

Skill Formation, Employment and Earnings in the Urban Informal Sector

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INTRODUCTION

The origins of the informal sector are traced to the twin problems of rapid urbanization, as a result of rural to urban migration, and low rates of employment expansion in the "modern" sector. The inability of the "modern" sector to provide jobs for the fast growing urban labour force, however, is not reflected in widespread unemployment. Instead, the surplus labour is absorbed in other sections of the urban economy which has been termed in the development literature as the informal sector.

The informal sector not only serves the important function of absorbing surplus labour unable to find jobs in the modern organized sector but it is also the training ground for workers in the economy. According to the Sixth Plan document, of the estimated 50,000 skilled workers produced annually only ten percent go through formal training institutions (Government of Pakistan 1983).

Despite the importance of the informal sector in Pakistan it continues to be a neglected area for research. Very little is known about the extent of this sector or about the process of skill formation in the informal economy. The present work aims at providing empirical insights on skill acquisition and related employment in the urban informal sector based on a small sample of skilled workers, entrepreneurs and employees in Rawalpindi and Lahore.

DESCRIPTION OF THE SURVEY

For the purpose of the survey, enterprises were classified as belonging to the urban informal sector if they employed less than 10 persons. Establishments with more than 10 workers come under the purview of labour legislation and are usually considered part of the organized sector. Since most enterprises and employees of the informal sector are not registered, no comprehensive listing was available to enable

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systematic sampling. The method used was to identify clusters of informal sector activity in the city and to select entrepreneurs and employees located there. In Rawalpindi, the main clusters of such activities of the informal sector which consisted of skilled workers, were Police Station Road, Railway Station Road and Gawalmandi. The activities surveyed in the informal sector were those where skills were likely to be important e.g. metal working, mechanical and electrical repairs, plumbing, etc.

RESULTS OF THE SURVEY

Characteristics of Enterprises

The findings of the survey indicate that initial capital requirements for setting up business were low. The majority of the entrepreneurs in the sample had invested Rs 10,000 or less to start operating. Initial investment varied from a minimum of Rs 200 to a maximum of Rs 150,000. In a number of very skill-intensive occupations like repair of refrigerators and denting and panel beating, no machinery was required and the fixed capital consisted mainly of hand tools. The highest capital costs were found in workshops for the repair of automobile parts. In these units the use of lathe machines, grinding machines etc. entailed a higher initial investment.

The financing of initial investment was predominantly from the entrepreneur's own earnings and occasionally by loans from the family. Interestingly, nearly one-third of the enterprises had been financed by earnings from the Middle East, reflecting the tendency noted in other studies [Government of Pakistan (1984); ILO (1987)] of returning migrants setting up businesses with their earnings. None of the respondents mentioned bank credit as a source of funds but most of them cited lack of finance as the most important constraint to expansion.

Workers were recruited almost entirely through personal contacts with friends and relatives. Most of the establishments hired only one worker, who was usually employed full time, with very few instances of part-time labour. In each case the owner, also, worked full time.

All but one of the enterprises in the sample had a system of apprenticeship. The most common pattern was of a full-time working owner and an apprentice. The employers, without any exception, indicated a strong preference for training people on the job rather than hiring formally trained technicians. There was little respect for formal vocational training diplomas which, it was generally agreed, were not of any practical use.

The preponderance of apprenticeship raises the question of it being exploited as a source of cheap labour since apprentices are usually paid a minimal sum much below the going wage. However, the findings show that the system serves the interest

of both parties involved. All the entrepreneurs interviewed took part in the actual production process themselves and needed assistance only for minor tasks which would not justify the cost of hiring a fully trained technician. On the other hand, there is no contractual bond holding the apprentice, who recognizes that he has no other way of acquiring skills. The alternative, namely, to go through vocational schools, is only feasible for people with the necessary school certificates who can pay the fees. The option is always open to the trainee to take some unskilled work with higher remuneration. The fact that he is willing to forego income indicates that he is getting a better deal.

A PROFILE OF PARTICIPANTS IN THE INFORMAL SECTOR

An analysis of some demographic and socio-economic characteristics of individual participants in the informal economy is presented in this section. This part of the study is based on questionnaires administered to owners of enterprises, self-employed workers not associated with a shop, and employees of the informal sector.

Age and Educational Attainment

The findings reveal that employees in the sector are much younger and less educated than their employer. The mean age of entrepreneurs was around 40 years while more than half the employees were less than 21 years of age indicating that they were new entrants into the labour force. Employers and independent workers were also better educated. As many as 63 percent of the group had more than primary education while 42 percent had a matric or an F.A. degree. Among the employees only 14 percent had cleared the matric level while nearly one-third had received no education (see Table 1).

The most educated workers in each case were concentrated in activities like refrigeration and TV/VCR repairs, while the least educated tended to be panel beaters, welders and engine mechanics. However, the differences in educational background by occupation was not always so distinct. Often within the same activity there was considerable variation in the educational level of participants.

Respondents were asked why they chose to learn a skill rather than go in for further education. Financial constraint was the reason mentioned by most of the respondents for discontinuing their education and specializing in a skill. Within the self-employed group, family tradition was another important reason for learning a skill. Whereas these explanations implied a lack of choice in the respondent's decision, a number of respondents had voluntarily decided to acquire skills because they saw limited opportunities of getting a desirable job with further education. It was felt that without personal contacts a B.A. and M. A. degree would not take them very far beyond a clerical job in the formal sector.

Table 1
*Data on Characteristics of Respondents in the
 Urban Informal Sectors* (percentages)

	Self-employed	Employees
Age		
Below 15 Years	—	7 ✓
15–21 Years	5	45
22–39 Years	43	38
40–49 Years	26	3
Above 50 Years	26	—
Not Known	—	7
Schooling		
No Education	21	31
Primary (1–5 years)	16	17
6–9 Years	21	38
Matriculate or Higher	42	14
Sources of Skill Acquisition		
On the Job Training	58	90
Family Trade	21	10
Formal Vocational Training	21	—
Monthly Income		
Less than Rs 500	—	35
Rs 500 < Rs 1000	—	35
Rs 1000 < Rs 1500	11	10
Rs 1500 < Rs 2000	58	10
Rs 2000 or more	21	7
No Response	10	3
	100	100
	(19)	(29)

Sources of Skill Acquisition

Skills in the informal sector are acquired almost exclusively through on-the-job training either through the family trade or through apprenticeship with hardly any recourse to training facilities provided by formal institutions.

Replies to the question as to why the respondents had not gone to a formal training institute indicated that a large majority of the respondents could not afford to pay the fees. Also, a substantial number of workers felt that formal technical qualifications were of no practical use. A certificate was necessary mainly for entry into government jobs or for working abroad and it was common knowledge that if the need arises it could easily be purchased.

Earnings

The findings indicate that on average, the incomes of the self-employed were relatively quite high. Of the respondents in this sub-group, 89 percent earned a monthly income of at least Rs 1500. Thus, a large proportion of the self-employed made a better living than they would in the lower rungs of the formal sector where educational requirements are more stringent. For instance, within the public sector the incomes (including all benefits and allowances) of a peon, clerk, and assistant in 1984 were Rs 800, Rs 1000 and Rs 1100 respectively (ILO/ARTEP 1985). The minimum educational qualification for an assistant was a B.A. degree while for a clerk at least a matriculate was required.

However, employees in the informal sector earned much less than proprietors and independent workers. The monthly wage for the majority of the employees was below Rs 1000 per month. Here it should be mentioned that a large proportion of the employees, specially in the Pindi sample, were apprentices who usually receive a minimal allowance to cover food and transport expenses during their training period.

CONCLUSIONS

Before summarizing the findings of the survey and their implications for policy it needs to be emphasized that this is a preliminary investigation based on a very small sample. Therefore, any suggestions that emerge can, at best, be tentative.

Evidence on earnings in the informal sector indicate that a large proportion of the sub-sample of skilled self-employed (proprietors and independent workers) were making a better living than they would in the formal sector. Here, it must be pointed out that the sample surveyed was not in any way representative of all informal sector activity and purposively concentrated on skilled workers. The poorest in the informal community comprising those employed in various unskilled, casual jobs such as hawkers, shoeshine boys, roadside barbers etc. were not included in the

survey. Acquisition of skills is beyond the reach of the lowest income group since they cannot afford not to earn a wage. Hence, they have no alternative but to take whatever jobs are available to subsist.

The skilled artisans belong to a distinctly higher stratum in the informal sector. They earn reasonable incomes and have chosen a skill or set up a business as a permanent means of making a living. Conceptual models which view the informal as a homogeneous sector consisting of the urban poor, employed in marginal jobs while waiting for entry into wage employment thus fail to distinguish the differences within the sector. Further empirical research on these internal differentiations is essential to guide policy in the area of employment and income distribution.

The findings of the study further suggest that the informal sector makes an important contribution to skill acquisition in the economy through a system of informal apprenticeship. This method is a traditional and inexpensive way of skill transfer which is beneficial to both the employer and employee. The employer gets his additional labour at less than the going wage. On the other hand, the employee is able to learn skills which he would not be able to afford otherwise. Further, the evidence indicates that the apprenticeship system enables workers to improve skills and shift to new trades with relative ease and at little cost.

The alternative of learning skills through vocational schools was limited to persons who could afford to pay the fees and could meet the educational requirements which, in effect, excluded the people most in need of such training. Furthermore, technical qualifications were not rated very highly by the employers in the informal sector who, without a single exception, preferred to train people on the job. A major complaint against formal training was that it tended to be too theoretical and without any emphasis on workshop experience. The irrelevance of the curriculum of these schools to the needs of the economy is further borne out by empirical evidence for Pakistan in the Sixties which suggests that technical training institutes, polytechnics and other vocational institutions improve neither the employment nor the earning prospects of those who enroll in them [Lent (1971); Zar (1971)].

Given its low cost and flexibility, the informal sector will continue to be the major source of skill acquisition for some time. However, research suggests remedial measures which could make vocational training in the formal sector more effective. Access to these programmes should be improved through less stringent criteria for entry in terms of educational requirements and age. Further, the curriculum of these schools needs to be modified to be more practically oriented and responsive to the needs to the employers.

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Comments on "Skill Formation, Employment and Earnings in the Urban Informal Sector"

Policy-related research emphasizing the role and dynamics in the informal sector is a neglected area in Pakistan. This is in contrast with other Asian, African and Latin-American countries where considerable research has focused on the capacity of informal small-scale enterprises to generate stable employment and income opportunities for the growing urban population, including migrants from rural areas and workers displaced from the formal sector of the economy. While initially the analytical distinction between the formal and informal sector was used to analyse labour market structures, the concepts of informal and formal sectors are now used to discuss income distribution, employment, taxation, industrial performance and technology organization. Still a consistent and uniform theoretical framework is lacking in this field of examination. Because of the variety of definitions and operational criteria result in broad variations in the identified socio-economic profiles, behaviour and issues, it is very difficult to learn from intercountry comparative studies and formulate related appropriate country-specific policy actions. What is needed is linking the classification criteria applied for identifying the homogeneous socio-economic groups to the economic issues involved and policy instruments. My comments on Shanaz Kazi's paper will be organized with reference to the last point.

First of all she attempts to provide an additional contribution to the limited research [see Profiles of Informal Employment in Urban areas (1984); Non-farm Employment in Rural Pakistan (1984); both studies carried out by the Manpower Division, Islamabad and Micro-economic Analysis of the Informal Sector by Cohen and Havinga (1987)] in the informal sector. Based on a pilot survey in Lahore and Rawalpindi, 48 self-employed, independent workers and employees were interviewed in 17 enterprises, providing a non-representative data base of variables on establishments and labour force. Important in this preliminary stage of a research project is to test and adapt the research framework including the questionnaire and generate empirical insight for the formulation of hypotheses on relationships relating to market mechanisms.

The basic question which the paper asks is whether the informal sector is a (temporary) laboratory of skill formation in the labour market of Pakistan after

which the person moves to the formal sector. For this reason the study selects cluster of informal sector activities comprising skilled workers. One might expect that the operational criteria to identify this target group reflects clearly the concept of skill. In my opinion an appropriate definition of skill should recognize the structural aspect of quality and expertness of labour. However, the findings show that 69 percent of the self-employed have changed skills which should at least raise doubts about the quality of the skills.

In my opinion detailed research is required to select operational criteria for further differentiation between the various degrees of expertness. The issue of the stability of income and employment should also be included.

As regards the mobility of labour between the formal and informal sector, this sample shows that a large number of entrepreneurs had built up skills and accumulated capital in the formal sector. This is in contrast with the employees who had almost no formal working experience but indicated a strong preference to work in the formal sector. This circular mobility pattern tends to suggest that the formal sector is the major source of skill acquisition and capital accumulation and a necessary condition to obtain a viable and stable employment and income position in the informal sector. This hypothetical stand is at variance with the conclusion at the end of the paper. Linking this point of view to policy action one should recommend in-service training in the formal sector to realise high social benefits and low costs.

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