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1. Introduction

It is estimated that of a total workforce of 6.1 million in Sri Lanka in 1998, 3 million or 49 percent were outside the organized sector. This estimate is not likely to have captured fully the extensiveness of informal enterprise in the country. The nature and expansiveness of informal enterprise is such that accurate estimates are well neigh impossible. There is however no doubt that the majority of the workforce in Sri Lanka is in the informal sector.

It is often contended that the globalisation process has been to the disadvantage of informal enterprise and that their vulnerability has been exacerbated by globalisation, liberalization of trade, privatization and other economic policies pursued in the last two decades. This paper will examine this issue critically and offer some perspectives on them. It will seek to assess the impact of recent macro-economic changes on the growth and directions of informal enterprise.

Informal enterprise has been outside the purview of organized labour. This is due to the very nature of informal workers, difficulties in organizing them and the reluctance of informal workers themselves to participate in trade unions. This paper seeks to address the issue whether informal workers are organisable and whether there are any means by which trade unions could assist informal workers and bring them within the purview of trade unions.

The paper proceeds on the premise that these issues could be best understood by a proper understanding of the nature, character and types of informal enterprise. The next section provides a definition of the informal sector and discusses the nature and extent of informal enterprise in Sri Lanka. The third section provides a brief literature review. The fourth section discusses the impact of globalisation, liberalization and privatization on informal enterprise. The fifth section is devoted to the issue of how government, provincial and municipal policies impact on informal workers. The sixth section reviews the impact of labour legislation on informal enterprise and the role of trade unions. The seventh section discusses the policy issues that should be addressed and the needed directions in policy to assist informal enterprise and workers. A summary of the pertinent issues discussed in the paper and the conclusions are presented in the final section.

2. Definition, Nature and Extent of Informal Sector
The informal economy has been variously described in the literature – the ‘unorganised sector’, ‘unregistered economy’, ‘third economy’, ‘parallel economy’, ‘non-institutional’, ‘bazaar economy’, ‘lower circuit’, ‘black economy’, ‘shadow economy’, ‘underground economy’, ‘peasant form of production’, ‘peddlers’, ‘the unremunerated’. Despite these descriptions, or perhaps because of them, the definition of the informal economy has remained elusive, if not controversial. This section discusses the concept and definition of the informal economy with a view to adopting a definition of practical and analytical relevance to Sri Lanka.

There is a common confusion between the informal economy and the underground economy. The informal economy has at times been considered as synonymous with the underground economy dealing with illegal activities such as drug traffic, illicit distilling of liquor and other criminal activities. The informal sector does not consist of these activities alone. Most informal enterprise consist of perfectly legitimate economic activities outside the pale of the institutional and organized sector. Robert Litan has clarified this:

> It is a mistake to equate the terms “underground economy” with the term “informal sector”. The term underground economy refers to individuals engaged in drugs and organized crimes. …… the informal sector (consists of) … legitimate commercial activities such as driving taxis, selling clothes on the street and so forth that are carried out without complying with all of the technical, legal requirements, such as having a license and paying taxes.

While Litan is correct in that the informal sector is not synonymous with the underground economy, the underground economy is also a part of the informal economy. However, the underground sub-sector of the informal economy by its very nature defies discussion. Therefore the other informal economic enterprises and services that form a very significant proportion of economic activities in Sri Lanka are the main concerns of this paper.

Definition of the informal economy has also been influenced by the De Sotto concept based on Peruvian conditions. The informal economy, on this definition, consists of enterprises which are “outside of the law”. Because under Peruvian conditions the registration of a business enterprise is enormously time consuming, costly and cumbersome, enterprises remain “outside of the law”. Remaining “outside of the law” in turn results in considerable costs and inaccessibilities to resources. Further, it also appears that

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there is a hostility to informal enterprises in Peru and that they are harassed. This is not generally so in Sri Lanka, where informal enterprises are taken for granted and often assisted and encouraged. Many informal economic activities have deep social roots.

This definition of informals as enterprises “outside of the law” is inappropriate, inadequate, too restrictive and does not focus on the nature and functioning of the informal economy in Sri Lanka. It is inappropriate for Sri Lanka as the registration of a business is fairly simple, neither costly nor time consuming. It is inadequate because many registered enterprises do function in the same manner as informals and there is no functional difference between a large number of registered small enterprises and unregistered enterprises. Therefore the contention advanced here is that the informal economy must be defined in terms of its nature and character, rather than legal status.

Sethuraman, in an International Labour Organisation study of the urban informal sector, defined it as:

“small-scale units engaged in the production and distribution of goods and services with the primary objective of generating employment and incomes to their participants not withstanding the constraints on capital, both physical and human, and know how.”

This definition has an employment bias, does give certain general characteristics of informals and fails to be adequately definitive.

Jagannathan has described the informal sector as follows:

Outside the pale of the organized sector is the unorganized or informal sector, covering economic transactions of anywhere between 30 percent and 70 percent of the countries' gross national product.

It covers most rural markets, and the peripheral but growing urban informal sector. Very often appearing to be chaotic, sometimes complex, and occasionally intriguing, this sector has the markets where the poor earn their livelihood.

The unorganized sector is at best a loose way to describe a wide range of economic activities by small firms, households, and individuals, which are to varying degrees integrated with organized sector markets. At one end of the spectrum a family firm, for example, may be closely integrated with a large corporation in the organized sector through industrial subcontracting. At the other

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end, agricultural labourers and slum or shanty town dwellers could be securing their income-
earning opportunities solely within the unorganized sector.\(^4\)

Given this background we could define Sri Lanka’s informal economy as consisting of a wide range of
individuals and small production units producing goods and providing services mainly by the use of their
own labour resources, and often employing very little capital. They are characterized by following very
few formal procedures, seldom do they keep formal accounts and even when they employ others these are
non-contractual informal engagements terminable at will. Most informal enterprises are household
activities even when they employ a few persons.

In this definition neither the legality or otherwise of the enterprise nor its registration are criteria. Although
most activities in the informal economy are not registered enterprises, there are registered small enterprises
whose methods of operations are no different to unregistered informal enterprises and therefore
functionally belong to the informal economy.

By this definition most farming in Sri Lanka, except the estates and large holdings employing wage labour,
is in the informal economy. The self-employed, whether in labour services, trade, crafts or small
manufactures, are in the informal economy. Household economic enterprises whether employing only
family labour or a small group of persons producing such items as garments are in the informal economy.
Rural industrial producers of such items as coir fiber, mats, brushes, scrap and sheet rubber in their own
household and selling to marketing agents are informal economic enterprises. So are very small industrial
units producing numerous items either in a household or some improvised ‘factory shed’. A large number
of services such as informal lenders, brokers and various types of intermediaries are in the informal
economy. Illicit and illegal activities and services as bootleggers, prostitutes and drug peddlers are also a
segment of the informal economy.

Discussion of the informal economy has been very much urban-centered. This is perhaps due to the
predominant informality of rural economic activities from time immemorial being taken for granted; the
urban informal economy being more complex and intriguing; the greater “political salience” of the urban
informals and the presumed greater need and possibility for policy intervention and reform in the urban
sector. The rapid urbanization of many countries and the consequent growth of urban informal activity and
problems arising from these also account for the greater interest in the urban informal economy.
Nevertheless the larger proportion of Sri Lanka’s informal economy, as we have defined it in this paper, is
the rural informal economy.

\(^4\) N. Vijay Jagannatha, Informal Markets in Developing Countries, Oxford University Press, New York
1987 p.4.
The nature and character of the urban informal economy in Sri Lanka has been captured in the Marga study:

It would be true to say that by and large the informal sector has come into existence because it has been able to provide the most economic solutions in situations where certain types of goods and services were demanded and where for the purpose of catering to these demands, the scarce human and other resources that were available had to be organized in a way that was very indifferent from the forms of organization that grew in the formal sector. These economies are manifested in the use of capital, the use of intermediate materials and the use of labour. As has been already stated, investment on buildings is minimal. The capital equipment in reconditioned and second-hand form and other various types of ingenious improvisation are put to good use. Waste and scrap material, equipment in disuse and disrepair and other capital equipment which has been in use beyond what is regarded as its economic life, have been put to use or kept in service in tolerably serviceable condition. Family enterprise, household business, self employed units, have kept overheads low and the cost of labour under control. Therefore, the informal sector as a mode of production of a certain range of goods and services in the urban economy and meeting certain types of demand performs an important function at the present stage of urban development.

Hettige has made the perceptive observation that the urban informal economy is “a component of a larger system of boundaries which extend very much beyond the boundaries of a city or a town”.

Informal economic activities are extensive and pervasive an integral part of the Sri Lankan economy. Informals dominate the rural economy, and the main producers in food crop produce on. They are extensive in towns, play a role in the cities and are indispensable in the metropolis – Colombo. Their activities cover the whole range of economic activities and all sectors of the economy. Most agricultural

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produce is from informal small farms; most mining and quarrying, construction, non-factory industry, and retail trading is informal; a significant proportion of transport and related services are provided by informals; Informal financial sources are very significant in rural areas as well as in urban. A variety of other services such as food rendering, catering, electrical services and domestic services are informal activities.

If the entire range and array of informal activities could be accurately accounted, it would surely reveal that the informals contribute a larger share of domestic product than the formals. The author estimated the contribution of informal activity to GDP in Sri Lanka in 1988 to have been between 40 to 60 percent of GDP\(^7\). There is no reason to believe that the contribution of informal enterprise has diminished as informal activities have expanded with increased output of formal enterprise.

3. Literature Review

There has been a significant outpouring of international literature on informal economic enterprises in recent years. This has been due to a recognition that informal enterprises play an important role in the economics of developing countries. Micro-enterprises in particular have drawn much attention.

The international discussion is found in books, academic journals and as proceedings of international conferences. The *International Labour Review* has been one of the foremost journals that have published significant contributions on the informal sector.

**Books**


**Journals**

An important early contribution to the discussion on the informal economy was Keith Hart’s 1971 study “Informal income opportunities and urban employment in Ghana” in the *Journal of Modern African Studies*.

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The concept of the informal sector was introduced in this paper. Following on Hart’s study the 1972 ILO mission to Kenya developed the concept. Since then there have been a number of papers in journals. Some of the significant contributions in journals include the following.


Other noteworthy contributions to the understanding of the informal economy include the papers by Sethuraman and Jaganathan quoted in the previous sections. A significant contribution to the debate is Siman Johnson, Daniel Kanfman and Andrei Scleifer’s “The Unofficial Economy in Transition”, Brookings Papers on Economic Activity, No. 2 pp. 215-239. The World Bank, World Development Report of 1995, Workers in an Integrating World has a few sections (pp.70-79, 86-91) related to informal economic activity.

Sri Lankan Informal Sector

The literature on the informal sector in Sri Lanka could be divided into three categories. First, there are a few studies and research papers directly related to informal enterprise. Second, there are a number of studies which are in fact largely about informal enterprises but are not explicitly on it. Third there are studies and papers dealing with the informal financial market that is an integral part of informal activities. This literature review confines itself to studies and research papers that are specifically on the informal sector.

The pioneer contribution to the understanding of the informal sector was the Marga Study of 1979 entitled, The Informal Sector of Colombo City, Marga, Colombo 1979. This work based on a survey of Colombo
made significant contribution to the understanding of informal activities and a conceptualisation of informal enterprise. The follow up study of Marga in 1992 brought out characteristics of informal enterprises in five sectors, including the construction, motor repairs and food services. This study remains unpublished.

Among the few specific essays on Sri Lanka’s informal sector is Nimal Sanderatne’s, “The Informal Sector in Sri Lanka: Dynamism and Resilience”. Chapter 4 in Lawrence Chickering and Mohamed Saldine’s *Silent Revolution*. This essay is both descriptive and analytical. It gives a description of the manifold activities of informals with profiles of informals. It discusses the rationale for informality, the difficulties faced by informal enterprises and how they could be assisted. The chapter also estimates the contribution of informal activity to the GDP. Sanderatne’s paper “The Informal Economy: Issues and Perspectives”, in *Upanathi* Vol.4 Nos 1&2 (July 1989) is a more formal analysis of the informal sector. Although it focuses on the urban informal sector, it provides a schematic overview of the sub-sectors of the urban, rural and estate informal activities.

4. Effect of Globalisation, Trade Liberalisation and Privatisation

There is a general perception that globalisation and trade liberalization affects informal economic activities adversely. This is partly an ideologically oriented assessment and partly supported by evidence of decay, diminution and disappearance of several small industries.

There is little doubt that there was a marked change in the character and composition of industrial activity after the economic liberalization and a higher degree of globalisation of the Sri Lankan economy in the 1980s. The industrial structure of Sri Lanka provides this evidence. Between 1970-77 when the country, adopted an import substitution industrial strategy a wide variety of consumer items were produced on a small scale, some of these were informal enterprises. With trade liberalization and encouragement of export led industrialization, small and cottage industries declined in importance. A number of small cottage industries closed down in the face of superior and cheaper industrial imports. Factory industry now accounts for about 85 percent of industrial output, while small industry accounts for only 4 percent of total industrial output.

This decline in small industry has led to the view that globalisation has led to a shrinking of informal sector activities. In fact it is quite evident that while conventional small industry such as handloom, and several small scale import substitution manufactures have not been able to withstand the competition of imports, there has been an expansion in informal enterprises, particularly in trading and services. Paradoxically, while formal small scale industry has declined, informal enterprise has grown after liberalisation of the economy.

This increased informal activity with globalisation and liberalization is due to the fact that the informal–formal nexus is often a symbiotic relationship: they co-exist rather than compete; they complement rather than supplement; they are interdependent and often vertically integrated, though often without formal links. Informals often provide a less expensive acceptable alternative, or where the informals provide the same product or service, their marketing is different; and the price and quality of the product distinguishable. Their clientele may be differentiated, spatially, by class, social difference, and product needs. The vast majority of Sri Lankans do to a greater or lesser degree, patronize the informal economy. The formals often sub-contract with the informals for semi or nearly finished products, inputs for manufactures, and a multiplicity of services. Many informal enterprises are a by-product of the formal sector or an off-shoot of it. Far from the formals competing away the informals, the growth of the formals has generated a new impetus, provided new opportunities, expanded markets and created new needs for informal activity. The economic growth in Sri Lanka after liberalization has seen the growth of the informal economy pari passu with the growth of large manufactures and service enterprises. The growth in overall demand has resulted in a greater demand for informal services and goods.
Hettige observes that “post 1977 expansionary, open economic policies prepared the groundwork for the recent expansion of informal economic activities”\(^8\). He points out that the liberalization of trade “opened up more opportunities for retail trade which is a major activity in the informal economy”\(^9\). Increased incomes led to increased demand for informal services, incomes from migrant workers added to this demand as well.

There are several underlying factors for increased informal economic activities. First, the expansion of formal industrial and service activities have had backward linkages. Informal activities provide goods and services to them. Second, the expansion of formal industry has resulted in parallel informal industrial development. Third, the availability of raw materials and capital equipment has enabled individuals to set up small manufactures or services. Fourth, the increased incomes have generated a demand for more goods and services. Fifth, increased urbanization and changes in the modes of living have resulted in a demand for new services. Sixth, increased foreign income earners have enabled individuals returning after foreign employment to set small industries of their own with their savings, enhanced skills and imported small modern machinery. Each of these types of activities are illustrated in the following discussion.

Several industrial activities that were established after liberalization or expanded after liberalization obtain materials or services from informal services. An illustration of this is the provision of vegetables, fruits, entertainment and transport services from individuals or informal entrepreneurs for the hospitality industry.

While forward and backward linkages are a well-known phenomenon, parallel linkages are not generally discussed in the literature. There are several informal activities that have prospered as parallel industries and services. Perhaps the best illustration of the parallel linkage is Sri Lanka’s garment manufacture the largest manufacturing industry that accounts for over 70 percent of manufacturing industry in the country. The growth of garment industries has had the effect of developing a parallel informal clothing manufacturing industry. The off-cuts and small pieces rejected by these industries are sold in bulk on a system of tenders. The smaller pieces are packeted as cleaning cloth and marketed through mainly hardware shops. The bigger and better pieces are bought by informal garment manufacturers. Small sewing shops employing a few girls use these pieces together with other textiles to make a variety of garments. These garments are sold by pavement hawkers in many towns in Sri Lanka and in turn provide employment for traders. The range of garments vary from ladies and gents underwear, ladies skirts and blouses, children’s dresses and even men’s shirts. These garments are generally cheaper and popular among the working classes.

\(^8\) Hettige, op cit p.81.
\(^9\) Ibid. loc cit
Another similar development is the soft toys made out of cut pieces and throw aways from garment factories. This informal toy industry has grown to such proportions that there is a vertical integration within it with individuals producing ‘parts’ of toys such as eyes, eye lashes, ears etc.

The freer availability of equipment and raw materials has enabled individuals to establish small industries. These include making bags, leather goods, caps, key tags and similar products. Individuals have also established enterprises based on computer technology such as desktop publishing, production of greeting cards, visiting cards, stationery, handbills etc. Such industrial enterprises are not possible without the availability of the technology, equipment and skills, all of which have been derived as a result of globalisation and liberalization of trade.

Both increased incomes and changes in the modes of living have resulted in new demand patterns. A conspicuous such development is the informal food industry that has developed. The employment of both husband and wife, the lack of domestic help and little time after work for food preparation, have all resulted in an increased demand for cooked food. Both formal and informal enterprises cater to this need. Among informal outlets are the familiar lunch packets made in households and sold in various outlets and by salesman on roadsides. Households also prepare popular foods such as hoppers, string hoppers, rotties and curries that could be picked up at various outlets.

Globalization has resulted in considerable numbers being employed for a period of time abroad. This phenomenon has resulted in considerable sums of money being repatriated to the country. In 2000 total remittances to the country amounted to US $ 1115 Million. Some of this capital has enabled the returnees to establish their individual enterprises. Often such returnees have also superior skills, having been exposed to modern machinery and perhaps developed entrepreneurial skills. Consequently there has been a development of a variety of informal industries and services. Among the increased informal services that have been expanded are the transport services. Many trishaws and vans that ply on hire all over the country are from funds derived from such incomes.

This discussion brings out the point of view that while several small industries based on an import-substitution strategy were adversely affected, the process of globalisation and free trade by developing a formal manufacturing sector, making available raw material and equipment, increased incomes, new modes of living and significant incomes from abroad have expanded informal activities rather than reduced these. Increased urbanization owing to globalisation and increased international trade has resulted in the urban informal sector in particular expanding.
Privatisation too has led to increased informal activity. The down-sizing of public enterprises has resulted in workers using their termination benefits to commence small informal business enterprises.

5. Government, Provincial and Municipal Policies

Most informal activities are conducted without a legal entity or registration as a business. The law generally permits this except where buildings are specifically used as business premises. Where buildings are used for business purposes the municipality or urban council or provincial council requires the registration of the premises and a higher rate assessment is made. Apart from this the law allows a person to carry on a business without the necessity for registration. Most informal enterprises opt to be unregistered, especially those that do not occupy buildings or do not need to advertise their location.

The process of registration of a business is however not complicated, expensive or time consuming. The process of registration of a business is more or less automatic and the fee is extremely small. However, once registered a business requires to comply with certain rules such as submission of annual accounts to the registrar of companies.

There are many reasons why small or micro enterprises remain as unregistered enterprises. Registration implies compliance with administration rules, maintenance of proper accounts, compliance with labour laws, payment of EPF, ETF dues and fear of taxation are among the reasons for a preference to remain as unregistered businesses. Besides costs that they may incur, compliance with procedures and formalities is quite alien to the character of informal enterprise.

Most enterprises succeed in remaining outside the orbit of officialdom. There is also a degree of ‘tolerance’ by government or local government authorities. The reasons for this benign tolerance are several. There is a recognition that informal activities provide a livelihood to the poor and any interference would aggravate poverty. A more conscious attitude is that informal activities contribute to reducing unemployment and that they make a useful contribution to the country’s economy. Informal small enterprises are increasingly accepted as a rational strategy for economic development. In fact the government fosters such informal enterprise directly or indirectly. Under the Janasaviya Programme (1989-94) and the on-going Samurdhi Programme credit is given for small enterprises. Skill development to enable the poor to commence self-employment activities is also an important component of these programmes.

Besides this NGOs provide credit for informal economic enterprises. In fact many of the more important NGOs focus their activities on savings mobilization, on the one hand, and credit for small enterprises on the
other. Therefore, small enterprise development has become an important strategy for alleviation of poverty and income generation. And these small enterprises are informal activities irrespective of whether they are registered or not.

Despite this approach to informal activities there are several difficulties arising from governmental or local regulations and actions. First, there is an increasing trend of registering informal activities by local authorities and provincial councils as a means of revenue for them. The introduction of provincial councils has sometimes resulted in informal enterprises having to pay separate taxes. Small enterprises having fixed premises have been subject to such taxation.

A second source of enormous difficulty has arisen recently with the government’s Urban Development Authority attempting to remove unauthorized structures in cities and towns. Many informal activities have been conducted in temporary unauthorized structures along the roads of cities and towns. In an attempt to improve the appearance of these cities, as well as facilitate pedestrians the use of the pavements (sidewalks), the Urban Development Authority has demolished rather extensively structures used for trading and other services. The police too has been active since 2000 in driving away hawkers and other traders from the pavements. In some instances unauthorized permanent structures that have been constructed over the years on public property have also been destroyed. An example of this is the buildings sponsored by the Gangaramaya Temple in Colombo for trading and training of youths in various crafts. The local authority had not objected to the construction of such premises owing to the job opportunities these provided as well as due to the political patronage it enjoyed at that time.

The new thrust of the Urban Development Authority is no doubt an assertion of legal rights. It may improve the aesthetics and environment of the city and also facilitate transportation and pedestrian traffic. Despite these gains, there is no doubt that it has affected the income generating economic activities of a sizable number of informal entrepreneurs and traders. In some instances the government has provided alternate locations for these enterprises.

This experience also underscores the uncertainty and risk associated with a number of especially urban informal enterprises. Some of the economies of these enterprises arise out of the unauthorized free use of public property and amenities. However, they run the risk of eviction from such unpaid and yet very suitable locations for their activities. This experience also illustrates changes in policies of government and local authorities that encourage the proliferation of informal activities at one time and threaten and destroy them at others.

A third area in which government and informal activities have always been in conflict is in the informals non-compliance with health, sanitation and other regulations and by-laws of local authorities. This is a
very problematic and conflicting area. The rules and regulations have been formulated in the interests of sanitation, health, environment, orderly and rational zoning and road regulations. Informal tend to violate these. Should they be exempted or prosecuted? Either answer has its disadvantages. The 1979 Marga study of Colombo’s informal sector highlighted the problem as follows:

“We saw that the large majority of informal sector enterprises have to operate in contravention of existing regulations and by-laws. These apply to unauthorized structures, itinerant trade, laws governing the quality of the product as in the case of the Food and Drugs Act, licensing of small equipment and a host of other regulatory and legal restrictions. These laws apply without discrimination to both the formal and the informal sector, and the primary objective of these laws and their enforcement is ostensibly the protection of the consumer”. (Marga 1979, p.126)

The Marga study suggested certain vague approaches:

“Regulation of some of the itinerant activities, temporary authorization of structures, removal of discriminatory licensing and regulation of certain informal activities of a certain scale, revision and adaptation of acts which impose high-cost formal sector standards on low cost activities servicing a poor clientele – all these elements would need to go into a more appropriate regulatory and legal framework for the informal sector”. (Marga 1979, p.127)

One of most needed policy interventions is the minimization of rules and regulations which hamper economic activities. These are not rules and regulations which affect informals alone, but both formal and informal enterprises. An excessively regulated society with a miasma of regulations affect informals more adversely than institutional enterprises. There are three ways in which they are affected more. First, informals may not have rights to apply for resources, concessions, exemptions etc as they are not formal organizations, lack the knowledge and sophistication to deal with it or cannot provide needed documentary evidence. Second, coping with regulations is costly and the unit costs of meeting requirements is greater for small enterprises. Third, conforming to regulations, procedures and red tape is not merely time consuming but could be almost insuperable for the small man. Large institutions have contact with higher officials and could use their influence to assist them, but informals would find it difficult to get their requirements processed.
6. Labour Legislation and Role of Trade Unions

There has been a recent concern that informal sector workers should come within the purview of the country’s labour legislation. The problem has to be discussed in terms of the three categories of ‘workers’ in informal enterprises. The first are the self-employed; second, members of the household, relations and part-time helpers; and third, a few hired employees on a regular or contracted basis. It would not be meaningful for the first category, by far the most numerous, to come within the purview of labour legislation. It would be impractical to include the second category. The issues with respect to the third category require to be discussed as their situation is somewhat diverse.

Some small informal enterprises employ a few workers. Their wage is in fact determined by the relative bargaining strengths. Those with hardly any skills would be paid the prevailing unskilled wage rate in the area. This differs considerably from place to place. It is not determined by the prevailing minimum wage rates specified by the Labour Department Wages Board for the industry (even if it is covered by a Wages Board). These workers rarely contribute to the Employees Provident Fund (EPF) nor their employers to the Employees Trust Fund (ETF). Both the employer and employee in these small enterprises are reluctant to be involved in contributing to these funds. The employer looks at it as an additional financial cost and unnecessary work and expense sending remittances. Besides this the employer looks at such an involvement as having future risks of being entangled with new labour legislation and other authorities, including tax authorities. Therefore to as much an extent as possible employers avoid being drawn into labour regulations.

Where small enterprises are easily identified they reluctantly make such payment. Yet even in such instances it is observed that they often register only some employees, resort to casual employment with employees being discontinued periodically to evade registering them or find ways and means to minimize their involvement with authorities, often by bribery of the inspecting officials.

The role that trade unions could play in the informal sector is wrought with fundamental problems. Trade unions are concerned with the organization of employees in specific industries or firms and linking unions to enhance their bargaining strength. As stated earlier, most informal enterprises do not have the conventional employer-employee relations and even where there are such workers, they are few, spatially dispersed and consequently difficult to organise. The character of factory industry that enabled trade unions to organise labour is as much absent as conventional employer-employee relations.

Two other questions emerge. In what ways could trade unions confer benefits to informal workers? Is there a possibility of a different model of trade union activism for informal workers?
A tentative proposal is that the trade union movement plays the role of spokesman for informal entrepreneurs and workers and lobbies for improved conditions for them. The manner of their relationship to informals is related to the discussion on the model of trade union action and the needed assistance that could be given. This is discussed in the next section on policy issues. Briefly this would mean a co-ordination between the trade unions and the organized informal associations. The latter could convey their needs that trade unions could espouse for them.

The model of “unionisation” that is proposed as a feasible option is for informal enterprises to form an association to look after their interests. Such associations that are themselves informal, have already been established by pavement hawkers, rickshaw pullers and traders in other countries (eg. Self Employed Women’s Association SEWA, Bidi Workers Association in India). Trade union organizations themselves may consider assisting in the formation of such associations.

Such associations will not be unions as their interests are not employer-employee relations. Their is an interest group seeking through the strength of association and membership better conditions for themselves. Such associations could prevent or mitigate the type of problems they encounter with authorities as well as obtain facilities for improvement of their conditions of operation.

A linking of these associations with trade unions could strengthen their bargaining position. The role of the trade unions would be to improve the conditions of largely self-employed informal workers rather than unionize them in the conventional manner. Unionisation in the conventional manner would be impractical and inappropriate.

7. Policy Perspectives

Central to the issue of policy interventions in the informal economy is a recognition that informal activities do play a useful role in the economies of developing countries. The correlation of the level of economic growth measured by per capita income and the size of the informal sector suggest that informal activity declines with the growth of an economy. However, such decreased importance occurs after a fairly high level of economic growth and development have occurred. Like several other economic phenomena, there is a growth up to a point and a decline occurs only after the economy reaches a fairly high level. The familiar inverted U shape economic behaviour appears to capture the secular increase and decrease of the informal sector. The exact shape of the inversion would depend on the nature of the economic growth process and the extent of labour surplus in each country.
Given such a secular behaviour of informal enterprise, the approach to interventions must be looked upon as policy initiatives to assist informal enterprise rather than efforts to control and regulate them. The areas of conflict that have already been noted and discussed in section 3 of this paper would have to be viewed as challenges posed to innovate methods whereby the societal or public interests are protected without damage to the livelihood of informals. This is no easy task.

Recent changes in policy to demolish unauthorized structures in cities and towns by the Urban Development Authority have resulted in considerable hardship to informal enterprise. Unlike the earlier actions to clear pavements of hawkers that had only a temporary effect, this demolition has had a serious set back to the livelihood of these informal traders. There was also no effort to provide alternate appropriate accommodation for them. This appears to be a change from previous policies that ignored the unauthorized structures or where such demolition took place alternative facilities were provided. There is scope here for organized informals to protect themselves in the future from such hasty action and to come to arrangements with the authorities to give them adequate time and alternate facilities. Trade unions with their organizations and skills could strengthen the case for informal enterprises. This is a type of role they could play to assist informal workers.

With the growing recognition that the informal enterprise is not a marginal phenomenon but a substantial contributor to the economy; that with globalisation and economic growth the informal economy has not diminished but grown; and the realization that informal economic activity could be a means of promoting economic growth and be a significant means of labour absorption, there could be hasty and well intentioned but poorly conceived policies to help the informal sector. Such haste must be tempered as policy interventions that attempt to formalise informal economic activities could be counter productive and diminish the productive capacity of informals. This is so as many informals remain informals as informal activity is more suited for their particular service.

What then are the ways by which informal economic activities could be encouraged? The improvement of economic infrastructure is certainly one means by which informals could benefit. A case in point is telecommunications. The availability of telephones, particularly mobile phones, has enabled some informals to conduct their business transactions more effectively and at lower cost. Many tri-shaw drivers and self-employed service providers have increased their clientele and managed their time more effectively owing to these telephones. Similarly easier access to electricity and water could be of significant benefit to informals. Sometimes these infrastructure facilities could be provided in particular locations.

Informal enterprises could expand if better training facilities are available. To illustrate this, the rapid expansion of the informal garment industry is due to three reasons: the availability of textiles and off-cuts from the formal sector, the increase in sewing machines mainly owing to savings of middle-east employees
and the proliferation of sewing classes. Similarly if training opportunities are available in a number of other areas, the skill development could lead to new informal enterprises in the services sector and small manufacturers. Such skill development could be in varied areas like electronics, masonry, horticulture, cookery or carpentry.

One of the policy interventions to help informals has been the attempt to improve facilities for them. For instance traders have been provided with better stalls to house their wares for sale. This has taken several forms with mixed results.

The provision of pavement hawkers with similar but improved roadside stalls and the development of the Jathika Pola, which has both formal and informal market outlets, are instances of successful interventions. The reasons for these successes are that they conformed and catered to the existing demand and did not alter the informal character of their trade. On the other hand, there have been some unsuccessful interventions. The establishment of a Kadijugama with improved conditions for the roadside sellers of cashew to sell is a case in point. These were located away from the highway and most travelers by-passed the new sales point. Similarly, ‘supermarkets’ have been constructed for hawkers to sell their produce. This too was failure as the traditional methods of sale catered to the requirements of the clientele far better than the ‘improved’ conditions. The type of customers who frequented the hawkers would not enter supermarkets, the traders could not afford the rent or if they bore the costs the resultant higher cost structures would put them out of the market they catered to. Further the informals may get themselves caught up in coping with new procedures, paper work, taxes and additional costs as a result of the new location.

An area of intervention which could be of considerable assistance to the informal economy is the improvement of marketing conditions for products of the informal economy. Owing to imperfect marketing channels, the market margins are very large with the informal produces receiving a very small amount of the final retail price. The establishment of purchase points in as many areas as possible could enhance the price obtained for the produce by reducing marketing margins. This should be complemented with sales outlets at consumer points, which would increase the demand for these products.

The establishment of Laksala as a sales point thirty years ago is illustrative of this type of intervention. It has provided support to local craftsmen in several areas such as brassware, silverware, jewellery, handicrafts, coir products and batiks. It has increased the demand for such products among tourists and locals alike and inspired other government and private agencies to open similar outlets. This intervention has expanded informal production of crafts and kept many traditional art forms economical and financially viable.
Closely related to this strategy is the need to make available the required inputs for informal enterprises. Many informals, particularly craftsmen, find it difficult to obtain their inputs as they require small amounts and are in no position to stock them. This is particularly so with raw materials like brass, silver and gold. A system to provide craftsmen and informals with required inputs at easily accessible points would greatly assist informal producers. The Ministry of Rural Industries developed a system of bulk purchase of the raw material and makes these available in small quantities to individual producers. This scheme is also tied to a credit scheme with a bank to facilitate the purchase of the raw material.

One of the biggest impediments faced by the informal sector is the inaccessibility to formal sources of credit. Consequently informal enterprises have to borrow from informal sources at high cost. This deficiency has been recognized but several policy interventions to assist the informal economy has had only a limited impact. The policy interventions have included development of new institutions more adapted to lend to informals such as the Cooperative Rural Banks and Regional Rural Development Banks, the adaptation of loan procedures and formalisation of schemes specifically designed to serve self-employed ventures and particular types of enterprises such as craftsmen, poultry and dairy cattle enterprises and efforts to link the formal credit system to the informal through intermediaries like Non Government Organisations (NGOs) and through “agents” known as Praja Naya Niyamakas (PNN). While these efforts have succeeded to a limited extent they are still to make a significant dent in the problem of informals inaccessibility to institutional credit.

Another means of increasing credit to informals is through the intervention of non-government organizations and by informals themselves organizing into groups and making it easier to borrow from institutional sources. Such groupings and NGOs could also be a means of obtaining other resources such as developing marketing channels, obtaining technical skills and receiving concessional facilities generally offered only to institutional enterprises.

8. Summary and Conclusions

Although the informal economy is difficult to define, it is a widespread phenomenon in Sri Lanka. Informals are generally small enterprises, often self-employed but not exclusively so. The informal economy consists of a very wide range of activities both in the rural areas and in towns and cities. This
would include non-estate agriculture producing a variety of food crops as well as cash crops, the output of craftsmen, small manufacturing units, itinerant traders, street vendors, a multiplicity of services in trade and transport and the financial services provided by informal lenders. The value added by the informal sector of Sri Lanka is likely to be about 40 percent of GDP.

Although some informals have grown to be large businesses, most Sri Lankan informals are likely to continue to be micro-enterprises and informal in nature owing to the limited capacities of the informals, the nature of their activities, limited markets as well as constraints of finance and access to inputs.

Although it is widely believed that the informal economy has diminished after the liberalization of trade and globalisation, there is overwhelming evidence to the contrary. Certain cottage industries and small industries were unable to withstand the competition of international trade and folded up. At the same time there was an impetus to the informal economy from the availability of rejected useable materials from the manufacturing sector, increased demand for goods and services, development of a demand for new services owing to changing life styles, availability of savings from foreign employment and exposure to new technology. There have been backward linkages as well as parallel informal economic activities supported by the expansion of the formal economy.

The international experience as well as the Sri Lankan developments after liberalization of the economy provide strong support to the hypothesis that informal economic activities gain in importance till a fairly high level of economic development and decline thereafter. The experiences of Singapore and the Republic of Korea are illustrate this. Sri Lanka is very much at a stage when informal economic activities would grow. Apart from the level of economic activities, the extent of labour surplus in an economy, is a determinant of the time when that decline occurs.

Conventional unionization of informals is not possible as most of them are self-employed, workers in micro enterprises, would not view trade union activity as being in their self-interest, they are spatially dispersed, there is a lack of a sufficient density of workers unlike in factory industry and the interests of informals are different to the conflict situations of employers and employees. In such a context trade unions can play a different role of intermediation on behalf of the interests of informal workers especially vis a vis the government, provincial councils and local authorities, while at the same time encouraging informal workers to form themselves into associations that could link up with the trade unions.

Interventionist policies to help informals should be espoused with caution as inappropriate and regulatory policies detrimental to informals may result. As Natul Amin has pointed out “Utmost care and imaginative approach are necessary. So that social protection measures or the requirements of decent work
do not hurt those for whom they are meant. This should be the bottom line of social activism and policy interventions\textsuperscript{10}.

The best ways to encourage and assist informals would be to improve the efficiency of government organizations, improve economic infrastructure and improve access to resources. These are not policies necessarily targeted to informals but no doubt they would be beneficiaries. Policies and institutional devices which provide credit to informals would be particularly useful. Non-government organizations could also assist in improving the efficiency of informals.