



INFORMAL SECTOR: HOPES AND CHALLENGES

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ABSTRACT

In India, the term informal sector has not been used in the official statistics or in the National Account statistics (NAS). The terms used in India NAS are 'organized' and 'unorganized' sectors. The organized sector comprises enterprises for which the statistics are available from the budget document or report etc. On the other hand the unorganized sector refers to those enterprises whose activities or collection of data is not regulated under any legal provision or do not maintain any regular accounts. In the unorganized sector, in addition to the unincorporated properties or partnership enterprise or partnership enterprises or enterprises run by cooperatives societies, trust, private and limited companies are also covered. The informal sector can therefore, be considered as a sub-set of the unorganized sector.

KEYWORDS: Sector, Organized, Unorganized, Informal.

INTRODUCTION

Informal sector in India is broadly characterized as consisting of units engaged in the production of goods and services with the primary objectives of generating employment and incomes to the person concerned. These units typically operate at low level of organization with little or division between labour and capital as factor of production and on a small scale. Labour relations, where they exist, are based mostly on casual employment, kinship or personal or social relations rather than contractual arrangements with formal guarantees. Thus, production units in informal sector are not constituted as separate legal entities independently of household or household members that own them and for which no complete sets of accounts are available which would permit a clear distinction of the productive activities of the enterprises from the other activities of their owners. The owners of their production units have to raise the finance at their own risk and are personally liable, without limit, for any debts or obligations incurred in the production process. Expenditure for production is often indistinguishable from household expenditure. For statistical purpose, the informal sector is regarded as a group of production units, which form part of the household sector as household enterprises or equivalently, unincorporated enterprises owned by households.

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Magnitude of work force engaged in the unorganized or informal sector. The National Sample Survey Organization (NSSO) carried out a sample survey in 1999-2000 and its results showed that out of total work force of 397 million, only 28 million workers are employed in organized sector and remaining in the unorganized sector. It reveals that over decade, the employment in the organized sector has been almost stagnant or slightly declined.

In the light of definition of informal sector encompassing private unincorporated enterprises as mentioned above, NSS 55th round, 1999-2000 also covered non-agricultural enterprises in the informal sector in India. As per survey, there were 44.35 million enterprises and 79.71 million workers employed thereof in the non-agricultural informal sector of the economy. Among these 25.01 million enterprises employing 39.74 million workers in rural areas whereas 19.34 million enterprises with 39.97 million workers in the urban area. Among the workers engaged in the informal sector, 70.21 million are the full time and 9.5 million part times. Percentage of female workers to the total workers is 20.02 %.

RELEVANCY OF THE INFORMAL SECTOR IN INDIAN CONTEXT

Broadly, the informal sector provides income-earning opportunities for a larger number of workers. In India, there is large magnitude of workforce getting their livelihood from the informal sector. The enactment of legislations and other measures to bring them under the regulatory and social protections instruments will adversely affect the existing mechanism prevailing in the informal sector as it

would lead to market imperfections creating hurdles in the smooth functioning of the market led economy. Besides, it requires huge infrastructural and institutional arrangements involving financial implications beyond the capacity of the government in the changing scenario all over the world. The government has to play a role of facilitator and promoter so that the workers employed in the informal sector are able to get requisite level of protection and security to have decent work environment enabling them to express their skills fully and according to their capabilities necessary for enhancing the competitiveness of their outputs and thereby raising their income and socio-economic status.

IMPORTANCE OF INFORMAL SECTOR IN INDIAN ECONOMY

About 370 million workers constituting 92 % of the total workforce in a country were employed in the unorganized sector as per NSS Survey 1999 - 2000. It plays a vital role in terms of providing employment opportunity to large segment of the working force in the country and contributes to the national product significantly. The contribution of the unorganized sector to the net domestic product and its share in the total NDP at current prices has been over 60 %. In the matter of savings the share of household sector in the total gross domestic saving mainly unorganized sector is about three fourth.

Thus unorganized sector has a crucial role in our economy in terms of employment and its contribution to the National Domestic Product, savings and capital formation. At present Indian Economy is passing through a process of economy reforms and liberalization. During the process, merger, integration of various firms within the industry and upgradation of technology and other innovative measures take place to enhance competitiveness of the output both in terms of cost and qualitative to compete in the international market. The low inefficient units either away or merge with other ones performing better. In this situation, there is a special need to take care of the interests of the workers by providing them training, upgrading their skills and other measures to enable them to find new avenue of employment, improve their productivity in the existing employment, necessary to enhance the competitiveness of their product both in terms of quality and cost which is also help in improving their income and thereby raising their socio economics status. It has been experienced that formal sector could not provide adequate opportunities to accommodate the workforce in the country and informal sector has been providing employment for their subsistence and survival. Keeping in view the existing economic scenario, the unorganized sector will expand further in the years to come. Thus, it needs to be strengthened and activated so that it could act as a vehicle of employment provider and social development.

HOPES FOR INFORMAL SECTOR

The so-called informal sector is considered important in developing countries for its employment generation role and for its social cushioning effect. Globalization, however, has necessitated a re-examination of this sector from two angles - its sustainability and the jobless growth of the organized sector. Most informal sector activities such as handlooms, handicrafts and non-timber forest products (NTFPs), once considered job providers of the last resort, are now looked upon as activities with significant export potential.

Data available on the Indian small-scale industry sector, pending more disaggregated figures, reflect broadly the trade performance of the informal sector. While until 1970 the small-scale sector did not play any worthwhile role in the country's exports, its present share is around 35 %. If the share of traditional industries such as handicrafts, handlooms, coir and sericulture is added, it goes

up to about 50 %. Between 1992 - 93 and 1997 - 98, the share of manufactured items in SSI exports declined from 54.44 % to 52.84 %. Realizations from these products in dollar terms are low- for example, readymade garments (the most important item of SSI exports). There is a product concentration as well: 70 - 80 % of SSI exports are readymade garments, leather products, basic chemicals, marine and processed foods and some engineering items. However, the latent potential is enormous for items like leather products and fruits and vegetables.

Policy pronouncements in India often do not translated into action at the disaggregate level. For instance, while the Textile Policy is revised from time to time, its impact on related sub-sectors such as handlooms and carpets remains least explored. It is, therefore, important to spell out the dominant characteristics of an informal sector product in order to draw meaningful conclusions on their export potential.

MAJOR CHALLENGES

Informal sector products from developing countries have three distinctive features – strong backward linkages with agriculture; ethnic distinctiveness and high labour inputs on the production line. It is a heterogeneous basket and specifying the trade implications is difficult. In the case of NTFPs and dairy products, for example, the strong backward linkages with agriculture raise some relevant issues relating to market access. NTFPs is a generic term covering products such as medicinal plants, mushrooms, resins, saps and many other raw materials. Their market opportunities are influenced by the relevant WTO agreements relating to bio-diversity.

While for NTFPs there are several degrees of value addition, for other informal sector products, such differences are minimum. All informal sector products, in a technical sense, have two roles: use value and exchange value. The consumer looks for an appropriate mix of these. A handloom saree produced in India and a bamboo product turned out by a rural craftsman has several things in common. The competitiveness of a product in the international market is influenced by the balance between exchange value and use value, labour productivity and geographical distinctiveness.

MARKET ACCESS

The argument against protectionism is that it is market- distorting and hence not in the interest of any country. There is also a contrary argument that many protectionist instruments such as specific tariffs, antidumping measures, tariff quotas and a plethora of non-tariff barriers are not often taken into account. A recent study by ITC Geneva (2003) shows that market access is an unsolved issue with three major hurdles- specific tariffs, falling commodity prices and non-tariff barriers.

Specific tariffs, which are less transparent than ordinary (ad valorem) tariffs and discriminate against developing countries, are wide spread. While most countries levy ad valorem tariffs, some resort to specific tariffs. The latter tends to discriminate against exports from low –income countries whose producers often specialize in the lower price quality segment of the export markets. Because of specific tariffs, least developed and developing countries face market access barriers in OECD countries for their agricultural, textile and clothing exports.

International commodity prices, according to ITC data, are now at their lowest levels since the mid-1990s but the duties cannot come down. Because of specific tariffs in practice, developing countries and LDCs are witnessing an effective rise in protection. For textiles and clothing exporters from LDCs, tariff protection in term of ad valorem equivalence has actually increased. Business in OECD countries rose from 3 % to 5.5 % for textiles and from 7.5 % to 8.3 % for garment from LDCs.

Non-tariff barriers, such as food safety standards. Environmental certifications, plant and animal health standards, and other export quality stands are growing. LCDS are the most exposed to non –tariff barriers; while their impact on LDCs is 40%, it is only 15% on developing and transition economies.

The Uruguay round promised the elimination of quotas in 2004, enabling many developing countries to exploit another area of comparative advantage but many of them worry that trade restriction will remain whether through safe guard to protect jobs or through high tariffs. Even under preferential agreement that enable duty free access to markets by LDCs, non tariff barriers may block them. These compels exporter to diversify into markets with fewer non –tariff barriers but which may have higher tariff rates. Available data show that between 1996 and 2001 the share of duty free exports in total exports of LDCs fell sharply from 89 % to 61 %.

CBD AND TRIPS

Article (22) of the convention of Biodiversity (CBD) states that, where the performance of rights and obligations of any member countries under any international agreement threatens biological diversity, then the provision of CBD would prevail. Though the CBD recognizes the sovereign rights of a nation over its biological diversity, countries like the United States have particular interest in taking the UPOV (1991) patenting route which speaks only of breeder's rights.

Medicinal plants have been used in traditional medicines for centuries and hence cannot be protected by patents. They can be registered as individual or regional trademarks, with explicit rules of origin. Capitalizing on the ignorance of patent markets, biodiversity of plants or genes, which hampers the interests of exporters in developing countries, is becoming common. The Geographical Indication of Goods (Register & Protection) Act, 1999, provides for the establishment of a Geographical Indications Registry. However, follow-up steps in this area have not taken place to any significant extent.

Several NTFPs have wider industrial applications. These wide uses have the possibility of being challenged under non-tariff barriers such as eco-labeling, certification, standards, SPS and TBT. While much of India's NTFP'S exports are in unprocessed or semi-processed (extracts) form, these stringent norms are likely to affect Indian exports adversely.

Globalization compels governments to do sufficient homework on public policy. Governments in developing countries basically focus on two things:- supply side interventions and legislation or controls. The former include focus on new technology, quality control and similar aspects. The major initiatives in the latter category relate to simplification of labour laws and tax laws. While these are helpful to a great extent, the focus should be more at the level of organization.

Public policy, to be meaningful, should focus on sub-sectoral understanding of issues. In the case of most export oriented informal sector products, public policy has followed the usual 'more of the same thing' attitude. In the case of NTFPs, specific sub-sectors of export potential have not yet been identified and development policies structured accordingly. While the focus so far has largely been on medicinal plants, the legal, stipulations relating to their exports still remain rather cumbersome. Certification procedures are crude. Standardizations of phytochemicals has not taken place significantly. Crucial sub-sectors like bamboo remain outside policy attention though a National Policy for the bamboo sector has been announced.

While the new textile agreement is likely to affect countries with low exports most India's initiatives to derive the benefit under the new regime are limited. The complete opening –up of the market is also likely to witness enhanced outsourcing of handloom – related processes into the south countries including India. While cheap labour is the major attraction, India has not yet been able to capitalize on such a situation through enhanced productivity. In the handicrafts sector, the initiatives so far have not led to an integrated development package. The latest Exim policy recognizes the need for promoting towns of export excellence. However, the cluster-based strategies advocated do not go very much into the details of scientific development of handicrafts, protection of geographical indication, though legislated, has not yet reached the action phase.

Public policy interventions are mostly of an 'all-purpose' nature. For instance, strategies like 'clusters', common with most ministries, requires a clear understanding of the production to consumption systems (PCSs), organic structure of organization and inter-industry or inter-activity linkages. Unfortunately, none of these is taken care of today. Targets are more important than the content Globalization has created a general illusion of purely economic solutions! For opposing globalization, as well as for being in that bandwagon, one need to intelligent homework.

CONCLUSIONS

Thus, Informal sector products from developing countries have three distinctive features – strong backward linkages with agriculture; ethnic distinctiveness and high labour inputs on the production line. It is a heterogeneous basket and specifying the trade implications is difficult. In the case of NTFPs and dairy products, for example, the strong backward linkages with agriculture raise some relevant issues relating to market access. NTFPs is a generic term covering products such as medicinal plants, mushrooms, resins, saps and many other raw materials. Their market opportunities are influenced by the relevant WTO agreements relating to bio-diversity.

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