THE INFORMAL SECTOR IN SOUTH ASIA: INTRODUCTION

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The classical development theories, based on a Lewisian framework, assumed that the traditional or informal sector would gradually shrink with the process of industrialisation, urbanisation, and modernisation. The prevalent view was that the informal sector, which occupied a large space in the economies of the developing countries, would gradually disappear with the enforcement of appropriate policies for the development of the modern sector that provided gainful employment in the formal sector. However, the contemporary evidence negates this truth. Instead, a voluminous empirical literature suggests that the informal sector is thriving along with the processes of modernisation and industrialisation.

There is, therefore, a growing concern to understand the nature and role of the informal sector in the development process in the developing world, particularly in the context wherein the United Nations (UN) has set ambitious targets to free a major portion of humanity from the shackles of extreme poverty, hunger, illiteracy, and disease. Since South Asia hosts almost two-thirds of the world’s poor, it is not surprising that existing surveys of the working population in South Asia show that a significant share of the working population here is located in the informal sector. This is because such workers do not find the opportunity to work in the well-paid and productive formal sector.

There are several ways of defining the informal sector—a simple and standard definition is that the informal sector is a set of units engaged in the production of goods and services without maintaining proper registration and complying with the existing industrial and labour laws. These informal units typically operate at a low level of organisation or household, without a detailed division of labour and capital, on one hand, and of family labour and hired labour, on the other hand, and are based mostly on casual employment, kinship or personal or social relations rather than contractual arrangements with formal guarantees, according to the National Commission for Enterprises in the Unorganised Sector (NCEUS), Government of India. Therefore, it can be argued that persons who do not find employment in the formal sector, are forced to participate in the informal sector for their survival as they cannot afford to be unemployed. This is the most acceptable way of defining the informal sector in low-income economies. An alternate view considers informality as a response of stringent regulatory and bureaucratic policies. This implies that it is vital to understand the extent to which the informality of a country is explained by under-development or by regulations. In case of the latter, it is important for policy-makers to identify the type of

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regulations or government policies that are detrimental to the growth of the formal sector. The nature and role of the informal sector in perpetuating poverty in South Asia, and the causes of the growth of the informal sector are issues that remain under-researched mainly due to the lack of sufficient information. The present volume attempts to address some of these issues on the basis of contemporary evidence drawn from South Asia. The papers included in the volume provide analytical studies, based on an in-depth analysis of both secondary and field level information, on the informal sector of the South Asian economies of Bangladesh, India, Nepal, and Sri Lanka.

The first paper by Kundu and Chakrabarti analyses the impacts of agrarian growth and land distribution and crop diversification on the informal sector in general. The paper establishes a non-monotonic relationship between farm size and non-farm activities wherein relatively large farmers opt for investment in non-agricultural informal activities in response to the prosperity in agriculture, and small farmers are forced to find alternatives to augment their incomes to sustain lives. The small farms tend to establish their linkages with the corporate sector out of distress.

According to Arunatilake and Jayawardena, more than 60 per cent of Sri Lanka’s labour force is employed in the informal sector. The size of the informal sector depends on factors relating to individual preferences, location characteristics, and labour market conditions affecting the occupational choice of individuals. Equitable economic development across various geographical regions and the improvement of the quality and relevance of education opportunities can promote formality in the economy, according to the authors.

The paper by Selim Raihan deals with the informal sector in Bangladesh and its implication for growth and poverty. The informal sector in the country captures around 80 per cent of the labour force and contributes around 64 per cent to the GDP. This paper conducts a Computable General Equilibrium (CGE) analysis to suggest that the growth in the formal sector leads to a growth in the informal sector as well, and that there are positive impacts on household welfare and poverty. The major driving forces behind the growth in the informal sector would be the rise in household demand for informal sector goods and services as well as the rise in demand for intermediate inputs. The paper shows a rising trend of the informal sector in absolute terms, but not in relative terms.

Agarwal and Dhakal conducted a detailed primary survey in the Chitwan district of Nepal to examine informality in Nepal. They find that informal sector activities are highly heterogeneous in terms of nature, scale, modernisation, investments, etc. Levels of literacy and household property have been found to be important determinants of income in this sector. Women are found to be more efficient and articulate as they have been using limited resources more efficiently and have been instrumental in mobilising greater support for the family labour. Households with women as the main workers in the informal sector show better demographic features with lower unemployment. With greater State support, it would be possible to improve the working conditions of people engaged in the informal sector, while also mitigating the problems of poverty and unemployment considerably.

Kathuria, Natarajan, and Sen analyse the productivity performance, including both the
partial and the total factor productivity, of the unorganised manufacturing sector in India for the 15 major states for the period 1994-95 to 2005-06, by using unit level data, collected by the National Sample Survey Organisation (NSS), Government of India. They find a fluctuating trend of productivity in the unorganised sector as total factor productivity grew at a rate of 7 per cent during the first period, that is, 1995-2001, but fell considerably during the second period, that is, 2001-2006, thereby registering a huge decline of 12.6 per cent. They notice an across-the-board increase in the capital-labour ratio over time in all the states but a slowdown in growth during the second period. They also find that capital intensity acted as a major driver of labour productivity in the informal sector. It is noteworthy that the production function estimates demonstrate that capital rather than labour play a significant role in the production process for the informal sector. The declining labour and total factor productivity on one hand and increasing capital intensity of the unorganised sector, on the other hand, is a cause for worry and raises the question of welfare improvement of the sector during the post-reform period.

Gopinath examines the Gandhian philosophy in shaping the public sector organisation, the Khadi Village Industries Commission (KVIC), in order to accelerate rural industrial employment. Contrary to Gandhiji’s assumption of achieving the basic socio-economic and wider objectives of the artisan’s well-being through implementation of the Khadi programme, the KVIC has not been effective in creating alternate occupations in the rural areas, due mainly to the lack of skill and demand. This organisation’s failure raises a concern as to how the well-being of the marginalised sections of the economy can be improved wherein the presence of Scheduled Castes (SCs) and women has been observed, to a large extent, in weaving and spinning, respectively. The author suggests that in order to improve the condition of the sector, more stress needs to be laid on encouraging innovation and skill formation.

Choudhary and Tayal examine the living and working conditions of labourers working in the plantation sector, a part of the organised agriculture sector in India and Sri Lanka, and show that they are subjected to similar hardships faced by the informal workers. Even the high level of unionisation and adequate legislation in the plantation economy of both the countries has not been effective in improving the conditions of the plantation labourers beyond a point. This paper also suggests that the effectiveness of any formalisation strategy would necessitate collective involvement and social dialogue among all the key players in the plantation sector.

Naagarajan analyses the social protection measures available to informal sector workers in the Coimbatore district of Tamil Nadu. This paper clearly shows that workers in the informal sector in Coimbatore face a high degree of employment and health insecurity. Workers here are found to toil for long hours. Casualisation and gender-based wage discrimination are widely prevalent. The workers have nobody to turn to for redressal of their woes, as the government is indifferent, the casual mechanism is tardy, and there is a major dilemma with regard to the unions. Due to the unhealthy and unhygienic nature of the production processes they are exposed to, around two-fifths of these informal workers are affected by occupational health hazards. No
specific healthcare protection is made available to these workers either by the government or by the employers. This insecurity is further pronounced due to the prevalence of various factors such as the long waiting period for access to health services; the high labour turnover; the informal nature of employer-employee relationships; and rising unemployment and under-employment.

Ghosh provides some evidences of innovativeness of women entrepreneurship in the marketing networks and the intermediation of rural non-farm products to cater to outside markets, and shows that these make them more viable than those who engage in direct selling. Production for local marketing through direct selling is a relatively easy and prevalent strategy but such a method is unsustainable in a modern economy wherein the rural enterprises have to compete with more organised firms. The paper draws the conclusion that entrepreneurial strategy must utilise both the lessons drawn from modern marketing and the strengths of the informal network-based traditional experience.

Kar conducts a primary survey of 130 households in two villages in the Mayurbhanj district of Orissa and arrives at the conclusion that factors like skill-based education, income, possession of land, and membership of self-help groups (SHGs) significantly influence the decision to opt for non-farm activities.

Roy depicts how informalisation has taken place in the public healthcare system in India since the early 1990s. According to the author, this not only influences the social consciousness, value systems, and working conditions of the workers, but also has an impact on the quality of healthcare. It is observed that with the selective outsourcing of non-clinical services, the responsibility of employing support staff is delegated to private contractors. Thus, in a scenario of contracting out of services and increasing informalisation of jobs, this paper delineates the relation between the nature of non-clinical service contracts and the organisation of the casual support staff members in the public sector hospitals of Kolkata.

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