CHAPTER VII
SUMMARY, CONCLUSION AND POLICY IMPLICATIONS

Irrespective of the controversy with regard to the genesis of the concept of "urban Informal sector", history of economic development supports its continuity and the dynamics of the development process requires its continuity. This is plain truth. This also assumes greater significance in developing countries which are recently experiencing decline in employment elasticity with respect to output in formal sectors (both private and public) of their economies because of structural adjustment programmes initiated by these governments in late 1980's or early 1990's. A journey through the bygone days of the informal sector development reveals utter neglect of this sector by the policy makers often consciously than unwittingly mostly terming it as a transitory sector and an unproductive sector. Thanks to various studies done by ILO and its persistent efforts in influencing the government policies of various countries especially of developing countries, that, a lot of misgivings on informal sector could be removed and the sector, of late is being looked at as an integral part of their economies. It is increasingly being realised by such countries that the future growth of their economies and the absorption of their ever increasing labour force rest significantly with this sector. Is this realisation genuine? If genuine, can it exist as a distinct entity and as an analytically meaningful category universally? How do its productivity and income levels compare with that of the formal sector?

Does the capital intensity vary greatly between the two sectors? What important constraints does this sector face in the process of its growth? What type of linkages (if linkages are at all there) prevail between the two sectors through inputs purchase and output sale, and what
about the nature and implications of such linkages? These are some of the issues that our present study examines. Once the continuity of this sector recognised, examination of all these issues and its consequent policy implications will be of immense help in further development of this sector.

I. FINDINGS

The important findings of this study are given below:

The sampled IMS firms in the class-I town of Cuttack exhibit most of the features that are supposed to characterise the informal sector units. However there are also some deviations from the typical widely discussed characteristics of the informal sector. Majority of the informal manufacturing units (93.59 percent) are proprietary firms. Almost all the enterprises operate from fixed premises. A sizable number (29.49 percent) of them operate from rented premises. Non-maintenance of accounts, non-registration of units (72 percent) are some of its other characteristics found. The average age of the sample units is 14 years.

Majority of the sample units (71 percent) don't own their buildings, around 50 percent own some type of plant and machinery and about 96 percent own some kind of tools and other implements. Majority of the enterprises own fixed capital assets worth of Rs. 5000/- or less. The IMS units are very much working capital intensive. Working capital forms 74 percent of its productive capital base. There exist variations across the industry groups with regard to capital employed per unit, and capital employed per employee and so also for fixed capital and working capital employed per unit and per employee respectively. The IMS units are much less capital
intensive than the formal sector ones. The fixed capital required to create a job in the IMS is 11 times less than that of the formal sector. This conforms to the theory that informal sector units are having low capital base and are labour intensive in nature.

Average size of employment in the IMS is 3.43 persons whereas in the formal sector it is 70.70. Hence small size of employment is a distinct characteristic of IMS. However there is across the industry group variations in the size of average employment within the IMS. Hired workers constitute 61.31 percent of the total employment size in the IMS. This casts doubt on the general observation that the informal sector units are mostly managed by household members. Employment of children below the age of 14 forms 4.86 percent of the total employment which shows presence of child labour in the informal manufacturing sector. However it is realised that there is deliberate under reporting of such child employment through attempts of the informants to overage the children employed. There is negligible size of female participation in the sector. Majority of the participants speak Oriya. Muslim participants from about 17 percent of the total number of participants in the sector. Capital intensity and size of the IMS units are significantly positively correlated.

Output and sales turnover per enterprise and per employee vary greatly across the industry groups. Output level in the sector is significantly positively correlated with productive capital, fixed capital, working capital and size of the enterprises. Gross value added per rupee of fixed capital and per rupee of productive capital too vary across the various industry groups within the IMS unit. Gross value added per employee in the IMS is much lower than that of the FMS but gross value added per rupee of fixed asset is 7 times higher in the IMS than that in the FMS.
There is dominance of male entrepreneurs in the sample. Majority of the entrepreneurs are having low level of education. Level of education too varies across the industry groups. Relatively high percentage of entrepreneurs are found in the age group of 31-50. This along with the sample mean age of 48 years for the entrepreneurs reflect the fact that the access of the young to own informal enterprises is limited. So far as skill formation is concerned, majority of the entrepreneurs have learnt their basic skill as apprentice in other IMS enterprises in the same line. Earning level of the entrepreneurs is positively governed by their education levels. Their is also variations in the earnings of the entrepreneurs across the industry groups and within the industry groups.

Lack of credit emerges as the most important constraint faced by majority of the IMS entrepreneurs. All but all entrepreneurs depend upon their own sources of finance for meeting their working capital and fixed capital requirements. Informal sources of finance dominated by money lenders play a significant part in providing credit to the IMS units for meeting their working capital requirements. Formal sector financial institutions provide finance to limited number of enterprises. Majority of the IMS firms are indebted. Although more than 90 percent of the enterprises need credit for expansion and operation, majority of them didn’t seek any loan from the banks mainly because of complicated lending procedures of the banks and their insistence on fixed collateral requirements. When more than 90 percent of IMS enterprises need formal sector credit and are prepared to avail it, and when 28 percent of IMS units have borrowed from money lenders at an average annual rate of interest of 72 percent and when average sales turnover is much higher in enterprises having access to credit in general and to formal sector credit in particular than the average sales turnover of units without any access to credit; non-availability
of institutional credit to them presents a paradox. This is mainly because of the distortions in the views and lending practices of the banks.

Majority of the IMS are indebted; the nature and extent of loans outstanding vary across the industry groups. IMS units having entrepreneurs with higher education level are having better access to formal credit institutions. IMS enterprises without hired worker are having little access to formal sector borrowings. On the other hand IMS units having at least one hired worker employed continuously are having a lion's share in formal sector credit. Hence the IMS units are segmented on the issue of access to formal sector credit. The larger the size of the firm the more is the access to formal sector borrowing.

Direct forward linkage of IMS units with the formal sector through the provision of sale of products/services is very weak. IMS units mostly sale their final products/service directly to the final consumers. Such forward linkage is also found to be strong with other IMS units. Direct forward linkage through the provision of "extended subcontract" is also found in some cases. Such a linkage is basically exploitative in nature.

IMS units have direct backward linkage with the formal sector through the provision of purchase of raw materials/intermediate products/credit. However, such a linkage is not very strong and whatever direct backward linkage exists does not show any kind of exploitation. Indirect backward linkage through the traders is found to be strong. Direct backward linkage of IMS units with other informal sector units is also found to be strong.
Markets for purchase of important raw materials by the IMS units is very much localised as 86 percent of the IMS units purchase their main raw materials within the class-I town of Cuttack itself.

II. CONCLUSION AND POLICY IMPLICATIONS

Our study of IMS in the class-I town of Cuttack shows that these enterprises confirm to a good number of observed characteristics of informal sector establishments as pronounced in a number of studies undertaken by a large section of scholars and institutions. These characteristics are (i) small size of employment (ii) single ownership (iii) non-registration (iv) non-maintenance of accounts (v) recent origin (vi) minimum capital base especially fixed capital. There are of course certain findings as predominance of hired workers and cent percent operation from fixed premises, which run contrary to commonly observed characteristics of the informal sector firms. However overall conformation to the commonly observed characteristics of informal sector firms and our first order condition of differentiating the IMS from the FMS on the basis of size of participants; do provide a sufficient working definition of urban IMS.

The next question is about the role that IMS plays and is expected to play in the process of economic development. The question especially the second part of it assumes importance mainly in developing countries where a large number of them have initiated the process of, economic liberalisation in late 1980's and early 1990’s. The immediate fall-outs of such exercises are (i) reduction in the size of public sector employment and/or (ii) slowing down the process of labour recruitment in the public sector. This coupled with the fallouts of the ongoing urbanisation-
process and dynamics of population growth in these countries, makes the existence of the informal sector (thus its various sub sectors) both a necessity and a reality. Such a reality is increasingly being accepted these days primarily on account of its increased employment creation potentialities. So far as this sector's productivity and economic efficiency are concerned, the dust is yet to be settled. However those who term the informal sector as unproductive, and inefficient forget a reality that this sector faces a historical neglect and discrimination by policy makers and planners in government in such countries. There is no denying of this fact.

This sector now needs to be developed. What should then be the strategy? IMS units as we have seen in our study and so also in other such studies vary across the industry groups with regard to their problems and characteristics, implying thereby that the sector is having a lot of heterogeneity. There are of course a number of common characteristics and problems. An uniform policy prescription therefore may not be of much help for the growth of this sector.

To realise the full potential growth of this sector, first of all, the strengths and weaknesses of this sector are needed to be understood and evaluated properly. As we see in our study, the major strengths of this sector are its flexibility, its low capital requirement, its higher employment generation capacity with lower amount of capital base, its freedom from official rules and regulations and above all its own informality in every sphere of its operation beginning from labour relation to marketing arrangement. Public policy should aim at preserving and supplementing these strengths of the IMS, rather than destroying them. Our study also brings forth a number of weaknesses of this sector. Firstly there is segmentation of this sector on the basis of its various industrial activities, employment size, capital base, entrepreneurship qualities,
pattern of linkages, access to finance and productivity levels. Specific policies for specific sub-
sectors/branches of the IMS may be formulated to overcome this problem.

Secondly, the sector as a whole suffers from a number of structural deficiencies in the input front. These are non-availability/meagre availability of institutional finance, and purchase of raw materials at a premium. Lack of finance has universally been stated as one of the most important constraints. Our study also shows it as most important constraint. As access to formal financial institutions is limited, they borrow heavily from the moneylenders at a very high rate of interest (72 percent per annum). Some are compelled to reduce their output levels implying thereby the creation of "unutilised capacity". This affects negatively these units productivity and value added through increase in cost of production. Our study reveals that the inaccessibility of these units to formal finance is not due to their risky or uncertain conditions of production but because of the malfunctioning of the lending policies of formal financial institutions especially the public sector banks. Since IMS unit owners require flexibility and informality in their credit transactions, the commercial banking practices can't conform to these qualities. Hence a separate micro business finance corporation on the lines of SIDBI should be created which should imbibe all the flexibilities of informal lending institutions.

In addition to credit, the state should also undertake programmes for entrepreneurial development, skill up gradation and technology updating for the IMS units.

Thirdly the linkage pattern between the IMS and the formal sector should be analysed carefully. If the IMS units operate in an independent environment, they should be treated
differently from the IMS units which operate in an environment of dependence with the formal sector. In case of a dependence relation it becomes necessary to analyse the nature of linkage patterns to see if such a relationship is exploitative or benign. Accordingly the set of public policies should be tailored to check this exploitative nature if present and to encourage the benign dependency when and wherever found. Our field study shows that the IMS units in the class-I town of Cuttack operate mostly in an independent environment having some element of direct backward linkage with formal sector through the provision of raw materials and credit input.

Fourthly, there are also some distortions in the input market including labour for the IMS units. Even in an independent environment of operation, the IMS units are exploited by the traders in term of price margins on the supply of raw materials/intermediate products etc. The state should extend the policy of positive discrimination as applicable to the small scale sector in toto to the informal sector. This will in principle remove a lot of distortions in the factor as well as product market.

Finally, IMS and for that matter informal sector as a whole is an entity of heterogeneity. There are own account workers and also small capitalists, there are regular labours, employees and also casual hired workers. In this context, an extension of the positive discrimination policy as applicable to the small scale sector to the IMS is likely to exclude the wage earners and the resource-less from the purview of benefits. Although specific policies are required for the development of this sector but all such policies should be organically linked with the ultimate objective of this sector which is nothing but its "wholesome development". Longevity and development of Informal sector ultimately lies in such an approach.