Decent Work in the Informal Sector: 
CEE/CIS Region

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Foreword

This report is the first of a series of papers that were commissioned under the auspices of the ILO Inter-Sectoral Task Force on the Informal Economy in preparation for the general discussion on the informal economy at the 90th International Labour Conference (ILC) in Geneva in June 2002. The papers in this series include studies of regional trends, selected country level studies and thematic investigations at the global level. Most of them seek to identify new trends and patterns that have emerged over the last several years and to go into more depth regarding the factors underlying the continuing growth of the informal economy, not only in developing countries, but also in advanced countries and countries undergoing transition. Particular attention has been paid to the impact of globalization, liberalization, privatization, migration, industrial reorganization and macro-economic policies prompting these trends.

The present paper, “Decent Work in the Informal Sector: CEE/CIS region”, has been prepared by Bettina Musiolek, consultant. It identifies some of the key factors, characteristics, variations and forms of informality in Central and Eastern Europe and the Commonwealth of Independent States and other former Soviet republics. The report highlights the dramatic downsizing of the public sector and social services as the transition processes converged with globalization and aspiration for EU integration in the late 1990s. Due to the emergence of abundant cheap labour and deregulation of labour markets, the region has become a target for production relocation, outsourcing, subcontracting and outward processing trade for Western European companies and markets. High levels of unemployment, low wages and late or non-payment of salaries have led to the rapid growth of different forms of informal employment. Responses include multiple job-holding, cross-border suitcase trade, street vending, home-based production of goods and services for local markets, migrant labour in West Europe, and subcontracting arrangements within global supply chains. The author suggests that such high levels of informality suggest that policies and legal and institutional frameworks may not correspond with the socio-economic realities of today.

The reader will observe that nearly all of the papers in this series attempt to tackle the problem of conceptualising the informal sector. The development of a conceptual framework for the International Labour Conference report was carried out at the same time as the production and finalization of the papers included in this series. As such it was not possible to agree in advance upon a single concept for use by the authors of these papers.

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1. Introduction: Key factors specific to the region

1.1 Transition: Economic restructuring and socio-economic insecurity

After 10 years of transition, regional reports of international organizations draw very different pictures: The rather optimistic reports by international financial institutions like “From Plan to Market” (World Bank, 1997) and “Transition 1998 Report” (EBRD, 1999) also present positive pictures of informal entrepreneurship that incurs a lot of development potential in growth and efficiency for the emerging market economies in the countries (World Bank, Schneider/Enste).

These views contrast sharply with various reports by supra-governmental and national institutions. UNDP, UNICEF, ILO (ILO, 1999, pp. 5-6) and Social Watch, 1 e.g., have tried to draw attention to the dramatic deterioration of socio-economic security in the CEE/CIS. These studies have attempted to deconstruct frequently used (macro-)economic terms by translating them into socio-economic realities that have an impact on millions of people. In its “Regional Human Development Report” UNDP has characterized the social situation in the region as “the most acute poverty and welfare reversal in the world”. Social disintegration and “new” poverty (ILO, 1999, p. 54) have clearly and dramatically uprooted the region. 2 The CEE/CIS region has seen some of the world’s most dramatic societal changes within a very short time. Mushrooming of informal activities is a key element in these shifts. Most authors agree that rapid economic restructuring during transition has created massive social problems that have led to a search for informal income opportunities. Hofbauer (1997) presented one of the first analyses in this direction. Jankulovska (2001, p. 3) for instance reckons a direct correlation between unemployment and informal activities. Many authors see high unemployment and economic recession as the main causes for the growth in informal activities, not only for this region (Gerxhani, 1999, p. 21).

While these factors are broadly agreed upon, other similar influences were rather underestimated, including interlinkages with globalization, casualization of labour, flexibilization of production, and dismantling of both social services and the public sector as worldwide tendencies coinciding with the processes of transition. However, in recent analyses, economic restructuring, its social impacts and the further growth of informal activities are increasingly seen as the result of both transition and globalization.

How did economic restructuring give rise to the explosion of informal activities?

Following the breakdown of internal and external markets for virtually entire economies and the emerging economic and financial crisis, international financial institutions were called in and subscribed to the usual notion of structural adjustments. Price liberalization, privatization of state-owned trusts, and drastic budget cuts were instituted. A dramatic de-industrialization and “de-agriculturalization” took place. Declines in economic output arose. In Russia, the GDP declined by 41 per cent between 1991-97. In 1993, Lithuania’s GDP dropped to 25 per cent of its 1989 level (for Albania, Gerxhani (2000)). During the early years of transition, unemployment increased significantly within a very short

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2 Figures for poverty rates vary a lot depending on the threshold used. The relative poverty line is often defined as 60 per cent of the average income in a country - this line was introduced as the legal minimum wage in Ireland, one of few EU-countries to do so.
time - from full employment under a planned economy to real unemployment rates of some 20 per cent or more in just a few years. Rampant inflation eroded wages; disparities have widened; unemployment affects almost everyone. In the last ten years real wages, or the purchasing power of wages, has dropped, and wage disparities have increased drastically. Real wages are sometimes less than a third of their 1990 level. The CEE/CIS has suffered an enormous decline in living standards (Spoor in UNDP/RBEC, 2000, p. 8) and, meanwhile, poverty has become all-pervasive.

Signs of economic and financial crises had been used to apply even more pressure for a rapid transition and structural adjustment. International lending institutions argued that rapid change was the only way to survive the crisis (“shock therapy”). Economic restructuring as well as social and labour market deregulation were intensified with the justification that if executed properly, countries undergoing such measures stood to gain entrance into the EU.

The most affected sectors have been the expertise-intensive sectors, whereas labour-intensive sectors have partly survived as subcontracted production for Western markets (Hübner, 1996). And yet, the increases in unemployment could not be absorbed by the emerging private sector. In the absence of formal job opportunities and serious social safety nets, the informal and subsistence economies began providing the only means for survival. The shock therapy led to an explosion of various forms of “classical” small-scale informal work such as street vending, suitcase trades, family plot agriculture, etc. (Gerxhani, 2000 and Hofbauer, 1997) and large-scale informal and illegal activities such as money-lending (ibid.) or Mafia activities.

During the second half of the 1990s, a certain economic recovery took place in some countries in the region, when the GDP showed real signs of recovery. Nonetheless, “employment levels and real wages tend to lag behind” (UNICEF, 1999, p. 3; Gerxhani, 2000, p. 10; et al.). For the Ukraine, Zsoldos and Standing (2001) report the opposite development during the late 1990s: the economic crisis had deepened, and unemployment rose. Only Poland, Hungary and Slovenia have recently managed to compensate somewhat for the first fierce cutbacks that occurred in the early 1990s. All observations suggest that there is no decline in informal activities (though statistics that would confirm this do not exist). People are compelled to continue to seek out a variety of income-generation - above all through informal employment. Moreover, child labour - formerly unthinkable - is now an integral part of informal work arrangements (Gradev, 1999, p. 73) and subsistence agriculture.

The increased diversification of types of employment in households meant multiple jobs and various sources of income became a common characteristic of all countries in the region (Kandiyoti in UNDP/RBEC, 2000, p. 124; UNICEF, 1999, p. 3). This diversification includes various forms of paid non-home based and home based work as well as people subsidizing their incomes with subsistence agriculture and/or sales of surpluses generated from family lots.

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3 A similar course of events, which follows economic crises, has by now been amply reported for this and other world regions. It is also verified in studies commissioned by different international organizations (e.g., “The Asian Financial Crises - The Challenge for Social Policy”, ILO, 1998) and diverse institutions in other parts of the world. The recent financial crisis in Asia has further clarified for the majority of this region’s population the hidden, real meaning of the words “financial crisis”.

4 The borderline between informal and illegal is usually drawn by penal law. Activities forbidden by penal law are illegal.
The socio-economic vulnerability of various social groups increased greatly. The general vulnerability of the majority of people was further exacerbated by social exclusion processes such as the heightening of social borders based on ethnic and religious differences, and discrimination based on age, sex, and wealth.

These problems go a long way in explaining why people turned to informal employment opportunities. An indicator of people’s motives for seeking informal employment is the percentage of women and men who would accept any job: 24 per cent of the women and 15 per cent of the men in Bulgaria (Bulgarian Gender Research Foundation, 2000). This reveals the fatal notion that people involved in informal employment would rather have a job than not.

While many authors agree on the correlation between transition, its social impact and informality, there are differences in judging whether the failures in the procedures of reforms, their shortcomings or improper implementation caused the explosion of informal activities, or rather precisely the nature of these reforms (Ionita, Mandruta and Pippidi, 2000, p. 2). Thus, the simplistic view that the “sluggishness” of reforms is the reason for the absence of wealth and prosperity in the region must be replaced by a careful analysis of precisely the reasons for this alleged “laziness”. Sometimes, the diffusion of informal activities is even blamed on the lack of a market-economy background of managing personal in enterprises.

After this general overview of socio-economic factors causing the enormous growth of informality in the region, some aspects are discussed now, which specify these general factors.

**Privatization**

By 1998, the private sector constituted an estimated 50 to 70 per cent of measured economic activity in most of the region’s countries (UNICEF, 1999, p. 3). A great deal of the explosion of informality took place through privatization. This happened in different ways:

- Once enterprises became private they began to reject labour, fiscal or other laws and regulations. Formerly (over-)regulated labour relations were informalized in various ways. Management, for instance, terminated collective bargaining agreements, while trade unions didn’t complain. Or previously state-owned companies were simply shut down and then re-opened nearby, with new labour contracts in which employees signed away their rights to be represented by trade unions and where activists were blacklisted.

- Privatization was soon followed - as a rule - by employee redundancies or disappearing enterprises, thus, creating massive unemployment. Whereas, the impact of privatization on employment creation might still be under dispute, it has been fairly well established that a limited private sector cannot be counted on to absorb the unemployed left behind by privatization. Many reports confirm a link between small

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5 Similar responses were heard from Turkish home-based women workers: Their need for income-generation is a top priority for them, while their work conditions are much less important, even though these conditions are unacceptable in many cases (Esim/Hattatoglu, 2000, p. 1).
6 Throughout the last four years, 32 interviews and completed questionnaires by Bulgarian and Romanian shop stewards and unionists of various trade unions have confirmed this experience. Additionally, it is confirmed by reports from other countries of the region.
private sectors and the rise of informal activities during a period of transition (UNICEF, 1999, p. 3).

- Privatization⁷ and the entire process of ownership restructuring caused a phenomenon known as “ownership chaos” for a large number of private and business properties, i.e., these properties’ legal ownership status is under some legal dispute or just open. This basic economic uncertainty continues to paralyze economic activities, especially in the agricultural sector, which in turn has pushed food prices upward. The reshuffling of ownership has also affected certain economic entities that used to do well economically - such as some collective farms or companies. Thus, additional jobs were lost. Again, “ownership chaos” drove people into informality in the absence of other alternatives.

- Furthermore, privatization has often not led to private ownership relations in a capitalist rational (Heller and Nuss, 1999, pp. 573-4; Mellor, 1999, p. 64). Sometimes it has created collective forms of ownership through voucher privatization (Heller and Nuss, op. cit.), where ownership/management and work functions are not separated. Thus, people are not dismissed for reasons of competitiveness and profitability. Instead, other commercial - of course, not formally regulated - sources of incomes and profit are being searched for (ibid). Other reports state that people returned their privatized flats to the local authority since they could not bear the expenditures (Mellor, 1999, p. 64). Mellor states that “privatization [of housing] entails exposure to the risks of a market without any institutionalized safeguards and the loss of that guarantee of shelter”. She concludes, “in contemporary Russia, privatization means the surrender of protection”, and “marketization in conditions of mass poverty must entail deterioration in the living conditions of most urban residents” (ibid, pp. 64-65).

Thus, the results of privatization were:

1. People began seeking economic alternatives in informal employment and engaging in subsistence activities (i.e., working at home or on private lots, in micro-enterprises, or own-account services and trade activities);

2. The drastic informalization within previously regulated sectors.

Lack of capital

With reference to the region, it is often stated that “capitalism without capital” doesn’t work. Before the changes occurred, most people did not have much in the way of savings or property — with a few exceptions, such as Bulgaria where people could buy and own flats). The savings people had during the state-socialist era were often not deposited in banks but in properties or informal businesses. Because of (civil) wars, political turmoil during the “Wende” in the early 1990s, inflation and currency devaluation, the little savings and property people did have were often lost.

⁷ “Privatization” is actually not the appropriate term for this process since it suggests OECD-type privatization, which is different from the kind of privatization in the region. This process needs further attention, particularly in the context of informalization.
Money has virtually disappeared in some areas, whereas informal/illegal financial markets in the region can hardly keep track of their money from laundering. The Russian case (see 2.4) shows most vividly that in the CEE/CIS, the reason for growing informal activities has not been the marketization or monetarization of work, which was formerly bounded by subsistence or reproductive arrangements, as is the case in many developing countries. It is the other way round. The demarketization and barterization of economic activities had created informality. Many people in rural areas, for instance, have not seen any money for months if not years.

There is a considerable number of households that are just managing to survive that would not participate in any capital or financial markets. It is also questionable whether there can be a housing market when households have no money (Mellor, 1999, p. 62).

On the other hand, small elites have managed to make money during the conflagrations but invested it in short-term speculative investments or laundered it wherever possible - mostly in Western Europe. This, in turn, paralyses the functioning of the already affected region’s banking system. Gerxhani describes how informally accumulated money (pyramid saving scheme - “snowball”) during state-socialism in Albania was concentrated after the political changes and turned into an informal money-lending market of ever-larger scale. Contrary to Gerxhani, I would not attribute this to the incapability of financial institutions, but rather the other way around. The concentration of previously informal savings into a huge money-lending operation paralyzed the financial institutions. However, this now illegally accumulated capital is oriented towards short-term profit but not long-term development of the country.

Privatization aggravated these sharp social differences. There has been no social basis for participation of a considerable share of society in privatization. Economic assets, on the contrary, have become further concentrated. A middle class is lacking.

Given this social structure, a general lack of capital cannot be ascertained, but a lack of capital available for the small businesses of a majority of people can be.

The lack of broadly available and accessible capital has a self-perpetuating and exacerbating effect. Because there are few serious investors within these countries, companies cannot get loans when they are to be privatized (Scherrer, 2001). This might be because banks fear that only high-risk speculative capital will be invested, which, only having a short-term interest in the company, stands a greater chance of being lost. Moreover, banks are unwilling to provide small loans.

Owners and managers of companies in the region often complain about bureaucratic and high interest loans. Contrary to this, e.g., German investment guides point out the various

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8 When I use the terms “developed” or “industrialized” or “developing” countries I am aware that this terminology has a very limited meaning and is discriminatory. For example, in terms of women gaining an equal role in society, Germany would certainly be considered a developing country. However, these terms are short and frequently used and ultimately make it easier for the rapporteur.

9 In the scope of this report, the social structure and particularly the effects of privatization could not be investigated in detail. A comparison of the Gini coefficient, for instance, would be interesting for future research. The size of a middle class (in Bulgaria, e.g., estimated at 5% of the population, whereas the rich constitute approximately 2%) could also be a interesting correlator for the size of the informal sector. There is a relationship established between the functioning of a social system and the existence of a considerable middle class that finances the social system.
investment subsidies and facilitations available from national and international financial institutions (Corporate Solution, 2001).

Hence, the only alternatives that can be financed are partial or fully informalized small and micro-businesses or self-employment financed by informal channels (loans from relatives or friends e.g., see 4 case study). Thus, the easy entry into small-scale informal businesses is a reason for people to engage in informal employment.

In concluding, there might be an ill-direction of available capital and existing activities of financial institutions, rather than a general lack of capital and incapability of financial institutions. Exacerbating the fact is that in most countries no stable or considerable middle class exists that generates income, property or savings, and, in turn, forms a stable economic basis for a state budget, banking operations, etc.

Women and informality

As noted in numerous studies, in many countries women constitute the majority of informal workers and are the principal victims of the casualization of labour - often related to globalization. Gender is an important factor for the rise of informal employment in the region as well. This gender dimension of informality is being shaped in a specific way in the region under review.

During state-socialism, women participated almost 100 per cent in the labour market. Women had higher levels of education and development compared to Western European countries. Social services and childcare facilities were taken for granted and were available at very low cost. Women were encouraged not only to acquire an education, but also to take up qualified jobs and have children at the same time - this was the social norm.

Transition processes have eroded the status of women (UNICEF Reg. Office for the CEE/CIS/Baltics, 1999). The shift in social status from that period, however limited the reality of gender equality may have been, to the present, where women are considered a deficit work force - the first to be fired - is indeed dramatic.

This erosion has contributed to the explosion of informality in two ways: women more quickly become unemployed and are less likely to get formal employment in new private enterprises. Thus, the gender dimension of informality can be seen in their forced withdrawal from formal employment into informality, from a fairly equal position on the labour market, rather than their search for entering into any income generation as it is often the case in developing countries or in countries where women’s mobility is restricted. In developing countries, women frequently begin their income-earning activities in informal employment. Women in CEE/CIS end up there.

10 Out of these and other reasons, more authors attribute the failures of privatization and other economic transition policies to structural problems of these policies. Conversely, other researchers insist that problems are due to malfunctioning institutions and/or the shortcomings of implementation policies.
11 The Human Development Index for transition countries systematically improves when a gender-related development index is applied. (UNICEF, 1999, p. 1) Moreover, “transition countries rank better internationally when human capability ... indicators are looked at” (UNICEF, 1999, p. 2).
12 Statements by Kinga Lohmann and Eszebet Szabo, the Karat Coalition, Genoveva Tisheva, the Bulgarian Gender Research Foundation, Mirjana Dokmanovic, the Women’s Center for Democracy and Human Rights in Yugoslavia, during a WIDE consultation in Vienna, March 2001.
Their former privileged position has turned into a great disadvantage: “Women are over-represented in those sectors which are particularly susceptible to these problems” of economic restructuring (UNICEF, 1999, p. 4; Petrovic 2001, p. 43; see also Appendix 2). Such sectors include state-owned companies, and public and social services. Women in Bulgaria, Poland, Russia, and Ukraine are disproportionately affected by privatization according to recent studies in these countries (Bulgarian Gender Research Foundation, 1999). “While men hold the lion’s share of the new jobs in the private sector, women account for most public-sector positions, where resources are making jobs more scarce” (UNICEF Reg. Office CEE/CIS/Baltics, 1999, Part 1) and less secure. Public sectors worldwide tend to be better equal opportunity employers and tend to offer better social security, particularly for women. Therefore, women are more affected by deteriorating public services and privatization.

Again, despite economic recoveries, such as Poland, the chances for women to get well-remunerated, well-protected positions are not considerably improving. Adding to this, a gender bias in recruitment among private employers has caused a slow-down of women in pursuit of private sector jobs. To businessmen and the broader public, women are not able to run a business and their family responsibilities represent higher costs (“deficit work force”). This bias is commonly reported in the CEE/CIS region (UNICEF op. cit., ILO, 1998, p. 18; Petrovic, 2001, p. 40). Discrimination against female entrepreneurs by creditors, suppliers, and customers is also common (ILO, 1998, p. 20; Petrovic 2001, p. 43). Men can expect and will receive more support from communities in seeking new opportunities in private businesses (ibid., p. 42).

In contrast to the few chances for women to get privileged positions in certain branches, other sectors are feminized. Such sectors are specifically targeted for work traditionally considered women’s, such as domestic work, sewing, processing vegetables. These are sectors weakly protected by law, particularly in the sphere of labour, and employers use this as an opportunity to exploit their labour (Kirova/Kirova/Stojanowa, Petrovic). Whole sectors like the garment industry have become feminized because women have to accept conditions that violate their dignity and rights - such as freedom from discrimination, the right to an established labour relationship, to organize, to receive a living wage and to have decent working conditions.

Petrovic (2001, p. 45) reckons that women are ever more confined to “feminized” occupations that are “poorly ranked” and where the wage gap is very high; these occupations are found in health care and social security, education, retail, tourism/catering, textile/clothing/footwear. It is even predicted that salaries in female-dominated occupations and branches will drop because of the high share of women (ibid).

Contrary to these realities of many women, public opinion still maintains that women are equal on the labour market, thanks to former state socialist systems. Upholding this impression is in the interest of various political actors. Nonetheless, it has a negative connotation since it is “thanks to communism”. For instance, the alarming spread of sexual harassment at work is in contradiction to the public awareness of such practices. When there are obvious problems of discrimination, the reaction is: “There are more important things. ... The modernization of society that they [women] advocated is - postponed.” (Petrovic, 2001, p. 67).
After the “Wende” in 1989-90, women in all CEE/CIS countries began to face the reintroduction of conservative family values, and the “devaluation” of women’s achievements. Along with the “mainstreaming” of conservative values, came attempts by husbands or male relatives to regain control of women’s incomes earned in informal employment. Additionally, conservative values also regain influence on parents in their decisions as to which of their children should receive a higher education (Petrovic, 2001, p. 44), given the increasing financial burden of education in the region. Many have perceived this dramatic drawback in the quality of and the access to education as a tragedy.

Paradoxically, all three factors together - the inherited relatively privileged status of women, current inferior positions in new private sectors and the public revival of conservative values - create a fatal threat to women’s formal employment (see 2.4 for further analysis of gender segregation within informality). They eventually force women to pursue informal employment. Women often end up “downgraded” and de-qualified into informal employment situations. This applies to a large group of both rural and urban women.

UNICEF concludes that “women face higher unemployment and lower real income than men, along with reductions in child care, the deterioration of education and health services, ... and increasing levels of gender-based violence, from domestic abuse to the use of rape as a weapon of war.” (UNICEF Reg. Office for the CEE/CIS/Baltics, 1999, Part 1.) Other alarming signs are sharp drops in birth rates immediately after 1989-90 and recent trends toward decreasing school enrollments and early school dropout rates among ethnic minority girls. UNICEF warns that “if these trends continue these countries risk losing one of their greatest assets - healthy, educated girls and women” (ibid).

(Civil) wars, conflicts and informality

While ethnic factors for the conflicts and war in the region are overestimated, the socio-economic context often remains untouched by observers. The example of Kosovo reveals the relevance of huge unemployment and disintegration of the public sector (Herthy, 1999) for people’s readiness to enter into civil conflicts. In the CEE/CIS, the sharp drop in social status and economic well-being of many families, and the sharp drop in international status of entire nations, such as the former Yugoslavia, has led to the emergence of repressive policies and conflicts.

The wars have caused terrible losses of human lives, and social and economic capacities. They destroy factories, and thus jobs, and disrupt trade, which leads to economic insecurity for many. The resulting socio-economic problems, such as a shrinking “formal” labour market, are further aggravated through ethnic propaganda and repression that excludes people from access to economic resources and relatively regulated employment. Thus, more people, again, are looking for alternative incomes in informal employment. However, ethnic and religious exclusion mechanisms not only affect conflict-ridden areas.

Moreover, political and civil conflicts always affect neighbouring countries as well. The conflicts in the former Yugoslavia have had a devastating impact on the entire Balkan region in both social and economic terms. During the Kosovo war, Bulgarian EU suppliers had to bypass the former Yugoslavia. These extra costs increased pressure on wages and working conditions within the country. Additionally, border smuggling mushroomed in the whole region, particularly for those goods banned by embargoes (weapons, petrol).
(Civil) wars create refugees and displaced populations, the majority of whom are women and girls. Displaced human beings are particularly vulnerable because they often do not have any legal status, and thus no right to even look for formal employment. Returnees do not find proper employment and, “retiring” even at the age of 35, engage in informal activities. Resettled citizens do not find “formal” employment, which has been long occupied by others. The direct and indirect impacts of wars open opportunities for abusive work practices, which operate almost entirely under informal or illegal conditions.

1.2 Political and institutional frameworks

The importance of a dynamic state and the activity of institution building during the transition period has thus far been largely underestimated as recent criticism by various organizations and scholars has pointed out (UNDP/RBEC 2000, UNDP, 1999, Göhler, 1999). This has led to turning attention towards overall institutional and regulatory frameworks in transition research (Göhler, 1999). However, this research does not sufficiently address the impacts and interlinkages with informality.

On the other hand, research on informal employment in the region very frequently refers to legal, political and institutional frameworks. Many observers identify the following as motivations for engaging in informal employment in the CEE/CIS: lingering bureaucracy, corruption, undeveloped market institutions and enforcement mechanisms, a low degree of economic liberalization, high taxes, lack of credibility towards government and macroeconomic instability (Gerxhani, 1999, p. 26). Shortcomings in the law and malfunction of authorities often serve as major reasons for informality as cited in the literature (Kirowa/Kirowa/Stojanowa). Strategies derived often include narrow fiscal measures and taxation policies or registration regulations.

Thus, two somehow contradictory issues are seen as major factors for informal practices as far as institutional and legal settings are concerned:

1. Loopholes in and enforcement malfunctions of the law. This thinking is strongly prevailing in the region and has to do with the widespread understanding that informality is primarily a legal phenomenon - a violation of the law. Stricter enforcement and, hence, strict formalization of informal employment are seen as solutions.

2. Limitations of employers’ freedom, such as high tax burdens, restrictions on dismissals, limits on work time and overtime, legal minimum wage. These authors establish a determining relation between unfavourable - for “free market” - institutions and the spontaneous “escaping” into informal employment (Gerxhani, 2000, p. 2).

In my view, both factors appear to simplify the correlation between institutional/legal frameworks and informality. They particularly tend to ignore the strong outside and inside political pressures exerted on governmental actors. For example, it is questionable how the same institutions, which people allegedly escaped from, can provide a meaningful formalization policy for the least easily accessible parts of an economy. Sometimes the demands for stronger institutions and legal frameworks appear as a desperate attempt to regain control over the economy from a purely legalistic perspective - just as in times of state-command socialism.
Nonetheless, it is obvious that the state hesitates to enforce certain rights. As a result of the “shock therapy”, governments became beholden to the demands and requirements of international lending institutions and investors rather than of their own people (Bulgarian Gender Research Foundation, 1999). Governments failed to balance the effects of “reform” and globalization when they failed to adjust the social safety nets without letting them break down. Social rights, quality and quantity of social services were sacrificed to “reform” (ibid). In fragile transitional democracies, governments more easily fail to enforce economic and social rights, which, in turn, undermine civil and political liberties (UNDP 2000, p. 86). An environment of socio-economic policies that exacerbates inequalities, and leads to economic stagnation and unemployment, also puts pressure on the judicial system, which then often then fails to administer justice, hence, an increased level of insecurity and vulnerability among marginalized groups (ibid.).

The general impact of the EU’s accession policy towards the CEE/CIS candidates is reported to be an ever-increasing hesitation of the states to pursue an active labour market policy and encourage labour-related institutions and laws. By contrast, authorities are forced to intensify their economic restructuring policies and create a more favourable legal and institutional environment for foreign economic activity (not only direct investment - see 1.4). While labour is de-regulated and flexibilized, the institutional and legal settings for investment are eased.

Furthermore, serious informal business interests prevent the law from being implemented, even if there are such efforts by state bodies, which in turn will discourage any further efforts of institutions to get active.

As regards the second issue, the unanimous opinion among people and researchers in the region is that taxes and social contributions are too high (e.g., Schneider/Enste). For some authors the problem of informality boils down to this. But “high” and “low” can mean different things to different people, and causality between rising taxes and informality is naturally hard to detect - particularly given the considerable extent of tax evasion. Therefore, this narrow reasoning actually reaffirms the need for a complex analysis of the context of a country’s regulations and frameworks. For instance, high wage deductions for social contributions, compared to the rest of Europe, do not appear to be “high”. However, people do not see adequate social services delivered in return. Even with paying contribution, they still have to pay or bribe the doctor, etc. And therefore, it is easy for employers to “convince” employees to engage in “black” employment or to pay only the official legal minimum wage, the rest in cash. Furthermore, for a fair comparison of the share of social contributions, state expenditures for social services have to be compared with those of the military. This comparison shows the inequality for social expenditures. Again, this must be seen in the context of structural adjustment policies, the heart of whose strategies is to minimize public social service costs.

Finally on the more general issue of employers’ freedom, an Italian garment manufacturer shall be quoted: ‘Italians come here [to Romania] because there are no trade

13 Three examples: (1) A labour inspector complained during a meeting in October 2001, that in his city 10 years ago there were only a few textile companies, now there are hundreds but the number of labour inspectors remained the same. (2) While an Adidas-Salomon representative complained in an informal talk that the Bulgarian laws on length of working time and overtime - i.e., according to ILO conventions - would make the country unattractive for subcontracting out. (3) International financial institutions were reportedly pressuring Poland to give up their legal minimum wage altogether in order to facilitate investment.
unions in this country. Conditions here are good in terms of employment relations. I mean, you know, employers want to be able to easily fire employees when necessary.” The ICFTU Annual Reports lists numerous labour rights violations and their general lack of enforcement by various governments, as well as many other examples of governments implementing measures to restrict labour rights further (ICFTU, 1999, 1998, 1997). This is most disturbingly evident in Hungary, Russia, and Belarus (ICFTU, 1999, p. 218, 211, 220). The ICFTU reported that, among labour rights violations, the right to organize, the right to collective bargaining, and the right to strike are the most frequently reported (ICFTU, 1999). In addition to the inactivity of the state, repressive owners and management often deprive employees of their core labour rights - tolerated by the legal system.

A further factor to be noted here is the deliberate disregard and the disillusionment on the side of business and especially on the side of the employees towards rights, obligations and institutions in general. The chase of short-term profits of both foreign and national business is one of the most detrimental factors prevailing and on the rise in some areas. It contributes significantly to a general attitude of disregarding taxes, social contributions, etc., to the general disregard of social-economic rights and legal frameworks. Because of these shortsighted business practices, some authors (Grinberg in UNDP/RBEC, 2000 for Russia) have questioned the deceptive nature of some countries’ recovery. It is the main obstacle to long-term recovery. One general weakness of the “rule of law” is that it supposedly reveals (UNDP, 1999) people’s disillusionment with general democratic principles (Brown in UNDP/RBEC, 2000, p. 51; Mellor, 1999), which, in turn, leads to the ineffective implementation and enforcement of legally enacted rights.

Although these issues will be discussed later, the intention here is to put some oft-quoted factors into a broader socio-economic and political context. This view will also open a critical perspective on the introduction of OECD/EU-type institutional and legal frameworks as well as the usual structural adjustment package. While old political and institutional mechanisms have collapsed, they were often replaced by fragments of OECD/EU-type structures, which in turn have aggravated problems because they were not adapted to the actual situation in the countries (UNDP/RBEC, 2000). In other countries, the “old mechanisms,” according to Western textbook pictures of “communism”, did not exist; their real substitutes continued to dominate society in an “informal” regulation mechanism (see the case of Russia 2.4).

1.3 Perceptions and discourses with respect to informality

All the factors thus presented have created a social-psychological environment inside and towards the region where respect for labour rights has become widely undervalued or even ignored, and a majority of people have to accept any conditions of work, including informal employment. This environment in itself has become a reason for the further informalization and the expansion of informal work, which is why it is being treated as a separate factor here. Certain basic rights at the workplace mostly determine decent work. If in a society the appreciation of these rights tends to be very weak and public attention for them is lacking, this can aggravate workers’ situation, particularly those in informal employment.

People’s socio-economic problems are perceived as a necessary sacrifice rendered at the free market altar. Additionally, any reference to women’s or labour rights is quickly perceived as low priority: illiberal, anti-market and “retro-communist” - something nobody wants to be accused of being. The myth that market reforms in this region would lead to
recovery and better living standards were not only the hopes of millions of “Easterners” but the “almost sacrosanct beliefs” (Spoor in UNDP/RPEC, 2000, p. 9) of “Western” advisors and financial institutions. These vague hopes are being repeated now in people’s aspirations for EU membership.

Therefore, the working and social conditions in Eastern Europe are not being discussed in the same way and not to the same extent as those in Asia and Central America are being discussed, nor have they led to any major civil unrest. As late as 1995, at an ETUI workshop, most researchers and trade unionists from CEE countries began reporting transformation success stories while failing to deal comprehensively (if at all) with the social impact of these changes (ETUI, 1996). The social dimension of EU enlargement has only recently gained the attention of the European Commission. The role of multinational enterprises in violating labour rights has been taboo in public discourses. Another example concerns the Balkan Stability Pact: Some concerned governments and social partners agreed in a declaration in Sofia on October 22, 1999, that the Stability Pact should be developed in a way that ensures and promotes democracy and human rights - adding a social dimension to the Stability Pact six months after its inauguration, and without a known implementation and monitoring mechanism.

In addition to a relative neglect of social issues, social and economic developments are publicly discussed in a way that stifles fair exchange, as many observers note. They add that international and European institutions would never finance studies and programmes that present alternative critical views or approaches. Consequently, it is very hard for a critical public to sustain. Conversely, the “West” upholds a certain tradition of critical thinking that is supported by relatively established organizations. Therefore, one of the most striking phenomena of public opinion in the CEE/CIS as regards transition and EU accession is its relative uniformity.

Many people’s opinions on informality are characterized by a certain contradictory approach. On the one hand, informality is perceived as unlawful, “unofficial”, “illegal”, as the “tip of the iceberg” of all adverse effects of transition and as something that has to be eliminated. These negative and legalistic terms for describing informality prevail. There has been a strong sense of loss of social security and living/working standard - and informal employment is a reminder of this loss.

Security needs still prevent many women from seeking out self-employment and forfeiting jobs in the public sector though these jobs are growing increasingly less secure and sometimes go unpaid for months (UNICEF, 1999, p. 7). Women are reluctant to pursue potentially risky opportunities. People trust that informality should be condemned by purely juridical and institutional means: by public bodies that execute various top-down approaches, rather than by bottom-up organizing. Particularly as far as the informal labour is concerned, people believe that addressing the proper authorities and institutions is a more effective strategy for improving the overall conditions in the informal employment (e.g., proposed by Gradev, 1999, p. 82) than creating their own organizations. Because of this negative stance

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15 In a town in Macedonia with very high unemployment after all factories had closed, women discussed future employment possibilities. The overwhelming majority talked about factory employment though it was obvious the factories would not reopen, which was their first intuitive assumption. Only a small minority immediately talked about self-employment.
towards informality and the legalistic approach of eliminating it, trade unions in particular hesitate to accept informality and have difficulties in actively facing this phenomenon. Trade unions tend to condemn informal activities as overall illegal, negative, a burden to the “real” economy, unfair competition (Koseva, 2000, Hethy, 1999, Gradev, 1999, Ekes, 1996, Petrovic, 2001, and ILO-CEET, 2000), tax and social contribution avoidance (ILO-CEET, 2000, p. 21), or an unintended side effect of reforms.

On the other hand, informality is something everybody is engaged in. Nobody can escape it. Corruption is taken for granted (Gradev, 1999, p. 69). People in the region attribute socio-economic problems such as informal survival strategies and particularly poverty to the transition problems (Rychlik, 2000). They are well aware of fierce social as well as economic problems and of the overbearing influence of international financial institutions. In addition, they observe malfunctioning authorities, which is why most people are afraid of losing their jobs and seldom hold hopes for the future or expect any help in cases of violations of their rights and dignity.

Very few people look for jobs via the media. About half of them prefer to use family connections in their job search. Many job searchers only apply once or twice before giving up, and thus there remains only a “small belief in their ability and potential to eventually find a job” (Kalyuzhnova, 1999, p. 102). Unfortunately, this combination of fear, lack of self-marketing skills, and general resignation is significant and further facilitates people’s continuing search for job alternatives in the informal sector even if a small formal sector exists.

Fatalism, distrust and disillusionment, “meltdown of expectations” (UNDP), are widespread. These factors help account for the absence of social unrest that the ECE took notice of recently (ECE, 2000), despite the deteriorating socio-economic situation.

Many “Western” advisors have labeled informal employment as an inferior phenomenon and have tended to be biased with OECD-type institutional and sectoral thinking, which necessarily underestimates the diffusion of informal structures and forms of regulation in the region. This viewpoint presumes the applicability of OECD patterns for defining formality and informality. This misinterpretation has negatively influenced the emergence of more appropriate strategies towards informality in the region itself.

The Western European trade unions’ perspective towards informal employment in CEE/CIS is often narrowed down to allegedly “unfair competition through social dumping” and, more recently, to the suspected “threat” that the opening of labour markets poses for EU members. The “Western” view of the “East” concentrates on the costs of integrating Eastern Europe into the Western economy while publicly disregarding the huge economic benefits, especially for German companies (for cost-benefit-analysis of EU enlargement, see Baldwin et al., 1997). This myth in turn has negative effects on formulating appropriate strategies in CEE/CIS concerning informal employment.

16 Brown states that in the 1990s “fewer people are taking advantage of the freedom to join and form organizations than did so in the Gorbachev era, partly because they are too desperately intent on earning a living and partly because they no longer believe in the efficacy of such movements.” (in UNDP/RBEC, 2000, p. 52)

17 http://www.unece.org/ead/ead_h.htm

Recent changes in public and scientific perceptions

Yet, in the region as well as the “West,” public and academic discourses have become more sensitive to the socio-economic problems and the reality of informality. In some countries, the media coverage of social problems has increased considerably in recent months. International scholars and various officials have become increasingly vocal about “transition societies” but not “transition economies”. The broader term, “transition society,” emphasizes that countries do not only consist of economies. They have also called for an “integrated strategy for transition” (UNDP/RPEC, 2000).

In recent analyses, economic restructuring and its social impact are increasingly seen as the result of both transition and globalization. Furthermore, EU accession plays a role: the closer a nation comes to EU admittance, the more skeptical and critical its population becomes. This is most evident in Poland. Meanwhile, many people in the region reckon that EU’s engagements have the sole purpose of eliminating competitors, and they quote a lot of EU programmes that prevent countries from developing their strategic industries. People perceive EU activities in the region as not appropriate to the actual conditions and as done in a rush for short-term purposes, without serious social assessment. They increasingly expect adverse effects from EU membership, such as further “agricultural shocks” through small farm closings, rising prices and higher taxes.

Within the EU, discussions that raise the issue of exploitation of workers in the candidate countries are intensified. Finding correlations between transition issues and global/European integration has helped deal with social problems and with informal employment issues more intensively.

In the Lodz region of Poland, women garment workers who were laid off began protests. In Bulgaria, media reports reported on inhuman working conditions of women in garment factories (see Appendix 1). However, this sensitizing has developed differently in different countries. For example, problems in Bulgaria and Kazakhstan are blamed on lack of economic growth, while in Poland, the lack of accountable governance. In Romania, issues of women’s working conditions and labour rights are almost non-existent in media. However, informalized and abusive working conditions of construction workers and miners have become subject of public concerns.

One feature of changing public opinion is the multinational companies’ role in it. International companies are well known in the region for their general disregard of labour rights and local legislation. Some examples: In Poland and Hungary there is a developing upsurge in criticism of multinationals. The boycott of Danone in Hungary in April 2001 is one example. In this case, Danone took over a prestigious traditional Hungarian biscuit company, only to shut it down and fire its employees. In Poland, the repressive and abusive management style of the predominantly French supermarket chains has also been receiving criticism. In Croatia foreign companies’ illegal imports of cheap labour from Turkey and other abusive practices are becoming a public issue.

Given these circumstances, it should come as no surprise that Western European multinationals located in the CEE/CIS are known to be among the worst employers. A study of the Business Ethics Center in Warsaw showed that the conduct of Western European multinationals in the CEE/CIS is worse than their conduct within the EU and Switzerland.
And yet, foreign investors are still the preferred buyers of privatized companies because they are less likely to buy for speculative or money laundering reasons.

The following quotation from Veronika Hars\textsuperscript{19} in Hungary regarding the situation of working women reflects the ongoing discussions:

“What is very important from my point of view is to work out a solidarity system with the women’s sections of various Western trade unions. They can help us when a big multi moves into our countries and insists on paying no more than the minimum wage. Most of them will not allow for the formation of trade union branches in an effort to avoid issues of worker solidarity and the flow of information. For example, Danone is not only closing plants in France and other countries but in Hungary as well. The employees here could use the support. It is also important to understand that globalization has made it easy for a company to move on if the minimum wage becomes too high. The Hungarian government is all too happy to provide them with tax exemptions, which will mean that in the short term, unemployment will go down in the region and, of course, local leaders stand to profit from it. But they don’t care what happens later. In Hungary, some multinationals or non-multi larger companies can easily move to Romania if they feel the need to. They don’t care that an entire town like Sarbogard will suddenly be unemployed. There was a lot of media hype when they opened their new factory and now they’re moving to Romania. We need solidarity, we have to support one another.”

Meanwhile, among the multinationals, awareness is also increasing regarding critical approaches. CEE/CIS is no longer simply the “playing field” where anything goes. One sign of this awareness is the new policy of “consolidation” of some garment/sportswear retailers among its supply chains. This means that, e.g., Adidas-Salomon or C&A now claim that they are retaining more control and manageability by reducing the number of subcontractors. This, however, will lead - as the experience with other multinationals indicates - to small subcontractors losing their orders, on the one hand, while further outsourcing will become even more informalized, on the other.

1.4 EU’s foreign trade and enlargement policies

The impact of EU accession or more generally of EU trade regimes on informality in CEE/CIS is largely overlooked and seen as something positive, as noted above. This section discusses how trade relations have become a key factor in the deregulation of labour relations and in the growing informality in the region.

The present EU enlargement situation is unlike previous EU expansions although the number of candidates is higher than ever before. In previous cases, the candidates used every available opportunity to renegotiate EU rules in their favour (Baldwin, op. cit., pp. 158-162). The EU still commonly addresses itself as “Europe” - ignoring the “rest” which is often regarded as somewhat “un-European” and “uncivilized”. Many “Westerners” often naturally identify the breakdown and failure of the previous political and economic system with the individuals in the CEE/CIS. In addition to the uneven economic power, this bias seems to justify a severe bargaining power imbalance in relations between the EU/Western Europe and

\textsuperscript{19} Hungarian women’s rights activist.
CEE/CIS. This imbalance surfaces in trade relations and the EU’s outside border regimes. Both regimes have severe impacts, particularly on the expansion of informality in the region and of its citizens.

**Some aspects of the EU trade regime**

As noted, the de-industrialization of the CEE/CIS national economies has been accompanied by a re-specialization on labour-intensive export production and expertise-intensive sectors of the transition countries have suffered most, while some labour intensive sectors could survive as subcontracted industries. Amongst them are food processing, mining and garment manufacturing. The example of apparel is focused on because it is a “sensitive” industry for the EU (and for the US as well in relation to Central American and other countries), and in many CEE/CIS countries, it is the most important export sector to the EU.\(^{20}\)

Globalization and flexibilization of labour and production has restructured the global garment sector since the early 1970s (ILO, 2000). An example of how this global process conquered the region, and at the same time is linked with the processes of transition and EU accession, is the eruption of the outward processing trade scheme. What is *outward processing trade* (OPT) or “Lohnsystem”\(^{21}\) or “cut-make-trim”? OPT is a form of subcontracting whereby some labour-intensive jobs such as sewing and finishing are done by foreign subcontractors. They use fabric and cloth (semi-finished goods) provided by the outsourcing firm but which is temporarily exported to the processing region and then re-imported to the country of origin after manufacture is completed. The subcontractor merely supplies the labour.

The EU foreign trade policy towards its CEE candidate countries specifically favours OPT. The profitability of this transaction is ensured by low labour costs and custom/tariff-free access to the subcontracting companies’ countries - situated mostly in the selling markets. These lack of tariffs and low labour costs constitute attractive cost advantages of the CEE/CIS for EU manufacturers (and of the Caribbean for US manufacturers). The EU textile and garment economy can use these advantages without losing its strategic capacities within the EU. The beneficial trade regime with EU candidates is the main trigger for the EU garment business to reside there.

Between CEE/CIS countries and the EU, low customs and tariffs for EU-desired goods are introduced, and barriers are raised for the undesired, “sensitive” goods like steel and fabrics. This is arranged through the framework of association agreements made between many CEE/CIS countries and the EU - most of which were finalized in the mid 1990s. For garments there are virtually no more barriers - as long as they are made under the OPT regulations. Tariffs still apply for direct (non-OPT) imports such as joint ventures, affiliates of EU companies, or other non-OPT cooperation arrangements.

Hence OPT is virtually identical with apparel, sportswear and footwear subcontracting. Consequently, this has led to an “explosion” (Graziani, 1998) of OPT where other forms of cooperation or foreign direct investment (FDI) are much lower (Hübner, 1996, p. 16). Apparel and sportswear made under OPT has been an unusually dynamic field of trade between CEE/CIS and the EU. It is no coincidence that the top two garment/footwear

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21 Lohnsystem” (German for “wage system”) or “Ishleme” (Turkish for home artisan embroidery, but the term is used throughout Bulgaria for OPT type of production).
producing countries in Europe - Italy and Germany - are also the most active in subcontracting abroad and particularly in CEE/CIS.\textsuperscript{22} Germany is by far the largest (re)importer and was the major political force behind the implementation of the OPT trade scheme within the EU.

OPT is thus primarily inspired by the competitiveness of the EU garment and textile\textsuperscript{23} business that externalizes some costs and risks, and increases flexibility. It is further motivated by employment policies within EU countries, which means that OPT will not be subject to EU trade union suspicions regarding the pressures they place on their own employment situation. The EU focuses on harmonization with the \textit{acquis communautaire}, and economic accession measures are first and foremost meant to facilitate certain EU trade with such countries, and create a stable and favourable legal environment for EU investment.\textsuperscript{24}

On the other side, for CEE/CIS companies, outward processing has been and still is the only way to survive. “We had to accept the ‘Lohnsystem’”, as a former garment factory manager in Macedonia put it - a factory that formerly covered all stages of the textile production chain and was a successful exporter. Today outward processing also serves to satisfy urgent employment shortages. Governments and companies justify its deployment by claiming it offers them economic development through competitive advantages. The nature of these “competitive advantages” as regards informal work arrangements will be discussed later. Here it can be generally stated that OPT can be called \textbf{THE} entry for informality.

Thus, there is a profound asymmetry that characterizes EU-CEE/CIS trade. Whereas during the state socialist era, trade with the “West” was structured more or less as it is now but on a much smaller scale, the trade within the COMECON/former Yugoslav markets did possess a more reciprocal structure. For CEE/CIS countries, EU trade is the most important economic factor, while for the EU, the imports from CEE/CIS remain rather minimal. Yet, certain kinds of products (e.g., garments and sportswear) sometimes reach a high percentage of EU’s imports. CEE/CIS’s presence in the international apparel and sportswear sector has continued to grow. Poland and Romania are important garment exporters to the EU - particularly to Germany and Italy. In 1997, 38 per cent of garments imported into the Netherlands came from two regions in Poland. For Germany’s apparel imports from Poland even higher percentages are reported. Other countries, such as Bulgaria, have begun catching up as well, while, due to the political instability in ex-Yugoslavia, garment export production there remains stagnant and offers at the same time the lowest labour costs (see Appendix 2) that some companies “dare” to utilize.


\textsuperscript{23} Textiles as distinguished from garments are the products of the textile industries, which are used by the garment industry and by other branches such as car industry etc. Textiles and garments represent stages in \textit{the textile chain}.

\textsuperscript{24} By 1995, the TUAC had already introduced the MAI at an ETUI workshop (ETUI, 1996 pp. 64-66) - the same MAI that was later postponed due to internal splits between OECD countries and external protests.
The EU “artificially” encourages the establishment of thousands of OPT production shops - small suppliers, subcontractors, and homeworkers - who merely offer their labour.\textsuperscript{25} To some extent, the EU is subsidizing deteriorating working conditions in CEE/CIS, and the moral and material devaluation of labour. A highly dependent and vulnerable, highly mobile economy has been created, that is quick to “cut and run”. As a result, informal and informalized labour relations are created in the CEE/CIS, whereas the “core” formal labour force of the industries remains in the EU countries. The benefits of this economic model for other regions of the world have already been questioned considerably\textsuperscript{26} and are now being questioned in the case of the CEE/CIS (Graziani, et al., op.cit.).

The dialectics of regulation and deregulation, informality and formality in that respect can be put as follows: Special regulations were actively implemented to circumvent other regulations, which would have limited the flexibility of EU manufacturers to rationalize their strategies. These new regulations (EU trade regime) are creating precarious labour relations in their target countries and increase the pressure on deregulation of labour relations within the EU unless they are preserved by strong protectionist measures.

\textbf{EU’s outside border regime and selective immigration rules}

Many observers see EU’s border regimes and immigration rules as protectionist measures to keep casualization and informalization outside of its borders at the expense of the countries beyond. The EU, e.g., puts pressure on future EU candidates to close their external EU borders. The EU membership of some CEE/CIS countries will completely alter the status of borders and create deep rifts between neighbouring, previously closely linked countries and societies. If this continues, the lessons that could have been learned from the accession of Mediterranean countries and their external border policies at the time will go unheeded. The present EU border regime facilitates a “negative migration” because it drives the “desperadoes” into illegal spaces instead of using creative possibilities of migration.\textsuperscript{27}

This rigid EU external-border policies further interrupted trade between potential EU candidates and their former trading partners in the region - be it informal or illegal trade, or “official” commercial relations. Since this affects a lot of border trading, many people’s livelihood deteriorates and, in turn, conflicts arise. Some observers link the present Macedonian-Kosovo conflict with the recently concluded EU-Macedonia Association Agreement. Macedonia wants to be a well-performing candidate, and has intensified its border restrictions and controls, thus hindering an intensive border trade.

Another example is Germany that offers “green cards” for IT specialists from the region, thus “draining the brain” and creating a shortage of specialists in their home countries. Moreover, special preliminary periods for opening up the EU labour markets, which were proposed by some EU government officials, are nonetheless considered discriminatory practices. These practices will force certain labour migrants into informality and illegality within EU countries.

\textsuperscript{25} Very similarly, the US foreign trade policy favours labour-intensive manufacturing in the Caribbean Basin/Central America through special trade preferences and has therefore created the ill-reputed \textit{maquiladora} industry.

\textsuperscript{26} Free Export Processing Zones (FPZs), e.g., are major employment creators, but the jobs they create lack basic labour rights and thus are considered partly or fully informalized. Young women are commonly targeted for these jobs.

\textsuperscript{27} Prof. Jamila Houfai\-di Settar, Casablanca, at the 2nd Annual Conference on Foreign Policies of the Heinrich-Böll Foundation, November 2000.
When most outside EU borders ceased to be borders between two political systems, they became borders of exclusion rather than integration. Therefore, these borders protect areas of formality against regions of informality.

2. The informal sector in the twenty-first century: Changing nature and trends

This section starts with an empirical collection of the various faces of informal activities and continues with a deductive assessment that also relates to some conceptual approaches and definition attempts presented in the literature. Proceeding from this conceptualization and from the available data, estimations on the size and trends of informal employment are presented, old and new features discussed, and variations illustrated. A main focus of this chapter is the analysis of the linkages between formality and informality, and of arising trends for informal work arrangements. This chapter closes with a short assessment of the impact globalization has on informal employment in the region.

2.1 Conceptual and measurement issues

What is informal employment in the region?

An empirical stock-taking of informal employment

Informal employment recruits people of all possible backgrounds and all levels of education and qualification. Many formally employed also hold informal jobs - such as public service employees, in public/self-managed or privatized company employees, pensioners, students, or registered unemployed. Along with formal jobs in public services (education, health, etc.), for instance, many employees have small backyard plots to subsidize salaries and feed their families. In rural areas, micro-farm agriculture for the local market and subsistence agriculture have played an important role in many families’ survival since the changes in the early 1990s. People with a higher education, employed in public services at very low pay, are typical multiple jobholders or were left redundant after “reforms,” e.g., of education or health systems to reduce public expenditure. While they naturally prefer to stay in their qualifications and professions as private tutors or in tele-homework for example, they also take any other job: peasants, traders, shop assistants (Finnegan, 2000, Appendix: Country profile Bulgaria).

Informal employment generates all levels of income, from below legal minimum wage in extremely exploitative circumstances to considerable levels of income higher than average earnings. Teachers in Bulgaria earn approximately 2 DM per hour, for private lessons 15-18 DM (according to expert interviews). Garment workers earn between 0.15 to 1 DM per hour. Normally, piece-rate is paid and can be 0.61 DM for a pair of pants in a Bulgarian home-based micro-enterprise. The majority of multiple jobholders work in various employment relationships in order to make ends meet, not to satisfy luxury needs. Living standards dropped dramatically in the region within the last ten years for a majority of people. Maintaining the living standard was hardly possible for most people. This also means that the standards many people want to regain are relatively high.

28 It must be noted that poverty and luxury are relative categories and mean different things in different contexts.
Informal employment can take place in all sizes of enterprises and all possible workplaces. Home-based workers, with or without registered self-employment, offer services in crafts/trades as well as jobs that require a higher education (electricians, tailors, drivers, maintenance services, domestic work or any other artisan, personal or social services, construction, own-account prostitutes, translators). Such workers sell products or render services to friends, neighbours, relatives or wider communities in cities. They have workshops within or near their homes and are often subcontracted. Many are former qualified engineers or other academically educated, as Polish domestic workers in Germany or Italy. Domestic workers are mainly women who clean, cook, and/or look after children in somebody else’s home. This is one of the rare cases in informal work where there is an actual employer/employee relationship. Home-based work can also be part of subcontracting chains that include distribution chains of products that are produced/used somewhere else (e.g., secondhand clothes\(^{29}\)), or homemade products that are sold to street vendors or traders. Typical examples are street vendors, small trading agents and suitcase traders. Home-based work can also be included in more complex value chains, such as women who do needlework, embroidery, assembly, process food, quality control (of electronics, engineering, clothing products) or packaging. This form of industrial homework is rather rare. Industrial subcontracting is primarily executed in enterprises. Home-based work does not enjoy a high reputation. People, particularly women, want to go out to work. But circumstances force them to seek opportunities in self-employment or dependent home-based work. The status of this work is rather complicated. For instance in Romania, when working at home, one has to register as a “family association”.

“Classic” informal employment is developing as well. People work in traditional crafts like weaving or basket making. This work is done by very poor people and will be found in rural areas. Others are bootblacks, porters, people producing food or construction materials in their homes for sale, or transport operators offering animal drawn vehicles for hire. The most relevant and obvious part of informal employment takes place in non-home-based enterprises - factories. While informal employment exists in both larger and smaller corporations, it is easier to avoid legal obligations in small enterprises.

Informality can include all varieties of absence of protection, circumvention of laws and levels of labour insecurity. Particularly in factories, informality appears as absence of labour contracts and collective bargaining agreements, extreme wage flexibility, double balance sheets and double books, seasonal or hired employment, child labour, leave granted not according to the law or refused arbitrarily, excessive hours, unpaid or improperly paid overtime, wages below a living scale, etc. Such conditions include poor occupational health and safety standards, little if any job security, no access to state social security and free social services, no education or training, no social mobility, and a high economic and personal dependency on employers (Tesselaar, 1998). In order not to be obliged to pay social contributions and taxes later on, employers do not search for workers via labour offices. Moreover, informality often means the absence of legal recourse.

Non-home-based enterprises can be registered, but social contributions might not be paid. A frequent feature of informality in these work arrangements is the joint understanding between employers and employees about avoiding the employer’s legal requirements (registration, payment of social contributions, etc.) under the constant threat of lower wages, weakened work standards or dismissal. This joint understanding is both voluntary and forced

\(^{29}\) See for the level of the secondhand cloth business, Peyko, 2000.
on the part of the employees: voluntary because employees can - theoretically - say no but have to be aware of the negative consequences.

Informal employment can be seasonal, hired or contract labour - sometimes even on a daily basis - for instance, fruit picking, horticulture or construction, which in many cases is done by ethnic minorities. Many seasonal, contract or hired workers are migrant labourers, such as many people from the Western parts of the Balkans who commute to Italy or Greece for agricultural or catering jobs (picking oranges, olives, grapes, tomatoes) or Polish domestic workers who commute as “tourists” to Berlin. Many of them do not have legal residence status in the host countries.

Illegality is only mentioned here in passing although this is a considerable sphere of economic activity, such as trafficking in women. The borderline between informality and illegality, however blurred, is principally drawn by the penal code qualifying the work itself - the services offered or the goods produced - as forbidden. Informality rather refers to conditions of normal, legal work.

Statistical indications of informality, as stated in the literature (Sik and Toth, 1998; Gradev, 1999) include:

- Few businesses have licenses and register in tax offices (in Albania, an estimated 25-35 per cent of all private entities have not applied for licenses); \(^{30}\)
- Discrepancies between the number of businesses registered at tax offices and those registered at social insurance offices (for Albania, 75 per cent of private entities have tax registration and only 66 per cent have registered for social contributions; in contrast only 42 per cent of private employees contribute to social insurance);
- Huge discrepancies between the high shares of private sectors in employment and GDP and their low shares in tax and social funds incomes - hence, low coverage of social insurance schemes and tax collection. Bulgaria might serve as an average example. There, 70 per cent of the work force is engaged in private businesses, but their share in contributions to social insurance funds is only 10 per cent - certainly not due to lower salaries.
- Economic entities pay social insurance contributions but without submitting lists of employees. Or discrepancies between the number of registered employees and the economic performance/output of the company.

A summarizing estimation on the coverage of social security schemes, tax declarations, licensing and labour rights implementation according to the most relevant forms of ownership:

1. New private businesses: taxes and licenses paid in part if registered, many not registered, no social contributions or only at legal minimum wage, and almost no labour rights coverage. Since the new private sector is almost the only employment creator, it is estimated that almost all newly created jobs are informal.

2. Privatized, previously state-owned or self-managed enterprises: sharply declining taxes and social contributions paid and usually setback in labour rights implementation. 1+2 Whole private sector (50-95 per cent of GDP, depending on

\(^{30}\) Figures for Albania: according to Nexhmedin Dumani’s compilation of relevant data and information that he reviewed in May 2001 for the purpose of this report.
the country) has wholly or in part informal labour relations. In Albania’s private sector, 10 per cent of workers are covered by collective bargaining agreements, and 30-35 per cent have labour contracts.\footnote{According to a compilation of relevant information on informal sector activities by N. Dumani for the local ILO representative in May 2001.}

3. **Public or self-managed\textsuperscript{32} and cooperative sectors ENTERPRISES (5-50 per cent of GDP):** mostly paying less than required taxes and social contributions. There are generally better working conditions, but low or no remuneration.

A summarizing assessment:

- Informal employment is to a very small extent equal to full informality. It relates to and includes formal structures in various ways. On the other hand, formal employment is hardly ever fully formalized, protected and secured.

- Compared to developing countries, home-based informal employment is very multifaceted and includes all levels of education, qualifications and pay. Its extent is relatively small compared with non-home-based informal employment. The “classic” low-skill and micro/small-scale informal sector is also less widespread than in “developing” countries (ILO-CEET, 2000, p. 23).

- Whereas one main approach for defining and measuring informal sectors worldwide is the distinction between dependent and self-employment (Gërxhani, 1999, pp. 5-11), the legal status of non-factory-based workers (home-based or publicly-located) - whether self-employed or dependent - is rather irrelevant because economically, and sometimes personally, most of them are highly dependent on clients/operators/distributors. Hence, which legal status is chosen is often a mere coincidence. Small “cooperatives” of four to ten workers, e.g., are de jure registered as self-employed and pay license\footnote{A license is a permit obtained from state authorities necessary for the operation of a business; a registration refers to a periodical declaration of one’s incomes, personal, etc., according to the country’s rules.} fees and taxes to municipalities. De facto, they depend wholly on a small number of clients/distributors, work piece-rate within subcontracting chains, and just add their labour without owning most of the material inputs. Thus, they do not enjoy any autonomy apart from not having bosses, as in the factories (see 4). Rather than distinguishing between self-employment and dependent wage earning, an important distinction can be made between subcontracted and non-subcontracted informal work. Employees in subcontracted jobs can be included in complex, global supply chains, while others work within local informal network. The feature of autonomy, i.e., flexibility and utilization of one’s professional qualifications (Gërxhani, 1999, pp. 5-11), is limited to those informal activities that do not depend heavily on subcontracted jobs, and where it is possible to use professional skills and experience. Thus, autonomy needs more bargaining power for informal employees, and this power certainly has only a minority. Possible autonomy in informal employment is very limited within the context where informalization takes place expressly to increase the flexibility of production for client/distributor orders at the expense of the flexibility of producers. More production flexibility, such as just-in-time delivery, shorter time for finishing
orders, etc., incurs greater dependency and less flexibility for workers in most cases. Rather than autonomy, one feature of informal work is the reliance and support from informal social networks for information, organization and solidarity - despite the danger and frequent tendency of economic and personal dependency of employers, operators or distributors/clients. These networks also offer support in case of lack of orders, dismissal or sickness, and they work according to unwritten rules (Huning, 1998, p. 107).

- Many authors see the difference between informal employment in developed and developing countries in the possibilities for accumulation and income-generating as compared to the formal sector. They maintain that in less developed countries, including the transition countries, informal activities only generate low income without possible accumulation (Gërshani, 1999, p. 16). For CEE/CIS informal activities generate comparable or higher income and leave possibilities for accumulation.

Informal work itself is a legitimate economic activity that generates income and, as such, forms part of all the labour that is necessary in a society. However, it is not recognized as a legitimate part of a society’s labour because the work is done outside socially acknowledged standards for economic activities and work conditions. Hence, informal work is sometimes perceived as inferior or unproductive (morally) or not modern although this impression is created by the work conditions and not the work itself. Therefore, a differentiation between the work as such and the conditions under which the work is carried out must be drawn.

The nature of links between formality and informality

Having presented empirical evidence on the nature of informal employment in the region, a historical perspective is in order to further establish the deep correlations between formality and informality. Seeing them in coexistence transcends a simplistic dichotomy and, hence, reaffirms the necessity of looking at informality in a complex socio-economic and political context.

The emergence of the market economy during the industrial revolution was made possible by a general ignorance of feudal laws and regulations, which allowed for the deregulation of the pre-capitalist feudal systems (Komlosy, 1997). This evasion of feudal limits on production and the subsequent industrial revolution created the co-existence of both formal and informal work as an intrinsic part of capitalist development (Musiolek, 1999b). The textile industry was at the core of this development with its home industry distribution system that was situated, e.g., in rural areas of Central Europe (i.e., Poland, Czech Republic, Slovakia, Germany, Austria) (ibid). It is important to note is that industrialization developed through deregulation (of feudal rules) and that an informal home-industry formed the core of this development (Komlosy, 1997).

34 Subsistence or unpaid care work is not considered informal work - also in household statistics (Charmes, 2000, p. 5) - because it is not performed for income generation but for one’s own final use or it is unpaid because one is caring for a relative. Subsistence work is often counted as “self-employment” in private-sector agriculture although these “self-employed” labourers are merely struggling to earn the subsistence level by working family plots. Yes, subsistence and unpaid care work are also part of the labour necessary in a society.
This historical perspective shows that informality is the result of the deliberate erection of borders in a society - borders that cause work to be done under specific informal conditions. In other words, this work is not by nature “informal” but is a social construction. It is made informal. Informal work is seen as the deliberate result of “core” formal sectors. Measures that created protected “islands” were the result of adopting certain regulations, like laws for the labour market and social security (Hausen, 1997), migration, investment, and capital mobility regulations: i.e., the reproduction of feudal limitations and protections on another scale and level of quality.

One of these protectionist regulations was labeling homework as self-employment, which dates back to early statistical surveys - enterprise census - at the beginning of the twentieth century (in Austria and Germany). It is interesting to analyse the political interests behind the decision not to define subcontracted homework as dependent employment (which is what trade unions opted for) but as self-employment (Komlosy, 1997, pp. 80-81). The main motivation was to exclude homework from health insurance schemes, which at that time separated formal from informal employment (ibid.). In the 1970s, Hart defined informal work in developing countries again as self-employment, which still is the main basis for informal sector statistics (Gërxhani, 1999, p. 4).

The crucial part of the emerging, protectionist regulatory framework that created formality, and informality, was the introduction of the male breadwinner as the core of the formal sector work force (ibid.). This change occurred in the late nineteenth century and had important ramifications for the gender composition of informal and formal employment. Before, the home textile industry had been a family business with a relatively egalitarian distribution of labour, reproductive work, and income within the family (Knapp, 1984, Vol. II. 2.2, 2.3). The dominance of the male breadwinner in formal employment is one reason for the higher proportion of women in informal employment. Trade unions, employer associations, and government policies have concentrated on the formal “islands” - i.e., the large factories - with a predominantly male labour force. Trade unions have restricted themselves mainly to bargaining for the prototypical trade union client - male breadwinners. Consequently, the gap between formality and informality deepened in societies with active social partners. It is also no coincidence that the notion of female labour being a deficit labour force originated from the time of capitalist industrialization. However, today the male breadwinner model is fading away worldwide (ILO-GB, 2000b, p. 12).

The scope of formality (later, the Fordist social treaty) has been very limited throughout the development of capitalism - not only in the non-industrialized world. Historically and logically, formal employment is the exception and not the rule (Komlosy, 1997). In contrast, formality has been widely perceived as the dominant economic activity. As far as unprotected labour relations are concerned, it has been assumed that industrial and technological development will “trickle down” and do away with these “pre-mature” forms of work. This was an argument that was already being voiced during the intensive public discussions on homework at the beginning of the twentieth century in Europe (Hausen, 1996). Trade unions argued that the remedy for exploitative labour conditions would inevitably come from technological advances: such conditions would either disappear or be outlawed. This “trickle down” effect, still under discussion, has yet to take place and has disguised the constant reproduction of informality within the market economy.

35 Similarly, the “trickle down” theory from Free Export Processing Zones into the national economy of developing countries did take place to some extent, but only in a very fragmented manner and partly as a transfer of management know-how (Altenberg/Walker, 1995, Köpke, 1998).
The apprehension of a coexistence of informal and formal employment transcends a simplistic dualism of modern/traditional, productive/unproductive, and urban/rural as specifications for the informal/formal dualism. The “coexistence” concept offers a productive framework to analyze changes in informality. It helps to see informal activities in both their own dynamic and their intermingling with formal work. Therefore, it goes beyond a “romantic”, “positivistic” view that emphasizes the development and entrepreneurial potentials of informality as preparation for the transitional market economy. Neither does it support a “negativistic” idea of informality as marginal, “perverting”, undermining or distorting the “real”, “ideal” economy that will result from the transition. Viewing informality in its own dynamic without separation from formality implies accepting an “informal regulation” rather than merely a non-regulation, where some presumed market-economy institutional and sectoral patterns are absent (Heller/Nuss, 1999, p. 557). Especially in the region, informal employment is often seen as something that deviates from presupposed patterns or as the reason for failure in reforms.

The development in- and outside the industrialized world has consistently destroyed and reproduced informal labour relations. In fact, informal work has subsidized formal labour because informal labour delivers the vulnerable parts of capitalist development necessary to preserve the formal “islands”. Nonetheless, informal work and workers have consistently been stigmatized and marginalized through legislation and public discourse.

Conversely, concentrating on legal and fiscal aspects of informal employment creates the impression of its being a parasite on society. Similarly, scholars and activists very often consider informal work as “unfair competition”. This notion neglects the above-mentioned links and the simple fact that this work provides goods and services that would otherwise not have been supplied (Huning, 1998, p. 127). For the majority, informal employment is a strategy to make ends meet in the absence of other alternatives (“from hand to mouth”) (Ionita, Mandruta and Pippidi, 2000, p. 15).

Eventually, informal work is no less productive (in the economic sense) and no less “modern” than formal employment. Quite the contrary: in many cases, work is performed under informal conditions precisely because it is more efficient, e.g., working in sweatshops in the garment industry. In other cases, work is performed informally because its legal status would price it out of the market, e.g., domestic work. But even then, it is no less productive because it is informal.

In concluding, the systematic question is to be posed: How are the “socially acknowledged standards for the operation of economic activities and the conditions of work” - as put in the definition above - ascertained? In other words, what socially acknowledged standards determine the boundaries between formality and informality? Or, what is decent work under the circumstances in the region? In some countries and areas in the region, the questions are whether these standards exist at all and whether they are not already dictated by informality. This leads to the impression that coexistence between informal and formal employment is being completely reshuffled with the main driving force in informality where formal regulation attempts (including legislative and executive powers) are waging a lost

36 Higher productivity is not only a matter of cost effectiveness, but also higher labour intensity or the fact that homeworkers provide more artisan skills. The effectiveness of homework is also shown for call centre agents who are two to three times more productive at home than in call centres.

battle, i.e., the rules and standards are being re-negotiated and re-determined, and labour - formal or informal - is not strongly represented in this social negotiation process.

Further trends

The extension of informalized work

The integration of the CEE/CIS into the global economy very often means that the manufacturing shops that survived de-industrialization are being informalized and casualized. This tends to be reinforced by the logic of subcontracting (2.5) and outward processing (1.4). There are reports by members of HomeNet that formal and protected home-based workers in Portugal\(^ {38} \) and informal home-based workers in Turkey (garment and footwear) are now faced with job cuts due to the relocations of their orders to CEE/CIS production locations, which are usually not home-based but informalized factories or sweatshops. Global supply chain managers prefer to use existing or newly formed factories rather than home-based work. Homeworkers in Germany and Austria reported the same relocation trend to the region some decades ago. However, in the opposite direction, workers switch from informalized factory work to home-based work, e.g., in the case of elder (more than 30 years old) women who are no longer targeted for factory work in the garment sector (see 4).

The trend of informalizing previously regulated factory-based work might be further intensified, given the policy of some multinational companies to consolidate supply chains of which they lost control. This policy is the result of public pressure from civil society campaigns against inhumane working conditions along supply chains, particularly at their end where informalized and informal labour relations arise. Nonetheless, experience has shown that this policy will only lead to a widening gap between informalized factory work and informal home-based work. A likely scenario is that suppliers’ agents will continue to employ informal sub-subcontractors (e.g., home-based micro-enterprises), but try to hide these subcontracting relations (see case study 4).

“Employees”, “workers” or “entrepreneurs”

A categorization that only relies on legal status - neglecting \textit{de facto} terms - is to be questioned. As stated above, most forms of informal work, including self-employment, are characterized by a high degree of economic and sometimes personal dependency and vulnerability, which makes self-employment, economically, very similar to dependent wage-earning activities. Nevertheless, because of the differing terminology, informal employees’ self-esteem in CEE/CIS differs from that elsewhere. Most self-employed or dependent home-based workers prefer to call themselves “businesspersons,” due in part to the attraction of the term for donor-funded projects and its novelty compared to state-socialism. “Worker” has become a negative word. Workers in micro-enterprises prefer to call it a “cooperative” and prefer to work in small groups rather than on their own. They justify this by the necessity of a manufacturing line system that requires more than one worker.

\(^{38}\) There are collective bargaining agreements (CBAs) for home-based work in Germany, Austria, and other EU countries and also social benefit schemes for domestic workers, i.e., those who are protected and registered, and hence, perform a type of formal work. The same applies to artisan work in EU countries, particularly Germany, Switzerland, and Austria where trades and artisan work are highly regulated. Nonetheless, an unregulated part is on the increase. Even in Germany and Austria, only a portion of home-based work and a small number of domestic workers are covered by these regulations.
2.2 Magnitude and size - measurement issues

Despite tremendous difficulties in measuring informal employment, economists, social scientists, and activists have tried various ways to better determine the contributions of informal economic activities to the economy and society. This contribution is structurally undervalued.

A comprehensive analysis of available labour force, household and enterprise surveys remains to be done. Such surveys have recently become more consistent and available. However, the availability of qualitative and quantitative studies from the region is still very limited, compared to other world regions (see Appendix 2, table 1). While some initial information was found in these surveys, further exploration is needed to comprehensively evaluate the findings, as Charmes did for other regions.

Issues with reference to available statistics:

- One shortage and misconception of available statistics is on employment in general and informal employment, in particular, although ILO Labour Force Survey methodologies are increasingly applied. Conventional statistics that conceal real unemployment (see Appendix 2) have hindered a proper understanding of labour market issues (Zsoldos/Standing, 2001, p. 48), including realizing the extent of social problems incurred in informal employment variations.

- Appendix 2, table 1 also shows differing methodologies in measuring informal sector share in the GDP. This makes it additionally complicated to evaluate existing data. The methodologies should be internationally standardized. (For differences in methodologies, see Gërxfhani, 1999, pp. 27-33; Ionita, Mandruta and Pippidi, 2000, pp. 3-6.). Authors often complain that main economic indicators are distorted by informality (according to Gërxfhani, 1999, pp. 14-15, 18). Since these economists apply a presupposed method, they do not consider that statistics might not fit the reality, rather than the reality not fitting the statistics.

- Available surveys do not address the issue of economic dependence on buyers/distributors/clients, including the mode of payment for the work and the extent of outsourcing. Charmes developed a methodology to measure the size of outsourcing: Outsourcing decreases the value created by a particular company. If figures based on experience regarding a company’s usual levels of inputs, external services (such as electricity), salaries, and taxes are known, then “intermediary conception” trends can be calculated when they are compared to “value added” and “mixed incomes”. The “intermediary conception” trends strongly suggest the extent of a company’s subcontracting activities (Charmes, 2000).

- Moreover, statistics available to the author did not contain gender-disaggregated data concerning employment, income, and National Accounts.

- In developing countries, household-centred empirical evidence shows that incomes generated by informal activities are not as low as presumed by macro-economic data and are considerably higher than the legal minimum wage or the average wage (Charmes, 2000, pp. 18-28). According to experience and available data, this bias does not exist in the CEE/CIS - rather the opposite. People tend to believe that
incomes generated in informal activities are rewarding. However, there is ample need for realistic data on incomes from informal employment based on household surveys. They should be supplemented by realistic definitions of the subsistence minimum and a living wage. These can be based on data available in the different countries by national statistical institutions and estimations by stakeholders, such as trade union institutes.

- A differentiation between non-agricultural and total shares has not been found.

- For the CEE/CIS, a qualitative and quantitative assessment remains to be performed that would explain the relationship between economic development (growth) and informality (for Asia, Africa, Latin America, see Charmes, 2000, pp. 9-13). In informal sector economic literature, a relationship of informal employment to growth (in terms of GDP) seems to be established: when growth is slow or negative, there is usually a related expansion of informal employment (ILO, 1997, p. 179; Gerxhani, 1999, p. 19). Statistics for other regions seem to justify this anti-cyclical correlation (Charmes, 2000, p. 9). The underlying belief that employment increases in times of growth has been questioned by “jobless growth” in the formal sector for some time. The relation between economic crises and the expansion of informal activities is even more complex and depends on the general socio-economic context rather than on a single macro-economic trend. The theory of a causal relationship between growth and informality suggests that informal employment sometimes shrinks when growth is high enough. The example of EU development actually shows the contrary: economic growth and extending informal employment. This comparison indicates the influence of political-economic contexts on the development of informality.

Results from reviewed statistics (see Appendix 2):

1. Despite differing methodologies and, therefore, differing estimates (e.g., between Enste and Schneider, and Lacko), the tendencies of informal sectors’ share in GDP, as reported in nearly all CEE/CIS countries (ETUI, 1996; Gradev, 1999, p. 73; Balaita, French and Ticsa, 1999; Enste and Schneider, 2000) are rising, although to differing degrees.

2. Compared to developing countries, the shares of informal sectors in GDP are similar, if not higher.

3. On the share of women in informal employment, there are only a few, insufficient indications from existing statistics. Statistics show first a higher share of women in full-time employment and a lower share of women in (registered) employers and self-employed (Petrovic, 2001; Finnegan, 2000). Many authors and interview partners link this overrepresentation of men as registered employers and self-employed to a gender-related exclusion mechanism in private businesses (see section 1). Second, women’s unemployment is slightly higher than men’s. Most notably, around two-thirds of all long-term unemployed are women (Petrovic, 2001, pp. 47-48).

4. The shares of informal activities in productive and commercial/trade businesses are distinguishable. Dumani notes for Albania that there are more commercial activities
that avoid paying taxes or social contributions than productive entities that do - the reason being the higher mobility of commercial businesses and hence less occasion for state control. All available information for Russia confirms that there are many more commercial “informal” activities than there are productive ones (Heller and Nuss, 1999, p. 574). In Croatia it is estimated that 80 per cent of all trade belongs to the “gray” economy whereas “only” 10 per cent of industrial work is “gray” (Petrovic, 2001, p. 48).

2.3 Old and new characteristics

“Old” or “inherited” in terms of the CEE/CIS usually implies the era prior to 1989-90; and “new” entails the transition period thereafter. “Old” and “new” are different and cannot be easily compared despite seemingly similar phenomena or seemingly obvious interpretations. At the same time, people naturally maintain certain attitudes that are amazingly unique and different from “Western” attitudes. One phenomenon is the informal social network.

Informal social network and the “second” economy under state-socialism

Informal social networks helped people in more complex life situations and counterbalanced hardships - material and moral - created by the previous system

These networks have been adjusted to the emerging situation and are now, among other things, geared toward job hunting in informal employment, for example, which makes them similar to the informal networks of developing countries. This adjustment has also led to the breakdown of many social networks because either people could no longer afford to maintain them, e.g., inviting people to their homes, or their structures were ousted by “effective” Western-style networks, particularly in cities. Nonetheless, social information, cooperation and solidarity networks are still vital for informal workers - much more than for formal workers.

In relation to these networks, a “second” subsistence economy developed during the previous system, which was commonly underestimated. Its purpose was to compensate for the malfunctions of the “official” command economy (Rey, 2001, p. 4). In Russia, for instance, even the urban population had to grow essential food items during state-socialism (Mellor, 1999, p. 57). Contrary to the common view, state-socialist countries experienced an informal economy. Some authors have found a significant level of informal activities (Gerxhani, 1999, p. 23; Rey, 2001, p. 4). Particularly in the former Soviet Union during the Gorbachev era, an important “second” economy developed (Rey, 2001; Heller and Nuss, 1999 - section 2). Similarities between the previous era’s “second economy” and the present informality have been discussed in the literature (Böröcz, 1993; Heller and Nuss, 1999). But still, it is obvious that the “second economy” cannot be viewed as the “free-market” sector of the “planned economies” (ibid, p. 232), nor can allegedly inherited bureaucratic behaviours explain the present bureaucracy. These notions are opposed to the concept of coexistence of both informal and formal employment within a society.

2.4 Segmentation and heterogeneity

Obviously, disparities within different forms of informal employment are enormous. Moreover, the disparities and variations grow via different paths of transition, different
policies, and different stages of integration in European and global markets. Some examples of segmentation\(^{39}\) of informal activities follow.

**Subregional variations**

Countries of the region can be roughly grouped according to the extent of informality:

A. Countries where there is a fatal mixture of over-regulation and absence of regulation yet socially accepted standards favour some formalized behavioural patterns. These countries’ shares of informal sectors tend to be below 50 per cent, i.e., there is some coverage of social standards and even their violation shows that the standards have some sort of validity. Such countries include the CEE countries,\(^{40}\) the Baltics, Croatia, Bulgaria, and Romania. In 1998, Poland, for instance, stood at 80 per cent of its pre-1989 level (ILO, 1998, p. 4) in terms of real wages. They have high duties levied upon gross wages and salaries (taxes and social benefit contributions) and other extended legislation. The “over-regulation” in these countries forces entrepreneurs to acquire an enormous amount of licenses, permits, tax forms, electricity and telephone licenses, etc., before they can start their businesses. However, it is not only the high number of prerequisites that is disturbing but also the expense in time, paperwork and necessary bribes. Additionally, the services promised for obeying the rules are not extended or done so only with a lot of informal “muddling” and further bribe paying. So, nobody follows the rules. Even more disturbingly, the implementation of rules is not possible due to strong interests and pressures from informal businesses, including those of government officials.

B. The forms of informal work in the wealthier CEE countries evolve differently from the less wealthy countries. These differences can sometimes be offset by a government’s conservative policies. For instance, Hungary instituted a hostile policy aimed at basic labour rights and women (promoting their traditional roles). These policies paralyzed women’s opportunities during the economic recovery. Other typical examples include Croatia and Bulgaria, though these two countries were also hit hard by regional conflicts. Whereas over-regulation is inherited from state-socialist times (see the case of Russia below), it has been aggravated by a “hysterical” - as some observers put it - activity in adopting new laws and regulations following EU accession. When many of these countries join the EU, the gap between the two groups of countries will widen further.

C. Countries that are dominated by a comprehensive “informal” regulation such as Russia, the Ukraine and Kosovo. In these countries, over regulation (as formal regulation) is largely outlawed by any kind of informal regulation, which in turn leads to constant revisions of laws so that nobody knows which law applies in a certain situation (e.g., for paying taxes). There is no clear and enforced “formal” regulatory framework (Heller and Nuss, 1999; Burawoy and Krotov, 1993). Thus, relations based on corruption are more reliable than trust in formal, state-sanctioned law and order. This economic regulation in the absence of any serious, clear and

\(^{39}\) Segmentation means simply variation; segregation stands for variation due to discrimination and stigmatization.

\(^{40}\) For geographical country groupings, please refer to Appendix 2, table 3.
enforced formal regulatory framework can only, in default of a better term, be called “informal” (ibid. 571).

In these countries, there are areas where traditional forms of informal activities, such as crafts, are common and where traditional gender roles prevail and are strengthened. Thus, traditional mobility constraints for women are common, just like the lack of access to skills and the severe limitations to their freedom exerted by husbands.

Poverty in these countries serves as an origin for any kind of informal employment. In Russian cities “the dearth of funds in the state sector is of drastic proportions” after continuous pressures by the IMF to cut public spending (Mellor, 1999). Cities had increased prices for basic utilities, while pensioners did not receive their pensions nor workers their salaries for months. Thus, people cannot pay for public and private services, the rent of their flats, or medicine (ibid. 55). In St. Petersburg in 1996, 31 per cent of the population had incomes below the defined subsistence level of US$66 and more than a half of the households spent two thirds of their income for food (ibid. 56). Generally, the share of household expenditure for food is a clear indicator of poverty and, hence, of the extent people are forced to search for survival activities. Intensive suitcase and border trade would occur in this group of countries.

Countries in this group were far from reaching their 1989 GDP and real wage. Russia attained only 60 per cent of its 1989 GDP in 1998. Contrary to this, in selected CEE countries (Poland, Czech Republic, Slovakia, Slovenia, and Hungary), GDP increased between 1994 and 1998, especially when compared to other countries in the region. In 1998, some Southeastern European (SEE) countries (Bulgaria, Croatia, Macedonia, Romania, and Yugoslavia), along with Russia, could not reach their 1989 GDP level.

The weight of garments for a country’s exports and employment can also serve as an indicator for the scope of informality within societies. The share of garments and their importance for exports and employment show the limitations a country faces in its economic development and world market participation. Furthermore, it shows the extent of informality. The more important garment manufacturing becomes, the more informal and informalized industrial relations are.

**The case of Russia**

Indicators for the present “informal regulation” in Russia:

- Massive and still rapidly growing levels of bartering and chronic wage and pension payment arrears (Heller and Nuss, 1999, pp. 569-570);
- Regionalization of the Russian economy (Sapir in UNDP/RBEC, 2000, pp.25-31).
- Creation of negative wealth by many industrial enterprises (ibid), i.e., companies use up their fixed capital and produce without ever having the chance of selling products.
- The distribution of wealth in the 1990s was determined by a combination of institutional advantages and personal connections rather than democratic accountability or a legally regulated marketplace (Brown in UNDP/RBEC, 2000, p. 58).
- A large variance between macro-economic income/production (which for Russia is negative) and official unemployment rates (which are low) indicates a high level of
hidden and unregistered unemployment ("forced vacations," “excess” or “surplus” employment) (Kalyuzhnova, 1999, p. 101; Heller and Nuss, 1999, p. 570). Most unemployed do not register since unemployment benefits are low and only paid for a short time. Hence, employees often prefer to keep their employment though they are unpaid but have access to certain social services such as childcare or flats. Companies evade dismissals through “forced vacations” or part-time work (ibid).

- Concealed unemployment and avoiding registration of the unemployed via “early retirement” (not counting, for example, jobless women over the age of 54 as unemployed), “administrative leave” to avoid severance payments (Standing in UNDP/RBEC, 2000, pp. 118-119).

- For Ukrainian enterprises, Zsoldos and Standing note similar incidents. Excessive wage flexibility and labour market flexibility, which “have scarcely been typical of a market-oriented economy” (Zsoldos, Laszlo and Standing, 2001, p. 47). They surface in the forms of unpaid and partially paid administrative leave, short-time work and “unpaid employment” involving wage arrears or the non-payment of contractual wages (ibid) or extended maternity leave. This “perverse form of wage flexibility” (ibid) constitutes the transitional way of informalization. Wage has become a highly flexible cost component rather than a fixed cost as it is in market economies (ibid, p. 48).

- Barter is also reported to be one-quarter of total industrial output; enterprises operate at 45 per cent capacity on average.

The economic and social disintegration of Russian society is an extreme example of the role that informality plays in some of the countries in the region. The failure of the transition to work as effective shock therapy, regardless of a nation’s conditions, has been most evident in Russia. Transition research in the case of Russia cannot do without the concept of the “informal sector”, indicated by descriptions of the Russian economy: “transformation as informal modernization” (Hopfmann), “cowboy-capitalism” (Kartte), “nomenklatura economy”, “market bolshevism”, “surreal capitalism”, “mafiacracy” or “corrupt market” (quoted according to Heller and Nuss, 1999, p. 555).

Heller and Nuss - to whom I refer most because they adopt in my view the most adequate notion of informality (see section 2) - figure that Perestroika with its introduction of “market-economic methods” helps to explain the present level of informal regulation in Russia (ibid., p. 556). A parallel, hybrid “reciprocal provision economy” emerged that compensated for the failures of central planning and company management (ibid., pp. 558-567). This has been enhanced by the re-introduction of private ownership by Gorbachev, carried out in a “spontaneous privatization” (ibid., p. 560). The results of this privatization were commercial structures dominated by the “nomenklatura”, which with the 1990s “market” reforms became the owners - usually men. The percentage of these “commercial” businesses that survived without any financial or political support, or “blat” (corruption) was estimated at 20 per cent (Kolesnikow & Sidorow quoted in Heller and Nuss, 1999, p. 566).

Any attempt by the Soviet and later Russian State to formalize and hence re-integrate some fields of the “informal” market economy resulted in lesser control over economic activities (ibid., p. 572). This vicious circle (described by Heller and Nuss, op. cit) works in this way: every attempt at formal regulation as a step towards a market economy has been (mis)used to withdraw economic activities from the State’s planning and management; subsequently, the State made a further effort to legalize the previous regulation’s (mis)use, which in turn provoked another (mis)use and thus diminished the State’s potential control and
influence more deeply (see ibid.). And so forth. During the succeeding “transition”, this economic regulation was further “ex-post legalized” - as Heller and Nuss put it - and provided an uninterrupted development of a comprehensive “informal regulation” contrary to the perceptions of “Western” advisors who expected a developing market economy and a corresponding formality (ibid.). Thus, there was no real shift from “planning” to “market” in Russia during the 1990s because there was no “textbook” planned economy and now there is no stereotyped market economy.

A typical example is social protection laws during pregnancy and maternity: Maternity benefits (duration of leave, employment security, etc.) are evaded through making women sign an undated notice of termination so that employers are exempt from paying pregnancy benefits, severance pay, etc. This informal regulation sooner or later will be “ex-post legalized”. In this case, the abolition of the protective laws is already envisaged because advisors argue that such benefits today are clear obstacles against employment.

Heller and Nuss’ reasoning does not mean that the intended transition to a “Western” market economy did not take place because Russia could not get rid of its heritage; rather, they elaborate on the continuities of informal regulation because it helps to understand the present situation (ibid., p. 575). They maintain that the absence of the desired transition cannot be justified by the insufficient business management background of managers or the Russian-style “Mafia” or the political leaders’ neglect in establishing appropriate rules and institutions (ibid., pp. 556, 575). They see essential reasons in the meager access of Russia to an already distributed and controlled world market (ibid.) - hence, the break-down of previous markets and the inaccessibility of new markets as described in section 1.

Contrary to this view, Rey figures that the informal economy is rather “negative”, “the wrong path of development” due to a lack of responsible governments. This understanding views informality as something “alien,” separate, or outside the “normal” economy.

**Border trade and migrant work**

Border trade

1. Informal activities in trade can be distinguished according to the scope of the trade:

2. Local market-oriented and small-scale border trade - “suitcase trade” - is based on the scarcity of certain goods within one country or area. Women often engage in this trade as subcontracted agents. It can take on a larger scale when there are many single suitcase traders organized by (de facto) “employers” who are not found in governmental bodies. Suitcase trade must be distinguished from smuggling, which refers to the trade of goods that are forbidden for trade, such as petrol, which was heavily traded during the embargo on Yugoslavia.

3. *International, large-scale informal trade* uses the non-payment of customs, duties or taxes or the circumvention of certain national product quality requirements to lower the prices. Thus, it is based on price disparities as opposed to suitcase trade. These products very often drive locally produced goods off the market, as in imported detergents in Bulgaria (that did not meet Bulgarian standards for ingredients). The lower prices of competing products in turn pushed down prices for Bulgarian detergent factories that were due for privatization. Generally, light
industry is the most potentially affected sector. This sort of border trade requires some support of government officials in circumventing duties and requirements - the above case is connected with the corruption of privatization bodies. Many observers concede this involvement of governments’ interest in sustaining informal activities (Petrovic in ILO-CEET, 2000, p. 21).

According to Gradev (1999), the border trade in the Balkans remains very lively. Apparently, suitcase trade only flourishes when there are severe gaps in living standards between the neighbouring countries and when there are severe restrictions for nationals crossing the border (e.g., visa obligations). This does not apply to borders such as those in Southeast Europe or between Poland and Germany, for instance. The suitcase trade in these areas decreases steadily. However, there is still suitcase trade for instance between Greece and Bulgaria in electrical and household equipment.

Some examples of migrant work

In Italy, many migrant workers from CEE/SEE work mostly informally and without residence permits. Balkan-area migrants work during the agricultural or tourist season in Southern Italian tomato plantations (e.g., on the ill-famous Del Monte plantations) or in tourist places under bad working conditions. Polish women work in Italian and German households (Ruvolo, 1998, p. 66; Huning, 1998). Also, within the region, there is migration from poorer countries and areas into more prosperous countries. An example is Ukrainians who immigrate to Poland. Due to EU border restrictions, these migrants can now hardly obtain legal status in Poland. They are driven into “illegality” and, hence, informal employment. Particularly among migrant labourers, there is a tendency of a certain stabilization of informal work patterns - a certain persistence of informality approaches. Having found informal employment, many would rather stay in informality. This has to do with the “know-how” required by working under informal conditions, such as how to avoid paying any duties, how to cope with an illegal status in a country, how to get a flat, how to finagle their way through German or Italian (immigration) regulations, etc. This know-how and the developed social networks that support informal activities are utilized in later job searches. Polish domestic workers in Berlin tend to stay in informal employment even when they go back to Poland for good (Huning, 1998).

Gender-related segregation in informality

In this section, I will deal in detail with some manifestations of gender segregation on the labour market with repercussions on informality. Section 1 argued that “women have tended to lose more than men in almost every dimension of labour market activity”; “in some countries (...) women have continued to lose jobs even though economies have begun to recover while men have been able to seize new opportunities” (UNICEF, 1999, p. 6). Narrow efficiency considerations began to dominate economic thinking that made women’s paid employment “too expensive” (see section 1).41 This “economic” argument served as a justification for firing working women and for imposing an excessive wage flexibility on women workers, in particular.

41 For instance, when abortion laws were changed/de-liberalized in such a way that it became too difficult on both moral and financial levels to obtain an abortion, such as in Poland.
Gender bias in recruitment and sexual discrimination as triggers into informality

Discriminatory practices on the labour market (see section 1) include procedures of advertising vacancies that openly or indirectly seek male applicants by giving certain requirements (ready to work long hours, etc.). In interviews women are asked to give personal details, including their intention to have children; along with mandatory medical examinations, they are subject to pregnancy tests (Petrovic, 2001, p. 48). Furthermore, it is evident from various studies that “men are the bosses” (ibid., p. 50), while women are “sexually blackmailed and humiliated” and even “forced into having sexual relations” on condition of obtaining or keeping a job (ibid., p. 51) or being promoted. Discriminatory practices like these predominate in informalized or informal work arrangements (ibid., p. 52). The more women depend on the incomes generated from this employment, the more they become victims of this humiliation. For example, single mothers and women who are the only “breadwinners” are “brought to the lowest point” (ibid).

Bridger reports that “in Russia it has been elderly women, in particular, who have been left to cope on their own (Kandiyoti in UNDP/RBEC, 2000, p. 124). Furthermore, they are automatically dropped off unemployment registers. In the agricultural sector, during the shift from governmental agencies to agricultural specialists, brigade leaders and the like, farming was redefined “as an essentially male” activity. Consequently, in the process of privatization, women became relegated to the status of unpaid family workers doing manual work, such as milking and feeding animals. On collective farms, conditions deteriorated because of an increase in arbitrary treatment and women’s obligation to perform more overtime work for wages paid only in kind” (ibid).

In Moscow, some two-thirds of all women are unemployed. Almaty, in 1998, reported an official unemployment of approximately 1 per cent - and a real unemployment level of around 50 per cent according to a representative questionnaire (Kalyuzhnova, 1999, p. 102).

In Uzbekistan (Kandiyoti in UNDP/RBEC, 2000, pp. 124-126), men were offered more lucrative jobs on leased plots, or in trade and commerce in the informal economy, while collective work became increasingly feminized. This is “because of the existing understanding of the marketplace as a male domain and the informal world of patronage and bribes as an exclusively masculine world.” Elderly women may also become active in the marketplace because they have been freed from domestic duties; they typically sell imported clothes purchased from male wholesalers who are able to shift their economic risks entirely onto the backs of the women retailers. During the height of the agricultural season, women often work on several plots, such as family subsistence plots, subsidiary private plots to help their husbands cultivate cash crops, or on collective farms. Despite being severely overworked, women have less control over informal incomes than men because “the skilled and administrative occupations are almost exclusively male preserves.” In some areas, “women have stopped receiving wages and have literally not seen cash for long periods of time.” In rural areas, women have been particularly affected by unemployment because during the state-socialist period, they used to work in rural industries and services. Women have also lost jobs in the livestock and farming sectors. The principal measure of wealth in rural areas is livestock, which are the domain of men. Thus, opportunities for self-employment among women have grown very limited: no capital, no market, and no control

42 The enormous increase of these practices is alarming. Nonetheless, the interest of the legislative and executive powers to act is decreasing; there are no regulations e.g. against sexual harassment at work (Petrovic, 2001, pp.51-52).
over incomes. Their only marketable products are various crops and rugs (*kelims*), which are usually only woven by the poorest of families - again, women produce at home while men sell in the marketplace.

Rychlik (2000) observes the following factors that have led to higher levels of poverty and to risks of being subject to informal employment among women in Poland (see also Appendix 2):

- Single parenthood 1998: 1,500,000 single mothers; 200,000 single fathers; single mothers are five times more dependent on social service benefits than single fathers.
- Disability: out of nearly 2.7 million disabled women, approximately 16 per cent were employed.
- Aging.

The percentage of women with a higher education is much higher (43 per cent) than that of men (25 per cent).

*A report from Hungary*

In Hungary, young women who were interviewed say that it is difficult but not impossible to find a job. However, for middle-aged women it is very difficult to find a job. For women over 45, it is next to impossible. To put it bluntly, if you’re blond with long legs, a nice face, blue eyes, younger than 23 with the knowledge of a 40-year old, speak two or three languages, have computer skills then you can easily find a job - as a receptionist.

Young women on job interviews are routinely asked by potential employers: “Are you married; Do you intend to have children? Does your husband earn enough to support you because your salary will not be high enough to support a family? Do you have parents who will take care of your children?” Clearly, it is difficult to be a mother, wife, and working woman at the same time, and this is seen by women as a major setback.  

In Bulgaria, discrimination against young women (sexual harassment), women returning from maternity leave, women with young children, women over 40 years of age and an unequal pay scale for men and women have all been frequently reported (Bulgarian Gender Research Foundation, 1999).

One of the major setbacks for CEE/CIS women is the fact that, despite their higher levels of education and their generally better qualifications, their employment value and status has been reduced by social exclusion. And this is true despite the fact that different studies have revealed that women are more prepared and motivated to adapt to new conditions. It was discovered that 44 per cent of Bulgarian women had to leave their previous professions (Bulgarian Gender Research Foundation, 1999) in order to find a job - for example, Polish women lawyers who work as domestic workers in Berlin.

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43 According to presentations by Erzsebet Szabo and Veronika Hars, women’s NGO activists during a WIDE consultation, March 2001.

44 Wage differentials between men and women in the CEE/CIS have remained fairly comparable to those prior to 1989/90 and to those in the “West.” UNICEF found that the education of women tends to reduce the wage gap, while the concentration of women in low paid occupations tends to widen the gap. (UNICEF, 1999, p. 8).
Yet, women generally remain the ones who have to adjust most to changing circumstances and have to seek out alternative employment opportunities (UNICEF, 1999). Because of their high education and general appreciation of education, many women in the region have been highly motivated to adjust their qualifications and skills to the changes.

**Women search for self-determined business and survival alternatives**

Koseva and Tisheva (2000) have documented two strategies explored by women through informal employment - predominantly self-employment:

- The “traditional” woman aims for flexibility in combining job and family while supplementing the family income.
- The “innovative” one aims for success and ambition in creative activities, despite numerous obstacles due to the lack of regulation, access to credit and institutional support.

The latter type confirms the expectations of self-employment and SMEs for increased employment opportunities for qualified women. An additional reason women seek out small-scale informal employment alternatives is that they have increasingly begun to realize that the “glass ceiling” in private enterprises is much like the one in the public sector (UNICEF, 1999, p. 21).

Most businesswomen in the region are certainly surplus- and not subsistence-oriented (Finnegan, 2000, Appendix: Country profile Bulgaria), and their incentives are both economic and extra-economic, such as self-determination and independence. What is more, they seem to be ready to run larger entities (ibid.).

**Rural-urban segregation**

During state-socialism, intensive structural support was extended to rural and underdeveloped areas. These endeavours in structural balancing have been offset by closure of rural and agricultural industries, ownership “chaos”, dismantling of social infrastructures and public institutions. Any economic activities and economically recovered sectors and branches have now concentrated in special areas such as the capital, large cities, bordering regions or special economic zones. Warsaw serves as an example of where the positive signs of restructuring, transition, and the market economy are showing. (Unemployment in Warsaw is lower than in Berlin.) Meanwhile, in the rest of the countries, the socio-economic problems are both obvious and, at the same time, hidden behind the walls of peoples’ homes. In Riga, the official unemployment rate was 2.2 per cent in 1995, whereas in some rural districts it was as high as 23-24 per cent. For remote Albanian areas, Dumani reports that 90 per cent of economic activities are informal. (For Romania, see Ionita, Mandruta and Pippidi, 2000.) This prompts Ionita, Mandruta and Pippidi’s (ibid., p. 23) demand of “discriminatory” policies for certain highly affected regions. However, sometimes employers look for rural areas where unemployment is higher, and workers are easier victims of rights violations.

In conclusion, rural industries and services have mostly collapsed since 1989-90; the agricultural sector in many areas has yet to fully recover from unresolved ownership issues. The most mobile population groups - young and predominantly male - have migrated to urban areas, leaving behind women, children and old people in an economically unhealthy countryside; rural labour in general is largely feminized. There is an increasing gap between
rural and urban areas that has contributed to the social disintegration and vulnerability of various social groups, which severely limits their income-generating opportunities.

2.5 Informalization and subcontracting

Subcontracting and FDI (foreign direct investment) are two contrasting ways of outsourcing/relocating parts of a multinational’s production process (Graziani, 1998). Sections 1.4 and 2.1 have stressed that for the growth and diffusion of informal work, subcontracting has played a major role. Here it is given additional attention because its importance to the region justifies a more active strategizing.

Typical sectors with informal labour subcontracting networks are garments, footwear, horticulture (Barrientos, 1999) and construction (Gradev, 1999; Dumani, 2001). Thus, it is not a coincidence that labour rights violations in the region (ICFTU, 1999) are over-represented in these industries.

Graziani describes the “logic of subcontracting” as the search “for i) lower costs, since the subcontractors do not invoice for indirect costs; ii) more flexible and on-demand supply; and iii) eventually expertise and know-how that is not readily available in-house” (Graziani, 1998, p. 3). He explains, “Subcontracting has always been important within Western Europe. Already by 1992 in the EU, 19 per cent of all workers in the garment subcontracting sector and 5 per cent of total EU employment in the textile and garment industry was ‘illicit’ - in other words, in one way or another informal (Mercer, 1994). Nearly 30 per cent of these employees work in Italy and 17 per cent in the UK, the others following suit” (Graziani, ibid).

These informal workers include Chinese migrant labourers in San Giuseppe Vesuviano who, in the early 1990s, were originally employed by local clothing manufacturers and established their own sweatshop distribution system (Ruvolo, 1999, pp. 66-67). This example of the Southern Italian Chinese apparel-manufacturing system subcontracted by Italian manufacturers shows that the decisive reason for subcontracting is time, proximity to the sales markets and flexibility rather than mere labour costs.

In addition to these cost and production flexibility advantages of subcontracting, other factors contribute to the attraction of subcontracting. In CEE/CIS, many workers have started their own subsistence farming because wages were not enough to cover basic needs. In turn, this keeps wages low because employers presuppose this.

46 This system includes small enterprises of approximately 20 people who work in homes producing for Chinese wholesalers who themselves sell the finished goods to Italian apparel manufacturers (ibid, p. 67). The self-sustaining Chinese migrant apparel-manufacturing system in small enterprises meant that homework formerly done by Italians was now being done by migrants, which created much discontent (Ruvolo, 1999, p. 67). Their “competitive edge” was their flexibility and fast turn-around time for orders. This was because the migrant workers lived and worked in the same building. Work and family life overlap in a way preferred by Italian manufacturers because it means higher productivity and greater work flexibility (ibid., pp. 68-69). This can easily be accomplished in the absence of prevailing government regulations among small production units - “low wages and the absolute absence of any protection at work” (Ruvolo, 1999, p. 69). The adaptation of all community- or family-related economic and private activities to productive needs by circumventing existing regulations was also characteristic of the textile home distribution system in Germany and other countries at the beginning of the industrial revolution.
Moreover, informal employment under subcontracting subsidizes clients/buyers through the violations of basic labour rights and, hence, reduced costs for labour, occupational health and safety, and so on.

In these ways, informal labour subsidizes the distributors/clients and, hence, multinational companies through:

1. subsistence work for the worker’s family consumption; and
2. unpaid or underpaid costs including social costs for decent working conditions.

The proximity of formal and informal labour is indicated by the sector-specific average wage. In other words, the lower the wage, the higher the work pressure and the less formal the potential labour. As Appendix 2 reveals, the garment/textile sector ranks amongst the lowest in wages - very close to the legal minimum wage. The legal minimum wage itself - as a rule - does not represent a living wage in the CEE/CIS and in some cases is even below the subsistence minimum or poverty line of 50 or 60 per cent, respectively, of the average wage (or any other defined poverty line/subsistence minimum).

In addition to the stated hardships, manufacturers utilizing outward processing trade schemes tend to establish their own sub-regimes. Big Greek manufacturers, e.g., institute a regime of diminishing prices, dominating the scale and organization of production of informalized and informal (sweat)shops in neighbouring CEE/CIS countries (Bulgaria, Macedonia, Albania) (see section 4). However, an EU membership for Bulgaria or Macedonia, for instance, would destroy the Greek manufacturers/buyers monopoly.

The fact that subcontracting is mostly connected with informality relates to the desperate employment and income needs of various special groups or special regions (see Appendix 1 for reports and witness statements). It is evident that many manufacturers and retailers could easily afford to pay higher prices, which would enable subcontractors to pay living wages and respect basic labour standards (see section 4). But if basic labour rights were respected, workers would be in a position to refuse overtime or weekend work that is “necessary” to finish orders in time. In other words, basic labour rights would make workers less flexible and less submissive to the needs of the apparel economy, as one example. Due to the economic hardships of the transition period combined with the impacts of economic integration into a globalized continent and world, this submissive and flexible work force is excessively available to the industry in the CEE/CIS region.

Salamander, a German-based shoe manufacturer, severed its relations with a supplier in Bosnia-Herzegovina after workers went on strike because they did not receive the legal minimum wage (Scherrer, 2001). This example reveals a typical power imbalance. Salamander is perfectly capable of paying at least the legal minimum wage to workers, but there is nothing compelling them to do so. Companies in the CEE/CIS lack other alternatives than subcontracting - in the form of Outward Processing Trade - as Graziani concedes (ibid.).
Subcontracting and, in particular, OPT can be found in virtually all CEE/CIS countries, with Poland and Romania as the most important destinations. The subcontracting of informal and informalized labour relations exists in all countries and in both forms - informalized factories and informal home-based micro-enterprises and, to a much lesser extent, outworkers who work on their own.

2.6 Globalization

In the CEE/CIS, as in other regions, the processes of globalization have contributed considerably to the destruction of the formal sector, and the deregulation of labour markets and social services. Since there is extensive literature on the subject of globalization and since reference is made to it in other chapters of this report, a few relevant points are focused on here to summarize this extensive discourse (ILO, 1999).

- Whereas companies and industrialized countries have for centuries accumulated capital through foreign investment and multinational production for self-contained markets, globalization has appropriately linked to recent changes in the structure of multinational companies. Companies have reorganized their production processes transnationally around the world. They coordinate and control redistributed simultaneous production from the farthest ends of the globe. Some authors have identified this as the step from multinationalism to transnationalism. Part of that strategy includes intensive decentralization, i.e., cascading subcontracting operations which are formally not part of the company, but remain entirely dependent on the client/contractor. Multinational retailers and brand name corporations have often publicly claimed that they do not have anything to do with factories in other parts of the world that violate human rights while producing for those companies. Legally, they are probably right, but economically they are wrong. The CEE/CIS region has become an integral part of many companies’ transnational strategies as they organize and redistribute their production processes, which include informalized and informal work.

Note: Subcontracting in the form of OPT (see section 4) is not only detrimental for labour relations but has adverse economic effects on the companies and the national economy as a whole. Graziani points out the following drawbacks in detail (Graziani, 1998, p. 10):

1. The danger of being ‘locked in’ to their present structure of revealed comparative advantages, based on highly labour-intensive activities while the exploitation of potential comparative advantages in higher-tech stages of production would be delayed.
2. Dependence on “foreign firms’ decisions and performance, hence, increasing economic vulnerability”; “a change in conditions like a wage rise ... would push to rapid withdrawals of the foreign partner”.
3. An input-dependency in addition to an output-dependency on the foreign partner, which prevents the local textile industry from developing.
4. The adjustment to the foreign customers’ needs also includes losses of former profiles and activities like R&D, marketing, etc.
5. Strengthening of regional inequalities because OPT tends to be concentrated in specific areas.

Summary

Subcontracting and, in particular, OPT can be found in virtually all CEE/CIS countries, with Poland and Romania as the most important destinations. The subcontracting of informal and informalized labour relations exists in all countries and in both forms - informalized factories and informal home-based micro-enterprises and, to a much lesser extent, outworkers who work on their own.

47 After 10 years of civil society campaigns, some multinationals in certain sectors no longer make claims like this.
Globalization has also been accused of causing the retreat of the nation-state. The globalization of capital seems to have eroded (at least on some fronts) the sovereignty of nation-states. However, states reposition themselves and reshape their policies that ultimately make them more dependent on foreign investment. In accordance with neoliberal recommendations, states enact legislation to attract foreign investment. For instance, multinational apparel retailers, manufacturers, and brand name companies sell their operations to those countries that offer the best benefits at the lowest costs. The global and local wage and social standards competition becomes a downward spiral. This dilemma applies particularly to states with little international bargaining power, such as CEE/CIS.

At the same time, increased transmigration has forced transnational and national state bodies to “reinvent” the State. Sections 1.4 and 3.6 refer to the role of the EU and states in shaping a nation’s borders. Thus, the more labour rights are dismantled, the more a wide gap opens up between the general notion of anti-regulation and the alarming need for regulations. Labour rights regulations seem particularly “out of fashion”, while companies remain strong advocates for international legislation that provides for governments’ obligations towards foreign investments. It is difficult to get progressive labour regulation enacted. So one can imagine how difficult it is for CEE/CIS countries, given the additional pressures of EU accession.

Given the technological possibilities, the aforementioned impact, and the political agenda of globalization, a globalization from below has begun to emerge. The “culture networking” (Castells) - on local and transnational levels - has in many cases caused a diversion from traditional organizing, traditional tripartite structures, and formalization strategies. In order to fill the social regulation vacuum, “soft laws” have been proposed. Human rights discourses have morally addressed states and supranational bodies and have transcended the simplistic notion of a global/local duality. Consumers have attacked multinational companies with their own weapons; civil societies force companies to actively reshape their own political internal affairs as well as their environment. New transnational networks of NGOs and trade unions in the field of labour rights have started to influence national and international political agendas and have been setting new agendas that include the interests of informal workers and informalized subcontracted labour relations.

3. Summary of policies and programmes of key players

This chapter presents policies and programmes of key players in the region, which suffers generally from a lack of policies and programmes towards decent work in informal employment in the region under review. However, I will discuss existing strategies and approaches.

- as regards the implementation of basic labour standards, including the right to organize;

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48 An example is the MAI (Multilateral Agreement on Investment), discussed within the OECD but then postponed due to international differences and external protest.
49 As in the case of the German revision of the “company constitution” which was originally intended to include outsourced workers or contract workers in the company’s collective bargaining system. This failed, however, because of the old arguments that it would threaten Germany’s competitiveness.
as regards the promotion of entrepreneurship and micro-enterprise development;
- of mobility and access to skills development;
- of micro-credit and savings schemes;
- of social protection schemes;
- of better occupational safety and health; and
- the integration of informality requirements into urban planning.

Key players as regards decent work in informal employment in CEE/CIS are national and international institutions, and organizations that “hold a stake” or whatever other interest in informal employment. National key players are informal employees, employers, owners and management of informal enterprises, central and local governments - above all, labour inspectorates and tax departments, trade unions, NGOs, employers’ and industrial branch associations. International or foreign key players are the ILO, the European Union (EU), including its Commission and Parliament, UN organizations, foreign national and international business associations, trade union secretariats/centres, such as the AFL-CIO with its Solidarity Centres in the region, foreign private foundations and donors, such as the Open Society Institute or the Friedrich-Ebert-Foundation, and transnational labour-related networks of NGOs and trade unions.

3.1 Ratification and implementation of core labour standards

This section on fundamental labour rights (see Appendix 3) presents a general review of key players’ strategies (3.1) and some innovative policies toward decent work in informal employment as regards basic labour rights (3.1.2).

General review of strategies of key players

National key players

Principally, two different approaches are discussed and applied: a stricter enforcement or more deregulation (ILO-GB, 2000c, pp. 18-19). Since informal employment takes many forms, it is surely impossible to apply either one or the other approach generally on informal employment. For different situations, there should be different policies. In the case of excessive and extreme wage flexibility in the Ukraine, for instance, Zsoldos and Standing (2001, p. 48) demand that state institutions become more active in enforcing proper wage payments and “oblige companies to pay contractually agreed wages and benefits”. In this case, further postponement of employment restructuring will only prolong fierce economic and social problems, and precipitate a labour market crisis (ibid). Hence, the authors claim that states are unwilling to become active players in the labour market, rather than to continue to be “withdrawing” and “enabling” (UNDP/RBEC, 2000).

The call for more activity of the states brings up the issue of structural imbalance that is certainly not only relevant in CEE/CIS. The most striking problem as concerns the Core Conventions includes the deep rift between the adoption of standards and their actual implementation (Finnegan 2000, Appendix: Country profile Bulgaria; Bulgarian Gender Research Foundation, 1999):

On the one hand, the ILO (core) Conventions (as listed in Appendix 3) and the European Social Charta, for instance, are largely ratified and translated, promulgated in national laws. On the other hand, these conventions, as well as the national labour code, are
Weakly implemented. Therefore, the issue is not the ratification or promulgation of core ILO Conventions, but their implementation and enforcement, including assuring that they are operational.

Weak implementation of standards can arise for different reasons:

- Core labour standard implementation depends on principal capacities of key players. According to experts, one problem is the non-existence of institutions, such as employers associations necessary for enforcing the ILO Conventions.
- The implementation of rights also depends on the political will of key players. Section 1.3 discusses the general unwillingness to enforce labour rights. The most important motivation for government authorities to detect unregistered sweatshops is not the violation of labour laws, but the evasion of taxes or registration fees. Governments and trade unions struggle against tax evasion, but governments care less about evasion of social contributions. Moreover, processes of globalization encourage the notion of labour rights deregulation (see 2.6). Given the general disregard for basic socio-economic rights, Guy Standing (UNDP/RBEC, 2000, pp. 121-122) demands that these rights be placed at the heart of a “post-post-transformation” strategy that encourages “re-embedding social policy in flexible economies”.

The governmental labour inspectorate is an example of both: The powers of state labour inspection agencies to protect labour rights are under-utilized and limited. Companies often pressure and personally threaten labour inspectors. Moreover, inspectorates are understaffed, and the personnel is not trained for informalized work conditions.

In addition to a general hesitation of authorities towards basic labour rights implementation, a general review of key players’ policies reveals a certain bias towards informal employment as something “illegal” and per se negative (1.3). This bias has caused a legalistic preoccupation in existing and debated policies (Jankulovska, 2001). The underlying perception is that a new law or regulation is enough to do away with unlawful practices. The trade unions’ strategy, in particular, often comes from a legal angle. Trade unions often see informal work as something inferior and as unfair competition.

Key players tend to adopt repressive formalization policies, which have often led to an unintended or deliberate exclusion of informal workers (Ionita, Mandruta and Pippidi, 2000, pp. 21-22). Formalization policies cannot function fully because there is no sufficient legislative or executive framework existing that could or would implement them. In addition,
the systematic ill-direction of these policies can create fatal consequences for workers. Stricter control of company registration and tax payments was for instance introduced in Bulgaria after cases of unregistered sweatshops were found and made public. In the aftermath of these reports, a monitoring unit composed of tax and labour authorities and the “economic police” was created to handle the issue of unregistered enterprises. Questions now arise about what happened to the workers of the unregistered companies after the “formalization” of their factory.  

Strict formalization policies often exclude informal workers from the formal regulation system and also undermine their livelihoods or drive them into illegality. This was noted earlier when discussing suitcase trade that was made unprofitable by raising customs taxes, and in the case of sex-work by outlawing prostitution.

Concerning suitcase trade, Gradev mentions the protectionist approach of stakeholders in the light industries who played employees in the local light industry against the individual traders of foreign goods (Gradev, 1999, pp. 76-77) without touching the powerful moderators of this trade. Moreover, the effectiveness of raising tariffs for fighting suitcase trade was questioned by customs officers interviewed during my field trip. They cautioned that their intended impact was limited because then the trade becomes more uncontrolled and illegal.

In concluding, we see that most policies of key players so far were biased in various directions:

- They tried to extend the present formal regulatory framework even if it meant rigid exclusion for detected informal workers.
- They focused almost exclusively on legal instruments, without integrating other political instruments.
- They concentrated more on fiscal and license aspects of informality, rather than on labour rights violations, including Fundamental Rights.
- Policies that focus on labour issues often lack implementation and monitoring.

The above examples indicate how important the concrete context is when observing the effectiveness of various laws and regulations for decent work in informal employment. An important aspect of this context is the linkage between the informal and related formal activities. Policies should try to strike a balance between the legitimate interests of workers, including those in informal employment, and their protection. Policies towards decent work in informal employment should struggle against informal conditions rather than informal workers. General policy advice should therefore focus on a “more pro-active policy” towards the labour market that could also include promotion of self-employment (Ionita, Mandruta and Pippidi, 2000, p. 22).

International key players

International key players have concentrated principally on advising governments and social partners in the region to introduce Western European models in labour relations or have pressured governments to deregulate labour relations.

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54 Suggestions in a similar direction were made by Dumani: to allow only those companies that submit a tax certificate to social authorities to participate in public tenders.
The EU has tried to enforce basic labour standards through a social clause in its General System of Preferences (EU-GSP): its preferential trade regime. This trade conditionality approach to implementing social standards and specifically Fundamental Labour Rights is the most commonly used method by international key players, such as the EU (also adopted by the USA in NAFTA). However, it remains to be seen what the real impact in terms of improved working conditions will be before this instrument is more widely used in EU-CEE/CIS trade relations. So far, the Ukraine and Moldova have started to participate in the EU-GSP.

Private social monitoring activities along corporate codes of conduct have also intensified in the region. Above all, US-retailers and multinationals have started to monitor working conditions according to self-established codes. The limitations of these schemes in the USA - be it corporate or multi-stakeholder patterns - and the quality of the audits leave much room for improvement. So far, monitoring activities in the region mostly concentrate on some aspects of occupational health and safety rather than fundamental labour rights, such as the right to organize. Nevertheless, these activities have prompted national branch organizations to announce the adoption of their own codes of conduct. For instance, the National Association of Garment Exporters of Bulgaria will soon launch its own code of conduct. Details about its control have not yet been presented.

**Innovative policies for implementing and monitoring basic labour rights**

The supply chain approach

Given the tendency towards a social regulation vacuum and the limited power of governments following globalization (and transition), civil society initiatives have tried to focus on social responsibility along entire supply chains of multinational companies as “global players”.

The reality and importance of supply chains and subcontracting in CEE/CIS informal employment indicates that more attention should be given to it in policies and programmes. There are initiatives of emerging scope in the region, which I will quote here. Although most of these initiatives have had until now only weak effects, the general societal context and discourse is changing dynamically, as suggested in Section 1.3.

The supply chain approach takes account of the fact that multinational companies are socially responsible for labour conditions, not only within the company itself but also along the supply chain of the goods or services they market. Usually, transnational companies are situated with their headquarters in West European countries or North America, where the major selling markets are, and outsource from suppliers and subcontractors around the globe, including CEE/CIS and informal employment at the end of supply chains. Retail garment chains or mail order companies are a typical example (see section 4.) Consequently, the supply chain approach offers the possibility to integrate the last parts of supply chains that contain informal work into tools for implementing basic labour rights.

55 For NAFTA (North American Free Trade Agreement) this has been discussed extensively, e.g., Scherrer and Musiolek (Greven/Scherrer, 2000; Musiolek, 1999a).
56 According to own surveys and the extended literature on weaknesses of corporate social monitoring practices (e.g., Dara O’Rourke at the Massachusetts Institute of Technology, MIT).
Benchmarking social standards and multi-stakeholder initiatives for compliance to codes of conduct

Transnational social policy networks of NGOs and trade unions have in recent years succeeded in setting benchmarks for social standards, which should be included in the social responsibility of such multinational companies. Various initiatives worldwide have put forward codes of conduct that comprise a set of social standards which have been widely agreed upon. These social standards encompass first and foremost the Fundamental Labour Rights and some basic labour rights as specified by workers’ self-organizations in the supply chains and as established by other ILO Conventions and Recommendations (see Appendix 3 for a list of the Fundamental Labour Rights and additional basic labour rights).

Along with a set of social standards, a basic requirement of some social and multi-stakeholder initiatives is to include the whole supply chain in the scope of the standards (Yanz et al., 1999, 1999a). An example of such a multi-stakeholder initiative is the Fear Wear Foundation in the Netherlands. Other models do not require the inclusion of the whole supply chain. But only if entire supply chains are incorporated into initiatives, can it be ensured that informal work arrangements will be tackled.

Besides the benchmarking in social standards, transnational social networks have also started to experiment with systems of monitoring and verification of these standards (see Appendix 3 for a definition of monitoring and verification). The Fear Wear Foundation, for example, carries out pilot projects in checking on the standards that have been signed by its members (see section 4 for more information on the Fear Wear Foundation). These pilots include Poland and Romania where independent control of Fundamental Labour Rights along supply chains is experimented with. These pilots with a developmental approach and structural inclusion of a partner network in the countries, where verification and monitoring is going on, will generate valuable experience in tackling the issue of informal work within subcontracting arrangements, as well as other issues.

Another multi-stakeholder initiative between International Trade Secretariats and multinational companies are the International Framework Agreements, which are an attempt by the international trade union movement to increase coverage of Fundamental Labour Rights in production and subcontracting networks of multinational companies. Framework Agreements have been concluded in the furniture production sector, for instance. It remains to be investigated what concrete impact they will have. If these agreements include whole supply chains, and especially remnants of informalized and informal labour relations, they could enforce basic labour rights throughout their supply chains. A precondition for this, however, is a bottom-up approach in formulating and implementing the agreement and a system of independent monitoring. A constraint to such agreements in the garment sector is the generally low degree of organization in this sector.

Traces for international legal or procedural mechanisms to enforce the social responsibility of multinational companies along their supply chains

In the previous few years, the social responsibility of multinational companies has been placed on the international agenda by transnational social policy networks of NGOs and trade unions. Two processes have been provoked in particular:

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58 An agreement with Del Monte is only valid for full-time employees and is thus limited to formal employment and does not cover the outsourced formal contractors, not to speak of informal workers.
1. The OECD Guidelines for Multinational Enterprises with their National Contact Points, and
2. The Resolution of the European Parliament towards the conduct of (West-)European companies in their operations in developing countries (Howitt Resolution).

The first mechanism can be used on case-by-case basis to file complaints with the National Contact Points. The second is unfortunately limited to supply chains that reach out to developing countries. However, the adoption of the EU Acquis Communautaire could also include a stipulation similar to this resolution of the European Parliament.

3.2 Organization and representation of informal employees

As far as the struggle for decent work in informal employment is concerned, the organization and representation of informal employees is crucial. This can take various forms. International experience has shown that informal employees find it difficult to organize for a variety of reasons. The first reason is the often decentralized way of production, the small size of the production shops, repressive management and the limited possibility of paying and thus sustaining organizations. Moreover, informal employees are not easily classified as are the conventional clientele of employers’ or workers’ organizations. Informal worker organizations like SEWA and SEWU also demonstrate that political organizing must be linked with economic organizing (joint marketing or savings schemes, often in the form of cooperatives) if organizations want to survive. These organizations are not trade unions in the traditional sense - as is often maintained by trade union representatives.

However, there are other constraints and concerns against organizing in conventional organizations, which are particular to the region. These hesitations and restrictions have led to a set of actors that is not straightforwardly comparable with the patterns of organizations in traditional Fordist societies, even if the names are the same.

Concerning representation of business’ interests, it has been noted that comprehensive employers’ or industry associations hardly exist (Kelleway, 1995; ICFTU, 1998). More active than employers’ organizations are associations/boards of foreign investors in the region, which pressure and lobby governments very efficiently.

Adding to the somewhat confusing bunch of actors in the region are various business associations, e.g., businesswomen organizations that actively support women who work at home, help them to develop skills, and take an interest in them. They cannot be compared with organizations of the same name in the “West”. These NGOs provide an interesting topic for further research.

Because the representation of business, including small businesses, is more effective in the region, and the organization of workers is most important for securing decent work in informal employment while the right to organize is one of the most violated in the region, I will now concentrate on informal workers, including the self-employed (see Section 2.1). Section 1 stated that privatization was one significant way to supersede trade unions from their positions in former state-owned or self-managed enterprises. Section 2 showed that informality prevails in the privatized and new private sector, which is meanwhile dominating the economies in the region.\(^{59}\) One of the features of informality is the absence of workers’ organization. Clearly, therefore, workers’ organizations are intimidated or repressed, or have

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\(^{59}\) With few exceptions, such as Yugoslavia where privatization is only starting.
disappeared in a considerable part of the economy. In public enterprises, the “last domain” of trade unions, they are constantly losing influence.

What constraints to effective informal workers’ organization exist

For trade unions, interviews have shown that operationalization and promulgation of the ILO Conventions Nos. 87 and 98 into national labour laws often restrict workers to organize in the form of trade unions, to organize only in companies with a certain number of employees, and to organize only if there are certain formalized employer-employee relationships or if there is a minimum number of workers joining the union. Confining organizing exclusively to trade unions and to fulfilling certain preconditions is particularly apparent in the region. These regulations make organization and representation difficult if not impossible for informal employment workers.

At the same time, trade unions do not always take an active stance towards organizing workers in informal employment. Trade unionists in CEE/CIS have started to realize the significance of casualization and informalization and its relevance for unions. But the paradoxical re-introduction - partly under the influence of EU and US trade union representatives and “advisors” - of Western social formal inclusion and exclusion mechanisms, such as the breadwinner model, Fordist patterns of social partners and labour market regulation, developed under much different conditions, have hindered the development of appropriate own strategies.

The challenges trade unions face regarding the informal employment “explosion” can be seen in the following contexts:

1. Trade unions still tend to think in national terms (“buy British”, “buy American”) rather than in terms of communities and globally. This is why it is so easy for multinationals to pit workers from different areas, countries, and regions against one another. Informal labourers, as the last link in global supply chains, are the worst hit by these practices. The challenge here is to transcend nation-oriented thinking that does not fit the conditions of informal work, as discussed in the previous sections. Research has highlighted that European and International Works Councils, for example, were not used to represent the interests of workers along supply chains, including the cause of international solidarity (Wills, 1999).

2. Many trade unions have lost their ability to mobilize locally as well as internationally. A gap between trade union members and their leaders has developed which is further characterized by the leaders’ preference for top-down relations. Top-down approaches are particularly preferred by trade unions’ upper echelons in the CEE/CIS region and can be partly related to state-socialist behavioral patterns. However, without both a strong community base and international influence, unions cannot possibly hope to organize informal workers.

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60 Official membership numbers, that are often impressive, pretend a mobilization power that is not realistic.
61 A very interesting example of how new trade unions treat national and ethnic issues is the discussion within SEWU of how to deal with the many street vendors in South Africa who come from neighbouring countries like Malawi, Zimbabwe, etc. At first, SEWU members wanted to protect their terrain against these competitors. After numerous discussions, SEWU decided to include them in their organizing.
3. Trade unions have not been commonly used to organize women and informal workers (Gallin, 1999; Bickham Mendez, 1999; and Hausen, 1986). Trade unions and their international institutions are highly gendered structures of power, exclusion and hegemony, which create “male domains” of information and decision-making (Bickham Mendez, op.cit.), which in turn separates trade unions from both women and informal workers. Traditional trade unions have repeatedly been unable to address the unique interests and concerns of women and informal workers. This includes the pressures under which women find themselves as they search for employment. Informal and women workers elude the traditional organizing tools of the trade unions that were directed at another clientele.\(^{62}\) If informal labour issues defy traditional organized labour tools, they also do not lend themselves to being easily integrated into existing strategies like collective bargaining agreements. The tendency among CEE/CIS trade unions (e.g., SSM in Macedonia) is to change their views gradually regarding informality and female labour, and to begin to explore new forms of organizing for informal workers (Jankulovska, 2001). Petrovic (2001) shows clearly how men dominate in 23 CEE trade unions and, additionally, that this does not differ between trade unions that were newly established or those that existed before the transition. She notes that collective agreements are confined to “men’s issues” whereas “women are located where they cannot be seen, where work needs to be done, but not where decisions need to be made” (ibid., p. 66). She argues further that the way trade unions deal with female members indicates the general state of organizational democracy - i.e., it is not just a “women’s issue” but an issue of internal openness and democracy. Trade unions have very little gender-related awareness, except for some very active women’s desks in certain unions and the ICFTU-CEE women’s network. In the context of a weak labour movement and the high mobility of capital, information becomes the key to bargaining power rather than membership enrollment statistics.

4. In addition to demoralization (see 1.3), workers usually distrust trade unions (Petrovic, 2001; Bulgarian Gender Research Foundation, 1999, p. 9). People doubt whether trade unions can achieve anything given their perceived involvement in corrupt political deals. People often do not believe unions can adjust to the new conditions of a market economy. Moreover, many people are not willing to join any organization, given their experiences of misled and ill-directed organizations during state-socialism. They prefer local and individual solutions to problems - if solutions can be reached. People distrust external help.

5. Trade unions still hold on to their sense of exclusive ownership in labour issues and representation, despite the recent changes labour has undergone.\(^{63}\) Tripartism in the region is fragmented and lacks influence because it has been limited in confronting the challenges of globalization and deregulation, and lacks a common basis for social partner organizations in the region. Companies do not join employers’ organization because they want to circumvent formalization and secretly evade obligations. Another implication of their presupposed monopoly in labour issues is the notion of

\(^{62}\) The example of Central American women’s groups is very enlightening in that respect (see work by Jennifer Bickham-Mendez). Take strikes, for example: male trade unionists were already complaining 130 years ago that women were strikebreakers and denied them the right to organize (GTB, 1981).

\(^{63}\) Their inclusion in the Fordist social treaty has established this monopoly in the system of labour relations of “Western” societies. However, the limitations of tripartism have become more obvious in the recent past (Seyfang, 1999; Senghaas-Knobloch, 1999) and have become particularly apparent in the CEE/CIS (e.g., ICFTU, 1999, 1998; ILO, 1997, pp. 145-153).
trade union leaders viewing NGOs active in labour rights as competitors rather than strategic allies.

Thus, a more active strategy of workers’ organizations towards informal workers is closely connected with general challenges these organizations face today. Trade unions should open up and integrate a diversity of actors into the labour movement - a diversity that reflects the actual diversity of labour situations, including informality. This includes partnerships with NGOs that work on similar issues and have similar interests.

Below, some innovative approaches in this direction are outlined.

Informal cooperation between NGOs, trade unions and authorities on the local level

Having stated these challenges for unions in the region, it is important to note that at the grassroots level in the CEE/CIS, a lot of networking occurs between people of different organizations and state agencies. Furthermore, programmes are carried out jointly. NGOs, particularly those that are internationally embedded, offer training courses for trade union women, collect information on the situations of marginalized groups, and organize public campaigns on important issues. Self-employed women as well as associations turn to trade unionists on the local level, since there are “old” relations and trade union local staff is traditionally respected as public personalities. Organizations of street-vendors in Belgrade, for example, negotiate with city councils on their working conditions. One notices a strong readiness and willingness to cooperate, particularly in the former Yugoslavia. NGOs, like businesswomen organizations and trade unions, often work together to raise awareness on certain subjects, such as the precarious situation of women.

ICFTU-CEE trade union women network

The ICFTU/CEE trade union women’s network is a promising regional network whose first priority is the growing casualization of labour relations affecting women. This network is open to cooperation with NGOs both locally and regionally. It has become an increasingly lively exchange platform for women inside and outside trade unions.

Alternative forms of labour movement and unionism

Alternative forms of support for vulnerable workers have been introduced all over the world as well as the CEE/CIS. Such support includes workers’ counseling centres in Russia, and a Polish Social Council in Berlin that offers legal and other advice to Polish migrant labourers regardless of whether they are union members. Hungary has a number of NGOs that also maintain contacts with groups of informal workers, such as the organization of unemployed workers (Hethy, 1999, p. 91).

Alternative forms of organizations like community unions are emerging elsewhere. Transnational organizing and solidarity is emerging through community-based groups (Wills, 2000). Community organizing in North America, the UK, the Philippines and Central America transcends the barriers between social groups and communities (ibid.; Bickham Mendez, 1999). This alternative form of organizing would have particular potential in the region.
3.3 Entrepreneurship and micro-enterprise development

Programmes targeting entrepreneurship are quite common in the region. A few considerations, which were raised during interviews, concerning these programmes will be highlighted. However, a comprehensive learning process arising from the experience of the programmes needs to be done to facilitate improvements. US donors, in particular, have been very active in entrepreneurship programmes - unfortunately, often not tailor-made for the conditions of the region. Criticism has centred on donors introducing Western-style association patterns, which do not fit the needs, interests or circumstances of the target group.

Businesswomen’s associations

Businesswomen’s associations in the region often reach out to informal employment through training and counseling for home-based workers, and view self-employment at home as the only alternative for income generation, given the high unemployment and the desolate state of the economy. In this sense, they take over workers’ organizing functions. Experience from businesswomen’s associations reports that more focused work which is consistently based on the common interests of the clientele should take place. Additionally, the rich evaluation results gathered by international organizations like the ILO (Kantor, 2000) need to be adjusted for the region and implemented, as Finnegan did for the survey of Bulgarian businesswomen.

Business regulations

All interviewed experts and activists stressed that simplification and reduction of business-related regulations, such as taxes must be instituted. The present system is an entry barrier to self-employment and entrepreneurship. However, Ionita, Mandruta and Pippidi, (2000, p. 22) demand a careful approach: “do not play with the taxation system; address the real problems - bureaucratic over-regulation, corruption, the weakness of the legal system”. From Bulgaria and Albania, joint bodies between labour, finance authorities and “economic police” are created to discuss these issues. To what degree the present rules are appropriate for supporting entrepreneurship and decent work should be systematically analyzed. Unfortunately, this essential question does not seem to be close, since many people live on extended bribing and favouring systems - not to mention the “big” profiteers of corruption and over-regulation.

Additionally, many authors demand a higher security of property rights as essential conditions for more active entrepreneurship (Gerxhani, 2000, p. 16). Given the numerous pending ownership cases, a more pragmatic and less “fundamentalist” approach of the courts and privatization agencies should be advocated. However, taking the Russian example, it is obvious that ownership behaviour and incentives do not work the same way they do in the “West”.

3.4. Access to skills development

Shaping skills development

For most regions, the growth of informality is associated with formal labour market constraints and the lack of skills on the part of the labour force (ILO, 1998, p. 21). While a general lack of skills cannot be confirmed for the region, there is a lack of specific skills. The
aforementioned high level of education among women and men in the region suggests that the proper shape of training is crucial. The vital question is: Which skills are appropriate and in demand?

Foreign donor-financed training is very common. Apparently, however, this training is not always based on real needs, and sometimes provides misleading skills and qualifications. There is also a strong willingness among educated people, and particularly women, to adjust their skills to new needs. Those women express strong interest in learning more about global processes and relations that affect their countries and work. At the same time, skills development in business basics is requested.

There are experiences to be evaluated from programmes of different donors/actors, like the ILO, such as the Regional Development Agency and Business Centre in Razlog, Bulgaria. Some programmes have gone beyond their original intentions out of pressure from the situation and the needs of the people. For instance, the centre in Razlog, mentioned above, has dedicated many of its activities to more general community centre activities (Ruszczyk, Schubert and Stoyanovska, 2001).

However, many observers systematically question programmes, like the centre in Razlog, because they emphasize narrow business knowledge. Despite extending their activities to the process of implementation, their intention is traditional investment and economic promotion, which creates jobs - cheap jobs for foreign or local investors whose conduct is not monitored at all - and the jobs subsequently often become informal. This reality is often overlooked when assessing these programmes (Keune and Toth, 2000; Ruszczyk, Schubert and Stoyanovska, 2001).

Traditional investment promotion policies create even more pressure on wage and labour competition, hence, more informalized work, unless they are combined with broader issues such as labour rights education.

Education on labour rights and their implementation are largely under-represented in the region, although it would facilitate the improvement of informal work conditions. There were, for instance, no training programmes found on the opportunities for workers out of corporate codes of conduct or on transnational initiatives for social standards. Also issues such as social implications of EU enlargement and globalization are hardly addressed.

An often-heard critique about foreign donor-financed trainings was that they are usually narrowly focused on specific needs of EU economies’ subcontracting. German “Public-Private Partnership” programmes in Romania for instance train people for the garment industry. No reference to social standards was mentioned.

**Access to skills and education**

There is a growing concern about the destruction of the education systems in the region basically out of lack of funding both for training institutions (Farla, 2001, p. 32) and for individuals seeking training and qualifications. Because of that, access to education and skills plays again an important and growing part in accessing employment opportunities.

Moreover the alarming drop-out rates for ethnic minority girls reflects the comeback of conservative values which prioritize the education of boys and men rather than that of girls.
and women. Given the high costs of education and qualification, parents follow conservative selection grounds when deciding which of their children to send to universities.

3.5 Micro-credit and savings facilities

The need for micro-credit for home-based or micro enterprises is strongly claimed. However, programmes are hardly available. On the contrary, banks require enormous securities, high interests and returns. Given the usually low margins of home-based and other businesses, these loans would drive them into bankruptcy.

Kandiyoti (UNDP/RBEC, 2000, p. 126) argues that “micro-credit schemes must be tailored to the particular needs of domestic units operating in diverse contexts” and should not be based on conventional ways of categorizing and defining households, land access, income levels, and the like. People develop alternatives by borrowing from relatives/friends or lending money out to friends/relatives.

3.6 Social protection schemes

Policies towards social protection are very contradictory in the region. Social protection seems to be caught in a vicious circle of labour market constraints, wage competition and search for investment. It is over and over again recommended (and practiced) that incentives for labour-intensive export production shall be maintained and social protection be kept at the level of the legal minimum wage (Rob Vos in UNDP/RBEC, 2000, p. 112). Ensuring and “officially” remunerating workers at the level of the legal minimum wage is indeed a widespread practice in the region. Multinational companies and International Financial Institutions strive to lower the standard of social regulation as concerns the legal minimum wage. For Poland, it was recommended to abolish the legal minimum wage regulation all together in order to improve the opportunities for foreign investment. Governments sometimes also justify the abolition of social protection with EU harmonization.

On the other hand, some social protection laws have indeed become an obstacle to employment. Their original intention to protect working women and men partly turned in the opposite direction. Governments sometimes introduce increases in social contribution shares in order to raise state budget incomes. Gross earnings are highly levied (Hethy, 1999, p.85, Ekes, 1996, p. 45) - between 45 and 50 per cent of gross wages - and this, under the circumstances, can be an obstacle to formal employment.64

The first complete privatization and capital market financed model of a pension system in the world occurred in Kazakhstan and offers an alarming peek at how these models boost social disparities. Women in particular are severely affected by these changes because their incomes are generally lower and basically have no pensions at all. Plus there is the fact that private pension plans rely on capital market investments, but capital markets in CEE/CIS countries are very unstable.

Programmes of international and foreign organizations (including the ILO) for promoting women's entrepreneurship are often criticized for not including and recommending social security schemes at the same time. So even if women (or men) set up a business as a result of such programmes, they still do not know about their possibilities to be socially insured or secured at least at a basic level.

64 For OECD countries this demand would sound completely different — see Schneider and Enste, 2000, p. 14.
Extending the coverage of statutory social insurance schemes

State institutions concentrate so far on attempts to more strictly extend the statutory social insurance schemes to those informally employed. Task forces have been formed recently and the effectiveness remains to be examined. Various authors and interview partners caution, however, that existing schemes couldn't just be extended to informality. They “must also be adapted to the needs and contributory capacity of workers” (van Ginneken in ILO-CEET, 2000, p. 23). There might be the need for special schemes of “new partnerships” between trade unions, cooperatives and NGOs (op.cit.). Such alternative schemes were not found during the review.

Social protection through realistic legal minimum wages and realistic social contribution duties

In many CEE/CIS countries, government policies have led to a tremendous gap between a low legal minimum wage and the huge duties placed on gross earnings for social funds. And indeed, the coverage of social contributions - as stated earlier - is far from significant and circumvents specifically informal workers, while the legal minimum wage seems to be something most employers adhere to, even under informal work arrangements (Gradev, 1999, p. 81, Hethy, 1999, p. 88). The level of social security, which people gain out of this, is negligible.65

The legal minimum wage fixed by governments is subject to considerable political pressure and can be seen as an indicator for the (im-)balance of powers on the labour market. It was perceived as a sign of labour market rigidity. Since it determined the level of certain social benefits, governments reduced it to cut public (and employers’) expenditures on social benefits following the prescriptions by international financial institutions.

The legal minimum wage sometimes is below a poverty line and is as a rule far below a living wage (see Appendix 2, table 3). It has fallen in real terms in most CEE/CIS countries (Standing in UNDP/RBEC, 2000, p. 119). Due to official wage miscalculations, the impression has sometimes been created that real wages are actually increasing and thus wages should be reduced to avoid further unemployment (ibid, p. 120). It is far from covering the subsistence minimum (ibid), and the gap between these two is even widening (Hethy, 1999, p.85).

These legal minimum wage policies fuel the already fierce wage competition in the region and are a significant obstacle against decent work in informal labour relations. They strengthen the misconception of starvation wages as “competitive advantage”.

An intensively discussed strategy is the reduction in the wage duties for social contributions. This policy will be very popular with almost everybody in the region. However ready and easy this may sound, the first question should be put towards the share of social expenditures in the state budgets of the countries in the region. It will turn out that these shares are extremely low whereas the shares of military and armament expenditures are relatively high and will get higher with countries joining the NATO. Therefore it must be questioned which priorities the governments want to set.

65 In Bulgaria for instance the money paid out of the minimum wage health security was 27 DM per months in Summer 2001, which would not even cover the basic medicine.
3.7 Occupational health and safety

Again, authorities are relatively unaware of the significance of the problem and labour inspections are relatively inactive. Labour inspectors are not ready and not trained to face informal work conditions.

3.8 Urban planning

Unfortunately, there is no policy or programme known to the reporter that would try to manage and adjust to the several informal activities and the ever more diverse ways of life in urban areas. Instead, from St. Petersburg and Moscow it is reported that the authorities cleared the streets and raised license charges for constructed kiosks (Mellor, 1999, p. 70), thus driving informal selling into the underground and other worse conditions.

4. Case study: Informal subcontracting in the garment industry and a good practice to improve working conditions

Garment production has for a long time been recognized as a labour-intensive, low-wage activity. In the last 25 years, many companies originally located in industrialized regions have relocated parts of their production operations to so-called “developing” and Eastern European countries. Some processes of the garment production chain are relatively easy operations to relocate, and factory movements tend to be rapid. Since its invention in the 1860s, the sewing machine has remained the key technology for garment manufacturing and makes the assembly phase - sewing and finishing - highly labour intensive and thus highly mobile (Beese, 1999). Production rationalization is therefore limited to lowering labour costs, rationalizing labour organization, and extending active machine hours (ibid.). The so-called “natural” credentials of the female labour force offer many opportunities for this kind of rationalization. The result is that the garment sector, as mentioned earlier, is worldwide one of the worst paid employment sectors with the highest share of working women employees.

Outward Processing Trade (OPT) was developed in the 1970s by garment manufacturers in response to the aforementioned circumstances, which were exacerbated by signs of market stagnation in Western Europe. German manufacturers concentrated in the West German Ruhr area were pioneers of OPT outsourcing. They started relocating parts of their production to (the former) Yugoslavia (ibid.) in the early 1970s.

<table>
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<tr>
<th>An example: A cooperative of home-based workers in Balkan’s Tirupur</th>
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<td>At the end of 2000, the seamstress Roska V., together with 3 former colleagues, founded a “cooperative” - as they refer to it. They work on common accounts in a small room in the basement of a private house in Sandanski - a Bulgarian spa town at the Greek border. They are one out of roughly 100 “cooperatives” that work in “garage shops” for outward processing trade. In the Sandanski region, 60-70 per cent of all those employed work in this trade, whose operations occupy 60-70 per cent of an internal customs officers’ working time. Roska and her colleagues have set up a small production line, leased or rented machines, and borrowed money from relatives and friends. Single home-based workers do not operate in the area because a line organization with one seamstress is not possible. Getting loans from banks requires impossible security and would drive the cooperative into bankruptcy. In the beginning, they felt very insecure and thought twice about going into business. However, working in the factory for repressive bosses was unacceptable for them. Now they feel more self-determined, though the exploitation and earnings - around 230 DM a month - are the same as working in the factories, in which they worked for 10 years.</td>
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</table>

66 It is interesting to compare this area study with the one about Györ by Keune/Toth (2000).
They initiated a factory strike in 1996 because of unbearable working conditions, were successful but afterwards were intimidated by the employers and almost blacklisted. They left for another factory. Because of the high demand for qualified seamstresses in the area, they found another job. Younger women work in factories; middle-aged women like Roska and her friends - who are not preferred by the employers - prefer their own small “cooperative”. Younger women - though they require training - are targeted by employers. Sexual harassment has decreased, as have other major rights violations in the area, since an article on employers’ exploitative practices was published in London’s *Sunday Times* in November 1999.

Roska and her three colleagues are working on an order of 1,050 T-shirts, which they have to finish within four days by working eight hours a day. They get 0.40 DM per T-shirt. For a blouse, they get 1 DM each. A Bulgarian woman, who works for a Greek client/manufacturer, gives them orders, including the pre-cut cloths, yarn and the other inputs. They send the finished garments either directly to West Europe, or via Greece to Western Europe.

Large Greek (EU) manufacturers monopolize the outward processing business in the southern regions of Bulgaria, Macedonia and Albania. The novice businesswomen’s most serious concern is that Greeks not only keep the prices down and even diminish them, but they also prevent the “cooperatives” from jointly negotiating the price and setting up cooperatives of more than 10 workers. Their strategy is simply not paying their finished orders. Thus, artificial competition is created among the micro-cooperatives, but a massive “glass ceiling” prevents them from becoming real competitors to Greek manufacturers.

Authorities follow closely the activities of the “cooperatives”. But they are interested that taxes and license fees be paid. Nobody is interested in the labour issues, except for one local trade union coordinator. They feel that if there were recognition by local authorities, there wouldn’t be any problems in organizing, for example. One colleague mentions that it is not possible to trust anybody.

Organizing along East-West European supply chains

An informal network of NGOs and trade unions in Western and Eastern Europe started this year. Research, education and exchange will be done on women’s labour in global supply chains of garments and sportswear. The West European part of this network - the *Clean Clothes Campaign* (CCC) - has existed for 10 years, in 10 countries with partners all over the world. It has now started with active exchanges, research and awareness-raising work in Romania and Bulgaria, and includes women’s NGOs and trade unions in both countries.

This network also cooperates with *HomeNet* and the *Turkish Working Group on Women Home-based Workers* in its efforts to support home-based workers in the CEE/CIS along supply chains of garments. As initial activities in 1998 and 1999, the CCC conducted extended company research and exchange workshops with Polish, Rumanian and Bulgarian trade unionists/shop stewards, NGOs and scholars. It also facilitated media awareness, raising women’s labour issues in the CEE/CIS that had positive bearings on concerned workers. Sexual harassment, as well as abusive treatment of workers, almost disappeared according to local reports, while other violations of labour rights still prevailed. These will be the subjects of further investigation and action.

Another impact of the awareness-raising activities was the increasing activity of multinational companies in checking up on the implementation of their codes of conduct in the region. Although improvements through these activities have yet to be noticed, companies are slowly altering their sourcing practices in the region.

In October 2001, the Bulgarian Gender Research Foundation organized its first working meeting, which aimed at presenting results of initial research, facilitating regional
and European exchanges on social initiatives to improve working conditions in the garment industry, and forming coalitions for future action. It was the first multi-stakeholder, international meeting on this issue in Bulgaria. Participants from the Bulgarian side were consumers’ and women’s NGO activists, trade union representatives from national and local levels, researchers, lawyers, labour inspectors, and representatives from the Ministries of Labour and the Economy, the Bulgarian Garment Exporters Association, and the Friedrich-Ebert-Foundation in Sofia. Furthermore, researchers, and NGO and trade union activists came from Turkey, Yugoslavia, Romania, the Netherlands, France and Poland.

The Fear Wear Foundation

Since the beginning of the 1990s, initiatives for the development of codes of conduct have been seen in the garment and sportswear industry. These initiatives aim to improve labour relations and conditions that generally do not meet the standards set out in the ILO Conventions. The drafting of various model codes led to an increasing standardization of the content of these codes, and discussions started to focus on the implementation of the codes and the development of systems for monitoring and verification.

As a result, concerned members of the business community, labour unions, and various NGO’s established Fair Wear Foundation (FWF) in 1999. FWF seeks to advance the cause of legal and dignified working conditions in the garment industry worldwide. A four-partite board was set up, comprised of retailers (the sector association of the small- and mid-sized garment retailers - Mitex), producers (the Dutch Organisation of Enterprises in the Garment Industry - MODINT), trade unions (FNV Bondgenoten and its Federation FNV), and NGOs (Dutch South-North Federation, and the Clean Clothes Campaign). An expertise committee (comprised of these same organizations and the Max Havelaar Foundation) advises the board on implementing and internal monitoring of standards, setting up a verification structure, regulating company membership admittance and, eventually, forming a certification body.

FWF aims to develop a label, or collective trademark, called “Fair Wear”. This label can be earned through a certification process by companies that market or produce clothing in the Netherlands or by companies that have garments produced outside the Netherlands for the Dutch market.

Companies that sign the Fair Wear Code of Labour Practices declare that:

1. they only want to trade in clothes made under decent/human conditions;
2. they will do “everything possible” to ensure that standards are upheld, also by their contractors, subcontractors, suppliers, and licensees. This implicates the commitment of the contractors to compliance and their cooperation with independent verification of these standards;
3. in case of non-compliance, they will take adequate measures to remedy the situation, with final sanction of losing the right to produce or organize production for the company in question; and
4. they commit to independent verification of the provisions of the code, and agree that they will follow the advice of the Fair Wear Foundation in this regard.
The Fair Wear Management System Requirements

To assure that clothing supplied to the Dutch market satisfies requirements, “The Fair Wear Management System Requirements” are being developed. The Fair Wear Code of Labour Practices forms the basis of the Fair Wear Management System Requirements, and the most important demand placed upon a company that wishes to become a member and get certified is a commitment to signing the Fair Wear Code of Labour Practices. Furthermore, these companies shall be required to show that they plan to implement the code of conduct in a systematic manner and that they shall be subject to a regular formal inspection to determine compliance of the code of conduct. The company’s implementation or management system shall be required to meet certain criteria, which are presented in the “The Fair Wear Management System Requirements”. Formal inspections will take place based on these criteria.

The Fair Wear Code of Labour Practices and the Management System Requirements comprise the areas concerning labour relations and conditions. Other key elements are the supply chain approach and the development approach. The Fair Wear Management System Requirements describe a management system that helps establish an organization’s policy in a systematic manner, the requirements the management system must abide by and which aspects will be tested. In this respect, the Fair Wear Management System is strongly based on international standard management procedures. It will be accompanied by a guidebook (first draft is in discussion). Key elements are the “trace ability” of production and how to ensure it, and the collection of “acceptable evidence” of compliance. This evidence can be in the form of documents (contracts, pay slips, collective bargaining agreements, union reports, labour inspections, hours registrations) and is still at this stage described generally. Further discussions and experience in monitoring and verification will have to lead to further accuracy.

The area of labour relations and conditions

The Fair Wear Code is comprised of a number of conduct standards derived from ILO Conventions. This is mentioned in the code’s text as well as the Universal Declaration of the Rights of Man (in particular, articles 23 and 24, which pertain to the right to acceptable conditions in the workplace).

Supply chain approach

The Fair Wear Code of Labour Practices and the Fair Wear Management System Requirements have been drafted, based on a “supply chain approach”. In other words, it is not just a matter of a company abiding by the Fair Wear Code of Labour Practices in its own factories but also enforcing them in the chain of suppliers. This, of course, does not mean a mere “observance-on-paper” established in contracts and guidelines, but an actual plan to facilitate and monitor its implementation in the extended workplace, supported by the Dutch market, which serves as the last link in the production and distribution chain.

Development approach

The aim of the Fair Wear Code of Labour Practices is to improve working conditions “around the world.” A development approach fits in well with this aim. Poor social workplace conditions shall be acknowledged as not necessarily inevitable in a production country and
shall thus be improved through the proper implementation of the code of conduct. FWF must sometimes accept that an organization cannot always know the origin of all its garments, nor exert influence on a producer or importer that the organization might be dependent on. An abrupt curtailment in the relationship with the supplier in case of poor conditions among established suppliers is not in the interest of the workers. In these cases, it is important that FWF-certified companies will be assessed on the quality of the instituted improvements and, finally, on the basis of the effects of these improvements.

**FWF as a certification body**

FWF aims to act as the certification body and, where possible, conform to the European standard for system certification, the EN 45012. This involves the FWF board establishing and actualising the requirements that member companies must fulfil, advised by an expert committee that takes an impartial stand regarding the concerned parties.

**Pilot project and current state of affairs**

Currently FWF has started the implementation with a pilot project in which five Dutch companies participate. In short, the pilot project comprises the following step:

- communicate the code to their suppliers at the start of the implementation;
- describe the companies’ suppliers to the FWF by the companies themselves (i.e., number of workers, type of relation, relative order size, etc.) and to select one supplier per company to focus on during the pilot;
- describe in a pre-study by local NGO’s/consultants the regional environment the company operates in with respect to the situation of compliance with the Fair Wear Code of Labour Practices;
- audit the selected supplier both through internal monitoring by the company as well as third party verification;
- report the auditing results to the FWF’s expert committee; and
- make a correction plan by the companies in consultation with local management and worker representation (if needed via local NGO’s or consultants).

In a second phase a complaints procedure (including worker education) has to be set up and possibilities will be evaluated for expansion to the other suppliers of the participating companies. The aim of the pilot is to:

- test the feasibility of the Fair Wear Code of Labour Practices for the Garment Industry: interpret the code to the regional situation in clear and practical regulations and criteria that enables monitoring of the management system;
- gain experience of the monitoring and verification systems (internal and external control systems);
- adapt the Fair Wear Management System Requirements and the guide book according to the results of the pilot; and
- support and assist the creation of a network of partners in production countries who are willing and able to participate in the type of independent monitoring and verification outlined in the Fair Wear Code of Labour Practices.

The pilot project is due to finish at the end of 2001.
5. Conclusions and key messages

5.1 The analysis

- Historically and logically, informal employment can only be understood in its correlation with formality. Informal employment subsidizes the formal. Informality has constantly disappeared and been reproduced throughout the development of market society. This view of the relations between formality and informality goes beyond a false dualism. Informal activities cannot be simply assessed as positive or negative. There is no simple alternative between the struggle against the “illegal” or “unfair” economy, or promoting the informal employment “miracle”. The terms “formal” and “informal” employment are the result of historical exclusion processes and constructions. They are not “natural” attributes of the respective work situations. Informal work is a legitimate part of a society’s labour. It is, however, executed under conditions that qualify “informality”. Therefore, it is important to distinguish between the work as such and the conditions under which it is done. The main consequence for strategies towards decent work is that they must be directed at the conditions of informal work, but not the worker.

- This report presents the “explosion” of informal and informalized work in the CEE/CIS in the context of socio-economic situations rather than in the narrower legal, administrative, or fiscal contexts. The latter contexts fail to analyse the phenomenon in its complex nature and, instead, serve as the basis for biased policies that are often deleterious for informal workers.

- The similarities of informal employment in “transition”, “developing,” and “industrialized” countries intensify as the differences conversely diminish during progressing transition. This is because globalization and the deregulation of labour are the principal factors in the development of informal, informalized, and formal work worldwide. These similarities justify the development of a common decent work paradigm. Thus, globalization for the region has the contradictory impact of uniformity and marginalization at the same time. In a way, transition can be viewed as a particularly forceful and radical globalization strategy.

- However, there are factors in CEE/CIS countries stemming from transition and “shock therapy” in economic restructuring that are particular to the region. High unemployment and rigid privatization in the context of economic restructuring are widely perceived as the most relevant reasons for the “explosion” of informality in the region. The dismantling or informalization of formal employment, the collapse of social security nets and public services, and the mushrooming of both the informal economy and subsistence agriculture are key elements in the dramatic shifts that the region has experienced. These factors, coupled with the lack of future prospects for the region to participate in the already distributed world markets, create an environment where informality diffuses. The “market economies” in the region and their informality, therefore, elude a simple comparison with “Western” market economy informality, as well as with informal employment in “developing” countries. The functions of management/ownership and labour are not separate in the way assumed for a “market economy”. Thus, the traditional tripartite structures have

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 Owners of factories are, for example, often not known to workers, and management does not have the mandate to fulfil employer functions. This leaves workers frequently in a vacuum that makes them easily subject to abuse.
only limited validity. The often-derived strategy of transplanting stronger tripartite mechanisms has a counterproductive impact. The configuration of actors in the region should be accepted and not further “hybridized” by imposed policies.

- Further factors in the spread of informality are the lack of capital for small businesses as well as the disadvantaged status of women, who have fewer chances to obtain privileged positions in the private sector. Women are increasingly confined to feminized work sectors, and face a gender bias in recruitment and in the reintroduction of conservative family values. Moreover, a general disregard for social and labour rights, and the absence of critical public discourse on informal employment and rights violations in the region contribute to the rise of informality. Finally, asymmetry in the EU’s trade regime, by strengthening labour-intensive subcontracting, has facilitated informal employment. Time and flexibility of labour and production, rather than mere labour costs, are the decisive motives for subcontracting in the CEE/CIS. This indicates that subcontracting is the most relevant linkage between formal and informal employment. The asymmetry of state policies - inactivity concerning social and labour issues and proactive economic restructuring - is further deepened by EU accession.

- All factors have one thing in common: they reduce the bargaining power of both employees in work arrangements vis-à-vis their employers, and state institutions vis-à-vis multinational and national companies. This situation is widely used by employers to informalize work and utilize informal work. As a result, few incentives exist in the region to create new formal jobs.

- For the countries in the CEE/CIS region, a certain combination of formality and informality is typical. It includes considerable elements of informal regulation - to varying degrees. There exists a contradicting blend of over-regulation and intended loopholes on the one hand, and an absence of regulations on the other hand, all of which serves certain interests. There are two groups of distinguishable countries: those with a fatal mixture of over-regulation and non-regulation, such as Poland and Croatia, and those with comprehensive “informal” regulations, such as Russia, Kosovo and the Ukraine.

- An important constraint to decent work in informal employment and informalized arrangements is the lack of organization and representation of informal employees. This has complex reasons originating on the one hand from the nature of informal employment itself, which makes organization difficult, and on the other hand from unawareness or ignorance of conventional organizations regarding informality.

- Conceding all the evidence and analysis presented in this report, the systematic question to be posed is: What socially-acknowledged standards define the borderline between informal and formal employment? In other words, what is decent work under the specific circumstances? The answer cannot be imposed on the CEE/CIS countries, assuming certain patterns and systems, but should be determined from an assessment of the specific conditions in the region itself. Meanwhile, social rules and standards are already being reshuffled, renegotiated and re-determined. This reshuffling is dictated by the informality itself to varying degrees. And labour - be it formal or informal - is not strongly represented in this social re-negotiation process.
5.2 Policy recommendations

Decent work in informal employment- Stop informality but not informal workers

Easy answers are not feasible, and there is no single strategy. Those who recommend generalized strategies such as a State’s complete withdrawal and deregulation, or - in contrast - a strict formalization, of the (labour) market often disregard the actual situation of informal employment in the region. The diversity of approaches is one of the greatest assets as regards policies towards decent work in informal employment. The effectiveness of strategies will be damaged by “over-standardizing” with the intention that “decent work in the informal sector means only...” or “organization of informal workers is the task only of...”. There cannot, for example, be one “strong collective actor” (ILO, 1997, p. 216) for informal employees. Without productive respect for different ways under common goals, progress (particularly in setting a new agenda) for promoting decent work in informal employment is hardly possible.

Recognition and visibility are crucial

While most international organizations are seen as not acting on the basis of serious assessments of the real situation in the region - e.g., flying in short-term Western advisers who are oriented towards imposing Western ideas and advantages - the ILO is perceived as better rooted within the countries. Still, it is not seen as a strong international player in the region, like the international financial institutions. Therefore, interview partners expect facilitating and awareness-raising activities from the ILO. A starting point could be a strong initiative by the ILO towards its constituencies in the region, particularly trade unions, for a changed perception of informality and for developing strategies in partnership with labour-related civil organizations and initiatives. Improving statistics on informal employment should be a decisive part of any programme that aims to make informality more visible in the region. This work can rely on existing experience, data from other regions in the world, and the initial work done in the region (above all by J. Charmes). Setting a new agenda on decent work in informality should start with an awareness-raising campaign, together with a variety of strategic partners such as labour-related NGOs. Moreover, interview partners have expressed the wish that the ILO might influence and pressure TNCs to obey CEE/CIS countries’ national legal framework, particularly in regard to labour and social regulations.

Supply chain approach

The supply chain approach, in conjunction with a development approach, by the ILO and social multi-stakeholder initiatives serves as an entry point for decent work policies in large segments of informal employment. This approach is valid in sectors where multinational companies dominate and utilize complex supply chains for the production of goods. These chains, as a rule, include informality through subcontracting.

Policies should be based on existing benchmarking of social initiatives along ILO conventions and should actively evaluate the experience on supply chain monitoring and verification of social standards that is being gathered. The ILO could play a pro-active role in facilitating and strengthening those multi-stakeholder initiatives that (i) consistently include entire supply chains in their activities; (ii) build on local partners, such as employers’ and workers’ organizations, civil experts and state bodies (e.g., labour inspectorates); and (iii) develop mechanisms for independent control of social standards.
Policies integrating the supply chain and development approaches should also be given more room within the EU’s trade and enlargement strategies. In addition to the discourse on the social dimension of enlargement, the role, practices and conduct of EU-based multinational companies should be integrated into the application of EU’s Acquis Communitaire, which can take the Resolution of the European Parliament on the conduct of EU companies operating in developing countries as an example.

The international and national trade union movement should more intensively explore supply chain approaches. European and International Works Councils can be used more intensively for international campaigning around decent work along entire sourcing chains of multinational companies. The bargaining power of workers, particularly informal workers, can be strengthened through transnational networking and the sharing of information, rather than through increased membership rolls. Information is especially important since many companies take great efforts to disguise their supply chains. To explore internationally-generated information and experience on monitoring working conditions along supply chains, trade unions should enter into partnership networks with transnational networks of NGOs active in the field of labour rights.

**A coherent social protection concept and a standard to campaign by- a minimum and decent price of labour**

Recent discourse has identified an urgent need for a coherent and appropriate social protection concept that balances social protection and employment creation for formal and informal employment, and that is based on priorities and situations of employees themselves. A key element of this concept is seen in a policy of defining the legal minimum wage on the grounds of established, internationally agreed mechanisms. Country-specific estimations of subsistence levels/poverty thresholds and living wages should be developed. For the ILO, strengthening established procedures to determine and enforce wage standards can be an authentic, unique and central policy field. Companies that have adopted a serious social accountability policy are interested in such standards developed under a credible mechanism. This policy would be enforceable under the existing legislative and executive powers of countries, e.g., labour inspections, which normally check whether wages are at legal minimum levels.

This is considered a possibility of reaching out to informalized and informal workers by providing them with some basic protection - decent work. At the same time, it can hardly be seen as a protectionist measure of the “West,” and Western European stakeholders could hardly see it as “social dumping”.

To the extent this can be complemented by lowered social contribution rates remains to be investigated within the above comprehensive concept.

**Migration and urban planning**

A lot of the “illegal” immigrants in Western European countries and elsewhere are refugees, migrants or trafficked persons from conflict-ridden areas of the CEE/CIS. In general, the millions of “sans papier” (persons lacking legal resident status - “illegals”) are still predominantly seen as tax evaders, “social parasites” and “criminals”. As such, they are subject to an intense regulation drive - for citizenship and residence rights and regulations. These same regulations leave almost no alternatives for survival. For Germany alone there are...
an estimated 500,000 “sans papier”. While the German Government and the economic lobby discusses “useful” immigrants to whom it can grant “green cards”, they apply repressive regulations against and deprive “illegals” of basic human rights, such as family protection, education, and basic social services such as health services. Experts from CEE/CIS often criticize these selective immigration rules that separate immigrants along economic usefulness, as discriminatory practices.

Participatory, sensitive and mediating strategies of urban local governments that promote tolerance and diversity are overdue, not only in the region but also in urban areas in Western Europe where migrants (originating from the region) work (Huning, 1998, p. 118). This calls for a clear departure from the traditional urban planning understanding that urban processes can largely be controlled and directed. Instead, multi-stakeholder dialogues are recommended.

**Integration of economic, political and educational activities and organizing**

One central policy characteristic should be the combination of fields as listed in Section 3. Traditional investment promotion policies, for example, create even more pressure on wage and labour competition, hence more informalized work, unless they are combined with programmes such as social standards education. Organizing and training, if meant to be sustainable, should be combined with economic organizing (saving, social protection schemes, joint marketing etc.).

**Organizing**

The region increasingly recognizes that new ways of organizing have to be found for approaching informal employment. This includes new alliances. Trade union women networks like the ICFTU/CEE, the emerging informal networking efforts of the Turkey Working Group on Women Home-based Workers, together with HomeNet and the Clean Clothes Campaign’s activities in the SEE region offer very promising regional initiatives, which strive to compensate for a considerable lack in sub-regional cooperation. Few donors support such initiatives - presupposing that national and ethnic problems would not allow it. A common initiative concerning informality could be an occasion for sub-regional collaboration intensification. Unconventional networking initiatives should also be promoted, for example, by ILO bodies in the region. Unfortunately, these groups, if they consist of NGOs, have sometimes been subjected to competitive marginalization by the “official” trade union movement.

It is a propitious moment for these partnerships to develop since companies have developed their own self-regulating social management systems. The self-regulating systems of companies seldom include entire supply chains and informal employment. Thus, networks with other labour-related groups are a precondition for the effectiveness of policies towards decent work in informal employment, not just a nice decoration for public staging or “door openers”.
5.3 Needs for further research in the region

*Elaborating a “social prognosis” (ILO, 1999, p. 53)*

1. A qualitative and quantitative analysis of the complex relationships between growth, unemployment, informality, economic and social security is desirable. This analysis and evaluation should generate a more-in-depth view of the regional situation and the characteristics of informality. The ILO could start this process with a survey, as conducted in Albania for this report, whereby all local ILO representatives compile information available and interview relevant experts and actors according to a standardized questionnaire.

2. Further research is needed on horizontal and vertical mapping of home-based and informalized employment itself. Vertical: The practices of subcontracting need to be explored further; recent trends suggest shifts in different forms of informal work and different relationships between factory and outsourced informal work (Esim/Hattatoglu, 2000). This analysis will generate findings on the trends between different subcategories of informality (subcontracted/non-subcontracted, informalized/informal, etc.).

3. Policies and programmes instituted by various actors in the region need more attention and their 10 years of activities need a comprehensive evaluation. These actors are businesswomen’s associations, labour inspections, national and local authorities, local trade union coordinators/organizers, etc. Existing programmes of international organization need critical appraisal. Additionally, social monitoring initiatives that include various stakeholders in the region (such as the Fear Wear Foundation’s pilot project on control of social standards of Romanian and Polish garment subcontractors) should be evaluated concerning effectiveness and impact on informal employment.

4. Existing legislation implementation as regards informality must be reviewed. These evaluations should include an analysis of the implementation and impact of certain regulations, including their legislative revisions, i.e., a step-by-step analysis of legislation, implementation, impact, revision of legislation, again implementation, impact, etc. This methodology can reveal the systematic shortcomings of regulations’ implementation.

5. Finally, a region and country-specific definition of decent work should be derived from all the analysis. Socially-acknowledged standards shall be defined, including determinations of minimum and living wage categories.
Appendix 1: Reports about growing informalization in subcontracting arrangements from newspaper reports and witness' statements:

The Bulgarian daily newspaper, *TRUD*, 17.7.99, p. 10:

Headline: "In the Pirin Mountains region (along the Greek border): Wild Exploitation"

Excerpts: “The Greek owner of an apparel firm in the photo is shown beating up the national chairman of the largest trade union confederation KNSB/CITUB when he attempted to check allegedly terrible working conditions.”

“Another Greek garment factory owner reportedly frequently demands that women come to his office to perform “sexual services” by threatening them with dismissal if they don’t obey.”

“Another surprise visit by the said trade union representative during the night revealed a 13-year-old girl ironing at a Bulgarian-owned factory after 10 p.m. She did not have a work permit for that and overtime was not paid.”

“The shop steward of the trade union was dismissed after she organized 95 of the workers. The official reason was that she had been smoking in the toilet. Temperatures in this factory tend to be unbearably high during summer. Workers frequently faint. The fine the owner was forced to pay for this, according to labour inspection - 150 DEM - he deducted from workers’ salaries.”

“A reported incident involving two Greek factory owners reveals that they disappeared with 120 sewing machines and the entire production inventory, leaving behind a debt of 200,000 DM and 170 seamstresses without jobs. ” (Author’s note: other witnesses say that the owner had not paid workers’ social benefits and their wages for the last three months.)

Lodz is an old garment and textile production area. It used to have the highest level of female labour market participation in Poland. Today it has the highest female unemployment rates. It was the first region hit by job losses due to economic restructuring, closures, and the downsizing of companies. Meanwhile, some of its garment production shifted to the informal market. The remaining garment producers continue to face stiff competition on the domestic market from cheaper garments imported from Southeast Asia and China, or second-hand clothes arriving from Western Europe. There has been no substantial FDI Greenfield investment to create new jobs to compensate for jobs lost in the area; the biggest source of new jobs are small and medium-sized enterprises. But the decline in local purchasing power due to unemployment in turn leads to worsening business conditions for the local SMEs. Since late 2000 the high level of unemployment has increased, and the gender gaps have also widened. A new phenomenon is that men have started to move into low paying jobs where formerly women predominated. Unemployment rates force down the wages. Reports of gender- and age-based discrimination, unemployment among recent university graduates, and the prevalence of women among the long-term unemployed are easy to find in the Lodz area. Several reports mention the general decline and delay in state support for the unemployed.

(Source: unpublished report by Ewa Charkiewicz, Warsaw)


“M&S, C&A, Debenhams and Laura Ashley are among companies using factories where workers are fainting at their machines or developing chronic health conditions they cannot afford to treat. In a Bulgarian factory making Levi Strauss clothing for sale in British stores, more than 100 female textile workers are being forced to strip naked by their bosses at the end of their shifts - ostensibly to check they have not stolen anything. (...) Ruzkhova, who worked for 38p an hour in the Greek-owned Darios factory, was sacked after refusing to be strip-searched. (...) Wages of 20p an hour are so low (...) that labourers are forced to live in slums without running water of modern sanitation. (...) Chief factory inspector for the region said: 'they are not only stripped in some factories, but beaten if they do not do as the bosses ask. We alert the police, but they do nothing'.”
Statement of a Bulgarian seamstress from the same area during a FNV-conference November 1999:
Summary by B. Musiolek:

Most garment companies in the region produce for Greek contractors or are themselves Greek owned. The need for female workers is big in the region. They are in most cases the only breadwinners of the family. On the other hand, the employment situation is fully dependent on the garment production. They produce under labels such as Umbro, Wranglers, La Vie, Reuters - not necessarily continuously. Labels say Made in Greece. In other cases German agents or retailers are directly contracting the (also mostly Greek) firms in the region.

Earnings are generally on a piece-rate basis. Workers have to meet quotas. Working time is never known at the beginning of the day. Overtime is necessity for the women to sustain their lives. They sometimes work 10 hours a day, 7 days a week. Because of legal limitations to working time, workers are not allowed to sign the official labour contract. Women are physically exhausted, but do not have a choice. Workers have no health or pension insurance. Wages are sometimes withdrawn for vague reasons and excuses. Sometimes small workshops are being set up in the villages in the mountains, operate for a year, and are shifted afterwards to the next village.

Workers are paid even below the legal minimum wage (of 67 DEM at that time). All these are no exceptions.

Active trade unions are generally not allowed by Greek owners nor by Bulgarian owners. Labour legislation is not enforced. In rare cases of strikes, owners start trials against the workers, buy off the judge and lawyers and thus win their cases. The legal system is corrupt. Consequently trade union activities have come to a nearly complete stop in the region. There is no other support from local governments or churches whatsoever. Particularly for women, conditions have worsened since virtually all social services - education, childcare, etc. - have collapsed.

After the British "TIMES" newspaper has reported about working conditions at a Levi's subcontractor in the region, Levi's sent representatives to the factory. They also consulted Podkrepa - a trade union that had formerly organized some of the factories. According to Podkrepa's regional representative, the situation has improved since Levi's mission.

ITGLWF Press Release
Date: Monday 8 November 1999 20:18:39 - 0800
FOR THE PRESS November 9, 1999. For release after 10.00 am

GULAG CLOTHING AND SHOE PRODUCTION A BLOT ON THE FASHION INDUSTRY"

Seven day work weeks in Gulag conditions, including 17-hour shifts, starvation wages, beatings and forced strip searches, in clothing and shoe factories in Central and Eastern Europe are a blot on the fashion industry, which will backfire on Western European retailers and merchandisers unless they act urgently to clean up their buying practices in the region. Speaking in Prague today at a European Union-sponsored debate on the social dialogue in EU-candidate countries in Central and Eastern Europe, Neil Kearney, General Secretary of the Brussels-based International Textile, Garment and Leather Workers' Federation, denounced the sweatshop culture rapidly developing in the region in the face of fierce competition for export opportunities, particularly in the European Union and in the United States. Detailing how unscrupulous inward investors and local opportunists were recreating Asian and Central American working conditions in Europe, Mr. Kearney blamed leading retailers and merchandisers for fuelling exploitation. (..) Taking advantage of privatization, the creation of smaller manufacturing units and an influx of backstreet, cowboy inward investors who respect neither their workers nor the countries in which they operate, Western European retailers and merchandisers are amassing huge profits at the expense of local economies. In Bosnia, one German retailer is sourcing socks at half the price paid ten years ago before the war." (..) " And unless retailers urgently clean up their buying act, the European Parliament and individual governments will have to legislate to outlaw these outrageous practices which are today a blot on the face of the fashion industry”.

The International Textile, Garment and Leather Workers' Federation is an International Trade Secretariat bringing together 250 affiliated organizations in 130 countries, with a combined membership of 10 million workers.

For more information, contact: Neil Kearney: 32/75 93 24 87
Summary:

The major issues at the workplace according to workers, trade unionists and labour inspectors are:

1. low pay and long working hours,
2. lack of written contracts.

1. Casualization and informalization of labour: No labour contracts, excessive and irregular working hours, short-term contract labour, forced and unpaid overtime until quotas are met, official bookkeeping and insurance up to the legal minimum wage - the rest paid 'off record'. In some factories, workers are locked into the factories until they have completed their quotas, with serious implications for fire safety. Even child labour is no longer a taboo due to the precarious economic situation of many families.

2. Low payments which range from approx. 200 DM/100 USD per month in the Balkans to around 500 DM/270 USD in Poland for instance. However, the common concern is that this pay is not enough to make ends meet, to make a living. In order to justify a lower pay, women are seen as supplementary wage earners whereas the reality worldwide has revealed for long that women workers in garment export factories and sweatshops are in many cases the only breadwinners in the family. The majority of the families are forced back into subsistence economy. They have to toil on a small farmland in addition to the tiring job behind the sewing machine.

Subsistence and informal work is the recipe for survival in most families. If the share of the shadow economy in Eastern European countries' GDP is 30 to 50%, it is 90% in the lives of the "working poor". In other words, labour costs are low because parts of the reproduction costs for the labour force are unpaid.

3. Denial of the right to organize and collective bargaining: Active repression of trade unions by employers and mistreatment of worker activists is becoming widespread. Union discriminatory provisions in labour contract where they exist are not unusual. In fact the only factories organized by unions are the still state-owned companies.

4. Abusive treatment of workers: There are reports on physical abuse including body searches, strip-searching and sexual harassment. More traditional health and safety concerns include repetitive strain injury, damaged eyesight, etc.
Appendix 2:
Some selected figures on productivity and employment in informal sectors

Table 1: Share of informal sectors in terms of GDP and employment

<table>
<thead>
<tr>
<th>Country</th>
<th>avg. 89-90</th>
<th>avg. 90-93</th>
<th>Avg. 94-95</th>
<th>1999</th>
<th>Recent</th>
<th>89-90</th>
<th>94-95</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>24</td>
<td>26</td>
<td>30-35</td>
<td>3</td>
<td>ca. 33</td>
<td></td>
<td></td>
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<tr>
<td>Romania</td>
<td>16</td>
<td>16</td>
<td>18</td>
<td>2</td>
<td>20-50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Croatia</td>
<td>23</td>
<td>24</td>
<td>29</td>
<td></td>
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<tr>
<td>Czech Rep.</td>
<td>6</td>
<td>13</td>
<td>15</td>
<td></td>
<td></td>
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<tr>
<td>Hungary</td>
<td>28</td>
<td>31</td>
<td>ca. 30</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Poland</td>
<td>18</td>
<td>20</td>
<td>14</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Slovakia</td>
<td>7</td>
<td>14</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estonia</td>
<td>20</td>
<td>24</td>
<td>18</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lithuania</td>
<td>11</td>
<td>26</td>
<td>25</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Latvia</td>
<td>13</td>
<td>24</td>
<td>35</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Ukraine</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Russia</td>
<td>15</td>
<td>27</td>
<td>41</td>
<td>50</td>
<td>50-90</td>
<td>50-90</td>
<td></td>
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<tr>
<td>Georgia</td>
<td>25</td>
<td>44</td>
<td>63</td>
<td></td>
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<tr>
<td>Azerbaijan</td>
<td>22</td>
<td>34</td>
<td>59</td>
<td></td>
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</tr>
<tr>
<td>Macedonia</td>
<td>20-30</td>
<td></td>
<td>30</td>
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<tr>
<td>Albania</td>
<td></td>
<td></td>
<td>50</td>
<td>40-80</td>
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</tbody>
</table>

For CEE/CIS, the average is calculated as follows: for Bulgaria, Romania, Croatia, Czech, Hungary, Poland, Slovakia, Estonia, Lithuania, Latvia, for the Baltic States, for Georgia, Azerbaijan, for Armenia, Russia, for the CIS countries as a whole. For Asia, Latin America, Africa, and Developing Countries, the average is calculated as follows: for Tunisia, Burkina Faso, Mali, for Germany, for the country as a whole.

All figures presented as percentage

Table 2: Share of women in informal employment and GDP

<table>
<thead>
<tr>
<th>Country</th>
<th>% women in IS employment</th>
<th>% women in IS GDP</th>
<th>% women in total non-agricult. GDP</th>
<th>% women in total GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEE/CIS</td>
<td>?</td>
<td>?</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>Tunisia</td>
<td>18%</td>
<td>16%</td>
<td>4%</td>
<td>3%</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>42%</td>
<td>61%</td>
<td>29%</td>
<td>19%</td>
</tr>
<tr>
<td>Mali</td>
<td>72%</td>
<td>68%</td>
<td>26%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Table 3: Data on country and gender segregated employment and wage (in USD)

<table>
<thead>
<tr>
<th>Country</th>
<th>Unemployment (in %)</th>
<th>Share of women</th>
<th>Legal min wage</th>
<th>Avg. wage gross/net</th>
<th>Avg. monthly net wage 2001</th>
<th>Living wage (or poverty line) for family of 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
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<tr>
<td>CEE:</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Poland</td>
<td>14</td>
<td>10 -14</td>
<td>55 - 60</td>
<td>190</td>
<td>502</td>
<td>246</td>
</tr>
<tr>
<td>Czech Rep.</td>
<td>´4</td>
<td>7 - 10</td>
<td>51</td>
<td></td>
<td></td>
<td>250 (poverty line)</td>
</tr>
<tr>
<td>- Roma minority</td>
<td>(3-4% of popul.)</td>
<td>70</td>
<td></td>
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<tr>
<td>Slovakia</td>
<td>´16</td>
<td>16 - 18</td>
<td>45-60</td>
<td>´ 80</td>
<td>´ 250/</td>
<td></td>
</tr>
<tr>
<td>Hungary</td>
<td>11</td>
<td>9 - 10</td>
<td>133</td>
<td>260/170</td>
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<td>CIS/Baltic:</td>
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<tr>
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<td>9 - 13</td>
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<td>Latvia</td>
<td>6</td>
<td>8 - 9</td>
<td>57</td>
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<td>Croatia</td>
<td>16</td>
<td>19 - 23</td>
<td>53</td>
<td>180</td>
<td>430</td>
<td>230</td>
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<tr>
<td>Yugoslavia/ Serbia</td>
<td>27 - 35</td>
<td>56</td>
<td>´ 20</td>
<td>´ 40-60</td>
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<tr>
<td>Bosnia-Herzeg.</td>
<td>14 - 40</td>
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<tr>
<td>- Rep. Srpska</td>
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<tr>
<td>Macedonia</td>
<td>30</td>
<td>36 -49</td>
<td>No</td>
<td>´ 140</td>
<td>´ 80</td>
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<tr>
<td>- Alban. Minority (ca. 30% of popul.)</td>
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<tr>
<td>Albania</td>
<td>18</td>
<td>18</td>
<td>42</td>
<td>(1995: 33)</td>
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<tr>
<td>Romania</td>
<td>11</td>
<td>10 - 15</td>
<td>42</td>
<td>46</td>
<td>´ 120</td>
<td>80</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>12 - 18</td>
<td>54</td>
<td>46</td>
<td>150</td>
<td>´ 70-150</td>
<td>´ 300</td>
</tr>
<tr>
<td>Comparison:</td>
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<tr>
<td>West Germany</td>
<td>8</td>
<td>9 - 10</td>
<td></td>
<td>-</td>
<td></td>
<td>1.200</td>
</tr>
<tr>
<td>East Germany</td>
<td>16</td>
<td>18 - 20</td>
<td></td>
<td>-</td>
<td></td>
<td>800</td>
</tr>
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<td>North Italy</td>
<td>6</td>
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<tr>
<td>South Italy</td>
<td>21</td>
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<td>Spain</td>
<td>19 - 20</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

Sources: UNDP 2000 p.241/242, Vienna Institute for International Economic Studies’ Outlook 1999/2000, Petrovic, 2001, 46, 47, and an own survey conducted at times in 2001 amongst women from these countries and international trade union activists for the reason of getting a picture on trends and subsectoral and subregional variations, rather than to have the most accurate figures;

1 – according to the Romanian Statistics Newsletter No. 8/2001.

If there is a “-” : source: surveys conducted by the authors in the years 1997, 1999, 2000, 2001;

Note that the unemployment figures are official, that means they are based on the same statistical methodology and structurally not reflecting the real situation and particularly not the informal sector employment; particularly the figures for 1994 unemployment are based on national statistics referring to registered unemployment which is likely to bias them.
downward considerably. For instance for the Ukraine it is estimated, that the real unemployment is at around 40% while the
However, most countries are in the process of introducing the ILO standardized Labour Force Survey, which includes for
instance gender-segregated data.

**Basic costs of living:**

**Poland:**
- 1 kg bread - 0.5 USD
- 1 kg flour - 0.5
- 1 kg rice - 0.8 USD
- 1 kg beans - 1 USD
- 1 kg pork - 4 USD
- 1 kg chicken - 1.5 USD
- 250 g salami - 1-1.5 USD
(survey by Alicja Kostecka for Fear Wear Foundation, NL, in August 2001)

**Romania**
- 1 kg bread approx. 0.22 USD
- 1 kg flour approx. 0.41
- 1 kg rice approx. 0.38
- 1 kg beans approx. 0.91
- 1 kg pork approx. 4.16
- 1 kg chicken approx. 1.92
- 250 g salami approx. 0.81
(survey by Mariana Petcu for Clean Clothes Campaign in November 2001)

**Gender specific data for Poland:**
Source: GUS, Glowny Urzad Statystyczny, 2000. Kobiety na Rynku pracy (women in the Labour Market), Warsaw, prepared
by Ewa Rychlik. paper distributed at the Conference "Adherence to Equal opportunities of women and Men in social,
economic and political spheres of life: Evaluation a and recommendations for the Future, Parlamentarna Grupa Kobiet, Sejm,
Warsaw, April 6-7

- Average women's wage in 1999 was lower by 29.6% than men's
- Men's wages were 10.6% higher than the average in the country, women's were 11.6% lower.
- Share of women and men earning the average salary or more in 1997:
  - WOMEN: 11%
  - MEN: 25%
- Average women's wage in October 1999 was lower by 29.6% than men's (the same source) - this is amongst
  the highest wage gaps.
- High and university education:
  - WOMEN: 43%
  - MEN: 25%
- Long-term unemployed (more than 12 months) in 1999:
  - WOMEN: 50%
  - MEN: 27%
- People living in poverty:
  - WOMEN: 57%
- Public opinion polls 1999: 37% of women said they are discriminated against on the labour market
Gender segregated employment status in some CEE countries:


TABLE/CHART 17

<table>
<thead>
<tr>
<th>Country</th>
<th>Employees</th>
<th>Employers</th>
<th>Self-employed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% M</td>
<td>% F</td>
<td>% M</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>84</td>
<td>90</td>
<td>3.5</td>
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<tr>
<td>Croatia</td>
<td>73.8</td>
<td>76.5</td>
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</tr>
<tr>
<td>Czech Republic</td>
<td>80.1</td>
<td>89.5</td>
<td>5.6</td>
</tr>
<tr>
<td>Estonia</td>
<td>88.8</td>
<td>93.4</td>
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<td>Latvia</td>
<td>84</td>
<td>85.6</td>
<td>4.9</td>
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<td>Moldova</td>
<td>67.8</td>
<td>66.8</td>
<td>0.9</td>
</tr>
<tr>
<td>Montenegro</td>
<td>/</td>
<td>91.4</td>
<td>/</td>
</tr>
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<td>Poland</td>
<td>71.4</td>
<td>76</td>
<td>25.3/18</td>
</tr>
<tr>
<td>Romania</td>
<td>70.5</td>
<td>84</td>
<td>1.5</td>
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## Appendix 3: ILO Conventions and Basic Labour Standards

Ratifications of the ILO Fundamental Conventions (As of 17 May 2001)


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<tbody>
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<td>C. 105 (1957)</td>
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<td>-</td>
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<td>C. 87 (1948)</td>
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<td>x</td>
<td>-</td>
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<td>-</td>
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<td>x</td>
<td>x</td>
<td>-</td>
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<td>C. 100 (1951)</td>
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<td>x</td>
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<td>C. 111 (1958)</td>
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<td>-</td>
<td>x</td>
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<td>C. 138 (1973)</td>
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<td>C.182</td>
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</tr>
</tbody>
</table>

As comparison:
- **United States**: 1991
- **Myanmar**: 1955

* Ratification of Convention No. 177 on Home Work: no country in the region; Recommendation No. 184 on homework
Basic labour rights
- as included in social multistakeholder initiatives such as the Ethical Trading Initiative (United Kingdom) and the Fair Wear Foundation (the Netherlands);
- as demanded by labour-related networks and organizations such as the ICFTU (Base Code), the Clean Clothes Campaign (Code of Labour Practices) or the Ethical Trading Group (Canada);
- as certified by social standards such as the SA 8000 standard:

- Elimination of all forms of **forced or compulsory labour** (ILO Conventions Nos.29 and 105)
- Elimination of **discrimination** in employment and occupation (ILO Conventions Nos.100 and 111)
- Abolition of **child labour** - minimum employment age of 15 yrs. (ILO Conventions Nos. 138 and 182)
- **Freedom of association and the right to collective bargaining** (ILO Conventions Nos.87, 98, 135 and Recommendation No. 143)
- No excessive working hours - max 48 weekly hours + max 12 overtime hours (Working time: C1: 8 per day, 48 per week, Convention No. 155)
- Living wages are paid (Minimum wage fixing: Conventions Nos. 26, 131)
- Established employment relationship
- Decent working conditions (Occ. Health and Safety: "accepted best practices")

The first four rights are considered the Core Conventions as declared by the 86. annual ILO conference in its Declaration on the Fundamental Principles and Rights at Work, June 1998, in Geneva.

**Definition of Monitoring, Verification of Codes of Conduct as used for example by the Clean Clothes Campaign**

1. **Implementation**: all measures aimed at implementing a certain code of conduct or other initiative. It requires amongst others a Social Management System to be established by companies.

2. **Monitoring** means controlling the implementation. It must be a continuous checking if and how a code is being implemented.

3. **Independent verification** involves an independent control of implementation and monitoring to make sure that implementation and monitoring are carried out according to the original intentions and plans.

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Most social policy codes of conduct do not apply or comprise regulation for monitoring and verification (see ILO-GB 1999).
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4. "The informal sector in Asia from the decent work perspective", by Nurul Amin.


7. "Decent work in the informal sector: CEE/CIS region", by Bettina Musiolek (available in electronic form only).

* For electronic publications, please see the informal economy website: www.ilo.org/infeco