

# Definition of the informal sector



This paper gives a working definition of the informal sector, highlights its size, its characteristics, observations from past experience and puts forward a few innovative proposals. It is not the purpose of the paper to make an in-depth survey of all past experiences. It highlights the lessons learnt and proposes the way into the future.

## **2 DEFINITION**

The informal sector has been given a number of interpretations by different authors. The following definition prepared by ILO and UNDP, 1972 refers “ to the non-structured sector that has emerged in the urban centres as a result of the incapacity of the modern sector to absorb new entrants”. The same type of extension has occurred in the rural areas as well and a broader approach is used in this paper.

## **3 THE SIZE OF THE SECTOR**

The so-called modern sector has not had the capacity to absorb all the new entrants to the labour market, specially in the developing countries. Thus, many new entrants find themselves engaged in the informal sector to have a means of survival. These activities, during the 1970s and even now, provide an alternative to high open unemployment. It is estimated that more than 50% of the non-agricultural employment in Africa is found in the informal sector.

McLaughlin (1990) claims that the informal sector is characterised by

“(a) the use of family and unpaid labour (apprentices) and reliance on manual labour rather than on sophisticated machinery and equipment;

(b) flexibility, allowing people to enter and exit economic activities in response to market demand:

© simple and sometimes precarious facilities;

(d) the ability to improvise products from scrap materials;

(e) a willingness to operate businesses at times and locations convenient to customers; and

(f) a tendency to locate smaller markets, out of the reach of the larger firms.”

McLaughlin also finds that

(i) mini and micro enterprises only provide a means of subsistence through the production of

goods and services on a small scale with lower quality and prices, and

(ii) small and medium enterprises are associated with higher levels of education of the entrepreneurs, higher levels of income and a longer time in business.

It is also noted that the type of activities carried out in the sector varies between the urban and rural areas. The entrepreneurs in the urban areas are involved in activities which are more geared towards the needs of the modern sector. Some of the fields of activities are

1. vehicle repair

2. radio repair
3. watch repair
4. refrigerator repair
5. manufacture of bricks and aggregates for building construction
6. money changing
- 7 .....

The most common activities identified in the rural areas relate to:

1. blacksmithing
2. leather crafts
3. water pump manufacture
4. herbal medicines
5. ....

In the rural areas the earnings are much less than in the urban areas. This situation gives rise to a net migration of the youth to the urban areas, creating a number of social problems in the towns. At the same time these young persons are exploited by the others in the urban areas, earn less and adds to the already existing pressure on the social services. Such a situation finally leads to delinquency and the growth of shanty suburban areas.

#### **4 PAST EXPERIENCES.**

A number of schemes have been put forward to address the problem of the informal sector. They involved the provision of incentives, training in entrepreneurship, and the addition of units relevant to the informal sector in the formal training programmes. These piecemeal solutions have had some slight effect on the sector. However, it has been observed that all the efforts have little impact on the development of the sector itself and very few start-ups survive. The needs of the sector are varied and different from those of the modern sector of the economy. These experiences clearly show that a new approach to this sector is required.

#### **5 THE PRESENT SITUATION**

It is assumed that the training centres or the facilities available for training will attract the youth to them and then there will be an opportunity to train them for the informal sector. Schemes are set up with incentives for the learners to attend the different programmes. At the end of the programme very few of the participants manage to enter the sector. Very often the equipment is not the appropriate one, the curriculum does not meet the needs of the learners or the centres are far from those who need the training.

It is also noted that many employers are not happy with the outputs from the training system even for the modern sector. This is always going to be the case as it is difficult for the centres, specially government owned ones, to keep up with change and to up-date the curriculum and the equipment on which the training takes place.

Hence providing “ more of the same” is not going to improve the situation as far employment creation for the informal sector is concerned. New approaches to solving the problem are required and the solutions should not suffer from “ lack of purpose”.

## **6 STRATEGY PROPOSED BY THE INTERNATIONAL LABOUR CONFERENCE (ILO, 1991)**

The strategy proposed by the Conference for the development of a ‘ more and better protected’ informal sector consists of :

- (1) improving the productive potential, and, therefore, of the employment and income generating capacity, of the informal sector;
- (2) improving the welfare of the poorest groups;
- (3) establishing an appropriate regulatory framework, including appropriate forms of social protection and regulation; and
- (4) organizing informal sector producers and workers.

These strategies have been broken down by C. Leonardos (1999) into four piecemeal strategies as follows:

- (a) market expansion through the enhancement of the demand for informal sector products; which, in turn, can only be achieved through the qualitative improvement of goods and services;
- (b) facilitating producers within the informal sector to obtain credit on the same terms as modern enterprises;

© access to training for improvement of skills and upgrading of technologies used in the informal sector, and, finally,

(d) improvement in the basic facilities and amenities of informal sector premises.

These sub-strategies relate to marketing of the products or creating the demand, quality, proper incentives, facilities and improvement in the quality of the human resources.

## **7 THE DACUM/SCID**

A modified DACUM (Developing A Curriculum) facilitation workshop can be used to identify the different factors contributing to the development of the sector. Once a DACUM chart is obtained it can be verified and validated by those working in the sector. The different tasks that have the most effect on the development of a particular sector can be identified and prioritised. The chart can then be used to work out an action programme for the sector and enable the most appropriate action to be taken to have the greatest impact on the sector.

Training does not create jobs by itself but it can improve productivity if it is directed to the needs of the learner. One way to ensure that the training is not wasted and is directed to the actual needs of the workers is to produce a DACUM chart for the job being performed by the workers. Once a DACUM chart is obtained it can be used to develop a curriculum and proper learning materials (Systematic Instructional Material Development, – SCID) for the training programme.

## **8 PROPOSALS**

To-day we are in a global village where services and goods are moving faster than ever. Hence, we can no longer think in terms of our 'locality' or our 'environment'. We need to look at the world as a market and find out how best we can derive some benefits from it. We have to find our strength and identify the "niches" for the growth of our business. Once we establish such a mechanism we can set up structures to produce for those 'niches'. At the same time we shall be assisting our local entrepreneurs to produce better quality goods and services.

The above is along term perspective and in the mean time the following actions may be initiated to improve productivity and the quality of the products.

- 1 Carry out a DACUM workshop to determine the profile of each job in the informal sector.
- 2 Prepare a DACUM chart.
- 3 Validate the DACUM chart.
- 4 Identify the needs of the different group of persons in need of training.
- 5 Prioritise the tasks according to their relative importance.
- 6 Produce a curriculum for each task.
- 7 Develop/source the learning materials.
- 8 Conduct training.



9 Evaluate the outcome.

Such an approach will enable to avoid doing training for the sake of training and at the same time provide for the actual needs of those employed in the sector.

## **9 IMPLEMENTATION**

As pointed out in paragraph 2 most of the businesses in this sector are family businesses or very small units where it is very difficult to release anybody for long periods for training. In such a case, the release of workers for training is much easier if the training is conducted in ‘unit’ form close to the place of work. Mobile instructors have been used to assist the small entrepreneurs. However, the impact may not be that great as it is very difficult for the instructors to carry all the support materials to conduct such an exercise.

It is proposed that a “special coach”, a training unit on wheels, equipped with the latest technology for learning and up-to-date multimedia be put at the disposal of a performing training centre to conduct the training for the informal sector. The ‘coach’ will move from place to place and conduct the training near to the place of operation of the businesses. The trainers working on the ‘coach’ will be provided with the skills to use all the support materials to convey to the learners the best practices. A programme prepared in advance will be circulated and all the stakeholders will be encouraged to participate.

Multimedia materials will be used to inform the entrepreneurs of the best practices and development in their sector of activity. In cases, where

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shortages of skills are identified, the trainers will arrange for the training to be provided either at the workplace of one of the entrepreneurs or at the nearest training centre.

The use of print materials with as many illustrations as possible will be encouraged as the target groups may not be all literate. A set of the materials may be given to the entrepreneurs who can use them to continue their learning or to train others.

## **10 COST and BENEFITS**

Such an approach will require an initial investment which may not be within the means of the training centres which will be in charge of the coach project. At the same time, if implemented, it will provide an opportunity to reach the unreachable and to improve the performance of the hundreds of small units. The conduct of the training in the coach and near the place of work will act as an incentive to attract the entrepreneurs to learning. Very often, these small entrepreneurs do not feel at ease to go to a training centre to learn. Ultimately, the quality of the products of this varied heterogeneous informal sector will be improved. With the improvement in the quality new markets will become available and the businesses will grow. More jobs will be created and the quality of life of the people will be improved. A good management team will definitely implement the project at minimum cost and maximum benefits.

## **11 CONCLUSION**

The informal sector is a very varied and heterogeneous sector operating in a number of fields providing services at low cost and within the reach of the

consumers. Many of the persons working in that sector have low levels of education and have learnt some elementary skills on the job. They are not attracted to the training centres to go for the improvement of their knowledge or skills. However, these small enterprises are providing more than 50% of the employment in the non-agricultural sector and thus contributing in minimising the unemployment problem. Hence, the proposal to use a ' specially equipped coach' to reach a maximum of these entrepreneurs will go a long way in improving the productivity and the quality of the products in this sector. The investment will in the long run repay back dividends which will make the project worthwhile and sustainable. The informed and trained workers will in the end form associations and gain the critical mass to exert pressure on the different stakeholders to obtain the incentives and other support needed for their growth and development.