal relation to the marketing company; i.e. the entire supply chain including home-based seamstresses under subcontracting arrangements must be covered.

The verification of these standards must be independent; that is ensured through the inclusion of different stakeholders such as trade unions, NGOs, employers' and sectoral organisations and governmental institutions.

Local organisations must be included in the verification and implementation process.

Multinational marketing companies must develop their own social management system according to accepted best practices to ensure the constant implementation of labour standards in their entire supply chain.

Lastly, openness of relevant actors and diversity in ways and strategies according to the concrete employment situations are decisive preconditions for any successful endeavours towards decent work in informal economies.

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## Notes

The abbreviation CEE/CIS (Central and Eastern Europe, the Commonwealth of Independent States and the Baltic States) stands for Central European countries, the Baltic (Poland is sometimes considered a Baltic state and sometimes subsumed under CEE) and other former Soviet republics including the Central Asian, the Balkans/Southeast Europe including former Yugoslavian countries and Albania. Contact: FON/FAX: 0049-2103-63375, [\*\*B.Musiolek@knuut.de\*\*](mailto:B.Musiolek@knuut.de)

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This perspective excludes illegal (in terms of penal code) activities such as trafficking in women.

Among the terms used in the international discourse on global commodity/value/ supply chains for assembly arrangements are "Outward Processing Trade", "Cut-Make-Trim" (German: "Passive Lohnveredelung"). In the region, the terms "Lohnsystem" (Lohn = German for wage) or "Ishleme" (Turkish for embroidery, but names any assembly production) are used.

Among the estimated 10,000 garment production shops in Romania, only a few dozens are organised by trade unions.

Trade unions estimate, that 60% of women workers in the sector are single mothers or the sole family "breadwinner".

It comprises the core ILO conventions and additionally the right to a living wage, a maximum weekly working time and overtime, the right to an established employment relationship and decent occupational health and safety - as stipulated in ILO conventions.

Such as the Dutch Fair Wear Foundation.