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The Informal Sector, Micro-Enterprises and Small-Scale Industries: The Conceptual Quandary

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Abstract
The term informal sector which groups informal micro-enterprises and small-scale industries (SSI) raises macro and micro issues by definitions which have not yet been fully addressed by numerous publications on the sector. Although the sector has become the engine of growth and for sustainable development in many economies, policy makers are not sure of what makes up the sector and its demands. Therefore countries, institutions and organisations have been left to adopt and adapt their own definitions to suit the objectives of their programmes and circumstances. This paper reviews the definitions put forward by different institutions and bodies with the aim of reviving the debate on the precise definition of the informal sector for universal usage if at all possible. The paper concludes that the heterogeneity of the SSI sector means it is often necessary for definitions to be modified according to the context in which the sector is being examined. The paper concludes that using employment level of firms would be the ideal and easiest way of reaching consensus on possible universal definition of the informal sector.
Keywords: Informal Sector, Small-Scale Enterprises, Micro-enterprise, Rural

1. Introduction

The paper discusses the different concepts and definitions of informal sector, micro-enterprise and small-scale industries in depth with the aim of rekindling debate on the concepts of the informal sector in order to push for a common definition for use among researchers, practitioners and policymakers.

The informal sector covers a wide range of labour market activities that combine two groups of different nature. On the one hand, the informal sector is formed by the coping behaviour of individuals and families in economic environment where earning opportunities are scarce. On the other hand, the informal sector is a product of rational behaviour of entrepreneurs that desire to escape state regulations (Edusah and Tribe 1992). The informal activities include rural industries, household industries, crafts industries, village industries etc. By its nature, informal sector is difficult to observe, study, define and more importantly measure. As a result it is difficult to find a single source authoritative definition as a unit of study. To compound the dilemma both asset and labour strength have been widely used by different organisations and countries.

The terms industry, firm and enterprise are vague and are sometimes applied to a wide range of activities in both rural and urban areas. In this paper the terms have been used interchangeably to include small-scale industrial activities in rural areas. Rural industries do not merely connote or represent geographical location but also present an idea of rural ownership. Thus the industries are enterprises for the people, carried out mainly in rural conditions and rely heavily on local resources, both natural and human. In the West African sub-Region and Ghana in particular, rural industries fall into two broad classifications, (1) industrial enterprises carried out by individuals mainly with household workers and occasionally employing outside labour and (2) industries carried out by more than one person employing not only family labour but also outside skills.

It has been observed that increasingly, donor agencies, governments of developing countries and non-governmental organisations are converging in the informal sector development as potential area in development policy and employment creation. This has become necessary because experience with economic reforms have shown that more often than not, macro-economic reforms do not always achieve the desired responses, especially as regards private investment, job creation and income generation and distribution. Experience in Ghana, Nigeria, Sierra Leon and elsewhere in Africa during the 1980s has shown that non-agricultural activities in the rural areas and small towns play a much more substantial role than hitherto surmised. In Sub-Saharan Africa the relatively restricted labour absorption in high input agriculture makes the informal sector activities acquire more significance. Edusah (2011) argues that in Ghana RSSIs play a very important role in the socio-economic life of majority of the people who live in rural areas where agriculture is the dominant economic activity (see also Junejo et al, 2007). The inability of the capital intensive large-scale industries located mostly in the urban areas to provide adequate employment to keep pace with rapid growth of population has put pressure on the labour market particularly in the urban areas. The informal sector has as result acquired a new dimension. The key question, however, is the extent to which the development of the informal sector will assist in resolving major development issues.

Interestingly, over the past two decades, the informal sector promotion has come out of its confines and has begun to raise and answer some of the major development questions, in part aided by a cumulative wealth of experience and evaluation of a great variety of promotional efforts and projects (Boomgard, 1989). Studies of past projects and programmes have shown that the effectiveness of micro-level efforts can be improved by addressing sectoral factors. Thus, also from this angle there is a greater disposition to consider the wider policy framework for the informal sector development. However, Unni and Rani (2003) argue that the informal economy is a temporary marginal economic activity which provides income for the poor and safety nets in times of crises. A critical look would now be taken at different concepts and definitions of informal sector, micro-enterprise and small-scale industries.

2. **Concepts and Definitions of Informal Sector**

The concept of the informal sector is not new although the term came into wide use in the early 1970s. Reynolds (1969) had developed a model, which contained two urban sectors, one of which he referred to as a "trade service" sector describing "the multitude of people whom one sees thronging the city streets, sidewalks and back alleys in developing countries. These include petty traders, street vendors and porters, small artisans, barbers, shoe-shine boys and personal servants" (Reynolds, 1969). McKay and Round (1996) argue that Reynolds's classification is probably still a good characterisation of what many authors understand as constituting the urban informal sector. The International Labour Organisation's (ILO, 1972) report is another important study that highlighted the crucial role of the informal sector activity particularly in the developing countries. A notable feature of the World Employment Programme (WEP) mission to Kenya (ILO, 1972) was the shift in emphasis away from "unemployment" to "underemployment." This was done to draw attention to the fact that few people could afford to be unemployed in countries where there were no unemployment benefits and state income support. The ILO study also set out a typology of informal sector characteristics.

Hart (1973) first introduced the concept of informal sector in his work on informal opportunities and urban employment in Accra and its suburb of Nima in Ghana. Hart drew on the 1960 Population Census of Ghana and calculated that over half of the economically active working age population was non-wage earning. That is they earned their living outside the main stream modern economic activities. From this observation he distinguished between formal and informal occupations stating that the "key variable is the degree of rationalisation of work – that is to say, whether or not labour is recruited on a permanent and regular basis for fixed rewards" (Hart, 1973).

Losby e.t al. (2002) have argued that the early works on the informal economy did not necessarily see informal activities as a 'sector', but rather the plethora of economic activities in which people engage. In his recent work, Hart, (2006), argues that over the years unorganized economic activities were linked to the categories of small self-employed, and termed as 'informal'. The term informal was thereafter, typically used to refer to ways of making a living outside the formal wage economy, either as an alternative to it or as a means of supplementing income earned with it. However, the main insights were into complexity of how livelihoods are shaped, the intertwining of different types of activities, and the role of the state and bureaucracy in both developed and developing economies),

Also according to Lubell (1991) the ILO Kenya study is considered as setting out most of the elements of what is known about the informal sector. This embodied a slightly different typology from the one proposed by Hart and was enterprise-based. Many other studies have been carried out on the informal sector definition by focusing on the urban labour market. Sethuraman (1981) for instance summarised the various approaches to characterising the informal sector and was of the view that an acceptable definition was still to be established. He argued that certain ambiguities arise from the attempt to classify activities into two sectors on the basis of multiple criteria and suggests that there are inevitable contradictions as each criterion tends to create a universe of its own. Nonetheless he stressed the importance of an employment criterion and suggests that an informal sector unit is primarily motivated by employment creation, while a formal sector enterprise is primarily concerned with profit maximisation. McKay and Round (1996) are of the view that, like the ILO Kenya report, Sethuraman (1981) favoured the establishment, or production unit, reference as a basis for the definition.

Bromley (1978) took a somewhat broader perspective than simply the economics of informality and listed nine deficiencies or misconceptions, many of which are still central to the informal sector debate :
i. that it is very crude procedure to divide all economic activities into two categories;
ii. that it is logically inconsistent to use multiple criteria and not use multivariate analysis in making the classification;
iii. that there is a tendency to view the informal sector as exclusively urban;
that there is a tendency to consider the urban informal sector and the urban poor to be synonymous, and no real justification for it;
iv. that there is a tendency to confuse neighbourhoods, households, people, and activities with enterprises. People may work in a different sector at different stages of their life-cycle, times of the year, or times of the day, so the enterprise is more likely to be preferred as a unit of enumeration.

Another important and comprehensive appraisal of informal sector concepts is by Charmes (1989). He noted the fact that, in practice, estimates of informal sector activity are derived on the basis of a single criterion, which is regarded as subsuming all other characteristics and the most commonly used are:
i. occupational status, which allows a distinction to be drawn between (wage) employees and non-wage earners;
ii. size of enterprise, measured in terms of numbers employed. The most commonly used threshold is ten employees and although this is criticised for being applied indiscriminately across all activities in all countries, Charmes notes that this threshold frequently corresponds to changes in structure and behaviour in an enterprise setting across countries;
iii. registration, in which the informal sector is defined as constituting those (non-agricultural) activities which are not separately and regularly registered by statistical surveys as businesses;
iv. income level is quite a different type of criterion as it refers to individual (or household) characteristics and not an enterprise or activity.

3. Classification of Informal Sector Activities

Hart (1973) and the ILO (1972) have suggested two main classifications of the informal sector activities (see McKay and Round, 1996). Hart's classification is very exhaustive and covers a wide range of activities carried out outside the formal economy particularly in the urban areas. The ILO classification on the other hand, is based on the characteristics of the informal sector. It can be seen that the two classification presented below are different in approach. While Hart's classification is presented on the basis of categories of activities, the ILO classification is presented as the characteristics of the informal sector.

3.1 Hart's Classification of Informal Income Opportunities

In an attempt to get round the definition difficulties, Hart (1973) resorted to listing of a wide range of activities carried out in the urban areas for a living by people outside the formal sector based on his work in Ghana. These are:

- primary and secondary activities – farming, market gardening, building contractors and associated activities, self-employed artisans, shoemakers, tailors, manufactures of beers and spirits;
- tertiary enterprises with relatively large capital inputs – housing, transport, utilities, commodity speculation activities;
- small-scale distribution – market operatives, petty traders, street hawkers, caterers in food and drinks, bar attendants, carriers (*kayakaya or kayayo*), commission agents and dealers;
- other services – musicians, launderers, shoe-shiners, barbers, photographers, vehicle repairs and other maintenance workers, brokerage and middleman-ship, ritual services, magic and medicine.

3.2 ILO's Classification of Informal Sector Activities

The following attributes of the informal sector was put up by the ILO (1972) to overcome the difficulties with definition. These include:

- ease of entry;
- reliance on indigenous resources;
- family ownership of enterprises;
- small scale of operation;
- labour-intensive methods of production and adapted technology;
- skill acquired outside the formal school system and
- unregulated and competitive markets.

Chen et. al. (2002), argue that the scale of operation in the informal economy offers leverage over their formal counterparts, because it allows for production to be organized into small-scale, decentralized and more flexible economic units. It therefore allows for flexible specialization of production which is a core feature of capitalist development, which co-exists with and reinforce other sectors of the total economy.

4. The Micro-Enterprise Concept

The term micro-enterprise came into use as the informal sector debate gathered momentum and was used by some authors to simply describe all (non-agricultural) household-based activity. However, a distinction is sometimes drawn between "modern" and "marginalist" informal sector activity with the former referring to the more productive and dynamic elements, (McKay and Round, 1996). Lubell (1991) has associated micro-enterprises with the modern informal sector. On the other hand, Charmes (1992) associates micro-enterprises with the category of household enterprises of informal employers, in effect excluding household enterprises, but restricted to non-agricultural enterprises.

According to Nowak (1989), rural micro-enterprises encompass a wide range of activities filling the gaps left by agriculture, including:

i. year -round or seasonal enterprise tuned to the agriculture cycle;
ii. full or part-time enterprises;
iii. individual or family enterprise or enterprises employing full-time or casual outside labour;
iv. fixed (enterprises operating from permanent locations) or itinerant (enterprises that do not have any fixed location);
v. enterprises with one activity or with more than one activity substituting for one another according to market needs or clustered in order to share risks.

5. Definition of Small-Scale Industry

It must be noted that there is no agreement on the definition of SSI sector and its categorisation. Increasingly, researchers and practitioners of SSI promotion take into account the heterogeneity of SSIs and as a result the issues of definition has been dominated by the scale dimension to the detriment of other quantitative and qualitative aspects of a relatively small economic unit of operation including its relative place and function within the economy. According to Cortes et al (1987) neither the technical literature nor broader studies of the political economy of small enterprises provide clear and consistent definitions of the boundaries of the sector. As a result some countries have developed different definitions for the sector, and often different definitions for different purposes within different organisations even within the same country (see for example Ho 1980) Table 1 summarises definitions of SSIs as provided by some developing counties. It could be seen that some countries such as Ghana and Bangladesh use a combination of capital and output in their definition of the sector.

A survey of the literature indicates that the numerical dimension has dominated the definitions of the sector (Helmsing and Kolstee, 1993). Nonetheless, most countries, organisations and researchers distinguish between (a) micro-enterprises (household and survival sector; one-person operations) and (b) small to medium-sizes as well as more formalised enterprise.

It needs to be noted that definitions for SSIs have been selected to help direct promotional assistance to the appropriate levels. The ILO (1972) refers to industries with not more than five workers as "informal" activity. Livingstone (1990) notes that boundaries selected in terms of numbers employed vary widely but among researchers a common denominator is (i) 0 – 9 employee as micro-enterprise; (ii) 10 - 49 small industry or enterprise; (iii) 50 - 99 employees for medium industry or enterprise; (iv) 100 and over employees for large scale industry or enterprise depending on the level of development of the country.

The Ghana Statistical Services (GSS) describes an establishment with less than 10 workers as "small-scale". In the same vein the National Board for Small-Scale Industries (NBSSI) in Ghana defines a small industry as one with a labour strength of not more than nine persons and with plant and machinery not exceeding 1,000 Ghana Cedis or US$ 750 (at 1992 prices), excluding land, buildings and vehicles (see for example, Sowa et al., 1992). Yankson (1983), in carrying out his survey in the Central Region of Ghana, defined Small Scale Enterprises (SSEs) in terms of employment and defined the sector as that employing up to 30 workers.

Table 1: Summary of Definitions of SSIs by Developing Countries

Country	Definitions	
	Capital	Number Employed
Ghana	An industry with plant and machinery not exceeding 1,000 Ghana Cedis or US$ 750 (at 1992 prices), excluding land, buildings and vehicles	Ghana defines a small industry as one with a labour strength of not more than nine persons and
India	SSIS are all enterprises whose initial capital is less than Rs 3.5 million (about US$ 230,000).	
Bangladesh	An industry whose total investment does not exceed five lakh (half a million) Taka, (Government of Bangladesh, 1991).	A cottage industry is an industrial unit engaged in productive or service activities carried on by the members of the family either as a whole time or as a part time operation,
Nigeria	Any business or enterprise below the upper limit of N250, 000 and whose annual turnover exceeds that of a cottage industry currently put at N5, 000 per annum is a small scale industry. The National Directorate of Employment (NDE) concept of a small scale industry has been fixed to a maximum of N35, 000	

Source: Yankson (1986), Government of Bangladesh (1973), Timberg (1990), Ogechukwu (2006)
Note: Exchange Rate (December2013): US$ = Ghana Cedi 2.08.; Niara 158.71; Taka 81.28; Rupee 61.71

According to Timberg (1990) small-scale enterprises in India are all enterprises whose initial capital is less than Rs 3.5 million (about US$ 230,000). These firms are often not registered under the Factory Act (as is required for firms who have at least ten employees with power). Also Vachani (1991), adds that in India the term cottage industry is used for small firms with less than 20 employees. Such firms are those that have pursued a strategy of using crude, labour-intensive techniques to provide relatively low-quality, low-cost products which are priced at 20 to 60 per cent of the price of more sophisticated products of large firms. Some of the activities are carried out within places of residence but it is also not uncommon that the activities are located separately from the place of residence.

In Great Britain, the Bolton Committee of Inquiry on Small Firms (1971) was of the opinion that small firms could not be adequately defined in terms of employment or assets, turnover, output or any other arbitrary single quantity, nor would the same definition be appropriate through the economy. The Committee concluded that no single quantifiable definition could be entirely satisfactory.

In the United States, where a legal definition was required for the purposes of the Small Business Act (1953), the definition adopted was as follows:
"For the purpose of this Act, a small business concern shall be deemed to be one which is independently owned and operated and which is not dominant in its field of operation. In addition to the foregoing criteria, the Administrator [of the Act], in making a detailed definition, may use these criteria, among others: Number of employees and dollar volume of business. Where the number of employees is used as one of the criteria in making such definition for any of the purposes of this Act, the maximum number of employees, which a small business concern may have under the definition shall vary from industry to industry to the extent necessary to reflect differing characteristics of such industry and to take proper account of other relevant factors" (Bolton

1971).

In Bangladesh, according to Mannan (1993), the definition of small-scale industry keeps changing. For instance in 1957 the sector was defined as an industrial establishment or unit run mainly with hired labour, not exceeding 50 workers if power was used; and whose investment in land, buildings and machinery did not exceed TK 0.25 million in value, in either case. In 1965 the definition was changed to an industrial unit which used motive power and used fixed assets other than land and valued at not more than TK 0.5 Million. An official definition of cottage industry was first provided in the First Five-Year Plan of Bangladesh (Government of Bangladesh, 1973). In that definition any of the following three categories of industries were regarded as a cottage industry:
i. an industry which is carried on wholly or mainly by the members of the family either as a full time or as a part time operation;
ii. an industry using family-hired labour which does not use motive power for any operation and employs less than 20 hired workers;
iii. an industry using family or hired labour which uses motive power for any operation and employs less than 10 workers

Finally the Industrial Policy of Bangladesh of 1991 revised the definition as follows:
A cottage industry is an industrial unit engaged in productive or service activities carried on by the members of the family either as a whole time or as a part time operation, and whose total investment does not exceed five lakh (half a million Taka), (Government of Bangladesh, 1991).

Time and again, researchers have devised their own operational definitions keeping in view the objectives of their study (for example, see RISP, 1981; BSCIC, 1983; Milimo and Fisseha, 1989; Anheier and Seibel, 1987). Donor Agencies on the other hand might have their own definition specifying maximum investment and maximum number of employees in order to set a cut-off point for determining eligibility of receiving assistance by an industry. Some school of thought is of the view that it is difficult to arrive at a standard definition of these concepts because of the existence of a wide range of definitions in different countries based on statutes and/or on the practices of various bodies related to the promotion of small business (see for example, Ho, 1980; Elkan, 1995).

Harper (1984) cautions that the scale of a business needs only to be defined for a specific purpose, and that there is no point in attempting to provide a universally or even a nationally acceptable standard. He suggests that a very clear understanding of the purpose for which the definition is to be used should precede any discussion of definitions and that quantitative definitions are needed when it is necessary to exclude large enterprises from preferential assistance programmes designed to help small ones. Such programmes sometimes include a high level of subsidy and it is necessary to lay down rules as to which enterprises are eligible. Harper (1984), however, stresses that definitions must be clear and simple to apply. According to him it has been observed that the majority of countries use quantitative measures and those preferring qualitative measures were more likely to be industrialised countries. It has been recognised that the number of workers is the most commonly used measure in industrialised countries. Harper argues that it is perverse to use employment numbers as a limiting factor in programmes designed to promote SSI and points out that far more countries are now using the value of the capital rather than the number of people employed for definition of SSI. To wrap up the debate, it may be informative to look at the characteristics of the RSSI sector.

6. Characteristics of the Rural Small Scale Industries (RSSI) Sector

Researchers such as Staley and Morse (1965) describe the RSSI sector as being characterised by; (i) relatively little specialisation in management; (ii) close personal contacts; (iii) often handicapped in obtaining capital and credit and (iv)very large numbers of units. The RSSIs tend to be largely based on local raw materials. Initial capital outlay is very low with little or no capital equipment. The production techniques utilised tend to be characteristically labour-intensive, involving hand-tools and traditional implements rather than modern powered tools (Steel, 1977). The RSSI sector is widely dispersed in the rural areas, and encompasses many activities. It is highly labour intensive and needs little capital to employ workers. Training in the sector is mostly informal and takes a relatively short period thus offering a sizeable number of people, especially the youth, to be trained at a very low cost, largely through apprenticeship.

Practitioners agreed that certain basic characteristics or features are common to the SSI sector. For instance, UNIDO (1988) points out that the operations of SSI may be very flexible and may be targeted at the utilisation of available local raw materials. Kirkpatrick (1984) states that, a small firm is generally characterised by: ease of entry, dependent on indigenous resources; family ownership; small scale operation; labour-intensity and use of simple and traditional technologies; skills acquisition outside the formal sector system; and unregulated and competitive markets. Chen et. al. (2001), argue that the scale of operation in the informal economy offers leverage over their formal counterparts, because it allows for production to be organized into small-scale, decentralized and more flexible economic units. It therefore allows for flexible specialization of production which is a core feature of capitalist development, which co-exists with and reinforce other sectors of the total economy.

King and Byerlee (1977) have noted that RSSI sector operations tend to be based on individual skills and abilities and on the informal transfer of accumulated skills from generation to generation. Another important issue for RSSIs is that of gender (Steel, 1981). In Ghana, for example, RSSI sector activities have developed along specialised female and male lines so that some industries tend to be dominated by women and others by men. Men are mostly found in ventures such as wood-working, leather-working, smithing and cane-working, while women tend to be found in pottery, food processing, soap making, dress making, oil extraction and fish processing. Nevertheless there are some industries where there is no particular gender specialisation (Edusah and Tribe, 1992).

Another characteristic of SSI, according to Livingstone (1990), is that employment in the sector expands very largely through an increase in the number of micro-enterprises, still employing no more than 2 or 3 persons, rather than through an increase in the size of existing establishments.

In the context of West Africa and Ghana in particular, Edusah and Tribe (1992) introduced a new dimension to the definition and classification of the RSSI sector as any industrial establishment engaged in manufacturing activities with not more than nine workers and further disaggregated and categorised the sector into (1) Craft Industry (CI), (2) Artisan Industry (AI) and (3) Processing Industry (PI).

6.1 The Craft Industry (CI)

The CIs are sometimes referred to either as handicraft industries, household businesses or household industries (see for instance Allal and Chuta,1982); Barrow and Greene, 1979; and Staley and Morse, 1965). Such craft activities are conducted in the courtyard or backyard of the residences of skilful craftsmen who draw on the assistance of the family members. Technologies are mostly manual in nature and there is a minimal element of product standardisation. The products of these household businesses are by their very nature dependent not on machinery but almost exclusively on acquired skill and craftsmanship. Typical craft activities include: woodwork and carving, pottery, weaving, leather work, straw-work, basketry, gold- and black-smithing (see for example Mannan, 1993).

6.2 The Artisan Industry (AI)

The AI sub-sector is closely associated with the CI sector as their products of require skill and craftsmanship to manufacture. Norcliffe, Freeman and Miles (1984) have noted that the AI sub-sector appears to be more sophisticated with larger technical and capital inputs. The sub-sector depends mainly on the utility value of their products rather than on the aesthetic or sentimental considerations. They need not depend entirely on family labour, and they may also employ outside hired labour. Furthermore, they need not necessarily be located in the dwelling places of the artisan concerned, and are likely to be located away from the residence. The skills involved in this industry sub-sector can often be acquired through formal training institutions without detracting from the essential small-scale nature of the operations. The technology that they use is likely to depend on an external energy source. Production is likely to be organised on a workshop or small factory basis. The AI sub-sector embraces tailors, dressmakers, carpenters and many more.

6.3 The Processing Industry (PI)

The PI is sometimes referred to as cottage industries and it is closely associated with agriculture involving operations mostly by hand and carried on in the home either as a full-time or as a part-time occupation primarily with the help of members of the family (see for example Rao, 1967). The sub-sector processes raw materials particularly agricultural and other natural raw materials into finished and semi-finished products. The sub-sector needs not depend entirely on family labour, and outside hired labour may be employed. The activities are carried on mainly by hand, however, the use of simple tools and equipment is not uncommon and production is likely to be organised on a small factory basis. Typical examples of the processing industry sub-sector are oil extraction, soap making, grain milling, cassava processing and bakeries.

The three sub-sector categorisation, CI, AI and the PI sub-sectors, was first used by Edusah and Tribe (1992) to pioneer a new concept of RSSI sector categorisation away from the usual simple categorisation by size of firm. The size of firm categorisation groups together every RSSI activity according to the number of workers which has a practical difficulty when gender stereotype becomes a research issue.

7. Conclusion

The paper has examined the conceptual and theoretical issues that underpin the discussion of SSI sector in general and informal sector in particular. A closer look was taken at concepts such as the informal sector, the micro-enterprise, the small-scale industry and rural small-scale industry that are most often used interchangeably. It became clear that there is no single, uniformly acceptable, definition or classification of SSI sector. Whilst broadly acceptable and consistent definitions are needed for comparisons, SSI researchers are not restricted by these parameters. The heterogeneity of SSI sector means it is often necessary for definitions to be modified according to the context in which the sector is being examined. Notwithstanding the obvious difficulties, the paper is of the view that the momentum of the debate on universal definition of the informal sector should be carried to a logical conclusion for the promotion and management of the sector.

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