

# Informality as an instrument of formal sector competitiveness

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## Introduction and Background

Across India, the informal sector is huge and encompasses a vast majority of the total workforce. It accounts for 89.4 % of the total employment (NSSO 2012) and for almost 50 % of India's GDP (Kolli 2011). High levels of growth of the Indian economy during the past two decades are accompanied by an increase of the informal sector and it plays a key role to provide employment to the majority of the population particularly in urban areas (NCEUS 2008).

There are substantial numbers of large companies catering to global markets having strong linkages with informal sector enterprises, irrespective of their sector specific demands. Recent National Sample Survey Organization (NSSO) surveys and reviews of the National Commission for Enterprises in the Unorganized Sector (NCEUS) reports confirm the growth of linkages between informal and formal economic activities. A deeper review of the NSSO data suggests that within the formal sector also, there is an increasing informalisation of the workforce. For instance, reviewing the NSSO Employment Data for 55th and 61st Rounds (1999-2000 and

2004-05 respectively) and correlating it with data from the NCEUS (2007) report on "Condition of informal work" provides evidence that India is constantly moving towards an 'informalisation of the formal sector', where the entire increase in the employment in the organized sector over this period has been informal in nature. NSSO 68th round (2011-12), however, has shown a marginal decline in this trend.

Reviews of the NSSO, Census of India, Economic Census (EC), Annual Surveys of Labour Bureau (ASLB), Periodic Labour Force Survey (PLFS), Time Use Survey (TUS), data from Ministry of Micro, Small and Medium Enterprises (MSME) indicate that, the formal sector is in massive restructuring process, reducing the labor force while forging even closer links diverse contractual arrangements. Companies are becoming increasingly dependent upon informal sector labour as a source of cheap, disposable, non-unionized, predominantly female labor (Boris and Prugl 2016). With this association, a new dynamism is seen in the informal sector to prepare itself in terms of improved productivity and efficiency and become competitive through the use of technology, skill development and market linkages.

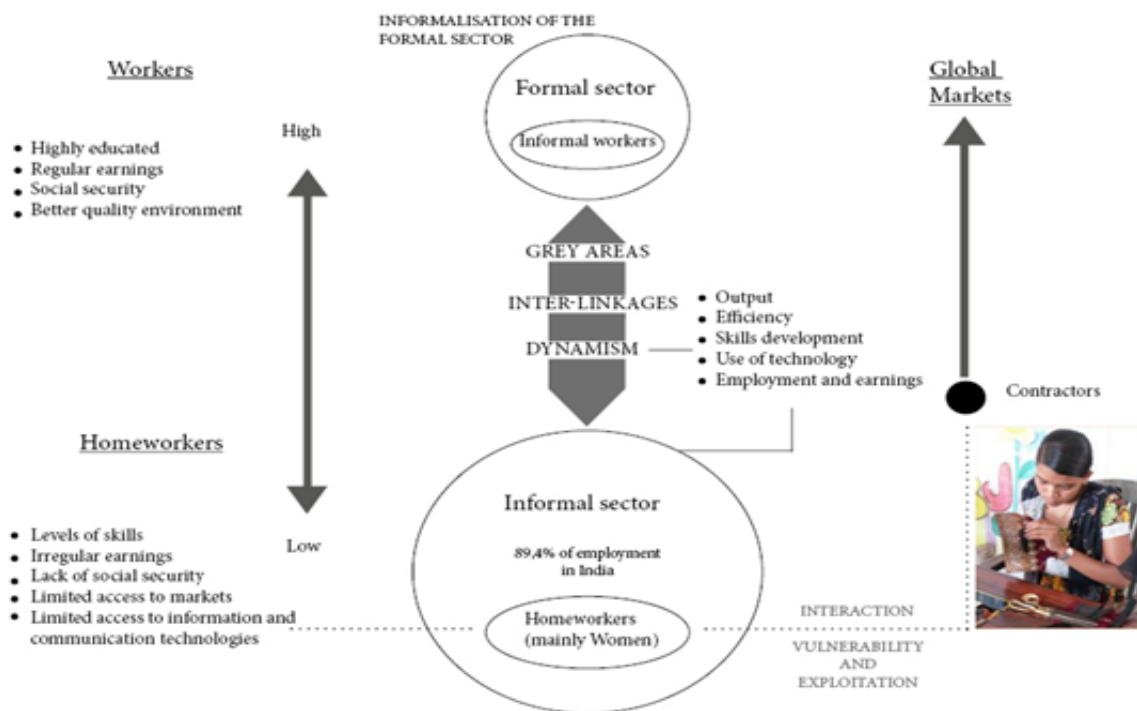


Figure1: Global Linkage of HBW

The changing face of the informal sector with its improved linkages to the formal sector, its transition from traditional to modern technologies and its increasing role for the overall economic growth are some of the aspects which are considered important in the backdrop of this research. Home based work (HBW) is a key informal sector work which is gaining attention in recent surveys because of the closer linkages with the formal sector. Post globalization, the extension of global value chains included workers in developing economies, where homeworkers form the bottom most link in the chain (Fig1). HBW have been classified as 'dependent sub-contract workers operating from home'. ILO Convention No. 177 has classified HBW as industrial outworkers (ILO 1996). HBW are also creating increased interest in this category of employment in India.

### Rationale

India's informal sector is experiencing rapid and transformative shifts that are restructuring productive work in which different subcontracting patterns are emerging especially linking them with HBW where especially females are the main agent. Females are preferred by subcontractors mainly due to their low negotiating power, illiteracy and gender bias over male workers.

Secondary literature reviews and a study of various surveys on informal workers suggest that more and more female HBW are joining the informal workforce in the shadow of their contractors. Though they contribute a major part in the process along the value chain, yet their contribution goes unseen and they become vulnerable to exploitation. Given its importance, the NCEUS (2007) has discussed it as a special category. In their classification of self-employed workers. It is a matter of concern to probe whether such linkages can make advancement from the typical informal sector to more formal sector or if this process makes workers vulnerable to exploitation. It is pertinent to explore whether the reason for exploitation is their low productivity or their low levels of skills and if better access to technology, markets and information as well as linkages could improve their competitiveness and thus decrease their vulnerability.

My motivation to undertake this research came from previous involvement in project with the Self Employed Women's Association (SEWA) in Ahmedabad, where diverse economic, cultural and social aspects were investigated for informal sector female home based workers. This research work is an important extension to explore the state of female HBW by analyzing the dynamism of informal-formal links in the textile and apparel sector and changes brought about in their productivity and efficiency by using technology, skills or market linkages. It was considered important to investigate their working conditions

and diverse linkages that exist with the formal sector to their benefit. This synthesis has brought about factors which make them competitive or vulnerable to exploitation.

### Challenge 1: Definitional challenge

The key challenge was to match the international definitions and concepts with Indian informal sector definitions and concepts. Particularly as in India the informal sector is called *unorganized* sector and there has been a long debate on how to match the definition and concept of this sector, as it is very heterogeneous. The official terms 'organized and unorganized sector' instead of the internationally common terms 'formal and informal sector' make the comparability of data tedious. Policy leaders are often found to be, using the two sets of words, interchangeably. In fact, the terms 'informal sector' and 'unorganized sector' are quite like each other though not identical. The difference between 'informal sector' and 'unorganized sector' is that the concept of the informal sector focuses on a particular group of production units for economic/social/political reasons whereas the unorganized segment depends on country's practices to generate information for the different economic activities in an organized manner (Kundu and Sharma 2001). The First Indian National Commission on Labour (1966-69) defined the unorganized sector workforce as "those workers who have not been able to organize themselves in pursuit of their common interest due to certain constraints like casual nature of employment, ignorance and illiteracy, small and scattered size of establishments". Due to this complexity, the National Commission for Enterprises in Unorganized Sector (NCEUS) which was constituted as an advisory body and watchdog for the informal sector in 2004, adopted following definition: "*The unorganized sector consists of all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten total workers*" (NCEUS 2007).

### Challenge 2: Data Challenge

Due to lack of plausible data, the size and composition of India's informal sector is fairly unknown and therefore the dynamic of structural change within this sector is yet to be explicitly explored. During the investigation, various layers of similar information on the informal sector at above mentioned departments and missing Data elements on HBW made it difficult to find a clear direction. Earlier research work did not consider the changing dynamics between formal and informal sectors and it was also difficult to find reliable data on HBW from the National Sample Survey Organization (NSSO), which is considered as nodal agency has also been changing its definition and criteria to capture various data elements for HBW.

## Study Area

In order to conduct this study, Female HBW engaged in textile and apparel sector at National Capital Territory of Delhi (NCT Delhi) was selected as the study area. Delhi is both the capital of India and the center of the country's governance and economic activities. NSSO, Economic Survey and Census data of last decade suggests that nearly 85 % of employment generation in Delhi was in the unorganized sector and/or with low wages. Nearly 97 % of informal workers lack any kind of social protection.

A very high percentage of textile and apparel activities has been observed in the walled city (Delhi's older part), the trans Yamuna area and around old commercial areas in South of Delhi where a substantial number of female homeworkers are engaged. A large number of home-based units are dealing with diverse working arrangements and after initial observation, women are found to be working in dilapidated working conditions (Fig. 2). Based on the interaction with the government, officials of concerned departments and NGOs, working for the organization of female homeworkers, 10 clusters of female homeworkers have been chosen to conduct a primary data collection. Clusters have been chosen on the basis of geographical spread and the coverage of wide variety of works carried out by female homeworkers. From each cluster, 25 female homeworkers have been selected on the basis of purposive sampling. In total, approximately 210 (out of targeted 250) responses were collected and tabulated.



Figure 2: Female home based worker in Seelampur (November 2017)

It was found that some of the female HBW are closely connected to global value chains, with the maximum value addition at this level however, many home-based workers produce for subcontracts who have forward linkages with global value chains. It is a low investment and labor-intensive industry.

## Methodology

The study comprises review of secondary data and fact finding through primary data and Focused Group Discussions (FDG). A closer review of literature, research studies, reports, papers on issues of formal-informal linkages and female homeworkers was carried out. The macro analysis of informal-formal linkages is done through the review of secondary data and comparing it to findings of National Sample Survey (NSS) Employment-Unemployment round data. The economic Tables of Census of India were also referred to, in order to understand the workforce participation rate.

For an in-depth understanding and a detailed analysis of the nature, process and extent of linkages between female homeworkers with the formal sector and their condition of work, a mixed method primary study design is adopted using both qualitative and quantitative techniques for data collection. In order to extract useful information and decode the complex working arrangements it was planned to carry out a thorough secondary literature survey, diverse surveys and focus group discussions with workers and organizations like Women in Informal Employment: Globalizing and Organizing (WIEGO) and SEWA. Linkage typologies which were initially traced from a variety of secondary data were scrutinized. Key aspects for their competitiveness and productivity were analysed. The key aspects which were considered for analysis are their socio-economic backgrounds, working conditions and key indicators associated which affect productivity namely, skill and use of technology, market linkages etc.

For a primary survey a questionnaire was prepared to address existing data gaps and various site visits as well as surveys were undertaken to get first-hand ideas of the case study areas. A total of 210 samples was drawn from three different areas which are Sanjay Colony, New Usmanpur, New Seelampur. These wards are known for textile and garment related activities. Inferences were drawn from analysis of key competitiveness and productivity factors from primary and secondary data and results were summarized. Key findings were summarized in terms of forward (i.e. market) and backward linkages (supply of raw material) technology usage.

### Preliminary Conclusion and Outlook

The study has analyzed various conditions for HBW and the linkages that exist with the formal sector which make it competitive or vulnerable to exploitation. It is found that strong linkages exist with formal sector in case study area in which female HBW are bottom most links. Their productivity is poor and factors related to "quality of work" and skills are the key determinants. Technology does not play a significant role, however, various socio-economic factors and personal contact play a role to make them more productive.

Some major findings are: Women home-based workers work in three arrangements a. Hired for some part of the year b. Piece worker c. Own-Account. These workers are hired on daily wages varying from 170 -300 INR per day. Piece workers are primarily engaged only in finishing and packaging. They are paid 0.30 to 0.70 INR per piece. This indicates exploitation.

All three settlements have poor living conditions and poor infrastructure, poor basic amenities, water supply, toilets etc. Data also being Analyzed with concept of "Decent work" (employment rights and securities) and LSI (Living Standard Index) with key indicators (Education, income, saving, health etc.) to investigate level of hardship HBW are facing. Other institutional, legal, financial, policy, local factors are being analysed to understand their competitiveness. Initial observations on key factors for skills, technology and quality of work:

*Skill:* Some intricate work such as embroidery is intergenerational, specifically done by workers from the Muslim community. Other parts of the production process such as finishing, button work, packing and stitching are not specifically performed by one community.

*Technology:* Most of the works are labor-intensive works and don't require complex machines. However at some places factories provide simple low cost machines to women. Especially for work related to button creation. Stitching machines are owned by women themselves or they desire to own one for better earning.

*Quality of work:* Women working from home or neighborhood works in cramped spaces within the houses. Women who work as a part of year work from neighboring factories with proper lighting facilities however in extremely strict vigilance. They are not allowed to talk during the working hours.

It is hoped that meaningful policy recommendations can be formulated, which will help to improve the present state of HBW and make them key elements in global production value chain. Policy makers can make informed decisions on how informal sector can be a strength for formal sector once gaps on quality of employment, technology usage, skill development and social security etc. are known.

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