

SOME REFLECTIONS ON INFORMAL SECTOR IN INDIA

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This paper deals with the socio-economic and political dimensions of the informal sector in India in a historical perspective and attempts at analysing the future directions which policies and programmes for this sector should take.

INTRODUCTION

Development is a multi-dimensional phenomenon. It is also a dynamic concept. The nature, process and pattern of development differ from country to country. Developed countries have been fortunate in having a number of favourable conditions for development with the result they have been able to achieve a more balanced and harmonious development, whereas, in developing countries like India, there have been several hindering social, economic, religious, cultural and technological factors which have had adverse effects in the process of development creating, among others, a dualistic structure. For example, in India it is stated that we have a small developed sector consisting of better-off sections (called 'India') and a larger less-developed sector (called 'Bharat').

It is now well realised that further growth in the future must be accompanied with greater social justice, poverty eradication, employment generation and ecologically and environmentally balanced development, along with modernisation and self-reliance. In order to achieve such a pattern of development, it is necessary to pay attention to those areas which have many development implications. One such area is the informal sector.

This paper proposes to take up the issues

involved in the development of this sector as it has several welfare consequences. It has been a difficult task to precisely define the sector and therefore, it is argued that such a definition should be 'location-situation-purpose' specific. For the purpose of this paper, informal sector would cover non-farm unorganised labour, the self-employed and owners of own account enterprises and small establishments having workers less than 10 in each unit. This sector constitutes a large and important segment of the less developed unorganised sector of the economy (referred as 'Bharat').

INFORMAL SECTOR : CONCEPT AND INDIAN CONTEXT

Studies in the 1960s proved that the functioning of the economic system is very complex and that growth created a dichotomous economy with a small developed part co-existing with a large poor part. In other words, growth was accompanied with a dualistic economy. In the 70s, several ILO studies (e.g. Sethuraman, 1981) showed the presence and growth of a large unorganised or informal sector in almost all the Third World countries. Since then the interest in the informal or decentralised sector has been growing by recognising its attributes like ease of entry; reliance on indigenous resources; family ownership, small scale

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operation; labour intensive and adapted technology; skills acquired outside the formal system; and unregulated and competitive markets (NPC, 1985).

In India, the process of development during the British colonialism, which linked the Indian economy to the world capitalist market, gave rise to the informal sector (Das, 1987) though it was not recognised as such. Colonialism resulted in deindustrialisation and agrarian exploitation which led to the migration of people to urban areas where they formed a 'low-line' support to the urban industrial economy. Only some sections slowly managed to get into the organised sector. Later, after independence, the expansion of the capitalist process resulted in the emergence of industrial-metropolitan complexes like the Mumbai-Thane-Pune belt, Calcutta-Durgapur-Ranchi complex, the Delhi-Agra-Kanpur-Lucknow zone and so on. Thus emerged a dualistic structure. Within these industrial regions, major organised industries were at the centre with a large number of small manufacturing and service units — which constituted the informal sector enterprises — at the periphery, employing unorganised labour. Several studies made on informal sector in India have attempted to grapple with the conceptual aspects and to study the nature, magnitude and activities of this sector (e.g. NPC, 1985; Papola, 1986; Mitter 1987; Lall, 1989; Sathyaraju, 1989; Deshpande and Deshpande, 1990).

The position of labour and the tiny enterprises in the Indian informal sector and the concept of informal sector itself in the Indian context can be better grasped by understanding their features which are given below. It should be noted that the distinction between the labourers, self-employed and owners of tiny enterprises is very marginal. The labour market in this

sector is characterised by : (i) Ease of entry; (ii) Unskilled and untrained labour; (iii) Poorly educated or illiterate labour; (iv) Large-scale presence of child and women labour; (v) Absence of trade unions and scattered nature of workforce and absence of units; (vi) Absence of clear employer-employee relations; (vii) Labour possessing skills learned outside the formal system; (viii) Most of the labourers living below the poverty line; (ix) Presence of large section of migrants; and (x) Inequalities within the sector. The tiny informal units are further characterised by (i) Open competition; (ii) Small capital; (iii) Little use of imparted skills or equipment; (iv) Use of local materials; (v) Illegal and unauthorised status of many units; (vi) Re-cycling of waste materials ; (vii) The unit owners and self-employed unable to articulate and define their needs and problems; (viii) Units unregistered, unorganised and heterogeneous; (xi) In many cases linked to the formal sector ; and (x) Producing and offering a wide group of goods and services.

It is thus rightly stated that "in India this sector cuts across various crafts or industry, conglomerates like cottage and household industries, khadi and village industries, handlooms, handicrafts, coir, seri-culture, etc., set up all over the country in rural, semi-urban and urban environments" (NPC, 1985). In this sector, the labour that is employed is mostly unorganised and unprotected.

The informal sector in India today is so heterogeneous and multi-dimensional that it is difficult to grasp and analyse its different dimensions. An attempt is made here to highlight and discuss its various dimensions in Figure 1. It should be noted that the dimensions/aspects are only broad divisions for convenience and can overlap with one another.

Economic and Structural Aspects

Type of Activities

Informal sector activities mainly consist of small scale manufacturing, petty trade and low scale services. Small scale manufacturing consists of both traditional goods like those of khadi and village industries, handicrafts, food industry, etc., and non-traditional goods like small auto parts, household items, etc. Petty trade is undertaken mostly by self-employed in selling a variety of items ranging from food to textiles and domestic use items. Another prominent feature is the low-skilled services like domestic work, street cleaning and personal community services.

Occupational Aspects

Informal sector participants can be classified into wage employed, self-employed and tiny enterprises owning small establishments having family labour or hired workers (less than 10 in each enterprise). As stated earlier, there is only a marginal distinction between the wage-employed, self-employed and the owners of petty enterprises.

Quality of Employment

Informal sector employment has been found to be generally of a poor quality in terms of working conditions, gender discrimination, earnings and social security. With over 90 per cent of the workforce remaining unorganised, there has been little improvement over time. According to the study by Deshpande (1985), informal sector labourers, both men and women, were found to have earned much less than their counterparts in the organised sector with women earning still less.

Magnitude

It is difficult to estimate the size of employment in the informal sector. If we follow the residual method of deducting the

organised sector workers from the total labour force, then 92 per cent of the labour force is in the unorganised sector. If from this 65 per cent of the workforce which consists of agricultural labourers and petty cultivators is reduced, then the remaining 27 per cent of the workforce may be said to constitute the non-farm unorganised sector, i.e. the informal sector. On the basis of the 1991 Census figures of 315 million which should constitute the total workforce, the informal sector workforce would amount to 83 million. According to the Economic Census 1990, which covers the unorganised sector, there were about 60.5 million workers employed in around 21.7 million tiny enterprises in the country. The contribution of the informal sector to the national product is also significant but precise details are not available. In value added in manufacturing, the unregistered manufacturing sector contributes about 40 per cent. In value added at the aggregate level, though the contribution of the unorganised sector has been falling, it continues to remain around 60 per cent.

Social Aspects

Human Aspects

If one examines the social character of the labour and the self-employed in the informal sector, one would find that this sector harbours poorer sections of the society who are less educated and skilled and who are unable to find employment in the organised sector. The position of women as brought out in GOI (1988) is indeed extremely bad. There is also a significant workforce belonging to SC/ST/OBC and child labour categories. Other disadvantaged sections are also found in this sector.

Social Status

What is more important to note is the subordinate social status and the

consequent powerlessness in the social and political structure. This is reflected in their poor access to and share in resources in terms of finance, raw-materials, government's concessional facilities, etc., as compared to the organised sector.

Political Aspects

Organisational Aspects

As pointed out by the National Commission on Labour, due to factors like the scattered nature of employment, small size, etc., organising the labour in this sector has been extremely difficult. Besides many are self-employed or own petty enterprises where the distinction between the owner and worker is only marginal and this makes mobilisation more complex. Lack of awareness is also a factor adversely affecting their mobilisation. The end result of all these factors is that the sector as a whole has remained politically weak and vulnerable. Besides, many of the informal sector participants are financially very weak, and so they cannot function as a pressure group.

Promotional Aspects

In a sample survey in Mumbai it was found that the workers and self-employed in this sector were unable to enjoy access to institutional credit and other facilities, and as a result they were compelled to rely on their own sources (Anagol and Sundaram, 1995). Since there is no clear occupational classification in the sector, uniform legislation for this sector as a whole has also been a problem. Thus, even though in government's promotional and credit policies weaker sections have to be preferred, in practice they get ignored and development bypasses them.

Social Security Aspects

In the absence of clear formal employer-

employee relationship and due to the poor financial conditions of the self-employed and the petty owners, planning and implementing a social security system for the informal sector has been an extremely difficult and complex task. There is some such system for certain sections of labourers like the headloaders in Kerala and Maharashtra. But on the whole, there is very little provision of social security for this sector.

International Dimensions

While no precise estimates are available, significant sections of workers are presumed to work in this sector who are from neighbouring countries, especially from Bangladesh and Nepal. With SAARC countries coming closer, this section of immigrants may expand, but it is too early to predict the impact.

The above discussion on the various dimensions reveals thus that the Indian informal sector occupies a very significant position in the economy and that the development of this sector has important implications for the future well-being of the society. As such, a well-planned policy mix is needed to attend to the problems of this sector.

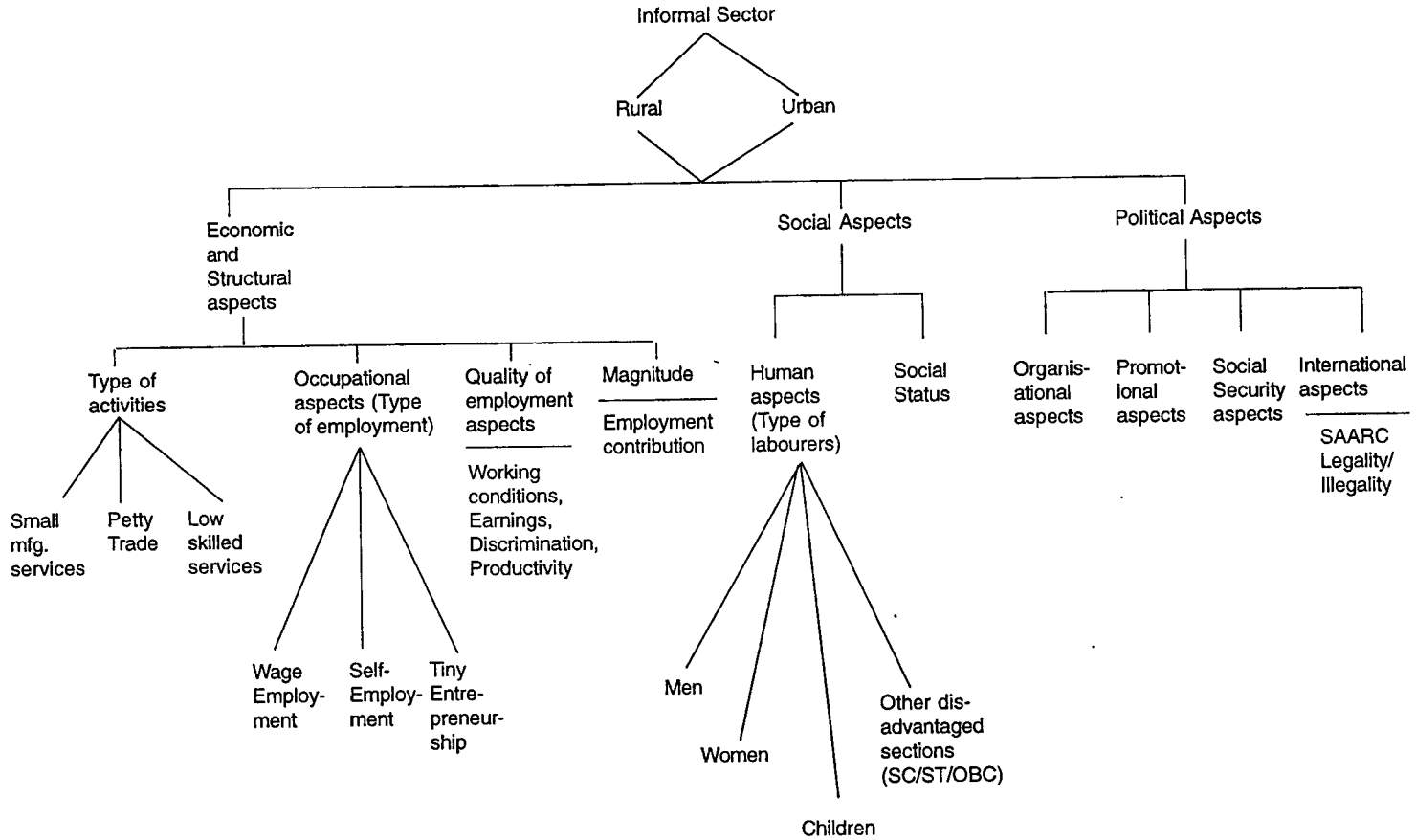
DEVELOPMENTAL IMPLICATIONS FOR INDIAN SOCIETY

The foregoing analysis brings out the fact that the Indian informal sector exhibits features that draw concern of all development experts. As structural reforms gather momentum, from the equality and employment point of view, informal sector is destined to play an important role.

Future of Informal Sector

Rapid economic development with a high growth rate as witnessed in the South-East Asian 'Tiger' countries can help to contain

Figure 1 : Dimensions of Informal Sector



the expansion of informal sector. But in India, the 'Hindu' growth rate of 3.5 per cent per annum for the first three and half decades and a small rise to a 5 per cent growth rate in the 1980s and later is certainly not much to boast about. With this growth rate, the informal sector cannot be expected to shrink in the near future.

Besides, the growth of employment in the organised sector, especially in the private sector, throughout the post independence period and in public sector after the structural reforms since 1991, has been inadequate to absorb the additions to the workforce and clear the backlog. Naturally, it is the informal sector which has to absorb the labour to a maximum extent.

The impact of economic reforms that are being pursued since July 1991 has added to the problem of unemployment. The number of sick industries has gone up and other industries are resorting to the use of high technology. Liberalisation and deregulation have increased competition. The cumulative results have been the rising unemployment and expansion of informal sector. Besides, firms, in order to reduce labour and other costs, have been resorting to practices like sub-contracting, and shifting locations to low-cost areas, all of which have the cumulative effect of expanding the informal sector.

Economic reforms also have raised the expectations of the people and some of those who are already working in the formal sector also appear to be working in informal sector in order to raise their earnings and enjoy a higher standard of living. This trend has been studied in the developed countries though such studies are lacking in India.

The Indian educational system has not laid adequate emphasis on basic compulsory education at primary levels and vocational education at higher levels. Consequently,

many unemployed youth are compelled to seek jobs in the informal sector.

As a cumulative impact of all the above factors the informal sector is bound to occupy a significant position in the future.

Significance of Informal Sector

Many of the goods and services provided by the informal sector like clothing, plastic items, vegetables, fruits, food items, construction work, casual labour work, domestic work, rickshaw pulling, household appliances, repair work, plumbing, electrical work, carpentry, load carrying, etc., are provided by the informal sector at a much cheaper cost affordable to the weaker and less better-off sections of the society at a fraction of cost prevalent in the developed countries.

The informal sector in India has also been acting as a shock absorber in times of adverse economic performance of the economy and economic fluctuations. It is pointed out that in the post reform period in the 1990s, it is the informal sector which has been providing more employment opportunities.

In the case of several goods and services and industries, the informal sector acts as an ancillary sector. Many of the services required by textile, clothing and garment industries and leather goods industries, furniture industries and food industries are provided by the informal sector. The petty traders and self-employed in the sector act as distributive outlets for the products like plastic items, toys, balloons, etc., of several small industries. Thus, useful linkages can be established between the informal sector and the organised sector of the economy.

Informal sector acts many times as the training ground and manpower base. With free-entry and competition, it serves as a

field for gaining valuable experience and skills that can help in getting jobs in the organised sector. Finally, the small and tiny owners and the self-employed of the informal sector have the potential of graduating into full-fledged entrepreneurs, if nurtured, encouraged and supported through appropriate policies and programmes. The informal sector thus has the potential to transform the economy and the society.

Problems Faced by Informal Sector

A major problem faced by the informal sector is that in India's developmental strategy there is little significance attached to the informal sector and its infrastructural needs (Lall, 1989). In many of the urban and semi-urban areas, the expanded informal sector remains unnoticed. In the planning of provisions of basic services like workplaces, infrastructure, finance, etc., needs of the informal sector are not given due importance. As regards finance, it was found (Anagol and Sundaram, 1995) that the informal sector participants mainly rely on their own non-institutional sources of finance like relatives and friends.

The position of weaker sections of labour, especially of women, many of whom are home-based workers, is extremely bad (GOI, 1988; Jhabvala, 1995). The same holds good for child labour as brought out by several ILO studies. Several studies on the conditions of labour in export processing zones and free trade zones have brought out that the informal sector labour in these places is severely exploited.

The inhibiting role of governments in developing countries is also cited as one of the reasons for the problems of the informal sector. Government's industrial policies, legislations, requirements for registration, etc., inhibit the free functioning of the

informal sector. It must, however, be conceded that there are several problems which are internal to the sector. One is the tendency of the self-employed and petty owners to flock to the centre of the city or busy commercial areas and reluctance to locate themselves in the periphery where they can get new space at lower costs. Second is the prevalence of low education-skill-productivity levels in this sector. The highly heterogeneous nature of labour in this sector also hinders their mobilisation which alone can enable them to act as a powerful pressure group.

From the point of view of equity and long term development, it is necessary to give informal sector a prominent place in India's development plans, policies and programmes. It is unfortunate that even where there are policies and programmes, the implementation has been poor. Steps to help the informal sector may be considered in the following areas.

Organisational/Mobilisational Aspects

One of the important ways to empower the disadvantaged labour in informal sector is to mobilise them effectively. The role of trade unions here is crucial. In recent times, trade unions have begun to move in this activity in a big way. But it is necessary to support the trade unions with suitable grants and schemes. The recent attempt by the ILO to involve the trade unions in the elimination of child labour is an excellent example as to how to support the trade unions in mobilising such labour.

Along with trade unions the NGOs should also be encouraged to attend to the needs of the informal sector labour. Wherever possible, both trade unions and NGOs can co-operate with each other.

The labour and self-employed should be encouraged to form workers co-operatives.

Support from trade unions for the formation of co-operatives, financial support from government and training inputs from academics to maintain the democratic character of the co-operatives can stimulate the development of workers co-operatives which can effectively contribute to the mobilisational efforts (Bhowmik, 1993). Organisation of labour boards as they exist for *hamals* in Maharashtra and Kerala should also be considered. In other words, a suitable model for mobilising the unorganised labour should be evolved.

Regulation Aspects

Some areas of the informal sector labour have to be regulated. The work environment and working conditions in export processing zones, free trade zones and industrial estates must be brought under strict regulations so that exploitative practices are curbed effectively. At the same time, excessively strict regulations regarding location, registration, and collateral securities should be relaxed selectively after proper review whenever possible. Similarly, eligibility requirements for the various concessional schemes must be made much easier for the self-employed in the informal sector.

Promotional Aspects

Policies and programmes must be planned that will raise the productivity and efficiency of labour and self-employed on the one hand and the income levels and social security on the other. It is highly important in the context of reforms and the changing role of the Planning Commission that development of informal sector is given a significant place. In several informal sector activities, like construction work, repair of domestic appliances, etc., at present adequate training facilities do not exist for labourers. In other words, more wider

network of facilities need to be built for this sector. Schemes like financing self-help groups by banks and concessional financing of the poor self-employed must be made more popular. Suggestions like satellite banking system and micro business development corporations (Lall and Mazumdar, 1995) also deserve serious consideration. The suggestion of district informal sector centres (Sathyaraju, 1989) is also worth considering.

Ancillary relationship between the informal sector and the organised sector needs to be built up to get the full advantage of linkage effects. Such attempts were seriously made only in the case of public sector enterprises. It is necessary to develop such linkages at all levels.

In several studies it has been found that a social network based on ethnicity, language, culture, etc., exists to help the informal sector labour to get jobs and survive. Such networks should be socially and politically fostered so that they can also act as powerful social, economic and political pressure groups as well as mobilising forces. Wherever such networks exist, they should be formalised and empowered in order to help the labour in the sector and to make the sector more organised.

CONCLUSION

Informal sector forms a significant part of the unorganised sector and therefore, the significance of its contribution cannot be minimised. Thus, concerted, integrated and harmonious efforts, policies and programmes are needed to raise the levels of living and ensure the development of the Indian informal sector which is crucial for the development of the Indian society as a whole.

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