Chapter - IX
SUMMARY OF CONCLUSIONS AND THEIR POLICY IMPLICATIONS

The conclusions obtained in different chapters of the present study have been put under 11 sub-headings along with the policy implications wherever necessary.

9.1 Employment Situation in the Country and the Role of Informal Sector (IS)

9.1.1 Employment Situation
If we compare the employment growth of two periods viz 1983 to 1993-94 and 1993-94 to 2004-05, it was slightly lower in the second period (i.e. 1.92 per cent per annum) as compared to first period (i.e. 2.02 per cent per annum). Further if we compare these growth rates of two sub-periods viz 1993-94 to 1999-00 and 1999-00 to 2004-05 of the second period, then the growth of the sub-period 1993-94 to 1999-00 (i.e. 1.03 per cent) was much lower than the sub-period 1999-00 to 2004-05 (i.e. 3.00 per cent). This shows that there is some improvement in the employment growth during the early twenties. (Section 3.1)

Unemployment rate in the country as per usual status, principal and subsidiary combined (UPSS) is still quite high. It was 1.97 per cent in the year 1993-94, which increased to 2.20 per cent in the year 1999-00, but during the next five years (i.e. 1999-00 to 2004-05) it remained almost stable. If we compare the unemployment among rural and urban areas, it was three to four times in urban areas as compared to rural areas in all the years. (Section 3.1)

In a poor country like India, it is observed that underemployment is the main problem of unemployment. People cannot wait for a gainful employment. They have to do some work, irrespective of the low wages and of the poor conditions of work. This is the reason that the number of persons below poverty line is much higher than the number of persons with open unemployment captured by the usual status. During the last decade underemployment has increased in rural as well as urban areas. In case of rural males, out of 1,000 usually employed, 40 were unemployed as per Current Daily Status (CDS) in 1993-94, but in 2004-05, number of such unemployed increased to 61. In case of rural females, this number has increased from 30 to 47 during this period. In the case of urban areas; out of 1,000 usually employed 27 and 24 were unemployed for males and females as per CDS in the year 1993-94 but it increased to 41 for males and 31 for females during the year 2004-05. (Section 3.1)
To get an alternative idea of underemployment one can see the difference between the unemployment rates by usual status and by current daily status. In rural areas, the unemployment rates by CDS are much higher than those by UPSS. In rural areas for males it was 1.6 per cent by UPSS and 8.0 per cent by CDS, and for females it was 1.8 per cent by UPSS and 8.7 per cent by CDS during the year 2004-05. In urban areas during that year, for males it was 3.8 per cent by UPSS and 7.5 per cent by CDS and for females it was 6.9 per cent by UPSS and 11.6 per cent by CDS. Similar pattern has been observed in previous rounds also. It shows that although, there is some improvement in employment growth during the early twenties but this growth is mainly in the casual employment and not the regular employment.

(Section 3.1)

9.1.2 Role of Informal Sector (IS)

IS in India absorbs a large segment of labour force and contributes significantly to the national domestic product (The two terms ‘informal sector’ and ‘unorganised sector have been used interchangeably in this report). In case of employment, 93 per cent of the total employment is in IS. Even in urban areas where there is concentration of formal sector, about 70 per cent of the employment is in IS. In the non-agriculture sector, if we consider rural and urban together, about 69 per cent of the employment is in IS. In terms of net domestic product (NDP) also, about 59 per cent of its share was contributed by the IS in the year 1999-2000. In agricultural activities (including forestry and fishing) its contribution to total NDP during that year was more than 96 per cent.

(Section 1.1.1)

Despite informal sectors' large contribution in providing employment and generating income the government policies and regulations are not favourable to this sector. The existing regulations are non-transparent and ambiguous. This is the reason, they want to remain outside the regulatory net of the government. In most of the cities, IS enterprises are either not recognised at all, or are discriminated against, or at least have very low quality premises for which they have to pay rent.

(Section 1.1.1)

In spite of the unfavourable government policies and regulations towards informal sector which may roughly be taken as unorganized sector, there are high expectations from this sector to generate employment for all new unemployed who are joining the labour force and to absorb the existing backlog of unemployed in the country.

(Section 1.1.1)
The ILO considers informal sector a single sector, which comprises of units engaged in different types of activities. The activities in which these units are engaged encompass manufacturing, repair services, construction, transport, trade including restaurants and services. Due to different types of activities in this sector, there is lot of heterogeneity in the sector. This heterogeneity would further increase in a country like India, where different states have different policies and regulations for the sector. If we want to generate the required amount of employment with a sustainable level of productivity in this sector, we would have to prioritise our policies by finding commonalities in this sector. Keeping these facts in view, it was considered very important to study the informal sector along with its heterogeneity. (Section 1.1.1)

9.2 Data Sources and Their Limitations

Important sources of the estimates of enterprises, employment and other characteristics are: National Sample Survey Organisation (NSSO)/Central Statistical Organisation (CSO), Registrar General of Population Census, Director General of Employment and Training (DGE&T) and Annual Survey of Industries (ASI). However there are some differences in their estimates which need to be reduced by taking the appropriate steps by the Ministry of Statistics and Programme Implementation, Government of India which is the Co-ordinating Agency. (Sections 2.2 to 2.6)

Under the existing situation, selection of a data source for analysis should depend on the objective of the analysis and the level (area) at which we want to study. Best source of employment and unemployment estimates at national and state level is Quinquennial Surveys on Employment and Unemployment conducted by the NSSO. Employment estimates at decentralised level (i.e. district/ block/ town/ village) may be obtained from either Population Census or Economic Census data. But these estimates are slightly lower than the estimates given by Employment and Unemployment surveys of NSSO. If we want to have an idea of absolute estimates, some correction factor need to be applied to the decentralised level estimates given by population censuses or economic censuses. Follow-up surveys conducted by NSSO or CSO after each economic censuses is the only source which gives detailed information for informal/unorganised sector. Formal sector data relating to number of enterprises, workers and other techno-economic parameters can be obtained either from ASI or from Employment Market Information (EMI) data collected by DGE&T. Follow-up surveys on informal sector being enterprise surveys do not cover some of the
household activities and give lower estimates. Again, a correction factor needs to be applied to the information obtained from these follow up surveys for having an exact idea of the absolute values. (Sections 2.2 to 2.6)

However, if we are analysing the ratios or the growth trends obtained from these follow-up surveys, we may use the data without applying any correction factor also. Similarly, while analysing the trends of the employment data from population census or economic census, we may use the data without applying any correction factor.

(Sections 2.2 to 2.6)

9.3 Trends in Units, Employment and Productivity of Informal Manufacturing in Urban India

9.3.1 Trends in Units and Employment

As per economic censuses, the annual growth rates of enterprises and employment for all the non-agricultural industrial groups combined have been observed to decrease for urban as well as rural areas during the period 1990-98 in comparison to that for the period 1980-90. In urban areas the growth rates in number of enterprises and employment were 3.55 per cent and 2.81 per cent respectively during the Eighties. These have decreased significantly to 2.50 and 1.34 during the period 1990-98. The growth pattern during this period in the case of Own Account Enterprises (OAEs), which constitutes over 70 per cent of all enterprises in the year 1998, has been similar. Annual growth rates of number of enterprises and employment were 2.99 per cent and 2.57 per cent respectively during the eighties. These have decreased to 2.37 and 2.22 during the period. (Section 3.2.1)

This data also shows that the share of manufacturing to total non-agricultural enterprises has declined in recent decades. In urban areas, the percentage share of manufacturing enterprises was 30.21 per cent in 1980, which reduced to 19.12 per cent in 1990 and to 16.33 per cent in 1998. (Section 3.2.1)

In case of Population Census data, the percentage share of manufacturing (household as well as non-household) in the urban workforce has gone down during the Seventies and the Eighties. But this share has increased during the Nineties. In the case of households manufacturing, the corresponding share for males was 4.2 per cent in 1981, which declined to 2.5 per cent in 1991 but again rose to 3.5 per cent in 2001. (Section 3.2.1)
A trend similar to Population Census has been observed from employment data in different NSS rounds relating to employment and unemployment in urban areas. Considering only the usually employed persons as per principal and subsidiary status, the share of male workers in the manufacturing sector has come down from 27.6 per cent in 1977-78 to 25.7 per cent in 1987-87 to 23.5 per cent in 1993-94 and further to 22.4 per cent in 1999-00. However, in the latest round of NSSO conducted in the year 2004-05, reversal of this trend has been noticed. The share of male manufacturing workers has increased from 22.4 per in the year 1999-00 to 23.5 per cent in the year 2004-05. Some researchers have argued that of late, some impact of liberal industrial policies has been noticed on the informal manufacturing sector. (Section 3.2.1)

NSS data relating to follow-up surveys on unorganised sector further confirms the trend shown by Employment and Unemployment Surveys conducted by NSSO and Population Census. In case of manufacturing follow-up surveys we have assumed that the period 1978-79 to 1989-90 was the Partial-reform period, the period 1989-90 to 1994-95 was the Post-reform Period I and the period 1994-95 to 2000-01 was the Post-reform Period II. With this assumption it is observed that growth per year in the units and employment in manufacturing sector has decreased during the Post-reform Period I as compared to Partial-reform Period, but it picked up during the Post-reform Period II. In case of units, growth rate per year during the Partial-reform Period was very high (i.e 6.15 per cent) but there was a negative growth (i.e 2.31 per cent) during the Post-reform Period I and again the growth rate increased to 2.72 per cent during the Post-reform Period II. In case of Employment, growth rate per year during the Partial-reform Period was 6.25 per cent but there was a negative growth (i.e. 1.31 per cent) during the Post-reform Period I and again it increased to 1.86 per cent during the Post-reform Period II. (Section 3.2.1)

Some Researchers attributed the growth in informal manufacturing sector in Post-reform Period II to liberalization of industrial and trade policies. According to them, impact of these policies have resulted in the increase in employment not in large establishments of manufacturing sector, but in small and medium-size factories of manufacturing sector, which have made a significant contribution to employment growth in this period. It is possible that such growth of employment in small-sized formal sector has spilled over to the informal sector in the last period. (Section 3.2.1)

Based on the above trend, one would argue that the share of employment in the manufacturing sector is not stable. The share of informal sector employment is
also not stable within the manufacturing sector employment. If this trend continues, informal sector can not absorb the surplus labour force of the country in the near future. (Section 3.2.1)

It is also worth mentioning that the average size of employment per enterprise is very less in all the industries of informal sector and in some industries (i.e. manufacturing, trade and other services) it has further decreased during the last two decades. The enterprises with employment less than 10, enjoy exemption under various social security legislations. This has made the coverage of informal sector workers under social security schemes extremely difficult. Secondly, increase of underemployment has made this task still more difficult. (Section 3.2.1)

9.3.2 Trends in Productivity
In the beginning of eighties, agriculture sector had the largest share of employment in the country, and labour productivity (LP) of this sector was lowest among all the sectors. Further reduction in productivity growth of this sector during the Nineties as compared to the Eighties might have increased the inequality in the country during this period. There was consistent fall in the growth rate of LP of Informal Manufacturing Sector (IMS) during the periods 1984-89, 1989-94 and 1994-2000 in urban areas. (Section 3.2.2)

Another interesting point to be observed is that growth of labour productivity in the Post-reform Period I, 1989-90 to 1994-95, is lower (i.e. 3.3 per cent per annum) than the Partial-reform Period, 1984-85 to 1989-90 (i.e. 3.96 per cent per annum) and Post-reform Period II, 1994-95 to 2000-01 (i.e. 5.13 per cent per annum). This trend has been observed for the total economy (manufacturing sector and informal manufacturing sector), rural and urban areas combined. However, as discussed above, growth of labour productivity for informal manufacturing sector in urban areas has consistently fallen in these periods. LP of informal manufacturing sector was low in the country as compared to the total economy and manufacturing sector as a whole. Growth in the productivity of IMS was also lower in comparison to that of manufacturing sector. This decrease in the growth of LP of IMS, which constitutes a very large share of manufacturing sector, during the Nineties as compared to the Eighties might have deteriorated the condition of IMS workers in comparison to formal manufacturing sector workers in the country. This again shows that inequality in the
country has increased in the last decade, which needs to be checked through appropriate policies. (Section 3.2.2)

Capital productivity (CP) of manufacturing sector was lower than that of total economy in all the years. Further, productivity of manufacturing sector decreased from 0.26 in the year 1984-85 to 0.19 in the year 1999-2000. Because of such a large decrease in CP, one may perhaps argue with some validity that the machinery of manufacturing sector is outdated and for maintaining the existing growth of NDP and to compete with the outside world, heavy investments need to be made to replace the outdated machinery of this sector. Similar trend has been observed for IMS. Its CP was 0.92 in the year 1984-85, which reduced to 0.79 in the year 2000-01. In contrast to CP, there was an increasing trend for capital intensity (CI) in the country as a whole. But in urban areas the situation of CI was slightly better for IMS during the late nineties i.e. its value has decreased. There was a steep rise in the growth rates of CI of IMS during the period 1984-94, but in late nineties it has fallen sharply. Keeping these points in view government policies for providing loans to informal sector workers should be liberalised. (Section 3.2.2)

It is good that with the growth of CI, there has been a corresponding growth of LP also in the country. If we compare the growth rate of CI and LP for the economy as a whole during the period 1984-85 to 2000-01, growth of LP was 6.15 per cent per annum and that of CI was 3.15 per cent per annum. But if we compare these growth rates for manufacturing and informal manufacturing sector, growth rates of LP (MS: 6.25, IMS: 6.33) were lower than the growth rates of CI (MS: 9.16 and IMS: 7.75). (Section 3.2.2)

There was a high rate of decrease in employment elasticity of IMS (i.e. 0.64 during 1984-89 to 0.43 during 1994-2000) for the total economy in the country. However, in urban areas it was found to be fluctuating. It was 0.67 during the period 1984-89 which decreased to 0.05 during the period 1989-94 and increased to 0.75 during the period 1994-2000. With this one may argue that in the near future, even with the existing rate of growth of domestic product, employment growth is going to be lower than the past. (Section 3.2.2)

Very low labour productivity of Own Account Manufacturing Enterprises (OAME) creates a doubt whether this could constitute the sole income source of persons engaged in these manufacturing enterprises. One may argue that either they have other sources of income or there is under-reporting of gross value added by the
NSSO/CSO. If these workers have really low productivity, then these enterprises are being run simply as a means of survival. In other words, they continue in their business because they are unable to find any alternative work which is more productive. Otherwise, data sources need to be checked whether the manufacturing enterprises have some other sources of income as well. (Section 3.2.2.)

Within the informal sector, there was a decreasing trend of labour productivity and capital productivity, and increasing trend of capital intensity for OAMEs, non-directory manufacturing enterprises (NDMEs) and directory manufacturing enterprises (DMEs) during the eighties and nineties in urban areas. With this trend, particularly of OAMEs, one may argue that credit for fixed capital formation may be required, not only to increase the productivity of workers but also to ensure the survival capacity of informal sector. (Section 3.2.2)

9.4 Changing Composition of Industries at Two-Digit Level within Informal Sector: India

At two-digit level, the industries have been placed in four categories based on their performance indicators. The first or the dynamic category comprises those that register positive growth in all the four dimensions i.e. total number of enterprises (NE), total employment (TE), value added per worker (VAW), and value added per enterprise (VAE). The second category comprises the industries that show a positive growth in value-added per enterprise and value added per worker but a negative growth in either employment or in number of units. Those that exhibit positive growth in the two value-added indicators but a negative growth in both units as well as employment are placed in third category. The last category, the problem category comprises those that register negative growth in value added per worker or value added per enterprise. We find inconsistencies in the growth pattern in the three types of enterprises (i.e. OAMEs, NDMEs & DMEs) within the informal manufacturing sector. In other words, there are not many industrial groups at two digit-level that consistently belong to one growth category in all the three time points under study. "Randomness" in their movements underlines the fact that the performance of these industries are characterised by tremendous fluctuations. This could be due to factors that are partly internal but mostly external to the operation of the enterprises. This also shows that there is a lot of heterogeneity in the informal sector and different strategies are needed for its development in different regions. (Section 3.3)
Growth in number of units and employment in the informal sector in all the three size class of enterprises (OAME, NDME and DME) was positive and high during 1978-89. During the subsequent five-year period (1989-94), there has been a reversal of the pattern. Again the performance has improved during the period 1994-2000 as compared to previous five-year period 1989-90. But still the growth rates of last period were less than those of the first period (1978-89). When we compare the growth rates in value added per worker or value added per enterprise (at constant prices), it is very high in the first period as compared to second period. In the third period, again, growth in these value added indicators has increased. There was a slump in this sector during the second period and as a consequence a large number of units have either closed down or merged with other units. This could be responsible for general reduction in working capital and fixed capital per worker in many of the industrial groups.

Section 3.3)

If we compare the number of dynamic industrial groups at two digit level in all the three segments (i.e. OAME, NDME & DME), there were seven such groups during the first period (1978-89), one in the second period (1989-94) and five in the third period (1994-2000). In the first period, these industrial groups were: food products, beverage, tobacco etc; manufacturing of textiles, paper and printing, chemicals etc, rubber, petroleum etc, and other manufacturing. In the second period (1989-94), it was: leather and fur products and in the third period (1994-2000), these were: food products; manufacture of textiles; textile products; non-metallic products; and machinery, tools and parts. (Section 3.3)

Some of the industrial groups have reported growth in value added indicators despite decrease in number of units and employment. Importantly, each group has a mix of both traditional and modern activities. The decline in the number of units would be due to the tough competition among the entrepreneurs of the units, based on traditional technology whose units have become non-viable. The growth in value added could be explained in terms of emergence of units based on modern technology in the same industry. (Section 3.3)

A number of industrial groups have reported growth in their number of units and employment despite decrease in value added. This is difficult to explain why entrepreneurs should go in for business in industries or employ additional workers in the industries that are showing decline in productivity. One may attribute this again to under-reporting of value added/earnings due to administrative or legal constraints.
Alternately, one may hypothesise that people continue in their traditional or family operations irrespective of considerations of earning per worker or value added per enterprise. Finally, deficiencies of data if any, need to be looked into in great detail. (Section 3.3)

9.5 Linkages of Informal Manufacturing Sector: India

9.5.1 Linkages Between Formal and Informal Sector

In this section three types of linkages have been discussed by using the secondary data available from the surveys conducted by CSO and NSSO. These are through labour market, product/service market and technology transfer. (Section 3.4)

Labour market linkages between formal and informal sector have been established through attempts at measuring the labour flexibility in the formal sector firms. External Labour Flexibility has been measured by using the secondary data available from Annual Survey of Industries for the years 1995-96 and 2001-02. It gives proportion of workers employed through contractors by the organized manufacturing sector firms. (Section 3.4)

It is observed that labour flexibility has increased by hiring the workers through contractors, both among total employees and total workers. It is argued that the rise in flexibility in the firms has largely been possible after the labour law legislations introduced in the latter half of the nineties, which allowed firms with less than 100 workers to retrench. While contract labour increased employment opportunities for workers in the informal labour market, it is seen as one of the negative impact of the economic reforms process. The jobs created by this form of linkage are of poor quality with no social security benefits that would be available to them if they were permanent employees of formal sector firms. (Section 3.4)

Product market linkages have been established by the inter-firm linkage in the informal manufacturing sector for two years 1994-95 and 2001-01. The data obtained from the follow-up surveys conducted by NSSO and CSO was used. However the data obtained for the two years is not comparable. In the year 1994-95, informal manufacturing survey had a direct question with regard to 'whether the enterprise was ancillary to the parent firm or not'. In the year 2000-01, the survey introduced a new question, 'does the enterprise undertake any work on contract basis or not?' This year gave a broader interpretation to the question of subcontracting as compared to the year 1994-95. (Section 3.4)
It was observed from this data that in the year 1994-95, only about 4 per cent of the units were ancillary to the parent firm. In the year 2000-01, the proportion of informal sector firms undertaking subcontract work was 31 per cent. If we compare the firms, undertaking subcontract work by location, it was observed that it was higher among the firms operating from home (36 per cent) compared to those operating outside (19 per cent) during the year 2000-01.

(Section 3.4)

Besides subcontracting production work, the firms are also linked through contracting the services. Service contracting includes ‘subcontracting-in services’ and ‘subcontracting-out services’. Subcontracting-in services were captured in the informal manufacturing surveys through the ‘receipts from services provided to others including commission charges’. Subcontracted-out services were captured in these surveys by asking a question on ‘service charges for work done by other concerns’ (contract, subcontract, legal, audit, advertising and other accounting services, warehousing expenses, commission expenses, etc.).

(Section 3.4)

In the year 2000-01, about 2/3rd firms were contracting-in their services. These firms provided their services to other firms. Percentage of firms contracting-in services was less for the higher size firms as compared to lower size firms. In other words, higher the size of firm, lesser was the percentage of such firms which provided their services to the other firms. This means smaller firms were more dependent on such contracting. Receipts of these contracting-in services was 70 per cent of the total receipts through services.

(Section 3.4)

Percentage of firms which contracted out to other concerns was very less (13 per cent) as compared to the firm which contracted-in (67 per cent) in that year. Percentage of firms which contracted-out was highest among DME firms (42 per cent) followed by NDME (24 per cent) and OAME (10 per cent). Value of subcontracted-out work in total expenses was still lower (about 7 per cent).

(Section 3.2.4)

Nature of subcontracting undertaken by the firms, in terms of whether it is ‘vertical’ or ‘horizontal’ has been analysed. ‘Vertical subcontracting’ is that in which the firm is fully dependent upon the parent firm/middleman/contractor to supply the raw material, design and equipment. ‘Horizontal subcontracting’ is that in which the firm arranges its raw material, design and equipment by itself. In other words, a vertical subcontractor is a dependent producer and a horizontal subcontractor is an
independent producer. Vertical subcontracting is in the nature of transfer of technology as the firm receives from the raw material, design and equipment. (Section 3.4)

In the unorganized manufacturing sector survey 2000-01, it was observed that percentage of firms undertaking horizontal subcontracting was very less (1.3 per cent) as compared to the percentage of firms undertaking vertical subcontracting (26.8 per cent). Thus, it was found that a large proportion of dependent producers manufactured products based on the specifications of the parent firm/middleman/contractor. Vertical sub-contracting of this nature is beneficial to the workers since it enhances their skill levels. (Section 3.4)

9.5.2 Linkages within Informal Manufacturing Sector (Among OAMEs, NDMEs and DMEs)

Industry-wise performance of one type of segment in comparison to the other type (viz., NDME with respect to OAME, DME with respect to OAME and DME with to NDME) has been analysed for the two periods viz., 1989-94 and 1994-2000. As discussed above, at two digit level the industries have been placed in four categories (category I, category II, category III and category IV) based on their performance during the year. (Section 3.4)

During the period 1989-94, if we look at the performance category of 15 different type of NDMEs with respect to 15 different types of OAMEs, it is observed that, out of 15 industries at two-digit level, only five industries (33.3 per cent) have the same performance category and the other ten industries (i.e. 66.7 per cent) have different performance categories. Similarly, 33.3 per cent of DME industries have the same performance category as those of OAME industries and 53.3 per cent of the DME industries have the same performance category as those of NDME industries. Similar trend has been observed for the period 1994-2000. (Section 3.4)

This shows that there is a low level of linkage (relationship) in the growth performance among OAME, NDME and DME. Secondly, the linkage is more among the segments of OAME and NDME, and the segments of NDME and DME as compared to the segments of OAME and DME. In other words, the higher the difference in the size of employment of the two segments lower is the linkage among the segments, the lower the difference in the size of employment of the two segments higher is the linkage among the segments. (Section 3.4)
Linkages among OAME, NDME and DME segments was also estimated by calculating the correlation co-efficients between the industry-wise growth rates of four indicators (i.e. NE, TE, VAE, and VAW) of these segments for two periods viz., 1989-94 and 1994-2000. (Section 3.4)

During the period 1989-94, it is observed that correlation co-efficient is not significant even for a single set of observation, out of the 12 set of observations. Again during the second period, i.e. 1994-2000, out of 12 set of observations, correlation co-efficient is significant at one per cent level of significance for four cases only. There is not a single case for which correlation coefficient is significant at 5 per cent level of significance. This again shows that there is some linkage among OAME, NDME and DME segments but it is a low type of linkage. (Section 3.4)

Secondly all the four set of observations for which the correlation coefficient is significant, each set of the four sets of observation contains either lowest size of employment (OAME) and middle size employment (NDME) or middle size employment (NDME) and highest size employment (DME). In all other cases the correlation coefficient between the observations of lowest size employment (OAME) and highest size employment (DME) is insignificant. (Section 3.4)

This again shows that higher the difference in size of employment of the two segments lower is the linkage among the segments, and lower the difference in size of employment of the two segments higher is the linkage among the segments. (Section 3.4)

9.6 Pattern of Interdependencies within Informal Manufacturing Sector in Urban India

Correlation exercises for the 18 performance indicators for the three segments (i.e. OAME, NDME and DME), of the informal manufacturing sector in urban areas, at five points of time viz., 1978-79, 1984-85, 1989-90, 1994-95 and 2000-01 were carried out. Number of observations in each case varied from 18 to 22, depending upon the number of two-digit industrial groups for which NSS was available in different rounds. It indicated that the growth in the units and employment are guided mainly by the survival strategy and macro economic circumstances are unfavourable to the workers of informal manufacturing workers in urban areas. Consequently, we find the employment indicators (total employment, full-time employment, and part-time employment) to be positively associated only among themselves. One can argue that
the employment projections of massive labour absorption in the informal sector made by policy makers are over-optimistic. (Sections 4.1 to 4.4)

There has however been an increase in the average employment size of enterprises during certain periods. Unfortunately, it does not correspond any pattern with improvements in performance or efficiency, and shows different pattern for OAMEs, NDMEs and DMEs. Growth in units and employment of informal sector is not linked with the performance of the enterprises indicating that a large part of the growth may be due to excess labour supply in informal market. (Section 4.1 to 4.4)

The analysis of interdependencies among these indicators further reveals that access to credit, fixed capital, working capital, land and official registration are the factors which improve the performance of informal sector enterprises. Credit is the single-most important factor in effective functioning of the units. In other words, these are the factors which increase the value added per worker and value added per enterprise. Outstanding loan per enterprise is related positively with working capital and other capital assets. The ownership-based units that are not registered with any public agency constitute the majority of the informal sector enterprises. They have no access to loan and assets but continue their operation, despite the low value added per enterprise or per worker as a part of their survival strategy. Their other performance indicators are also highly unfavourable and becoming so over time. Having a piece of land however helps in getting credits and building the capital assets but only a small number of OAME, NDME and DME units have been able to do that. (Sections 4.1 to 4.4)

9.7 Trends in Units, Employment and Productivity, and Pattern of Interdependencies within various Components of Informal Manufacturing Sector in Urban Areas: Rajasthan

9.7.1 Trends of Net State Domestic Product and Employment of Rajasthan in Comparison to All India

Employment growth per annum in Rajasthan has increased from 0.79 per cent (during the period 1993 to 1999) to 3.30 per cent (during the period 1999-2004). In urban areas of the state, these rates have increased from 2.06 per cent to 4.36 per cent during these two periods. Similar trend has been observed for the manufacturing sector employment in the state. In contrast to employment, growth in domestic product has
increased sharply after 1999-00. In the case of net domestic product, growth rate per annum, has decreased from 9.26 per cent (during the period 1993 to 1999) to 1.64 per cent (during the period 1999 to 2001) in the state as a whole and from 17.64 per cent to 3.80 per cent in the manufacturing sector. Due to this decrease in the growth of net domestic product, the productivity growth rate has also decreased during 1999-2001 as compared to the period 1993-1999. In the state as a whole it has decreased from 6.82 per cent (during 1993-1999) to 0.66 per cent (during 1999-2001), whereas in manufacturing sector it has decreased from 9.52 per cent (during 1993-1999) to 2.54 per cent (during 1999-2001).

9.7.2 Trends of Units and Employment for Informal Manufacturing Sector in the State

Like all India, as per the economic census, the annual growth rates of enterprises and employment in the State for all non-agricultural activities combined have been observed to decrease during the period 1990-98 in comparison to that for the period 1980-90. The growth rates were 2.34 per cent and 2.24 per cent for enterprises and employment respectively during the Eighties. These rates have decreased significantly to 2.07 per cent and 1.75 per cent during the period 1990-98. Similar growth pattern has been observed for non-agricultural activities in urban areas of the state. However, the growth pattern in case of own account enterprises (OAEs), which constitutes about 72 per cent of all enterprises in the year 1998, has not been similar to total non-agricultural enterprises. Growth rates of enterprises as well as employment for OAEs were higher for the period 1990-98 than those of the period 1980-90. Similar trend has been observed in urban areas of the state.

Another significant phenomenon observed by this data is that the share of manufacturing enterprises to total non-agricultural enterprises and the share of manufacturing sector employment to total non-agricultural sector employment has declined from the year 1990 to 1998. This trend has been observed in rural as well as in urban areas. Similar trend has been observed for OAMEs also. This is in contrast to the trend of OAEs in the state. This shows that in Rajasthan, the performance of OAMEs in terms of their growth in
number of enterprises and employment is not as good as OAEs of other non-agricultural sectors. (Section 5.2)

Importantly, the data from population censuses and follow-up surveys relating to informal manufacturing sector of the state conducted by NSSO confirms the trend. (Section 5.2)

Based on the above discussion one may argue that as in the case of all India, the share of employment in manufacturing sector in the state has gone down significantly in the eighties but there was some improvement in the Nineties. The state has developed faster during the nineties, but the share of informal manufacturing sector could not be maintained, rather it has gone down. In contrast to this, employment growth of other informal enterprises of non-agriculture sector (viz whole sale trade, transport, communication, and financial insurance, real estate etc.) was better than those of informal manufacturing enterprises in the state. Another disturbing fact is the low and decreasing average size of workers per enterprise in the Nineties. Decrease in average size of employment would further reduce the coverage of informal sector workers of the state in the social security schemes. (Section 5.2)

9.7.3 Trends of Productivity in Informal Manufacturing Sector in the State

If we see the trend of growth in LP of IMS workers in the state, it has increased during the nineties as compared to the late eighties. Productivity growth per annum of OAME and NDME combined has increased from 3.21 per cent per annum during 1984-89 to 5.24 per cent per annum during 1989-2000. (Section 5.3)

In urban areas within the informal sector of the state, labour productivity of workers of OAME was much less than those of NDME and the LP of the workers of NDME was much less than those of DME. In the year 2000-01, LP of workers of OAME, NDME and DME was Rs.12,931, Rs. 26,632 and Rs. 30,709 respectively. Another important point to be mentioned is the low growth of LP of IMS as compared to that of manufacturing sector and the total economy of the state. During the period 1993-1999, there was high growth in the average productivity of Rajasthan State as a whole (i.e. 6.8 per cent per annum) and also in the average productivity of workers of manufacturing sector (i.e. 9.5 per cent per annum). As compared to this average productivity of IMS workers of OAME and NDME combined, has increased at the rate of 5.2 per cent per annum only during the period 1989-2000. Within the manufacturing sector, IMS constitutes a very large share of employment. Lower growth of LP of IMS,
as compared to manufacturing sector might have deteriorated the condition of IMS workers in comparison to formal manufacturing sector workers of the state in the Nineties. (Section 5.3)

9.7.4 Changing Composition of Industries at two Digit Level Within Informal Sector in the State

While analysing the composition of industries within the informal sector of Rajasthan, it was observed that there were a number of industries showing positive growth in value addition indicators despite a negative growth in the number of units and employment during a particular period. These groups of industries have a mix of both traditional and modern activities. The decline in the number of units could be due to the tough competition among the entrepreneurs making the units based on traditional technology non-viable. The growth in value added could be explained in terms of emergence of units based on modern technology in the same industry. (Section 5.4)

If we look at the performance of all the industrial categories of informal manufacturing sector in the three periods, we can say that in the first period (1978-84) seven industrial groups of OAME & NDME were in the dynamic category (category I). These seven industrial groups were: food products; textiles products; wood, furniture etc; paper and printing; chemicals etc, non-metallic products, and metal products. In the next period (1984-89) three industrial groups of OAME as well as NDME were in this category. These were: wood, furniture etc, paper and printing, and non metallic products. In the last period (1989-2000) only one industrial group viz textile products of OAME, NDME as well as DME was in this category. (Section 5.4)

As in the case of all India, we find inconsistencies in the growth pattern in the three types of enterprises within the informal manufacturing sector in the state. There are not many industrial groups that consistently belong to one growth category in all the three periods under study. This shows that there is a lot of heterogeneity in the informal sector and different strategies are needed for its development in different regions. (Section 5.4)

It was observed that a number of industrial groups have reported growth in their number of units and employment despite decrease in value added. One may attribute this to under-reporting of value added earnings due to administrative or legal constraints that need to be looked into in great detail. Alternately, one can hypothesise
that people continue in their traditional or family operations irrespective of decline in earning per worker or value added per enterprise. (Section 5.4)

9.7.5 Interdependencies Among Performance Indicators for various Informal Sector Industries in the State

Correlation exercises for the three segments of the informal manufacturing sector in urban areas of Rajasthan were also carried out. Eighteen indicators were used and number of observations varied from 18 to 22, depending upon the number of two-digit industrial groups for which data was available in different rounds. As in the case of all India, it indicate that the growth in units and employment are guided mainly by the survival strategy and macro economic circumstances have become unfavourable over the years. Employment projections of massive labour absorption in this sector made by policy makers are over-optimistic. (Section 5.6)

Unfortunately, the pattern of increase in employment does not correspond with improvements in performance or efficiency, thereby implying that the increases in employment are not reflecting better performance and that this is not necessarily a positive phenomenon. It may also suggests that a large part of the growth may be due to excess labour supply in informal market. (Section 5.6)

As in the case of all India, the analysis of interdependencies among performance indicators reveals that access to credit, fixed capital, working capital, land and official registration are the factors which improve the performance of informal sector enterprises. Credit is the single most important factor in effective functioning of the units. Outstanding loan per enterprise is related positively with working capital and other capital assets. The ownership-based units that are not registered with any public agency constitute the majority of the informal sector enterprises. They have no access to loan and assets but continue their operation, despite the low value added per enterprise or per worker as a part of their survival strategy. (Section 5.6)

9.8 Linkages of Informal Manufacturing Sector: Rajasthan

9.8.1 Linkages Between Informal Sector Enterprises and Formal Sector Enterprises

While analysing the linkages between the informal sector enterprises and formal sector enterprises from the sample data of two urban centres in Rajasthan, it was
observed that in most of the cases these enterprises do not purchase their raw material from the open market. They get the material from the buyers of the output. They take only labour charges from such buyers. In Jaipur, 64 per cent of the enterprises did not purchase the raw material from the open market, they get the material from the buyers. Similarly, only 50 per cent of the enterprises in Sangaria get their raw material from the buyers. (Section 7.7)

Percentage distribution of value of inputs purchased by the enterprises (excluding the enterprises which get the inputs from the buyers) from the open market by various channels showed that very low percentage (i.e., six per cent in Jaipur and less than one per cent in Sangaria) was purchased from small/medium/large industries. This shows that input linkages between the informal sector enterprises and formal enterprises is almost negligible. In other words, informal sector enterprises have no backward linkages in purchasing the raw material from the formal sector enterprises. However, if we include the enterprises which get the inputs from the buyers, level of backward linkages between informal and formal sector may increase. (Section 7.7)

Like the percentage of distribution of value of inputs, percentage distribution of value of outputs sold by the sample enterprises (excluding the enterprises which get the inputs from the buyers) through different channels in the open market shows that the percentage shares of small/medium/large industries are negligible (i.e. less than one per cent, both in Jaipur and Sangaria). This shows that output linkages between the informal sector enterprises and formal sector enterprises is also negligible. In other words, informal sector enterprises have no forward linkages in selling their output to formal sector enterprises. Again, if we include the enterprises which get the inputs from the buyers, level of forward linkages between informal and formal sector may increase. (Section 7.7)

9.8.2 Linkages within Informal Manufacturing Sector among OAMEs, NDMEs and DMEs

As in the case of all India, Industry-wise performance of one type of segment in comparison to the other type of segment (i.e. NDME with respect to OAME, DME with respect to OAME and DME with respect to NDME) has been analysed for the state, for the two periods viz., 1984-89 and 1989-2000 by using the secondary data. (Section 5.5)

During the first period 1984-89, when we compared the performance category of 15 different types of NDMEs with respect to 15 different types of OAMEs, it is observed
that out of 15 industries, only six industries (40.0 per cent) have the same performance category, other industries (ie. 60.0 per cent) have different performance category. This shows that there is a low level of linkage (relationship) in the growth performance of OAMEs and NDMEs during the period 1984-89. Similar trend has been observed for the period 1989-2000. Only 46.7 per cent of the NDMEs and OAMEs, 26.7 per cent of DMEs and OAMEs, and 33.3 per cent of DMEs and NDMEs have the same performance categories. Secondly, linkage in the growth performance of two segments is more if the difference in employment size of the two segments is less, and linkage in the growth performance of two segments is less if the difference in employment size of the segments is more. (Section 5.5)

Linkage among OAME, NDME and DME segments was also estimated by calculating the correlation co-efficient between the industry-wise growth rates of four indicators i.e., number of enterprises(NE), total employment (TE), value added per enterprise (VAE) and value added per worker (VAW) for the two periods viz., 1984-89 and 1989-2000. (Section 5.5)

It is observed that in case of all the four set of observations in the period 1984-89, correlation co-efficient is not significant even in a single case at five per cent level of significance. In the next period (1989-2000), out of 12 set of observations, correlation co-efficient is significant for four cases only. This shows that in Rajasthan there is some linkage within informal manufacturing sector among OAME, NDME and DME segments but it is a low type of linkage.

Secondly, for three indicators (i.e. NE, TE and VAE) during the period 1989-2000, correlation co-efficient between the growth rates of the segment having lowest employment (i.e. OAME) and the segment having highest employment (i.e. DME) is lower than the correlation co-efficient of the segment having lowest employment and the segment having middle size employment (i.e. NDME) as well as the correlation co-efficient between the segment having middle size employment, and the segment having highest size of employment. However, in case of fourth indicator (VAW), correlation co-efficient between OAME and DME is lower than the correlation co-efficient between NDME and DME but higher than the correlation co-efficient between OAME and NDME. This shows that the higher the difference in size of employment of the two segments lower is the linkage among the segments, and the lower is the difference in employment size of the two segments, higher is the linkage in those segments. (Section 5.5)
9.9 Relationship between the Informal Sector Employment and Poverty Across the States

An attempt has been made to assess the association of poverty and the size of the informal sector employment in different states separately for rural and urban areas at two points of time i.e. 1994 and 2000. It is observed that none of the correlation coefficient was found to be significant at five per cent level of significance. Similar results were shown when the states were cross classified by the incidence of poverty and size of informal sector. Hence, one can say that it is not necessary that developed states have less percentage of employment in informal sector than that of developing states. Beside poverty, there may be other factors also which have significant association with the size of employment in informal sector in a state.

(Section 6.1)

9.10 Analysis of Interdependencies among Development Indicators in Urban Areas Across the States

Interdependencies of informal manufacturing sector in urban areas across the states was also analysed by constructing the correlation matrices for the 18 indicators used for analysing the interdependencies of IMS in India. Number of observations for each type of enterprise in different years was equal to the number of states in which NSS survey was carried out. Results obtained were more or less similar to those summarised in section 9.6 "Pattern of Interdependencies within informal manufacturing sector in urban India". (Section 6.2)


There is an urgent need for extending benefits of social security to all working individuals and their dependents through a time bound programme.

In view of the weak and unstable economic base of the informal units, it would be difficult for many of these units to make contributions to a comprehensive SSS similar to the units of organised sector as being done under the present system. Imposing same norms and standards on these units would force many to close down. Many of these units were closed down during eighties and nineties, even without having to meet these social security obligations. It is true that informal sector is an extremely heterogeneous category in terms of productivity, profitability and growth

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performance and a small segment within it is linked with the market and grows in response to increases in demand and profits. It is only this section that can afford to pay the contribution as required under the existing legislated schemes.

(Section 8.1)

While surveying the informal sector enterprises of two urban centres in Rajasthan, it was observed that although some of the enterprises are having more than 10 workers in their enterprises, none of them was covered under any of the social security scheme including Employees' Provident Fund Organisation (EPFO) and Employees' State Insurance Corporation (ESIC). Most important reason due to which they are not interested in these schemes, is the higher rates of contribution to be paid by the employers. In case of Jaipur, 84 per cent of the enterprises and in Sangaria, 78 per cent of the enterprises expressed their willingness to become a member of some social security scheme (SSS) if the contribution to be paid by them is lower than the prescribed contribution for EPFO and ESIC. Further, in Jaipur 74 per cent of enterprises wanted that employer’s contribution in these schemes should be in the range of 3 to 4 per cent of the basic salary of the worker. In case of Sangaria, 51 per cent employers wanted that their contribution should be only one to two per cent of the basic salary of worker and 49 per cent of the employers wanted that their contribution should be in the range of 3 and 4 per cent. (Section 7.8)

A broad framework for setting up of a three-tier social security system (SSS) in the country is discussed below. The three tier SSS includes mandatory, supplementary and voluntary programmes. (Section 8.4)

Mandatory programme must be relatively simple, consistent and easy to administer. The existing occupational plans must be integrated with mandatory legislated plans to avoid duplication and to facilitate improvements in benefits. Initially, it may be limited to cover only a limited number of exigencies such as old age, survivor and total disability, pensions and medical care. The programme should not be viewed as a welfare activity or reward for long service. It should cater to the different needs of different category of persons/individuals through flexibility and options, to benefit within established limits. This could be met largely through legislation, permitting establishment of well regulated funds. (Section 8.4)

The government must take the major responsibility of meeting the minimum needs of the bottom quartile of population and the handicapped. This would require certain degree of cross-subsidization to be built within the scheme. Government
contributions may be utilized to meet minimum pension requirement, medical care and providing benefits to the bottom quartile of population and handicapped. The programme should be affordable to the lower strata of the society. It should not require a total contribution (includes employee, employer and government share) of more than 12 to 15 per cent of current remuneration on net income, prior to deductions as permitted by tax regulations. (Section 8.4)

Mandatory programme should not permit lump-sum payments, withdrawls or commutation of pension. All workers covered under legislated schemes may be included in the mandatory programme but they should be allowed to contribute to the extent prescribed under this programme. (Section 8.4)

Supplementary programme comprising old age and contingency pension and health/medical care including deferred medical care, should assign high priority to health/medical care and to group insurance. The contribution may vary from year to year, depending on the cost of service delivery. Total contributions (from employee/individual, employer, and government) to this programme may be limited say up to 25 per cent of current remuneration/income less the amount contributed to the mandatory programme. The mandatory programme may thus be treated as a part of the supplementary programme. Carry-forward facility may be provided up to five years for shortfalls in contributions as per the limit mentioned above. (Section 8.4)

As in the case of mandatory programme, under this programme also, lump-sum benefits should not be given. Group insurance should provide benefits upon total (or significant) physical disability (TPD) through accident or illness, comparable or better than those accruing to survivors. (Section 8.4)

A voluntary programme may include pension, term insurance, health/medical care, long term health care including deferred medical care, and repayment of loans up to certain limits for specified purposes at reasonable rates. Withdrawals may be allowed up to specified limits upon death, total physical disability, substantial disability. Schemes under this programme should allow tax concessions that are less favourable than those of mandatory and supplementary programmes. (Section 8.4)