

# The Informal Sector from a Knowledge Perspective

*Amit Basole*



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**T**HE INFORMAL sector is commonly thought of as a site of low-skilled or unskilled work. The National Commission on Enterprises in the Unorganised Sector (NCEUS) took the position that the vast majority of the informal workforce is unskilled (Sengupta et al. 2009: 3). This conclusion relies on two empirical facts: the low levels of formal education and training among informal sector workers and low wages as well as low productivity prevailing in this sector. In this article, I take a closer look at both these aspects. In contrast to most policy and academic approaches on the issue, my claim is that there exists a vast store of knowledge in the informal sector alongside well-established (though poorly understood) institutions of knowledge transfer and skill formation. In addition to published studies, this essay draws on empirical data from the Census of Small-Scale Industry, the NSS and fieldwork among weavers and food sellers in Banaras and street vendors in Mumbai.<sup>1</sup>

Major international institutions such as the World Bank and the World Intellectual Property Organization have recently engaged seriously

with “traditional and indigenous knowledge” (TK/IK) which is believed to have a world-view and epistemology as well as institutions of knowledge production and transfer distinct from modern knowledge.<sup>2</sup> A large literature has emerged, analyzing and describing the store of knowledge of biodiversity, agro-forestry, ecology, medicines, crafts, etc. built over centuries by peasants, artisans, women and indigenous people all across the world (Basole 2012). These are the same people who labour in the informal economy. However, the TK/IK paradigm has not been sufficiently deployed in analyzing the informal sector, perhaps because informal workers and entrepreneurs are found not only in agriculture and handicrafts but also in diverse industries such as food, textiles, garments, plastics, metals, machinery, construction and services which often use modern techniques and do not fit the label of “traditional” industry. Nor are the actors “indigenous people.” Sahasrabudhey and Sahasrabudhey (2001) have proposed the term *lokavidya* or people’s knowledge, which encompasses skills possessed by those who have not been formally educated or trained, but goes beyond this to include an epistemology and value system. To transform India into

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a Knowledge Society as envisioned by the National Knowledge Commission, we would do well to recognize, study, and build upon lokavidya produced and used by the vast majority of the working people in the country.<sup>3</sup>

**Wages, Productivity and Skills: The Relation**

The prevalence of low wages and low productivity in the informal sector is often used as proof of its low skill base. In fact, the relationship between skill, productivity and wages is complex and is determined by institutional and structural factors. A key structural reality of a developing economy such as India is the existence of surplus labour. The exclusion of the vast working majority from the formal sector results in hyper-competition in product markets between micro-entrepreneurs who are forced to start their own business due to lack of jobs, and between workers in the informal labour market. One area of research is thus, to examine whether the formal-informal earnings gap results not just from observed worker characteristics (such as skill) but also from structural factors such as average firm size, degree of competition in the product market and the capital-labour ratio.<sup>4</sup> Further, since measures of productivity such as value-added per worker rely on market prices, and hyper-competition in the product market puts downward pressure on prices, this means firms in more competitive markets appear less productive than firms that enjoy market power.

A second confounding factor in inferring skills or other worker characteristics from wages is that in an economy with surplus labour, even skilled workers may earn low wages due to low bargaining power (Knorringa 1999; Leibl and Roy 2004). Further, gains from productivity accrue to employers as higher profits or, if the product market is competitive, to buyers as lower prices instead of to workers (Heintz 2006). For example, in the Banaras weaving industry,

powerlooms are over ten times more productive than handlooms but hourly wages in both are almost the same (Basole 2014).

**What Counts as Knowledge?**

The perception of informal workers as unskilled does not only rely on economic factors outlined above. Sociological factors such as the prestige or value attached to different kinds of knowledge and philosophical factors such as what counts as knowledge are also important.

For example, the knowledge of women and lower-caste workers, who are overrepresented in the informal sector, has traditionally been undervalued (Ilaiyah 2009). The NCEUS notes that jobs performed by women may be valued as “low skill” even if

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they involve “exceptional talent and years of informal training” (Sengupta et al. 2007: 84). Examples are provided from the textile and ceramic industries where women perform skilled jobs (such as embroidery or preparation of clay), but are among the lowest paid workers (ibid). Basole shows that women embroidery workers in

Banaras earn as little as Rs. 25-30 for a full day’s work. These wages are justified by merchants and even women themselves on the grounds that they are remuneration for work that only requires skills that women “naturally” possess and is done in their “spare time”.

Official surveys that attempt to identify the knowledge-basis of the informal economy are generally inadequate because they are not designed to capture lokavidya. The 3rd and 4th All India Censuses of Small Scale Industry (Government of India 2004, 2012) asked firms about the sources of their technical knowledge. Table 1 shows that around 90 per cent of unregistered (i.e. informal) firms fell in the residual category of “no source” in both years. Since most firms, no matter how small, operate with some corpus of technical knowledge and may also make innovations based on changing resource-base or market demand (no matter how incremental and small), the survey does not help in understanding how knowledge works in the informal sector. This is because it is not designed to capture the “in-house” knowledge of artisans and workers, their informal networks, and their ability to imitate or adapt formal sector knowledge to their needs.

Table 1: Source of Technical know-how in the Unregistered Small-Scale Industry Sector		
Source	2001	2007
Abroad	0.67	0.80
Domestic collaboration	5.58	2.11
Domestic R&D	4.84	3.22
None	88.91	92.83

Sources: Third Census of Small Scale Industry, 2000-2001 and Fourth Census of Micro, Small, and Medium Enterprises, 2006-07.

The latest NSS Employment-Unemployment Survey (2011-12) finds that 70 per cent of rural males and 43 per cent of urban males

over 15 years of age have a general education below the secondary level (the corresponding percentages for females are 83 and 55). Other types of training more relevant to job-oriented skills, is even sparser in the workforce. EUS data also shows that 89 per cent of the workforce reports receiving no formal or informal technical or vocational training (Basole 2012).<sup>5</sup> On the basis of this and similar NSS data, the NCEUS concluded that “nearly 90 per cent of the population above 15 years did not have any skills” (Sengupta et al. 2009:191).

How can we understand this conclusion? I suggest here that the nature of the skill acquisition process as well as knowledge production in the informal sector is difficult to capture with orthodox surveys that equate these processes with years of schooling, attending a training program, receiving a certificate, etc.<sup>6</sup> These are often absent in the informal sector. The process of knowledge

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acquisition is instead integrated with earning a livelihood. Historically, there has been a bias towards formally acquired education in academic and policy work. Moreover, some informal workers also internalize such knowledge hierarchies and may not even see their knowledge as resulting from education or training but rather “simply” acquired when working (explaining their negative responses in official surveys). A common sentiment

is one expressed to me by a sweet-shop owner in Banaras when asked about how workers acquire skills in his industry: “There is nothing worth studying in that.”<sup>7</sup> At the same time, there may be awareness that such hierarchies are unjust. Weavers in Banaras frequently invoke the contrast between informal and formal learning to contrast the different valuations placed by the labour market on the same number of years spent in informal training versus a formal diploma or certificate (Basole 2012).

The view that knowledge produced in work is *not* inferior to formal education is gaining currency in a wide variety of fields from history of science to the psychology of learning to knowledge management. Historians of science point out that philosophies, sciences, and mathematics have been created by artisans and manual workers and have grown in connection with the solving of practical problems rather than divorced from them (Connor 2005). The typical artisan was connected to the scientific and technical knowledge of the day as embodied in the daily practices of craft. In the field of knowledge management, the “working knowledge” perspective outlined by Barnett (2000: 17) sees work as a site of knowledge generation and puts forth the claim that knowledge is only authentic if it can be put to work, and work is a means of testing knowledge. Not just work, but play enacts learning also. For example, children from weaving families play with shuttles on the warp, as their fathers/brothers weave, or merely ‘hang about’ in the workshop being acclimatized to the sights and sounds of work (Wood 2008). This theoretical perspective can be used to understand the dynamics of knowledge production and dissemination in the informal sector.

### **Lokavidya Institutions**

The literature dealing with economics of apprenticeships and on-

the-job training is sparse even though where the informal sector is concerned such systems serve many times more people than the formal education system. Even though surveys of contemporary artisanal firms do reveal the importance of apprenticeships and other “hereditary systems” of skill transfer (Parthasarthy 1999), with rare exceptions (Biswas and Raj 1996) development economists studying informal industries have left skill acquisition unexplored. The problem in studying such institutions and the skills they impart is not that they are unstructured or haphazard, but that our methods of inquiry are not appropriate. The main obstacle in studying informal training systems is they are thoroughly integrated into ordinary life and work. There

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is not always an identifiable place or time where learning happens. The amount of training or learning is not easily quantifiable and no formal documentation exists. There are no fees, though implicit costs such as foregone wages during apprenticeships and the opportunity costs of the trainer’s and trainee’s time exist. The process is embedded in relations such as family, caste, gender, and community relations that are perceived as “non-economic.” All this requires an ethnographic approach which economists are generally

reluctant to undertake. Hence, most of our knowledge of such institutions comes from economic anthropologists (Barber 2004; also see examples in Basole 2012).

When we approach the informal sector with view to understanding its knowledge institutions (such as skill acquisition, innovation, knowledge sharing between firms), it becomes clear that the stereotype of the sector as a sink for unskilled labour is erroneous. Interviews reveal that informal sector workers have gone through training periods that are as long as or longer than formal certificates and degrees. Family based and non-family based apprenticeships lasting from a few months to a few years are common across the sector. Financial barriers to entry are often

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lower than for formal education (though institutional barriers such as caste or gender norms may be high). These systems of training can be well developed and structured, and workers and their trainers underline the importance of personal discipline and desire to learn. Employers guard their skilled workers, since most knowledge is embodied in workers rather than being formalized in procedures and routines. Workers seek jobs where new skills can be learned. Not just production-oriented skills, but soft skills like communication are also acquired. Birla and Basole (2013) interviewed street-vendors,

taxi-drivers, and travel guides in Mumbai to understand the process of English language acquisition. Not only do workers learn from their seniors but public billboards and hoardings, customer interactions, and new mobile devices and other types of technology, all contribute to skill development. As one shop-owner on Mumbai's famous Linking Road describes it, *Linking road school ban jata hai* (Linking Road becomes a school). Barber (2004) identifies the strengths of such learning as lower barriers to entry, emphasis on innovation and adaptation often to resource-poor conditions and development of tacit knowledge. The weaknesses observed in his study were inadequate theoretical understanding and reflection, difficult in adopting new techniques and safety practices.

Lastly, although a detailed discussion is not possible, I would like to point to the importance of investigating firm-level innovation in the informal sector. Even small informal proprietors, such as roadside snack and sweet vendors take pride in their products and in their reputations. New items often appear on their menus. As in artisanal industries, innovation is incremental and conservative, and trade secrets are guarded carefully because intellectual property rights are absent (Basole 2014). Lokavidya continually grows, evolves, adapts and changes. What we know of the evolution of artisanal industries into modern industries such as the case of powerlooms also underlines the importance of traditional institutions in enabling technical change (Haynes 2012). The National Knowledge Commission report on "Innovation in India" (Government of India 2007) addresses this issue by interviewing a few SMEs but a lot more work is needed along these lines.

### Conclusion

The foregoing arguments should not be taken to imply that formal

schooling is unimportant or that existing knowledge institutions in the informal sector are adequate. To the NCEUS's question "Is the mode of working of the existing systems of informal on-the-job skill acquisition through the traditional methods sufficient?" (Sengupta et al. 2009: 9), the answer must be "No." Well-designed and informed policy can make a large difference to improving skills, integrating modern techniques into traditional occupations and raising incomes. But as the NCEUS also points out, government-run vocational education and training programs have not been successful in helping those in the informal sector to get jobs (ibid, p. 10). These institutions have remained disconnected from informal sector workers and entrepreneurs. The alternative is to build on existing informal institutions with participation

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from the sector itself. Examples from other developing countries such as Nigeria's National Open Apprenticeship Scheme (NOAS) and others discussed by the NCEUS (ibid, p. 40-41) may be useful in this regard. In order to do this, further research is needed to investigate knowledge production, transfer, innovation etc.

using approaches that are suited to the mode in which the informal sector operates. Finally, going beyond policy, a political movement that demands dignity and equal status for lokavidya alongside formal knowledge is also required.

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## Endnotes

- 1 Fieldwork was conducted among weavers and street vendors in Banaras between October 2009 and July 2010, and among street vendors, taxi-drivers, and travel guides in Mumbai during June-July 2012. See Basole (2012) and Birla and Basole (2013) for more details.
- 2 The "Intergovernmental Committee on Intellectual Property and Genetic Resources, Traditional Knowledge and Folklore" of the World Intellectual Property Organization (WIPO) defines TK as follows:

Traditional Knowledge means knowledge including know-how, skills, innovations, practices, and learning which is collectively generated, preserved and transmitted

in a [traditional] and intergenerational [context] within an indigenous or local community (<http://www.wipo.int/tk/en/igc/index.html>).

A World Bank publication on “Poor People’s Knowledge” (Finger and Schuler 2004) starts with the observation that the poor maybe lacking in resources but they do not lack knowledge, and focuses on using knowledge to achieve the integration of the poor into the global economy via trade in crafts and other commodities. Also see Woytek et al. (2004).

- 3 Some initiatives such as Vidya Ashram ([www.vidyaashram.org](http://www.vidyaashram.org)) and the HoneyBee Collective (<http://www.sristi.org/hbnew/index.php>) are explicitly focused on this issue. Also see Gupta (2007). But many more such efforts are needed.
- 4 In the 1980s and 90s there was a debate among US labor economists on whether wages differences between industries could be adequately explained assuming that labor markets were competitive and only human capital differences among workers mattered. In this literature, those who argued for non-competitive models brought up factors like degree of product market competition, firms size, and capital-labour ratio to account for inter-industry earning differentials (Krueger and Summers (1988); Groshen (1991).
- 5 The NSS defines non-formal training as:  
The expertise in a vocation or trade is sometimes acquired by the succeeding generations from the other members of the households, generally the ancestors, through gradual exposures to such works. The expertise gained through significant ‘hands-on’ experience enables the individual to take up activities in self-employment capacity or makes him employable (Government of India 2006:8)
- 6 “Since acquisition of skills through non-formal training is, by definition unstructured and since it is difficult to have a clear definition of skills, it is very likely the case that the surveys on which our analysis is based underestimate the extent of non-formal skill acquisition, especially in certain sectors such as agriculture.” (Sengupta et al. 2009:11)
- 7 Wood (2008:139) introduces the topic of learning in a language very reminiscent of my experience in Banaras:  
In Teotitlan [Mexico], there is no mystery about how one becomes a weaver, and the topic receives little discussion or attention among the weavers. Most of those with whom I broached the topic of how one learns to weave (or teaches someone else) had a hard time understanding what there was to discuss. □

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#### Domain name in Devanagari

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