

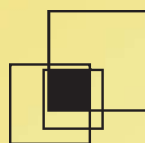


International  
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# Decent Work in the Informal Economy in Cambodia

A Literature Review



Informal Economy, Poverty and Employment

**Cambodia Series** | Number 2



**Informal Economy, Poverty and Employment**

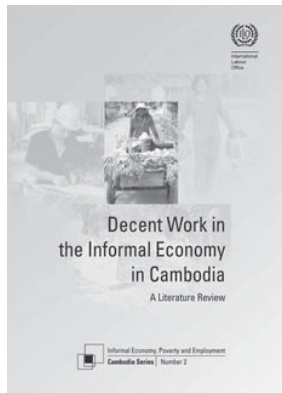
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**Decent Work  
in the Informal Economy  
in Cambodia:  
A Literature Review**

**Economic Institute of Cambodia**

International Labour Office



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## Foreword

The ILO's primary goal is to “promote opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security and human dignity.” Its mandate goes beyond the confines of the formal labour market, and includes all types of workers such as casual wage workers, self-employed individuals, and homeworkers. Thus, its initiative on the informal economy is rooted in its concern for all workers who ILO affirms as having basic rights at work.

ILO reaffirmed this mandate of addressing the informal economy during the 1999 International Labour Conference, followed by an elaboration in the 2002 Conference of the decent work challenge in the informal economy – spelling it out in terms of addressing deficits in employment, rights, social protection, and representation.

In an effort to address this challenge, the ILO Subregional Office in Bangkok established the Informal Economy, Poverty and Employment (IE) Project funded by the United Kingdom's Department for International Development (DFID). The IE Project, implemented in 2003-2006, provides the opportunity to address decent work deficits through technical cooperation activities. The project focuses on three interlinked efforts: (i) boost organization, representation and voice, (ii) improve productivity and market access, and (iii) reduce vulnerabilities. The project covers Cambodia, Mongolia and Thailand.

In Cambodia, the ILO aims to contribute to the formulation of policies and action plans towards realizing Cambodia's development strategy. The Rectangular Strategy which guides the implementation of the economic policy agenda of the Government focuses, among others, on governance and economic growth through agricultural development physical infrastructure, private sector development and capacity building. The mandates of the ILO and of the IE project support these goals.

This publication, *Decent Work in the Informal Economy: A Literature Review*, describes the challenge of decent work in the context of Cambodian informal economy. It summarizes facts and trends in the informal economy as well as describes the work of ILO's social partners and civil society. This survey of literature was carried out in Cambodia at the onset of the IE project in order to capture the state of knowledge and initiatives prior to the project's interventions.

We would like to thank many people for making this publication possible, most especially the Economic Institute of Cambodia (EIC) which prepared this report. Mr. Tun Sophorn, National Project Coordinator for Cambodia, closely coordinated the preparation and finalization of this publication. Overall technical supervision was provided by Ms. Sandra O. Yu, Chief Technical Adviser of the IE project. Ms. Ginette Forgues, Senior Specialist on Local Strategies for Decent Work, supplied valuable comments on the report and provided technical backstopping to the IE project.

We hope that this study contributes to a better appreciation of the decent work needs in the informal economy in Cambodia and serves as starting point for developing a consensus on the way ahead.



**Christine Evans-Klock**

Director

ILO Subregional Office for East Asia



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# List of Abbreviations

AAC	Artisans Association of Cambodia
ABC	Association of Banks in Cambodia
ACHR	Asian Coalition for Housing Rights
ACLEDA	Association of Cambodian Local Economic Development Agencies
ADB	Asian Development Bank
ADRA	Adventist Development and Relief Agency
AMDA	Association of Medical Doctors of Asia
CAID	Cambodian Association for Informal Economy Development
CARERE/UNDP	Cambodia Rehabilitation and Resettlement Programme
CBO	community-based organization
CCBO	commune community-based organization
CCC	Cambodian Craft Corporation
CCTU	Cambodia Confederation of Trade Unions
CDC	commune development committee
CDW	child domestic worker
CIDSE Cambodia	International Cooperation for Development and Solidarity Cambodia
CSARO	Community Sanitation and Recycling Organization
CYK	Caring for Young Khmer
DDD	Digital Data Divide
DFID	Department for International Development
EDC	Enterprise Development Cambodia
EIC	Economic Institute of Cambodia
ESCAP	United Nations Economic and Social Commission for Asia Pacific
EU	European Union
FDI	foreign direct investment
GDP	gross domestic product
GMAC	Garment Manufacturers' Association of Cambodia
GRET	Groupe de Recherche et d'Echanges Technologiques
GTL-PAC	Goods Transportation and Labour Protected Association in Cambodia
GTZ	German Technical Cooperation



JFPR	Japan Fund for Poverty Reduction
HI	Homeless International
HIV/AIDS	Human Immunodeficiency Virus / Acquired Immune Deficiency Syndrome
ICLS	International Conference of Labour Statisticians
IE	Informal Economy
ILO-IPEC	International Labour Organization-International Programme on the Elimination of Child Labour
KHANA	Khmer HIV/AIDS NGO Alliance
KfW	Kreditanstalt für Wiederaufbau
MoC	Ministry of Commerce
MEF	Ministry of Economy and Finance
MEYS	Ministry of Education, Youth and Sports
MIME	Ministry of Industry, Mines and Energy
MoP	Ministry of Planning
MOSALVY	Ministry of Labour, Vocational Training and Youth Rehabilitation
MPDF	Mekong Private Sector Development Facility
MSE	micro and small enterprise
MSME	micro, small and medium enterprise
NCDP	National Centre for Disabled Persons
NGO	non-government organization
NIS	National Institute of Statistics
NPRS	National Poverty Reduction Strategy
OSH	occupational safety and health
PADEK	Partnership for Development in Kampuchea
PAP	Priority Action Program
PICDM	Padek Integrated Community Development Model
PPHA	Phnom Penh Hotel Association
RDA	Rural Development Association
RDP	Rural Development Project
SHG	self help group
SIDA	Swedish International Cooperation Agency
SME	small and medium enterprise



SNA	System of National Accounts
SRAHGA	Siem Reap Angkor Hotel and Guesthouse Association
SUPF	Solidarity for the Urban Poor Federation
UDHR	Universal Declaration of Human Rights
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
USAID	United States Agency for International Development
USG	Urban Sector Group
UPDF	Urban Poor Development Fund
UPRS	Urban Poverty Reduction Strategy
VDC	village development committee
WHO	World Health Organization
WISH	Work Improvement for Safe Homes
WPD	waste-picker development
WRF	World Rehabilitation Fund
WTO	World Trade Organization

# 1

## Overview

With the formation of its first coalition government in mid-1993, Cambodia intended to re-establish itself as a democracy and to regain prosperity. Fundamental rules of human rights were stipulated in the Constitution. Social justice and human development were to be promoted. To support these political aims, market-oriented policies were strengthened and links were re-established with the international financial community. In 1994, a medium-term adjustment and reform programme aimed at restoring macro-economic stability was launched, and a process of institutional strengthening supported by the international community was undertaken.

Although these initial reforms have yielded some positive results in attracting foreign direct investment and boosting external trade, not all Cambodians have seen the full benefits of these reforms. The economic recovery has been largely confined to urban centres. Little benefit has trickled down to the rural areas where the vast majority of the population lives. Though overall economic growth has been relatively strong (about six percent per annum during 1994-2003), this growth has been narrowly based, very fragile and unevenly distributed. Today, Cambodia remains among the poorest countries in East Asia and has some of the worst human development indicators in the world.

Based on rough estimates made by the World Bank<sup>1</sup> and the Economic Institute of Cambodia, wage employment represents about 15 percent of the total labour force of 6 million people. Primarily based in urban centres, this category of employment is mostly concentrated in modern economic sectors that benefit quite well from the trade opportunities offered by globalisation. However, a look at the non-wage employment in the informal economy shows clearly that this accounts for the lion's share of employment in Cambodia. In the context of alleviating poverty and promoting decent work (as defined by the United Nations' International Labour Organization or ILO), it is crucial to understand the nature and composition of the informal economy. We must understand how the informal economy works if we are to facilitate Cambodia's economic integration into a fast-growing regional economy and also ultimately provide Cambodia a chance to benefit more broadly from globalisation.

The rationale for decent work in the informal economy has been explained by declarations of fundamental rights accorded under international law. The Universal Declaration of Human Rights states that people worldwide must have

<sup>1</sup> World Bank 2004.

an equal right to work. The Constitution of Cambodia explicitly endorses the Universal Declaration of Human Rights and confirms Cambodia's intent to respect and recognise human rights, including women's and children's rights. Although this is the ultimate goal, in reality most Cambodians have been forced to make their living in the informal economy because they are not capable of finding work in the formal economy. In the informal economy, workers are subject to a wider range of potential problems or abuses because they have no legal rights under labour laws, no protection under occupational safety and health regulations and no access to social security protection.

In addition, workers in the informal economy have no voice or representation, and therefore have little or no say in the social and economic development of their country. These conditions are a far cry from the Declaration of Philadelphia<sup>2</sup>, which states the right of everyone to "conditions of freedom and dignity, of economic security and equal opportunity."

The main objective of this paper is to examine the working conditions of informal workers in Cambodia, determine where and if decent work exists and suggest what needs to be done to increase opportunities for decent work. The ILO has come up with a form of indicator that has been referred to as the "decent work deficit". The four major components of the decent work deficit are employment, rights, social protection and representation.<sup>3</sup>

To understand the conditions in Cambodia's informal economy and the prospects for more decent work, a fundamental knowledge of the nature and concept of the informal economy is necessary. We will discuss definitions of the informal economy and assess a variety of work characteristics to determine the nature and magnitude of the informal economy in Cambodia. This may offer some insight into why the informal sector has grown so large in the Cambodian context. With a fair understanding of the parameters of the informal economy, this paper will then examine the work deficit in Cambodia. We will look at some policy initiatives through the prism of the experience of a variety of stakeholders who play noteworthy roles in promoting decent work in the economy. The paper will ultimately offer some concluding remarks and recommendations to achieve something closer to the ideal of decent work.

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2 The 1944 Philadelphia Declaration, which was annexed to the ILO Constitution, expands the ILO mandate as stated in the Constitution to promote more equitable growth in the post-war economy.

3 ILO 2002a.

## 2

## Concept and characteristics of the informal economy

### 2.1 Definition and types of activities

The ILO popularized the term ‘informal sector’ about 30 years ago. It has used the term ‘informal sector’ to describe activities of the working poor who are not recognised, recorded, protected or regulated by the public authorities. The rapid growth of employment in the informal economy, particularly in developing and transition countries, has been the subject of ILO attention, including during the 78<sup>th</sup> session of the International Labour Conference.<sup>4</sup> The International Conference of Labour Statisticians (ICLS) adopted in 1993 the definition of informal sector as found in Box 2.1.

<sup>4</sup> *ibid.*

#### Box 2.1

##### Definition of the Informal Sector

“For statistical purposes, the informal sector is regarded as a group of production units which form a part, within the System of National Accounts (SNA), of the household sector as unincorporated enterprises owned by households. Household enterprises (or unincorporated enterprises owned by households) are distinguished from corporations and quasi-corporations on the basis of their legal status and the type of accounts they hold: accordingly, household enterprises are not constituted as separate legal entities independently of the household or of household members that own them, and no complete set of accounts are available which could permit a clear distinction between the production activities of the enterprises and the other activities of their owners. The informal sector is defined (irrespective of the kind of workplace, the extent of fixed capital assets, and the duration of the activity of the enterprise and its operation as a main or secondary activity) as comprising:

(1) Informal self-owned enterprises that may employ family workers, and employees on an occasional basis: for operational purposes and depending on national circumstances, or only those that are not registered under specific forms of national legislation (factories or commercial acts, tax or social security laws, professional groups, regulatory or similar acts, and laws or regulations established by national legislative bodies).

(2) Enterprises of informal employers which may employ one or more employees on a continuous basis and which comply with one or both of the following criteria: Size of the establishment below specified level of employment (defined on the basis of minimum size requirements embodied in relevant national legislation or other empirical or statistical practices: the choices of the upper size of limit taking account of the coverage of statistical enquiries in order to avoid an overlap); and/or non-registration of the enterprises or its employees”.

Source: ILO 2002b.

**Box 2.2****Definition of the Informal Economy**

“Very small-scale units producing and distributing goods and services, and consisting largely of independent, self-employed producers, some of whom also employ family labour and/or a few hired workers or apprentices; which operate with very little capital, or none at all; which utilise a low level of technology and skills; which therefore operate at a low level of productivity; and which generally provide very low and irregular incomes and highly unstable employment to those who work in it. They are informal in the sense that they are for the most part unregistered and unrecorded in official statistics; they tend to have little or no access to organized markets, to credit institutions, to formal education and training institutions, or to many public services and amenities; they are not recognised, supported or regulated by the government; they are often compelled to operate outside the framework of the law, and even where they are registered and respect certain aspects of the law they are almost invariably beyond the pale of social protection, labour legislation and protective measures at the workplace.”

ILO states that informality characterises either production units or employment. It refers to:

- production units to the extent that the latter are not captured by official statistics, do not enjoy resources otherwise made available by public and private institutions, and do not comply fully with regulations.
- employment to the extent that workers are undeclared (by both informal and formal enterprises) and do not enjoy social benefits mandated under the law.

ILO groups the informal sector into three main segments; namely:

- (a) employers of micro or informal enterprises employing a few workers
- (b) self-employed or own-account workers working alone or with unpaid employees
- (c) workers found in micro or informal enterprises or those (such as home workers or contract workers) working without a fixed employer or without a contract

Source: ILO 2004b.

The definition refers to the production units of enterprises rather than characteristics of labour. The ILO later expanded the concept and the definition of the informal sector. The term ‘informal economy’, which denotes informal employment, informal sector and unprotected work, has been redefined in a more specific description of what constitutes the informal economy (see Box 2.2).

The concept and term ‘informal economy’ may be new to Cambodia, but, by the ILO’s definition, it has existed in the country for decades, if not centuries. Indeed, the “formal economy” has been reintroduced only after years of war and destruction. The definition of the informal economy will, of course, vary slightly from country to country depending on the current situation there. Cambodia has defined activities in its informal sector as: those without a firm, identifiable postal address; those that have self-employed workers and utilise part-time or full-time workers; those that have a lot of labour-intensive operations and quick turnover; those that use energy input from human or animal sources; those about which data is unavailable through census surveys; those that are not legally recognised; those that take place in non-structured premises; those that do not come under any regulations, licence, or insurance, and do not pay any tax.<sup>5</sup>

5 ILO 2002b.

By the above definition, most of the Cambodian economy can be considered informal. In terms of employment, the informal economy includes an extensive range of activities such as survival or subsistence occupations, and the self-employed as well as other wage and unpaid workers in formal and informal enterprises. Some workers in formal enterprises are considered part of the informal economy because their employers do not declare them to the Ministry of Labour. In terms of productivity and scale, the informal economy in Cambodia encompasses the vast majority of enterprises, including small and medium enterprises that are household-based. Those informal enterprises that actually seek registration and inclusion in the legal framework complain of various hurdles to registration. According to a study by the Artisans Association of Cambodia (AAC), supported by the ILO, those constraints include complicated registration procedures; more specifically, a wide range of inspections, lack of transparency in and high costs of registration, legal framework provisions and a general lack of incentives to register.<sup>6</sup>

In Phnom Penh, informal occupations include self-operators of *moto-taxis* and *cyclos*, street vendors, shoe-shiners, garbage collectors, street-level vehicle mechanics, curbside gasoline sellers, masons, construction workers, handicraft producers, dressmakers or tailors, hairdressers and domestic workers.

Informal occupations in rural areas are centred around agricultural industries as well as non-farm activities. These include fishing, fish processing, mining, spinning and weaving, food processing, home-based apparel making, furniture manufacture, vehicle maintenance/repair, handicraft manufacture, electricity generation, retail trade, construction and land/water transport.<sup>7</sup>

Many workers in the informal economy are obviously self-employed. A limited survey conducted by the Cambodian Association for Informal Economy Development (CAID) among five different occupations in four provinces of Cambodia showed that 98.9 percent of the workers were self-employed.<sup>8</sup> The five types of workers surveyed were farmers, operators of *cyclos* and *moto-taxis*, *tri-moto taxi* drivers, market-stall vendors and street vendors.

## 2.2 Characteristics and size of informal sector of the economy

The three main components of the formal sector of the Cambodian economy are garments (230,000 workers), tourism (about 70,000 jobs) and public administration (350,000 jobs).<sup>9</sup> The Economic Institute of Cambodia (EIC) follows the lead of the Tax Department in defining the “formal sector” as those enterprises that pay taxes to the Department under some form of licence. The figures are based on data derived from the EIC database and are consistent with widely held views of the scale of employment in these three key sectors of the formal economy.

In order to understand the importance of the socio-economic contribution that the informal sector provides to gross domestic product (GDP) and employment, EIC has developed a method to estimate the value of the informal sector to the economy that compares it to the formal economy. The figure indicates that the informal sector has significantly contributed to the economy. Its contribution has

6 AAC 2004.

7 Acharya, *et al.* 2003.

8 CAID 2004.

9 EIC 2003 Economic Database.

declined in recent years as segments of the formal sector, particularly tourism and garments, have grown significantly. However, the contribution (62 percent of GDP) of the informal sector to the economy is still considerable (Table 2.1).

**Table 2.1: Size of Informal Sector in the Economy (%)**

	1998	2000	2003
Workforce	85	85	85
GDP	70	64	62

Source: EIC

By using labour force/category of work, it appears that the Cambodian economy is made up of a huge proportion of two groups of workers, according to National Institute of Statistics (NIS) data. Table 2.2 indicates that in 2001, two groups of workers – own-account and unpaid family workers – numbered 5.2 million, which was 84 percent of the total 6.2 million workers. There are two interesting, but perhaps not surprising, features of these two workers groups: one, they are concentrated in rural areas; and two, the number of the own-account workers in urban areas far exceeds that of unpaid family workers.

**Table 2.2: Size of Estimated Workforce in Cambodia in 2001**

	Own account worker		Unpaid family workers		Other Workers		Total Workers (000's)
	(000's)	% of Total	(000's)	% of Total	(000's)	% of Total	
<b>Cambodia</b>	2,440	40	2,747	44	988	16	6,175
<b>Urban</b>	306	42	197	27	231	31	734
<b>Rural Areas</b>	2,134	39	2,550	47	757	14	5,441

Source: *Cambodia Statistical Yearbook 2003*, National Institute of Statistics

While such general information is freely available, there has been no accurate data collected within the context of the informal economy in Cambodia. Data gathering in Cambodia has been sporadic due to the lack of human and financial resources. However, with the support of some international financial communities, including the Asian Development Bank (ADB), United Nations Population Fund (UNFPA), United Nations Development Programme (UNDP) and the World Bank, the National Institute of Statistics of the Ministry of Planning (MoP) has been equipped with a statistical system to carry out socio-economic surveys with published results. Nevertheless, informal economy statistics have not been clearly defined and collected. Specific data about different occupations in the informal economy remains very limited.<sup>10</sup>

### 2.3 Factors leading to the growth of informal economy

Statistics show that there has been an increase in the size of the informal economy in developing countries. The share of informal workers in the

<sup>10</sup> Nonetheless, in an attempt to accumulate the statistics of a subsection of the informal economy, the ILO-IPEC (the International Programme on the Elimination of Child Labour) in cooperation with the NIS recently published its survey conducted primarily on child domestic workers in Phnom Penh. With similar aims, some other NGOs like USG have done research on different occupations of the informal economy.



non-agricultural workforce ranges from over 55 percent in Latin America to 45 to 85 percent in different parts of Asia and nearly 80 percent in Africa.<sup>11</sup>

The factors affecting the size of the workforce in the informal economy in Cambodia are analogous to those in other countries, particularly least developed countries sharing comparable economic characteristics. These factors are mainly: the high cost of operating a business in the formal economy; mass poverty, inadequate economic growth; a surplus of labour; and the elimination of the worldwide quota system governing garment exports.

***Lack of Transparency, Excess Bureaucracy: The Time and Cost of Doing Business***

Bureaucracy and corruption in Cambodia are so intertwined that the cost of doing business is becoming increasingly prohibitive. Business operators have no incentives to apply for formal business status unless they are so large that they cannot avoid it. According to a World Bank survey, the corruption level in Cambodia is double that of Bangladesh, Pakistan and China. Corruption payments may be up to five percent of annual sales revenue, exceeding six percent for large firms.<sup>12</sup> Avoiding the government bureaucracy is a very compelling reason for an enterprise to try to remain informal.

Complicated licensing procedures and the high cost of registration lead most micro, small and medium enterprises (MSMEs) to the conclusion that participating in the formal economy is unaffordable.<sup>13</sup> Operators intending to start a new business in Cambodia need to jump through a number of bureaucratic hoops. The business registration study of the Artisans Association of Cambodia points out that only limited companies are required to directly register with the Legal Affairs Department of the Ministry of Commerce (MoC). Sole proprietorships are required to register with the provincial or municipal office of the MoC.<sup>14</sup> That is not all. They need to secure patent tax and/or value-added tax identification numbers issued by the Ministry of Economy and Finance (MEF) and to get approval for their internal rules and regulations from the Ministry of Labour. The system of registration at the provincial/municipal level alone would be enough to discourage small-scale enterprises located in remote areas. Furthermore, if the nature of the proposed business activity is regulated by specific ministries, licences from those relevant ministries are required to complete the business registration. Registering a business in the formal economy in Cambodia has been estimated to cost approximately US\$1,500 and take 94 days.<sup>15</sup>

Recently, the new business registration process at the Ministry of Commerce has been redesigned under a loan programme offered by the ADB. As a result, Prakas No 162 issued on August 23, 2004 by the MoC officially reduced the registration costs to only US\$177. However, a recent AAC and ILO study indicated that the ministry still continues to suggest facilitation services, and the registration fee generally ranges from US\$250 to US\$300, including both official and facilitation fees.<sup>16</sup> As a result, many MSMEs still prefer not to register and be part of the formal economy. It is estimated that there are about 27,000 small and medium enterprises (SMEs) in the informal economy that have actively chosen not to register with the Ministry of Commerce.

11 ILO 2002c.

12 World Bank 2004.

13 AAC 2004.

14 *ibid.*

15 IFC and MPDF 2004a.

16 AAC 2004.

There is no persuasive reason for any enterprise – except one that intends to engage in exporting and importing – to enter the formal economy. Operators cite many reasons why it is better to remain informal, not least of which is to avoid the many visits by both official and unofficial inspectors from local to central administrations. Tax evasion and a lack of trust in the transparency of the government's tax management are other powerful arguments for informality.<sup>17</sup>

### ***Mass Poverty and the Informal Economy***

Low productivity and low income, particularly in rural areas, are likely to be closely tied to the development of the informal economy in Cambodia. It has been estimated that between 40 and 45 percent of the Cambodian population lives below the poverty line. The gap is drastically large between rural areas, including provincial urban centres, and Phnom Penh. Cambodia is still one of the poorest countries in the world, ranking 130 out of 177 countries in the 2004 Human Development Report of the UNDP. One clear consequence of the rural-urban divide is migration to cities, particularly Phnom Penh, which is, compared to the countryside, a veritable hub of investments in hotel, factories and companies (See Table 2.3).

**Table 2.3: Location of Garment Factories and Employed Workers in 2003**

	Number of factories		Number of workers	
	Unit	% of Total	Unit	% of Total
<b>Phnom Penh</b>	176	86	134,341	87
<b>Kandal</b>	20	10	17,318	11
<b>Other provinces</b>	9	4	2,820	2
<b>Total</b>	<b>205</b>	<b>100</b>	<b>154,479</b>	<b>100</b>

Source: Calculated from the list of garment manufacturers, members of the Garment Manufacturers' Association of Cambodia (GMAC)

Note: This table includes both garment factories which are in operation, not in operation, and under construction.

### ***Inadequate Economic Growth and the Surplus of Labour***

Foreign direct investment (FDI), which provides employment opportunities in the formal sector, is one factor that moves inversely to the growth of informal employment in Cambodia. FDI, which has gone up and down over the past decade in response to political and economic situations, has created some but not enough formal-sector jobs to absorb the huge annual number of job-market entrants. FDI approved by the Council for the Development of Cambodia reached US\$ 518 million in 1996, decreased to US\$ 383 million in 1997 due to the country's political crisis and the regional economic crisis, and rebounded back up to US\$ 478 million by 2000.<sup>18</sup> In 2003, there were 51 projects registered with the Council to invest US\$ 263 million; however, those projects would directly create only 33,703 jobs.<sup>19</sup> This falls far short of the annual increase of new entrants in the labour market, estimated to reach more than 200,000 per year. Additionally,

17 Gërkhani 1999.

18 Council for the Development of Cambodia (CDC) - Cambodia Investment Board (CDC-CIB) Statistics.

19 Council for the Development of Cambodia.

it should be noted that these FDI figures only represent the value of approved projects. The Cambodian government does not try to collect data on actual FDI that actually materialized. The actual amount of FDI in any given year is likely far lower than the face value of approved projects.

***Elimination of the Worldwide Quota System and the Future of Garment Exports***

Another potential factor that could increase the size of the informal economy is the elimination of quotas for garment product exports as of September 2005. Employment in the garment sector now stands at 230,000, making it one of the cornerstones of the formal sector. Cambodia has joined the World Trade Organization (WTO), in part to protect and boost its garment industry. With the end of the worldwide quota system, Cambodia will now compete with other producer countries, including the behemoth competitor, China. Beyond joining WTO, the Cambodian government will need to help the garment sector solve many problems that hinder productivity and drive up costs. Among major concerns are high costs for customs clearance, red tape and bribery, smuggling and high energy costs.<sup>20</sup>

Without reforms to promote the private sector and in particular the garment sector, formal employment could substantially diminish. Workers that lose jobs in the formal economy will for the most part have to turn to the informal economy as their only other employment option.

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20 IFC and MPDF 2004b.

# 3

## Decent work and the informal economy

In Cambodia, some positive attention has been paid to promoting decent work in the formal economy. Cambodia has ratified most of the fundamental ILO conventions and continues to develop and improve labour legislation.<sup>21</sup> Progress has been made in defining workers' rights. Such attention, however, has rarely been paid to the informal economy. It is therefore not surprising that few studies have been made about work in the informal economy. In order to survey existing work, the ILO's decent work framework will be used, focusing on issues pertaining to employment, rights, social protection and representation.

### 3.1 Employment deficit

The employment deficit within the concept of decent work refers to a condition in which people cannot find a job or operate a business within the formal economy. In the absence of employment opportunities in the formal economy, people turn to less productive and less remunerative work.

The magnitude and rise of the informal economy in Cambodia imply that people cannot find employment or conduct business in the formal economy. As the informal economy, at least in terms of employment, continues to grow in Cambodia, it can also be inferred that there has been a decline in decent work opportunities in the country.

One can conclude that Cambodia has suffered a huge employment deficit in terms of decent work. Although a large workforce may be fully employed as either own-account workers or paid and unpaid workers, these jobs are substitutes for work and opportunities that cannot be found in the formal economy.

The percentage of urban employment that is informal in Cambodia is large at 69 percent. (see Table 3.1).

<sup>21</sup> U.S. Department of Labour and U.S. Embassy in Phnom Penh 2003.

**Table 3.1: Percentage of Informal Sector in Urban Employment in Some Asian Countries**

Country	Source
Bangladesh.....59% (1995-1996)	Mahmud (2001, p. 9)
India.....44% (1993)	World Labour Report (2000, p. 285)
Pakistan.....67% (1996)	World Labour Report (2000, p. 285)
Indonesia.....63% (1990)	Firdausy (1996, p. 105)
Thailand.....48% (1994)	World Labour Report (2000, p. 285)
Republic of Korea.....27% (1980)	US Bureau of Census
Cambodia (*).....69% (2001)	Yearbook 2003 (NIS)

Source: ILO 2005b.

(\*) Including only own account workers and unpaid family workers (extract from table 2.2)

The opportunity for informal workers and operators to switch to the formal economy is sadly limited. The informality of their work is itself a barrier to their access to formal credit institutions and markets. They must turn to informal lenders and pay high interest rates. Informal workers lack access to training, and that lack of knowledge and technological skill limits them to low productivity. Household enterprises in rural areas only possess skills from family members, relatives or equipment providers.<sup>22</sup> These untrained workers have difficulty securing a position in the formal economy. Research by the USG on Phnom Penh-based women micro-entrepreneurs showed that 41 percent of them chose micro-vending because they lacked capital and because they had no other choice (26 percent) due to low educational and skill levels.<sup>23</sup>

### 3.2 Rights deficit

Informal workers, including wage workers, own account workers, and informal operators, are not recognised or regulated by the government and are not entitled to legal protection under business and labour laws and regulations. Therefore, they have often been subject to extortion, bribery and repression, harassment, and sometimes sexual harassment by public authorities. Phnom Penh micro-vendors commonly complain of being chased and harassed by security and police.<sup>24</sup>

Examples exist of instances in which police “confuse” the unregulated activities of these micro businesses with illegal activities. In Phnom Penh, the police sometimes take away the gasoline tank cover or spark plug protector from the motorcycles of *taxi-motodop* drivers, then demand payment of a fine in exchange for return of the parts. Vegetable sellers need to pay daily bribes to the police; otherwise, security staff will not allow them to set out their displays. Other street vendors complain of having to pay bribes to the police in order to be allowed to carry on their business. At times, their wares are confiscated by the police and they are required to go to the police station and pay to have the items returned.<sup>25</sup>

22 Acharya, *et al.* 2003.

23 Agnello, *et al.* 2004.

24 *ibid.*

25 USG 2003.

Informal workers are not covered by labour legislation because there is no formally recognised employer-employee relationship. Thus, they cannot demand a minimum wage, obtain relief from poor working conditions, and so on.

Furthermore, informal workers' property rights are at times ignored or they do not have such rights at all. In slum neighbourhoods, people live in very small houses that they do not own and can therefore be removed at the whim of landlords. If forced to move, they generally have to resettle in areas on the outskirts of a city where access to public infrastructure — roads, drainage systems, garbage collection, clean water, electricity, flood protection, schools, clinics, transportation — is much more limited.<sup>26</sup> Inadequate access to public infrastructure causes serious health and safety problems.

### 3.3 Social protection deficit

The social protection deficit is another aspect of the work deficit that deals with the insecurity of job and income and the absence of protection at the workplace and in society. In addition to the employment deficit and rights deficit, informal workers are vulnerable because they have little or no access to social protection.

Informal workers are not covered by Cambodia's Labour Code and therefore cannot rely on the Social Security Law for any of its benefits and protections. Article 1 of the Social Security Law explicitly stipulates that the law is intended to establish security for those who are governed by labour legislation. Informal workers are then by definition being deprived of any retirement benefits, illness benefits, and coverage for occupational risks such as accidents and occupational health hazards. Ironically, perhaps informal workers have not missed much as Cambodia's Social Security Law has yet to be enforced.

Workers in the informal economy are at risk of exposure to serious occupational safety and health hazards. An example of extremely hazardous working conditions in the informal economy can be seen in the life of waste scavengers, who work day and night to collect waste all over the city and at open landfills where sanitary conditions are atrocious. Waste pickers are often street children who search for usable or saleable waste to supplement their families' income. Along with adult waste collectors, they can be seen all over the city, often carrying oversized bags or pushing heavy carts. The items they collect are also potentially extremely dangerous. In Cambodia, there is no management system for different types of waste. Dangerous waste from chemical factories or hospitals is dumped like the usual household rubbish. Without protection gear like gloves, boots, and masks, the scavengers are constantly exposed to health risks. They often get into accidents when they rush into garbage piles that have just been dumped, and do not pay sufficient attention to the garbage trucks or the working machinery at the dumpsite.<sup>27</sup>

Child domestic workers suffer one of the worst forms of child labour in the informal economy. Like other child labourers, they miss out on schooling, and work under potentially poor conditions. According to a survey in Phnom Penh conducted by the NIS of the Ministry of Planning in cooperation with the ILO

<sup>26</sup> *Community News*, 2003.

<sup>27</sup> Interview with Phnom Penh Waste Management Authority (PPWM).

International Programme on the Elimination of Child Labour (ILO-IPEC), there are about 28,000 child domestic workers (CDWs). While 55.4 percent of them work and also attend school, 40 percent are not in school, and 4.6 percent have never attended school. Overall, 14.2 percent of these children are illiterate.<sup>28</sup>

Not only have the elements of basic preparation for their adult life been removed from child domestic workers, but their working conditions are often poor to miserable. The survey indicated that their mental health is affected from working and living away from family and home at a young age. Sometimes, they are forced to work long hours without adequate rest. They are at risk of sexual harassment and abuse, including humiliation and physical violence. They receive little to no pay or rewards, are not in any position to either negotiate the terms of their contract or insist on some form of assistance such as medical insurance. They have no freedom to even leave the house they work in.<sup>29</sup>

Workers in the informal economy do not get access to formal education or training institutions. Their occupational skills are generally taught by family members. Their skills and productivity are very low and their incomes are generally unstable. On average, they perhaps earn from one to two dollars per day depending on location or occupation.<sup>30</sup> Their limited skills affect their work safety because they do not have sufficient knowledge of how to use some equipment or machinery.

The working conditions of home-based workers are also poor. Home-based work in Cambodia includes various types of small-scale manufacturing activities such as weaving, making clothes, handicrafts, and wood and metalworking. Materials, equipment and machines brought into homes sometimes pose occupational safety and health (OSH) hazards not only to workers but their families. Recent home workplace visits undertaken by the ILO Informal Economy Project revealed that almost all workers were not aware of OSH hazards. They have little access to OSH information on how to protect themselves against potential hazards and to ensure a safe and healthy environment at their home workplace. These hazards include arduous work positions, long working hours, use of unguarded machines, exposure to chemicals, poor lighting and electrical/fire danger. Home workers in Cambodia need urgent technical support and practical measures to improve their safety, health and working conditions.<sup>31</sup>

In Cambodia, HIV/AIDS poses another dilemma relating to the lack of social protection for workers. Cambodia has the highest HIV infection rate in Asia; everyday 20 more people are infected. It has been estimated that more than 160,000 people could be infected with HIV by 2005.<sup>32</sup> There is no clear-cut information to prove that the HIV/AIDS infection rate is higher in the informal economy than the formal one. However, the large working population employed in the informal economy statistically implies that many of these workers may be infected. The high rate of HIV infection obviously poses numerous social-welfare problems. HIV-positive people generally face discrimination from their neighbours and employers, and at times lose their jobs when their HIV status becomes public. They must pay for all or most of their health care. If and when their productivity diminishes, their income becomes more unstable. If the infected is a breadwinner

28 MoP and ILO-IPEC 2004.

29 ILO 2004a.

30 CAID 2004. This reports the findings of a limited survey conducted on five occupations: farmer, *cyclo & motodop* driver, *tri-moto-taxi*, market-stall vendor and street vendor

31 ILO 2004c.

32 UNDP 2003.

in the family, their relatives, including children and elderly, may need to help earn income to support the family. Children may lose their means and ability to go to school.<sup>33</sup>

Without a doubt, informal workers suffer poor working conditions, income insecurity, and exposure to serious occupational safety and health hazards. Children working in the informal economy can encounter physical and moral threats, suffer poor health, have limited or no educational opportunities and work in unsafe or unhygienic conditions. Under these circumstances, countless men, women and children have been kept from more productive and healthy lives due to lack of access to social protection systems.

### 3.4 Representational deficit

In the formal economy, freedom of association has been developing well under the protection of the Cambodian Constitution and the Labour Code. For instance, there has been a large jump in the number of registered labour unions, from 20 at the end of 1997 to 245 as of January 2002. Four federations and 108 unions were registered during 2001 alone. Overall, Cambodia's nine registered labour federations/national unions boast memberships of about 160,000. Unions in the industrial sector represent 25 percent of total workers. Unlike the industrial sector, there are only 27 out of 245 registered labour unions in other sectors.<sup>34</sup>

Employees' right to strikes has been established and is being used to some effect. There were 80 strikes in Cambodia in 2001. Exercises of the rights to organize and to collectively bargain have been increasingly used as well – 20 collective bargaining agreements have been registered with the Cambodian government, even though these bargaining agreements tend to just reaffirm existing rights under Cambodian labour law.

The informal economy, though, is a different story. Without the protection of labour legislation, self-employed and wage workers tend to suffer poor working conditions. Informal wage earners work without any employment contracts. Their tenure and duties are subject to the discretion of their employers. They are not able to negotiate and bargain with their employers in exchange for rights to which they are entitled. This lack of bargaining power, and their fear of reprisal when joining any workers' organisation, leaves them at the mercy of their employer. They have no job security and may be dismissed at any moment. In addition to these factors, informal workers possess few or no technical skills. This leaves them no alternative but to find whatever job they can within informal enterprises.

To be fair, the interests of the operators of informal enterprises should not be overlooked. They operate outside the scope and protection of business regulations. They struggle with a variety of constraints such as limited access to infrastructure, property rights, formal training, micro-credit and organized markets.

The lone voice of one individual is unlikely to influence either employers or government and public administration policymakers. However, solidarity among many participants in the informal economy could be productive and help them find their voice vis-à-vis decisionmakers. In reality though, participants in the informal economy often are not organized and have no voice.<sup>35</sup> Where they are organized,

33 ILO 2002a.

34 U.S. Department of Labour, *et al.* 2003.

35 ILO 2002a.



their association is often weak, lacking in focus or in their capacity to service members, with no clear channels for their voice. It might be difficult to form this type of organization, owing to the fact that the informal economy is comprised of so many different occupations and activities that the people involved might have trouble recognising their common interests. Own-account workers and employers are slightly better situated to have time and the opportunity to participate in unions and associations, but generally speaking, the representational voice in society of informal workers has thus far not been heard. As a result, their interests in matters such as access to infrastructure, better environmental and working conditions as well as access to social security are not discussed by policymakers.

**Box 3.1****Some Important Distinctions: Who is Excluded from What?**

It is important to be clear about which types of exclusion are relevant to which type of informal workers, whether enterprises (“production units”) or workers (“employees”). See table below for examples:

	<b>INFORMAL ENTERPRISES are typically excluded from:</b>	<b>SELF-EMPLOYED are typically excluded from:</b>	<b>WORKERS (home-based workers, contract workers, wage workers in IE enterprises) are typically excluded from:</b>
(A) Statistics	Business statistics (Census/Survey of establishments)		
	Employment statistics (as employers)	Employment statistics (as own-account workers)	Employment statistics (as workers)
(B) Registration	Business registration and licensing for various purposes (e.g. for transport operation, food manufacturing, investment and import privileges)	Business registration and licensing	Registration of workers with Ministry of Labour and for Social Security
(C) Labour protection			Application of labour laws and minimum standards of work conditions (e.g. job contract, hours of work, living wage, leaves, maternity protection)
(D) SP	Social security	Social security	Social security
	OSH information	OSH information	OSH information
(E) Access to Prod resources	Access to productive resources (e.g. micro-finance, consultancy, skills training)	Access to productive resources (e.g. micro-finance, consultancy, skills training)	Access to skills training
(F) Association	Small business associations	Small business, sectoral or workers associations	Trade unions and other forms of workers associations

Additional note: The decent work deficit can be seen in terms of the exclusion type listed above, namely:

- Employment deficit (A, B, E): lack of enabling legal and policy environment (which includes capturing economic information in statistics, business registration), limited access to productive resources
- Rights deficit (C): lack of labour protection
- Social protection deficit (D): lack of social security coverage and occupational safety and health information/services
- Representational deficits (F) limited opportunities or other impediments to association

Source: ILO 2004c.

## 4

## Cambodia's policies towards decent work

The work situation in Cambodia's informal economy needs attention. Decent work deficits exist not only in Cambodia but in other countries too, and this problem has become a major concern of the International Labour Organisation and its members: governments, workers and employers worldwide. The elimination of decent work deficits is a primary objective of the ILO<sup>36</sup>. ILO Director-General Juan Somavia says, "The primary goal of the ILO today is to promote opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security and human dignity".<sup>37</sup> Achieving this goal requires the coordinated intervention of the Cambodian government, employers, workers and other relevant domestic stakeholders.

To enhance decent work in the informal economy, stakeholders need to design strategies to target three important components of the informal economy: micro-enterprises, self-employed and wage workers. Stakeholders refers to relevant institutions such as the government, non-government organizations (NGOs), self-help groups, member-based organizations, trade unions and employers' organizations that play a significant role in promoting decent work in the informal economy in Cambodia.

Informal workers may not enjoy their basic rights for many reasons. This paper attempts to outline some of the major reasons and possible solutions for informal workers to gain some basic labour protection. For instance, they currently work outside the Cambodian legal framework. It is crucial to design an effective strategy to include them in the legal and protective framework such as social security and labour/contract dispute settlement. Another, more fundamental problem is the lack of employment in the formal economy — people simply cannot find work in the formal sectors. There have been suggestions to increase overall employment in the economy by promoting entrepreneurship — whether in the informal or formal sectors. Supporting informal enterprises is one way of ensuring income and employment, but it does not address other forms of decent work deficits.

It is vital that training be offered to upgrade informal workers' skills and productivity, and that attempts be made to address the issue of social protection in the informal economy. Also, the collective representation of the informal workers is vital to enabling them to negotiate with stakeholders including the informal operators. Informal workers will remain vulnerable as long as their voice is not heard and their representation in society is not taken seriously. Operators may

<sup>36</sup> ILO 2002a.

<sup>37</sup> The ILO works to promote decent work through its actions on employment, social protection, standards and fundamental principles and rights at work and social dialogue. See website at <http://www.ilo.org/public/english/decent.htm>.

continue to disregard their rights. This paper will further study these suggested actions and solutions with some examples of initiatives that have been introduced in the context of decent work for informal workers.

#### **4.1 Inclusion of the informal economy in a legal framework**

As discussed above, informal participants are vulnerable as they are not recognised or protected under the existing Cambodian legal and regulatory framework. The first step to realising decent work in the informal economy is to create appropriate legal environment and mechanisms to extend protection to workers in the informal economy.

##### **4.1.1 Grounds for Integration**

There are several grounds for integration. Cambodia's Constitution does not make any distinction between formal and informal workers. Also, it is not reasonable or fair that informal workers do not enjoy their rights because of their status. Furthermore, the ILO's fundamental conventions obviously are meant to protect all workers — both formal and informal.

##### ***Different Views on the Informal Economy***

There have been two points of view on how to approach the informal economy. The orthodox view takes a legal approach in that it favours use of legislation, rules and regulations to bring informal activities within a country's regulatory scope. The orthodox view also suggests that it is not necessary for the government to intervene in the informal economy as that sector will decline as the formal economy grows. The opposing view is developmental in its approach. It points out that a legal and monitoring approach could drive informal workers to work in the underground economy.<sup>38</sup> This opposing view advocates a soft approach in which the authorities formulate policies to improve conditions in the informal economy. To improve conditions within the informal economy, however, there exists no clear-cut dichotomy between these two approaches, especially if legal and protective mechanisms are appropriate, responsive and growth enhancing. As the nature of the informal economy in Cambodia is diverse, there may be room for both views.

##### ***National Supreme Law***

Article 31 of the Cambodian Constitution states that it recognises and respects human rights as stipulated in the United Nations Charter, the Universal Declaration of Human Rights (UDHR). Article 23 of the Universal Declaration of Human Rights recognises that everyone has the right to work and to protection against unemployment. Article 23 further acknowledges everyone's right to just and favourable remuneration without discrimination, including social protection and the right to form and join trade unions for the protection of workers' interests.

These rights — to work, to equal payment without discrimination, to social protection and collective bargaining — should be available to all Cambodian workers.

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38 ILO 2002c.

But even without making reference to international conventions, certain provisions of the Cambodian Constitution also recognise the equality of the right of everyone before the law without discrimination of race, colour, sex, language, religious belief, political tendency, birth origin, social status, and wealth (Article 31) such as: the right to participation in political, economic, social and cultural life (Article 35); the right to choose employment; the right to equal pay for equal work; the right to social security; and, the right to membership in trade unions (Article 36).

The Constitution also notes an obligation to promote economic development in all sectors and remote areas (especially in agriculture, handicrafts and industry — with attention to policies of water, electricity, roads and means of transport, modern technology and a system of credit) (Article 61). Article 62 requires the State to help resolve production matters and to protect the price of products for farmers and crafters and to find marketplaces for them to sell their products. Another responsibility of the State is to guarantee a better standard of living for the people (Article 63).

The fundamental Bill of Rights enshrined in the Cambodian Constitution is a significant instrument that would allow any Cambodian government to intervene in the informal economy to ensure the rule of law in the country. According to the Constitution, informal workers should not be treated differently from formal workers; informal entrepreneurs should not be neglected and their difficulties and interests ignored. They should enjoy the same rights as other workers and operators.

#### ***Commitments under International Conventions***

Cambodia has in recent years established membership in many international and regional organisations, including the ILO. Cambodia has shown its interest in labour standards by ratifying fundamental ILO conventions — Forced Labour Convention (No. 29), Abolition of Forced Labour Convention (No. 105), Freedom of Association and Protection of the Right to Organise Convention (No. 87), Right to Organise and Collective Bargaining Convention (No. 98), Equal Remuneration Convention (No. 100), Discrimination Convention (No. 111) and Minimum Age Convention (No. 138). Currently, Cambodia is working on ratification of the Convention on Worst Forms of Child Labour (Convention No. 182).

**Table 4.1: Fundamental ILO Conventions Ratified by Cambodia**

<b>Name of Convention</b>	<b>Convention No.</b>
Forced Labour Convention	29
Abolition of Forced Labour Convention	105
Freedom of Association and Protection of the Right to Organise Convention	87
Right to Organise and Collective Bargaining Convention	98
Equal Remuneration Convention	100
Discrimination (Employment and Occupation) Convention	111
Minimum Age Convention	138

Source: ILO 2001

The ILO report No VI on Decent Work and the Informal Economy points out that the ILO Declaration on Fundamental Principles and Rights at Work and its Follow-Up applies to all workers, regardless of employment relationship or formality of status.<sup>39</sup> The above conventions ratified by Cambodia are parts of the ILO Declaration. Accordingly, informal workers in Cambodia should be entitled to the basic rights as declared in these conventions, in the same manner as formal workers. There is a gap between the declared entitlement and the actual situation of informal workers. Policies should be enacted that will truly translate these aims — freedom of association, right to collective bargaining, and elimination of all forms of forced labour and discrimination in respect of employment and occupation — into reality.

#### **4.1.2 Extending and Creating Norms for the Informal Economy** ***Labour and Business Legislation***

Informal workers in Cambodia receive no protection from the legal system. First, they are excluded from the 1997 Labour Code, whose Article 1 confines the applicability of the Code to an employer-employee relationship that is created in an employment contract. The terms “employer and employee relationship” and “employment contract” rule out informal workers, who typically do not work under any contract and who may not have legally clear employer-employee relationships. Furthermore, the Labour Code explicitly excludes certain occupations from being covered by its provisions. It excludes domestic workers from its provisions, even though they are entitled to freedom of union. Chapter VII of the Code provides certain special protection to agricultural workers such as working hours, payment in kind, family benefit, housing, housing allowance and water. However, the Code has made exception to family enterprises or small-scale producers that are very likely to be in the informal economy.<sup>40</sup>

In relation to business regulations, to date the only law pertaining to commercial enterprises is the 1995 one relating to commercial regulations and the commercial register.

This law requires a business in Cambodia — with the exception of a business exempt from taxation on profits — to register at the Ministry of Commerce. However, artisans whose activity is of familial character are not considered to be a taxable business (Article 4). MoC defines a business as a taxable enterprise if it has an annual profit of more than 6 million riel (about US\$1,500). Therefore, there is no regulation that requires family artisans with less than US\$1,500 in annual profits to register with the MoC. MoC Prakas No 78 however obliges enterprises not covered by the law on the commercial register to get a licence from the ministry to operate their business.<sup>41</sup>

#### ***Improving Legislation and Law Enforcement***

One way to improve the legal framework without new legislation would be simply to broaden the interpretation of the labour code so that informal workers could use it to protect their rights. Alternatively, new regulations could be written for the labour code in conjunction with new commercial regulations to extend to informal workers and enterprises.

39 ILO 2002a.

40 Article 193, para. 2 of the 1997 Labour Code: “The provisions in the present Section do not apply to family enterprises or small-sized plantations whose produce is only for the local market and that do not regularly employ paid workers.”

41 MIME 2003.

**Box 4.1****Labour Inspection, 1998-2003**

The labour inspection department of the Ministry of Labour, Vocational Training and Youth Rehabilitation (MOSALVY) has inspected 5,495 enterprises within five years. Other inspections have also been conducted: ordinary labour inspection of 3,646 factories and enterprises; special labour inspection of 1,849 factories and enterprises; warnings issued to 3,249 enterprises; fines issued to 440 enterprises; court complaints filed for 132 cases against enterprises.

Other labour inspection activities include: commercial licences for 972 enterprises, registrations for 514 enterprises for visas, wage licenses for 81 enterprises for electronic wage payment, licences for overtime work for 493 enterprises, recognition letters and registered staffs delegation issued to 702 enterprises, collective agreements registered for three enterprises, seven union federations and one employers' association registered and 377 professional organizations officially recognised.

Source: *Five years' achievements on social affairs, labour, vocational training and youth rehabilitation* (MOSALVY), 1998-2003, p. 17-18.

A governmental drive to pass new or re-interpret existing legislation would not be sufficient, but must be supplemented with effective enforcement. New formulas must be designed to cover the informal economy. Additional measures might include a campaign to educate stakeholders about their rights and responsibilities.

The government has, in fact, paid a fair amount of attention over the years to the enforcement of labour legislation that applies to the formal economy; for instance, the number of inspections has increased, and registration of employer and employee organisations has also increased (see Box 4.1).

Business regulation is another area where legislation could prove helpful. Informal operators are reluctant to face the hurdles of expensive, time-consuming and paperwork-intensive registration procedures. The simplification of these procedures and a reduction of cost and time are crucial to encouraging members of the informal economy, particularly micro, small and medium enterprises, to formalise their status and join the formal economy.

In Cambodia, the private sector, through the formal economy, has been promoted through a wide range of incentives, such as tax exemptions. Small, informal business operators have never had access to such incentives.

Providing incentives to the informal economy has been on the agenda of the Cambodian government. To extend legislation to cover SMEs, the Ministry of Industry, Mines, and Energy (MIME) has drafted a law to supervise industrial establishments under the auspices of ADB.<sup>42</sup>

The draft law intends to govern all establishments that fall under the supervision of the MIME. The draft law defines an industrial establishment as a factory if the number of its workers exceeds 50 persons. Any industrial establishment employing persons ranging from 11 to 49 is considered as cottage enterprise, not industrial. For a cottage enterprise, the draft law requires written notification to the commune or '*sangkat*' authorities and registration with the municipal or provincial department of MIME within seven days to establish the

<sup>42</sup> Ministry of Commerce, 2003 Annual Report.

business. The draft has some mention of safety issues regarding fire, waste management, equipment and machinery, and dangerous chemicals or explosives. The draft specifies some possible encouragement that will be issued by the Prime Minister's sub-decree and some inspection measures by the ministry and penalties in case of violation of certain required provisions, including registration. Even though there is stipulation of some envisaged incentives for small and medium enterprises, the burden to register the business with the ministry of industry would duplicate the existing complicated registration procedures and therefore hinder the business of operators. Plus, this draft law would place informal enterprises, which face burdensome registration procedures and fees, outside the legal framework.

#### 4.2 Enterprise development for better productivity and quality of work

With an official unemployment rate of less than half of a percentage point<sup>43</sup>, Cambodia does not seem to have an unemployment problem. However, the productivity of workers (shown in table 4.2) is comparatively low. According to a recent World Bank study on the investment climate in the region, Cambodia's firms and workers are less productive than their counterparts in China, India, Pakistan, or Bangladesh.<sup>44</sup>

**Table 4.2: Productivity of Workers (US\$ 2000 price)**

	2000	2001	2002	2003e
Agriculture	332	328	327	345
Industry	1,726	1,834	1,925	2,021
Private Services (*)	2,062	2,119	2,229	2,241

Source: EIC, 2004.

(\*) Excluding public administration

This, therefore, suggests a high degree of underemployment. In that sense, Cambodia has to address low productivity and low income, particularly in rural areas. The government needs to focus on improving workforce productivity and income in the informal economy, where most of the workforce is employed. If successful, the increase in productivity and income will inevitably lead to economic growth; and with other appropriate policies, the growth may be sustainable in the overall economy as well.

In any economy, SMEs are crucial to employment. There is a clear link between formal SMEs and working conditions. Faced with major hurdles to entering the formal economy, SMEs are likely to employ family members for labour. Nevertheless, promoting informal enterprises does not imply a failure to promote decent work, but could be part of the solution to the employment deficit and the lack of decent work.<sup>45</sup> The suggestion that SMEs should be promoted for employment and income generation has also been outlined in the ILO Recommendation No 189, Job Creation in Small and Medium-Sized Enterprises Recommendation.<sup>46</sup> The recommendation notes the importance of SMEs for job creation and economic growth and development, and the potential of SMEs for

43 Official rate released by the National Institute of Statistics.

44 World Bank 2004.

45 ILO 2002a.

46 For full text of the recommendation, see the ILO website: <http://www.ilo.org/ilolex/english/recdisp1.htm>.



women and marginalised groups to gain access to more productive, sustainable and quality employment opportunities. The ILO Recommendation sets out various actions related to the promotion of SMEs, such as: creation of a policy and legal framework conducive to their growth and development, development of an enterprise culture, development of an effective service infrastructure and the different roles of employers' and workers' organizations to play and contribute to the development of SMEs. The recommendation does not discriminate against small-scale enterprises or any types of business as the recommendation clearly points out that its provisions apply not only to SMEs, but to all branches of economic activities, including MSEs and family enterprises.

To reach the poorest and marginalised groups, policies designed by the government for income generation should also focus on MSEs. The government needs to remove a number of impediments to the growth of these informal enterprises. A study of MSEs' development in Cambodia has identified a range of growth constraints, including competition from imports, poor product quality, low purchasing power, high cost and limited availability of power, high informal road taxes, shortage of working capital, low levels of education and technical skills, poor national and local road and the lack of good market information.<sup>47</sup>

Cambodian government policy, however, has thus far not addressed micro-enterprises.

#### 4.2.1 Government Policy

The government's policy has focused mainly on SMEs rather than MSEs. SMEs have been deemed a principal component of economic development, with about 90 percent of Cambodia's private sector made up of SMEs. In actuality, though, many of Cambodia's SMEs are micro in scale and belong to the informal economy. The government's socio-economic development plans, 1996-2000 and 2001-2005, and the new Rectangular Strategy, all have featured SME promotion. The 1996-2000 Socio-Economic Development Plan set out many strategies for the government development programme.<sup>48</sup> Among the elements of the earlier Plan was a programme that referred to the promotion of small enterprises in the informal economy and employment generation, "generation of employment through labour-intensive manufacturing for export, the promotion of small-scale enterprises and the urban informal sector, and the development of tourism." In the section 'Generating Employment through the Private Sector', the Plan treated rural household enterprises and small farmers as part of the private sector as well, while advocating promotion of both small and large-scale enterprises. It recognised the need to expand rural incomes and purchasing power in order to establish opportunities for the development of small enterprises.

The second Plan, 2001-2005, delineated the necessity of private sector development in alleviating poverty.<sup>49</sup> It called for establishment of a more positive and predictable business environment so that national development objectives could be accomplished. It put special emphasis on the development of SMEs, regarding them as the engine for increased investment, higher incomes and more employment.

47 ILO 2000.

48 *Socio-Economic Development Plan 1996-2000, Ministry of Planning.*

49 *Socio-Economic Development Plan 2001-2005, Ministry of Planning.*

SMEs have remained a focus of the Cambodian government. The new government plan has integrated policies for SME development in its 'Rectangular Strategy for Growth, Employment, Equity, and Efficiency'. The policies seek to encourage SMEs through the following measures: provision of finance, suppression of smuggling, reduction of the burden of complicated business registration procedures, simplification of export-import procedures including licensing, support for newly established industries, promotion of linkages between SMEs and large enterprises, establishment of a national centre to improve productivity and reduce production costs, foundation of a national standards institution with laboratories to ensure standard and quality of products, protection of intellectual property rights, promotion of vocational and skills training and strengthening of the SME legal framework.

The government's policies with regard to SME promotion are quite impressive. Nonetheless, the outcome of the policy depends upon the government's ability to translate these action plans into reality. Understanding that informal enterprises including the private sector as a whole have faced many constraints, both national and local governments can and should play a very significant role in improving their services by reducing the costs of business (such as road taxes and high registration costs) and providing informal operators with an effective and efficient government bureaucracy.

#### 4.2.2 Initiatives for Enterprise Development in Cambodia

A regional multi-donor programme known as Mekong Private Sector Development Facility (MPDF), established in 1997, has provided a vehicle for SMEs in Cambodia, Vietnam and Laos to access opportunities to improve their business operations, seek investment, strengthen capacities and diversify financing options.<sup>50</sup> The project has led to the creation of about 2,600 jobs. In addition, the Management Training Programme has offered training courses to 1,600 SME owners or managers.<sup>51</sup> Between 2002 and 2003, in the context of a business development programme, about 6,400 copies of marketing workbooks and 300 human resources management workbooks were sold.

The MPDF assisted in forming enterprise associations such as the Siem Reap Angkor Hotel and Guesthouse Association (SRAHGA) and in developing a commercial programme for that association to market their business over the Internet. Advice on website development was given to a number of associations such as the Phnom Penh Hotel Association (PPHA) and the Artisans' Association of Cambodia. Furthermore, needs assessment and training for staff in banking skills were made available to the Association of Banks in Cambodia (ABC).

Educational efforts have included the launching of a half-hour weekly television programme called 'Business Edge', which profiles successful SME entrepreneurs. The programme also provides business management tips and advice to SME entrepreneurs and discusses important business issues.

The MPDF has also contributed to a bank-training programme. Special assistance was provided to Canadia Bank and Association of Cambodian Local Economic Development Agencies (ACLEDA), which are involved in lending to

<sup>50</sup> MPDF, 2002/3 Annual Report.

<sup>51</sup> MPDF, 2001 Annual Report.

SMEs. Various studies were made on the limitations to SME lending. MPDF also provided a variety of programmes such as training, technical assistance, strengthening borrower ability, analysing policy and regulatory obstacles and cooperating with international financial institutions. MPDF also supported NGOs working on income and job generating projects, particularly Hagar Design and Hagar Soya, Digital Data Divide (DDD), and Joom Noon.

Another noteworthy private sector development programme has been the Cambodia Rehabilitation and Resettlement Programme (CARERE/UNDP). The project was transformed into a NGO called Enterprise Development Cambodia (EDC) in 1999.<sup>52</sup> Backed by many donors such as US Agency for International Development (USAID), Asia Foundation, UN Economic and Social Commission for Asia Pacific (ESCAP), UNDP and MPDF, this project was implemented in the northwest and northeast of Cambodia, focusing on agriculture in the context of private sector development.<sup>53</sup> EDC provides business development services to rice milling, brick and tile manufacturing, agri-business and rural electricity sectors. Part of the project, the SME Development Centre was established in Phnom Penh to focus on accounting, administration, business development services, financial and investment services, information technology services, training and conference facilities. Under EDC, some business associations, such as the National Cambodian Rice Millers Association, have formed.

#### 4.3 Microfinance and saving in the informal economy

A major constraint and barrier to the growth of MSMEs in Cambodia is the lack of access to financial capital. A study by the MPDF showed that financial institutions and banks were reluctant to provide long-term loans to SMEs at affordable rates.<sup>54</sup> We can assume that the financing situation is worse for MSEs. These small-scale enterprises thus borrow from family members or informal sources, generally at high interest rates.

In spite of these problems, some NGOs and members of the international financial community have contributed a great deal to financing SMEs. ACLEDA, formerly registered as an NGO to advise poor and low-income women who wished to pursue ideas for creating small businesses, has since undergone a metamorphosis into a principal lending institution in Cambodia with the support of international donors such as the Swedish International Cooperation Agency (SIDA), US Agency for International Development (USAID) and Kreditanstalt für Wiederaufbau (KfW). This financing institution possesses a gross loan portfolio of US\$47.7 million and deposits of US\$17.8 million. The bank has extended loans to 82,000 micro-clients and has 110 branches across the country. Another newly established micro-credit programme of 2.5 million euro from the KfW Development Bank has been entrusted to another local bank, Canadia, to promote micro financing of SMEs.<sup>55</sup> In spite of support from international donors, micro financing is still not wholeheartedly embraced by the banks in Cambodia. Although the rates charged by the above institutions are lower than those of informal lenders, some political figures criticise the institutions for imposing rates that are still not affordable for the poor.<sup>56</sup>

52 See project activities of SME Cambodia: <http://www.smecambodia.org>

53 Acharya, *et al.* 2003.

54 IFC and MPDFa.

55 "For Cambodia's Poor, Microfinance is a Blessing, Not a Curse," in *Cambodia Daily*, 3 October 2005.

56 "Microfinancing Practices Don't Help Poor, Senators Say," in *Cambodia Daily*, 13 May 2002.

In another project (which has Cambodian government participation), NGOs and charitable donors have extensively lent to the poor for housing, income generation, environmental improvement, food production and emergency needs. This consortium, called the Urban Poor Development Fund, operates a pool of funds of US\$384,000 received as grants and contributions from various sources — the municipality, Phnom Penh Markets Committee, the Prime Minister, and various funding agencies including Selavip, Homeless International (HI), Misereor, Raising, Asian Coalition for Housing Rights (ACHR). The Fund has benefited 2,892 households in urban poor communities.

One of the small business operations funded by the project is the production of fermented fish, known to Cambodians as *prahok*. Within three years, 1,064 families in 24 riverside communities received loans to buy fish stock and equipment necessary to start producing *prahok*. Production takes from six to eight months to be ready for the market. During these months, the families pay only interest to the lender. Micro-credits for this business are listed as 100 percent successful as all loans have been repaid in full.<sup>57</sup> These micro-finance institutions need to be supported and assisted.<sup>58</sup> The MPDF has performed this task by providing many courses and technical assistance to microfinance institutions in Cambodia, including ACLEDA and Canadia Bank.

Micro-finance institutions have sometimes been criticised for mismanagement and for having high interest rates. Some microfinance schemes are not successful and deepen the indebtedness of poor people due to lack of good practices in providing loans, inappropriate identification of potential clients, and unfavourable business environment.<sup>59</sup> Land and real estates are frequently required as collateral to make sure that clients pay back their loans.

The micro-finance system in Cambodia still faces many constraints. Real properties of clients have been often assessed at low prices, since there are high risks in enforcing the loans because of ineffective legal systems. Clients could only access a limited amount of credit as a result. Guarantee funds, which secure loans, may be needed to widen the opportunities for micro-finance clients to access better loan deals.

#### 4.4 Training for improved productivity and employment opportunities

Training is one means for informal workers to find decent work in the formal economy. Informal workers' limited skills and knowledge confine them to the informal economy. With improved skills, informal workers may have increased productivity that provides better income.<sup>60</sup> It is apparent that the quality and quantity of training opportunities for informal workers are important to prepare them to get out of their vulnerable condition.

Yet in Cambodia, training is very limited. Vocational training has been incorporated into the programmes of the state through the Ministry of Education, Youth and Sports (MEYS) together with donors and NGOs. In general, apart from basic literacy, the range of basic skills offered for women include sewing, hairdressing, embroidering, weaving and other handicrafts. For men, different skills have been offered — radio and TV repair, motorbike repair, animal husbandry,

57 UPDF brochure.

58 ILO 2002a.

59 Discussion in the validation workshop on decent work in the informal economy, organised by the ILO and EIC on January 25, 2005 to improve the quality of this literature review.

60 ILO 2002a.

**Box 4.2****Training Provided by MEYS in Association with NGOs: 2002-2003**

The Ministry of Education, Youth and Sports (MEYS) in association with NGOs have implemented various training programmes such as vocational skill formation. Between 2002 and 2003, an income-generating programme consisting of two sub-programmes (skills together with literacy and purely vocational formation) was initiated. The first sub-programme – targeting 395 persons (of whom 331 were women) in five provinces on different skills such as sewing, hairdressing, embroidering, weaving, crafting – was sponsored by some NGOs such as Help Khmer, Rural Development Project (RDP) project, Caring for Young Khmers (CYK) and Care International. The other skills taught were repairing radio and TV, feeding animals, working with computers, electricity, construction, painting, printing, metal welding and other small businesses. These were provided to 1,846 persons, of whom 970 people were female. At the community level, the MEYS in cooperation with UNESCO and Priority Action Programme (PAP) have held 40 classes in nine professions targeting 837 persons (of whom 638 were female).

Private schools have taken part in vocational formation like language, computer, sewing, electronics, television repairing, radio etc. Overall, 5,349 persons (4,470 women) were trained.

small mechanical engineering, metal welding, electricity, and crafting. Box 4.2 summarises MEYS training activities in 2002 and 2003.

Many NGO-supported training schools have also been established to provide skills formation for informal workers and entrepreneurs. For instance, Don Bosco Technical School,<sup>61</sup> established in 1991, has provided extensive skills training in electronics, electricity, vehicle repair, secretarial, food, agriculture, garments, and printing. Its activities have covered a number of cities and regions including Phnom Penh, Battambang, Banteay Meanchey, Kampong Cham, Sihanoukville and Kep.

Some NGOs have opted to offer training in entrepreneurship skills in order to help workers in the informal economy obtain better productivity. A partnership project called the Cambodian Craft Cooperation (CCC),<sup>62</sup> financed by the German Federal Ministry of Economic Development, has provided a variety of services in basic vocational training to its members working in craft businesses. The project offers short-term and long-term training courses, lectures on marketing and accounting and other business-related topics, and marketing services to its members, most of whom are family enterprises. In addition, some study tours abroad have been provided to CCC members.

Likewise, the Artisans Association of Cambodia, a member-based organization, performs activities similar to the CCC with the aim of improving the socio-economic well-being of artisans with disabilities, among others. The AAC tries to expand the income-generating activities of its members, improve the quality of artisan products through professional development, increase sales and the number of export markets, lead negotiations as a group to reduce production and export costs, and serve as an advocate both nationally and internationally in order to have better access to materials and markets. AAC was founded in 2001 with the sponsorship of the UNDP and managed by the

61 Interview with Mr. Suy Chheng, headmaster of Don Bosco.

62 More details about the project, see: <http://www.bigpond.com.kh/users/cambodian-craft/pages/CCC.html>.

World Rehabilitation Fund (WRF).<sup>63</sup> Currently, the ILO also takes part in financing the association. AAC has provided a wide range of training to its members, which to date number 25 groups or enterprises. AAC has conducted many courses that focus specifically on colour theory, pattern making, production, sale management, designing, shipping management, cost/pricing, market access for craft products, good governance of businesses. AAC has noted that after the training courses, many of the craft-producing NGOs display their products properly and in a way that attracts more customers. As a result, members such as Peace Handicrafts and Silks and the National Centre of Disabled Persons (NCDP) have made remarkable increases in revenues of up to 150 percent over the previous year.<sup>64</sup>

## 4.5 Enhancement of social protection

### 4.5.1 Extending Social Protection to the Informal Economy

As previously noted, Cambodia's Social Security Law explicitly excludes informal workers from its application. The law applies only to those who are covered by labour legislation. The first step in diminishing the social protection deficit would be to extend the legislation to cover informal workers. This legal status would provide official recognition that informal workers have rights and must be treated fairly.

It is quite understandable that after decades of civil war, Cambodia's human resources are very limited. Help is needed to strengthen the capacity of the country's human resources, in particular the civil servants of relevant ministries who would be responsible for the management and organisation of social insurance.

In spite of the lack of formal government social insurance, some NGOs offer basic health care to informal workers. A notable community-based programme in operation in Phnom Penh gives support to the push-pedal *cyclo* operators whose livelihood and income have been on a rapid decline since the rise in popularity of the '*motodop*' as a mode of transport. Cyclo Centre<sup>65</sup> has a savings scheme under which *cyclo* operators have the opportunity to save part of their earnings. In addition, the operators and their families are allowed access to free medical consultation and health education provided by two nurses at the Centre, and to a free haircut twice a month provided by students in training. The Centre also provides English-language tuition and vocational training. Through the Cyclo Centre, informal workers are able to share information, negotiate with the local and national government, and participate in special programmes such as 'Smoke-free Cyclo', provided to the Centre by the World Health Organisation (WHO) to combat smoking.

There are few health insurance schemes in Cambodia. The only existing community-based social security scheme in the country was initiated by the Groupe de Recherche et d'Echanges Technologiques (GRET). After years of success in dealing with micro-financing, GRET decided in 1998 to expand its activities to health insurance with the goal of protecting rural household incomes against large health expenses. Its health insurance project was launched in two provinces, Kandal and Takeo. Under the sponsorship of the European Union

63 AAC's brochure.

64 Interview with Mr. Lung Yeng, AAC Coordinator.

65 Outline of the programme can be accessed at : [www.cyclo.org.uk](http://www.cyclo.org.uk).

(EU), French government, World Bank and the Ministry of Health, GRET's project has shown extensive progress.

Under the GRET project, partnerships have been established with health care centres and district hospitals of the Ministry of Health at the commune and district level, and a registration system has been developed to provide the rural poor with easier access to care. The plan has a system by which healthcare centres are paid a capitation payment or payment based on number of people covered. In cases where diseases need to be treated at the provincial hospitals, members are treated for free and the provincial hospitals are reimbursed afterward at the rate issued by the Ministry of Health. Anyone intending to join the scheme needs to pay an annual premium of US\$2.50. The system accepts only family membership.

GRET's collaboration with relevant health centres and changes in the registration system have yielded positive outcomes. The micro-insurance programme successfully expanded its membership to 1,166 persons (473 insured in Kandal province and 693 in Takeo province) by January 2004. GRET's experience indicates that rural households are unfamiliar with insurance services, and that educational information must first be disseminated. The project used dissemination methods such as surveying and had an agent living in the targeted areas tasked to inform villagers about the insurance.<sup>66</sup> In general, a family contributes 1,000 riel per month to the system. Even this small amount is out of the reach of some; only households with average living standards can afford to participate in the scheme.<sup>67</sup> The project plans to expand to other provinces such as Kampot and Kampong Thom and other urban areas such as Phnom Penh, Kampong Cham, Sihanoukville and Siem Reap. Moreover, plans to build and transform the project into a social insurance institution that can be viable for the long run have been considered.

Despite its success, the GRET plan still covers only a small proportion of Cambodia's poor. Still, this type of community-based social security schemes should be encouraged and promoted to ensure sustainability and viability. The geographical scope of the scheme and its membership has to be increased to the degree that it can be sustainable due to large volume or through cross-subsidy schemes. The average annual cost of membership per person is US\$ 2.50 for total health coverage, while average out-of-pocket annual expense for non-insured members is over US\$ 22 per year. This shows that such insurance systems are very effective in lowering the cost of health care.

#### 4.5.2 Occupational safety and health in the informal economy

Informal workers, hampered by low education, few skills and low productivity, are additionally at risk of health problems caused by two factors. One is their poor living conditions and lack of access to basic infrastructure such as clean water and sanitation. The other is the potential risk posed by occupational safety and health hazards in the workplace. It is not only workers who are affected by higher incidences of accidents and disease, but also their family members, particularly those of home-based workers.

<sup>66</sup> GRET's Health Insurance Project briefing note.

<sup>67</sup> Interview with Claire-Lise BELLANGER, Technical Advisor, Health Insurance Project of the GRET.



Training is vital in alleviating hazards in the workplaces of the informal economy and thus improving vulnerable informal workers' health and safety.<sup>68</sup> In this regard, a variety of international aid agencies and NGOs has played critical roles both in providing training for informal workers to improve their working conditions and avoid occupational hazards, and in providing basic infrastructure to those informal workers who have never before been able to access those public services (see example in Box 4.3).

Ultimately, improvements to conditions in the informal economy should be the job of Cambodians, and there has been an effort to involve local communities and authorities and to move away from total reliance on internationally-aided community projects.<sup>69</sup> The principle of self-reliance has been incorporated into a project designed by ADB and Japan Fund for Poverty Reduction (JFPR) in collaboration with the Municipality of Phnom Penh. It is aimed at generating income for the poor through community-based environmental improvements and supporting the city in efforts to provide clean water and decent drainage for better sanitation. This project encourages dialogue among three players — local government, non-governmental organisations and local community members. The significance of the project is that it has been an integrated part of the Municipality. Each step of the participatory planning process, including discussion, facilitation,

68 ILO 2002a.

69 Interview with Mr. Wan Maung, Consultant of ADB/JFPR CAM project.

### Box 4.3

#### NGOs and Income Generation for the Poor through Community-based Environmental Improvement

The Community Sanitation and Recycling Organisation (CSARO) has three principal activities: community organising and infrastructure, environmental hygiene awareness and waste-picker development (WPD). In its WPD programme, CSARO attempted to contact waste pickers in Phnom Penh.

With the aim of establishing a centre for providing primary health care to waste pickers, CSARO has succeeded in convincing the municipality to allow the organisation to use a parcel of land to offer waste pickers some initial health care such as showers, sanitation and first aid. In 1999, the so-called 'Waste Picker Development Centre' was officially opened. The centre also provides children waste pickers under 15 with non-formal education with the support of another organisation, Hagar.

In addition to basic education such as reading, writing, and math and Cambodian culture, children have the opportunity to learn more about social issues including health, hygiene, children's rights, and HIV/AIDs. They also play games and sports. Self-help groups (SHG) are also partners of CSARO. Both have learned from each other and SHGs have the opportunity to train a number of income-generating activities and create small saving groups. CSARO has worked with other NGOs such as Association of Medical Doctors of Asian (AMDA), Mith Samlanh (Friends), Adventist Development and Relief Agency (ADRA), Helen Keller, KHANA and others to provide health care services. Some necessary equipment to prevent disease, such as clothing, items to cover shoes, face masks, long-sleeved tops, and gloves, has been also provided to waste pickers. CSARO also helps increase incomes for waste pickers by providing them with handcarts so that they can deliver their recyclables to sell at the places where higher prices would be offered. This is an example of partnership between the private and public sectors that creates micro-enterprises in communities.

Source: CSARO 1999-2000 Annual Review.



**Box 4.4****A Training Programme for Safer and Better Health and Working Conditions Organized by ILO and funded by DFID**

ILO has designed a programme called, 'Work Improvement for Safe Homes' (WISH), aimed at providing training for safer and better health and working conditions for Cambodia's growing community of home workers. The initiative is part of the US\$ 1.9 million ILO Informal Economy, Poverty and Employment Project funded by the UK's Department for International Development (DFID), intending to improve working conditions in the informal economy in three countries, Cambodia, Thailand and Mongolia. This trainers' training targeted 35 women and men. After the course, these people will provide further training to other members of community in Phnom Penh to enable them to look after their own health and safety. The participants are government officials, representatives from the unions, employers and home workers.

The home working sector in Cambodia is dominated by women. They are not protected by labour legislation. Their occupations are mainly in small-scale manufacturing such as weaving, making clothes, handicrafts, jewellery and silverware for female home workers, and carpentry or craft work for male home workers. Their incomes range from US\$25 to US\$100. There is a need for such training because ILO research shows that only a few of the workers are aware of the potential dangers from their workplaces such as exposure to chemicals, unsafe use of machinery, poor lighting, electrical and fire risk, long hours and cramped or strenuous working positions. These dangers affect not only the health of workers but also that of their children and their family members.

Source: 2004 press releases of ILO Regional Office for Asia and the Pacific; the full report of the training can be accessed at: [http://www.ilo.org/public/english/region/asro/bangkok/public/releases/yr2004/pr04\\_26.htm](http://www.ilo.org/public/english/region/asro/bangkok/public/releases/yr2004/pr04_26.htm).

implementation, monitoring, and decision making, engages the management of City Hall with the partnership of NGOs and local communities. The project has, in fact, closely worked with a number of local NGOs.<sup>70</sup>

Under the commitment to improving working conditions of informal workers in East Asia, ILO has taken part in a training programme for better and safer work and health of informal workers in Cambodia (see Box 4.4).

**4.6 Strengthening the voice of workers in the informal economy**

As studied in point 4.1.1 above, the constitutional value of the right to association should benefit all people without discrimination. In a democratic society, the rule of law needs to be established and enforced. The right to representation needs to be put in force.

In the informal economy, workers encounter various barriers to representation. Their dispersed locations, the instability of their trade, the heterogeneity of their activities make organizing and joint action difficult. Their rights are often disregarded by parties with whom they transact. Informal operators, for their part, face various constraints and barriers to their business. Both sides need to organize themselves for mutual benefit. Their united voice also would provide everyone involved with a platform from which they could influence public administration and air grievances. Furthermore, collective bargaining would be helpful for both workers and employers. Examples of these interventions will be

<sup>70</sup> ADB/JFPR project outline.

discussed in subsections below. However, the government plays the most critical role in enhancing workers' representational voice; its support is crucial to the promotion of voice representation in the informal economy. The next subsections discuss the roles of government, civil society, workers and employees relative to the enhancement of voice representation.

#### 4.6.1 The Roles of National and Local Governments

The policymakers of the national and local governments must create an environment where the rights for organization and representation within the informal economy are protected and respected. It is necessary to have legislation and policy that encourages the active participation of the informal economy in social dialogue with its counterparts — national and local governments, formal and informal employers, employees, unions, and associations.

Both national and local governments should also ensure that the informal economy has a voice in tripartite consultation, facilitate organization and representation by easing regulations and the administrative cost of registering associations, and provide mechanisms for representation and consultation on policy as channels for obtaining the 'voice' of constituents.

In Cambodia, exercising freedom of assembly and association, as outlined in the Constitution, have often been interpreted by the public administration as acts against public order and national interest. Restrictions to the right to organize, including freedom of expression, are longstanding problems.<sup>71</sup> Some decisions issued by the public administration affecting the informal economy could well be illogical if made without hearing the collective voice of participants in the informal sector. The prerequisite of a genuine participatory and consultative approach is thus necessary.

Even though direct regular social dialogue between the informal economy and public authorities prior to making any decisions has thus far not been the norm, members of the informal economy have occasionally taken part in some government strategic planning. For example, in 1998, a strategic planning workshop was organised by the Phnom Penh Urban Poor Communities and Municipality Development Project with the participation of many urban stakeholders, including the urban poor. On the topic of 'why are we poor and how can we get out of poverty', the workshop was productive in setting out some basic causes of poverty — lack of access to basic services (shelter, utilities, sanitation, health care, education); and economic conditions (lack of income, employment, education and training, access to credit). The workshop also reviewed a wide range of solutions to poverty alleviation, such as increase of access to basic services, income generation and improvement of local governance.<sup>72</sup>

Support services and programmes funded by various donors have served as the outreach efforts of public authorities to the urban poor in the informal economy. The National Poverty Reduction Strategy (NPRS) and the Urban Poverty Reduction Strategy (UPRS) for the Phnom Penh Municipality are two examples. Their work may not be specially designed to address informal economy issues, but their poverty reduction efforts necessarily reach informal workers.

71 UNCHR 2001.

72 Municipality of Phnom Penh 1999.

For instance, the UPRS offers some vocational training to enable the poor to either find jobs in SMEs or start their own businesses, and it assists small enterprises with such problems as finding space to house their business.<sup>73</sup>

Government commitment is vital in providing the type of environment under which the informal economy can exercise the right to organise. Occasionally there have been successes in this regard, with representatives speaking up and the public authorities responding. In 2004, for example, the Ministry of Education, Youth and Sport retreated from an attempt to evict a community of 1,776 families living in a state-owned building, Borei Keila, which is part of a sports complex. In the face of strong protests from the residents, the Ministry made a special provision for them to own and share 4.6 hectares of land, which amounts to about 31.5 percent of the complex. As part of the settlement, a private company that had been authorised to carry out a housing development was obligated to build an apartment complex for those families.<sup>74</sup>

Local governments must provide the opportunity for informal workers to participate in decisions that may affect their lives. One example would be public policy regarding the uses of sidewalks and other public spaces. Many informal workers set up their wares and businesses on sidewalks and depend on using these spaces for their businesses.

The ability to provide this type of responsive governance to informal workers is dependent upon the capacity of the government. If the administration is not competent enough, its services will not serve the peoples' best interests. The national government's Seila (a Khmer language word approximating to "foundation stone") programme began several years ago with many impressive features to strengthen local governments as the key to achieving sustainable poverty reduction in Cambodia. By the end of 2000, the Seila programme had been implemented in 220 communes in six provinces — Banteay Meanchey, Battambang, Pursat, Siem Reap, Oudar Meanchey, Ratanakiri and Pailin. More recently, Seila has expanded its programme to other provinces. Seila, financially supported by donor communities and the government, has been a model used to test, learn and refine methods for reinforcing the capability and accountability of provincial and communal institutions. The programme has assisted the government in building the capacities of local governments and addressing the inability of local governments to deliver services because of a lack of funds.<sup>75</sup>

#### 4.6.2 The Role of Civil Society

NGOs have also played a role in promoting civil society by strengthening advocacy efforts of the poor with vis-à-vis public authorities. A successful example of a joint venture between Urban Poor Development Fund (UPDF) and Solidarity for the Urban Poor Federation (SUPF) is worth citing. The right of informal workers living in slum areas to possess land in these areas is not legally protected and their occupancy has been frequently challenged by local government. Thousands of families have been evicted and relocated outside of Phnom Penh where the socio-economic environment and basic life necessities were not set up to accommodate them. The UPDF and SUPF have helped thousands of persons

73 USG 2003.

74 UPDF report, May 2004.

75 SEILA, 2001-2005 Seila Programme Document.

to successfully retain their homes. At a celebration of the fifth anniversary of the UPDF, the two partners of the joint venture detailed the outcome of their hard work that has benefited more than 5,000 poor community members throughout the city. Their efforts have been so well received by the public that in response to their appeal for government support of their upgrade plan, the Prime Minister agreed to provide secure tenure and support for the upgrading of 100 urban poor communities each year.<sup>76</sup>

The right of informal workers/operators to organise has been successfully shepherded by the NGO Urban Sector Group (USG) which, with the support of the Asia Foundation, has assisted vendors in two markets in Phnom Penh to organise themselves as an association. Furthermore, USG has provided some negotiation and advocacy skills training, which helps members in their efforts to deflect harassment by market authorities.<sup>77</sup>

Advocacy for the poor and marginalised has been the mission of the International Cooperation for Development and Solidarity-Cambodia (CIDSE Cambodia), which has collaborated with and supported large numbers of NGOs in many provinces of Cambodia. CIDSE Cambodia has generated a community forestry land-use design programme for indigenous persons living in the Ratanakiri area in the north-east. This programme is vital to ensuring secure access to land and sustainable use of natural resources.<sup>78</sup> The threat of land grabbing was the impetus behind the project. There have reportedly been many incidents of land grabbing by wealthier people who had advance knowledge of regional road rehabilitation projects that would increase land value, and who sought to speculate on that land. CIDSE Cambodia supports and works closely with residents to carry out land-use management assessment, land-use mapping and drafting of land-use regulation. The end product has been land-use statutes for the village that have been approved by the provincial governor and concerned provincial departments.

Similar advocacy has been provided to villagers in Phdao Chum commune in Kampong Cham province. In this case, the land that residents use for irrigation for rice production during the dry season was subject to drainage and sale to outsiders. CIDSE Cambodia, with the help of an NGO, Provincial Advocacy Network and Star Kampuchea, assisted the community to come together to bring the issue to the commune council. At the time of the 2003 report of CIDSE Cambodia, negotiations between residents and the commune council were still ongoing, but members of the commune continued to be vigilant in monitoring the situation regarding the land and ensure that it was not drained.

In addition to these types of advocacy, CIDSE Cambodia also works to build the capacity of other NGOs. In 2003, a workshop on advocacy was conducted with the participation of various experts from NGO partners, focusing on issues such as fishery, forestry, land rights and networking. Staff members from NGO partners were invited to visit and learn from several CIDSE projects in the provinces.

CIDSE Cambodia also seeks to foster cooperative relations between local government and civil representatives, namely, NGOs. CIDSE sponsored three representatives from the Chroy Sdao commune council in Battambang and three

<sup>76</sup> *Community News* 2003.

<sup>77</sup> Kusakabe, *et al.* 2001.

<sup>78</sup> *CIDSE Cambodia's 2003 Annual Report*.

others from an NGO working in that commune, the Rural Development Association (RDA), to attend a workshop entitled 'Decentralisation Workshop: Perspectives on Partnership'. By working together at the workshop, the commune council and the NGO prepared a partnership action plan regarding fishery resource protection. After the workshop, both RDA and the commune council organized meetings with villagers and officials at all levels to advocate against illegal fishing practices. The officials committed to decreasing bribery and confiscating illegal fishing equipment, and some villagers agreed to discontinue their illegal fishing practices. From that successful experience, CIDSE Cambodia invited its 15 NGO partners to another workshop, this one designed to help them develop action plans for working with their respective commune councils. Some of these NGO partners have since finalised these plans with their councils and some are still working on it.

#### **4.6.3 The Role of Workers' Organisations and Community Associations**

Cambodia has seen an improvement in the ability of people to exercise the right of freedom of association, despite some instances of anti-union discrimination and violations of this freedom. The number of unions has boomed in recent years, and their ability to bargain with employers has grown. Some unions are open not only to formal workers but have expanded their membership to cover informal workers. The Cambodia Confederation of Trade Unions (CCTU)<sup>79</sup>, one of the unions registered with the MOSALVY, has been involved in extending its membership to informal workers, including both self-employed and wage workers. The unions have subdivisions in accordance with different occupations. The variety of occupations with union representation is growing. There are more than 100 vendors of two markets in Phnom Penh (Olympic & Orrusey) and more than 20 taxi drivers who have become members of the union. The number of informal workers from brick-making, construction and salt-producing enterprises has grown remarkably. There are up to 205 members from construction enterprises and 500 members from salt-producing enterprises. Admission fee is 1,000 riel (US\$ 0.25).

Despite these increases in union membership, many informal workers have no interest in unions because they do not understand fully the rights and benefits they could reap from union membership. Therefore, disseminating information to informal workers about unions is important. Letting them know of some successful efforts to protect their interests, and offering such concrete benefits as skills training, would be useful tools to help informal workers understand the actual benefits from union membership. For example, CCTU members are entitled to training courses on labour law, child labour, health and work safety including HIV/AIDs, and are afforded some advocacy and protection when issues arise as to labour law.

The role of trade unions is not limited to providing training and legal protection to informal workers. Trade unions in other countries have helped informal workers in negotiating collective agreements and in setting up their own unions. Sometimes informal workers can gather as an association rather than as

<sup>79</sup> Interview with Mr. Say Sam On, Council Member of CCTU.

a trade union, with the association playing the same type of role as a protector of the interests of its members. Whether the entity is called a union or association is not as important as ensuring that it is an effective voice for its constituency. Box 4.5 illustrates an association directly involved in the protection of those in the informal economy.

Some community-based organisations (CBOs) working at the grass-roots community level contribute greatly in making the voice of informal workers heard. Padek (Partnership for development in Kampuchea), registered as a Cambodian NGO, was launched almost two decades ago. Aimed at poverty alleviation, Padek addresses many issues related to organisation building, food security, education and culture and health, and operates in five areas: Svay Rieng,

#### Box 4.5

#### Association for Informal Economy Development

An interesting association called Cambodian Association for Informal Economy Development (CAID), formally known as Goods Transportation and Labour Protected Association in Cambodia (GTL-PAC), embraces a variety of informal workers in Cambodia. It has opened its membership to many occupations in the informal economy such as *motor-taxi* drivers, *tri-motor taxi* drivers, street vendors, market-stall vendors, fishermen, and farmers. Each of the about 3,100 members are required to contribute one US dollar to the association per month. The objectives of the Association are to provide its members working in the informal economy with better quality of life, business competitiveness through the development of business services, services provision, job creation for income generation, vocational training, training of skills and techniques for standard production to have access to markets as well as advocacy and legal protection services (Article 8 of the CAID statute).

Over the years, GTL-PAC has assisted many of its members who suffered from rights violations. Some examples of its successes are as follows:

- In 2001, GTL-PAC led a group of about 200 truck and taxi drivers in a collective complaint against a high road toll charged by private company Veng Sreng. GTL-PAC succeeded in persuading the company to reduce its fee after some discussions with the management of the company.
- A market security guard working for the public authority hit a street vendor while moving street vendors from a sidewalk. GTL-PAC assisted its member, who had been injured, in seeking for compensation. Intervention was successful as the guard agreed to pay compensation of US\$200.
- *Tri-motor taxis* were barred by the Municipality from entering the city. After 120 tri-vehicle operators asked it to intervene, GTL-PAC held negotiations with the Municipality and convinced the Municipality to reverse its decision.
- In land dispute over 95,648 hectares between thousands of farming families and Kim Svill Corp. Co. Ltd., GTL-PAC was chosen by 1,387 families to be their representative. The GTL-PAC intervention led to the release of six persons imprisoned in connection to the land dispute and to the return of the land to the families. Those farmers have since joined GTL-PAC as members.
- The Municipality banned *motodops* from carrying passengers at the Phnom Penh International Airport. GTL-PAC negotiated with the Municipality, after being requested to by a group of 31 *motodop* operators, and the Municipality ultimately reversed its decision.

Source: CAID statute and report 2001-2002.

Prey Veng, Kompong Speu, Siem Reap province and the city of Phnom Penh.<sup>80</sup> The Padek Integrated Community Development Model (PICDM) has sketched out a model and strategy for community development in Cambodia. The model, which takes approximately five years to accomplish, involves four phases. First, Padek conducts a participatory rural appraisal such as assets of a community, mapping, socio-economic situation and so on, then introduces the model to the community and eventually establishes various self-help groups (SHGs) inside the community. After that, Padek starts the informal commune election process to choose coordinators who will help oversee the coordination and implementation of the model — these coordinators make up the commune development committee (CDC) and village development committee (VDC). Padek then identifies local experts who will advise the VDC and CDC on technical matters such as animal raising. In phase three, Padek helps the community create a commune community-based organisation (CCBO) where experts and coordinators assist the community in providing trainings for SHGs. Padek provides both financial and human resource assistance for communities when they arrive at phase three. However Padek withdraws its assistance gradually in phase four when the CCBO has sufficient capacity to survive with sustainability.<sup>81</sup>

The creation of SHGs is not only a tool for its members to help one another contribute to the saving schemes, but also get to know and share their experiences. One of the programmes of the model (PICDM) is the general assembly where all development actors — people (members of SHGs, villagers) and the government — meet to talk. The villages and communes, where PICDM is implemented, have been carefully selected. Padek works to identify the poorest communes for its model; in total Padek involves more than 32,000 families in 22 rural and urban communes. Padek efforts allow very poor communities to gather together and express their concerns and aspirations to various important participants such as community leaders, district and provincial authorities, NGOs, donors and members of other civil society organisations. This face-to-face advocacy has in the past produced very effective results, most notably the general assembly at Chea Klang and Svay Chek commune.

The Chea Klang assembly resulted in conveying the concerns of community members to a Senior Minister in the Council of Ministers through the Secretary of State who participated in the assembly. The community's representative subsequently received a letter from the Senior Minister addressed to several line ministries with the attachment of the record written by community members and expressing their concerns. In the case of Svay Chek assembly, the recommendation was to return to the villagers 900 hectares of farmland illegally occupied by the military. The military had taken control of villagers' farmland and the village leader seemed unhelpful in dealing with the case. The agenda of the assembly, which prominently featured the land dispute, was circulated in advance of the meeting date to all relevant officials (NGO, civil society, government's authority). The District Governor, after receiving the agenda, responded quickly, approached the military leaders, and one day before the assembly worked out a deal for return of the land.<sup>82</sup>

80 More information about Padek, see its website: <http://www.padek.org>.

81 Interview with Mrs. Tieng Serevouth, Padek Programme Support Unit Officer.

82 Outline of the Padek's integrated community development model (PICDM).



#### **4.6.4 Role of Employers' Organisations**

In Cambodia, micro-enterprises have low levels of income and productivity. Additionally, there seems to be little linkage in the production chain between informal and formal enterprises.<sup>83</sup> Despite this, formal and informal enterprises face similar problems such as stifling business regulations, red tape, limited access to financial capital, inadequate social infrastructure, restricted markets and a need for capacity building. In the end, the bargaining power of formal enterprises vis-à-vis the public administration is not much better than that of informal enterprises.

Through the Private Sector Forum, a bi-annual dialogue is held between the Cambodian government and the private sector. This forum is geared toward constructive dialogue in which all issues affecting trade and investment may be addressed. Many sectors and aspects of the economy and administration have been raised and discussed. Between meetings, the Forum has working groups chaired by ministers and representatives of the private sector.<sup>84</sup> Even though discussion is not focused on micro-enterprises, issues discussed are pertinent to SMEs, both formal and informal. Since formal and informal enterprises encounter similar barriers, fora such as the Private Sector Forum could expand its dialogue to include the informal sector. Additionally, employer organisations might expand their memberships to informal operators. The rationale is compelling – the addition of more and more voices could provide the necessary push for public administration to limit the constraints to doing business in Cambodia and generate policies more conducive to the common interests of the formal and informal sectors.

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83 ILO 2000.

84 World Bank 2004.



# 5

## Conclusions and recommendations

Like that of its neighbours in Asia, the informal economy in Cambodia represents a huge share of overall economic activities. The number of informal workers in Cambodia far exceeds those employed in the formal economy, and informal workers have neither legal nor social protection. They suffer additional and unnecessary risk to their health and safety because their job skills and opportunities are so limited that they have no choice but to work in the informal economy. Their jobs and income are insecure and tenuous. Apart from being part of an informal economy without rights or protection, they also generally lack any form of representation (such as a union) to bring their problems to the attention of stakeholders and policymakers. Their low skills and low productivity produce low income. These create a cycle, out of which many are not likely ever to emerge.

On paper, Cambodia has demonstrated its strong commitment to ratifying most of the fundamental conventions of the ILO. In the garment sector, Cambodia has demonstrated this commitment by supporting core international labour standards as well as its own labour code. As mentioned in Chapter 4, a wide range of initiatives has been established by the government and various social partners. However, more needs to be done to assist and reach the informal economy. Further policy and programmes are needed to include informal workers within the umbrella of worker rights outlined in Cambodia's basic fundamental conventions and its Constitution. It is worth noting that these international and national instruments do not, *de jure*, make a distinction between formal and informal workers. So, in ensuring the rights of workers, regardless of place of work and how they work and in promoting decent work as defined by the ILO, special attention needs to be paid to the informal economy:

1. There are no statistics per se on the informal economy. Statistics on informal workers, more specifically their data in different sectors, are not generally available, and little effort has been made so far to generate specific studies. Informal workers' problems and concerns, by and large, have not been given serious attention. Because of this, the issues affecting the informal economy, as well as its contribution, are not documented. More surveys and studies are needed to identify their problems and issues, so that initiatives and policies can be developed to meet their needs.

2. Labour legislation does not include informal workers, and this is a major constraint. The lack of legal protection gives rise to abuse of fundamental rights. Social protection is not afforded to them and collective representation

is unavailable. Therefore, they have no voice with their employers and with the government. As for informal employers, their enterprises also are disadvantaged because they are not covered by business regulations. Their informality excludes them from access to finance and credit, prevents them from securing their property rights and enforcing their contracts. In that sense, extending legislation that would protect workers and employers in the informal economy is needed. Furthermore, business regulations, especially registration procedures, should be reviewed and simplified to reduce complexity and encourage informal enterprises to become part of the formal economy.

3. New trade opportunities under globalisation offer the chance not only to reduce poverty sustainably, but also to provide more decent work in the formal economy. Everyone will benefit, but particularly the poor and most vulnerable, through the creation of jobs in the formal economy. For instance, goods produced in the informal economy are sold in US markets at seven or eight times their value when purchased from the producers. Seen in this light, the informal economy is linked to a supply chain that creates jobs and income to those who participate in it.

4. Informal enterprises face impediments such as burdensome regulations, lack of access to infrastructure, public services and training, competition with other imported products, lack of information about markets, high road taxes and high cost of electricity. It is incumbent on the Cambodian government to implement policies to minimise these barriers and help enterprises improve productivity, job creation and competitiveness.

5. Even though there has been some training in the informal economy, no specific training has been designed for informal workers to assist them in employability and productivity. Literacy and basic education for informal workers would enhance their voice in society.

6. In the informal economy, micro-finance is crucial to securing and expanding MSEs. Institutions involved in providing micro-finance to the informal economy should be provided with training and technical support to expand access to micro-credit, paying special attention to rural and urban poor areas.

7. Social protection does not yet exist in Cambodia even in the formal economy, although legislation regarding social security for formal workers was recently legislated. In collaboration with donors and other social partners, Cambodia should implement the lessons learned and best practices from other countries that have successfully improved social insurance systems. At the same time, legislation should be extended to cover informal workers.

8. Steps should be taken to help participants in the informal economy to exercise their right to freedom of association. They should be encouraged to take part in collective bargaining and lobbying of policymakers. They must learn how to make their voices heard so that their interests are taken into account in areas such as infrastructure, property rights, taxation, and social security. The use of employer and employee associations and unions in assisting the informal economy must be promoted. Trade unions should encourage informal workers to participate in their organisations or assist them in creating unions of their own.

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# Decent Work in the Informal Economy in Cambodia

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## A Literature Review

From Cambodia's food vendors to motor-taxi operators to homeworkers, they are all part of the sizable informal economy in this Southeast Asian country. Their contributions are often under-recognised and inadequately quantified, yet they are everywhere, provide products and services that just about everybody uses and help the economy function.

But the informal workers are often unregistered and unrecognised - they receive no benefits, no medical insurance and often work long hours in hazardous conditions. This review of literature, prepared in 2004, provides insights on what makes up the informal economy in Cambodia, the importance of having decent work, and ways to promote it in the informal economy.

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