

(SENIOR SIX- ECONOMICS)

THE INFORMAL SECTOR:

The informal sector refers to an intermediate sector that exists between the traditional/ subsistence sector and the modern/ commercial sector.

Individuals in the informal sector are engaged in small-scale labour intensive activities like tailoring, roadside sellers, car washers and metal fabrications etc.

FEATURES/CHARACTERISTICS OF INFORMAL SECTOR:

- It is **dominated** by small scale firms.
- Production is **mainly** for the domestic market.
- Produces **mainly** consumer goods.
- Produces **mainly** low-quality output.
- Uses **mainly** unskilled and semiskilled labour.
- **Mainly** uses simple production techniques/Mainly labour intensive.
- **Mainly** uses local resources/inputs.
- The sector is **dominated** by proprietorship.
- **Limited** or **no** bookkeeping/**Poor** or **no** record maintenance.
- **Mainly** urban and Peri-urban based.
- **Mainly** low quantity of output produced by firms/It is characterised by low productivity generally.
- **Limited** government control of the firms/ sector.

POSITIVE ROLE OF THE INFORMAL SECTOR:

- Creation of employment opportunities. This is because the informal sector is mainly labour intensive whereby more units of labour are used in the production process.
- There is production of locally affordable goods. This helps to improve people's standards of living.
- It reduces capital outflow; this is mainly because it utilises local resources/inputs.
- It provides cheap training ground for the local labour. This makes the workers in the sector to acquire skills without incurring a lot of expenses.
- Facilitates development of entrepreneurial skills. The informal sector acts as a training ground for the future entrepreneurs in the country.
- It contributes some revenue to the government. This is in form of taxes which are imposed on the activities of the informal sector.
- It facilitates small scale industrial development in the economy. This is because it requires little capital to start.
- It enhances fair distribution of income. I.e. it reduces income inequality in society. This is due to the improved earnings by the people employed by such a sector especially the semiskilled and the unskilled.
- It promotes inventions and innovations. Under the informal sector, there is promotion of technological development and coming up with new technology to be used domestically.

- It promotes commercialisation of the economy. This is so because there are many people who are encouraged to produce for exchange or for sale hence transforming the economy from subsistence economy to a commercial economy.
- It creates both forward and backward linkages in terms of supplying raw materials or providing market for the finished products.

NEGATIVE ROLE OF THE INFORMAL SECTOR:

- It leads to increased social costs in the economy such as noise pollution, water pollution etc.
- It leads to duplication of services which leads to wasteful competition hence wastage of resources.
- Leads to production of poor-quality products. This is due to the use of mainly poor techniques of production.
- It gives rise to unemployment and under utilisation of resources due to limited capital injected in the sector hence producing on small scale.
- It leads to high administrative costs incurred by the government that undertakes the duty of cleaning of the urban areas from where they operate.
- It causes instabilities in public revenue collected from taxes. This is because most people in this sector are not registered by the government and therefore evade paying taxes.
- It encourages rural urban migration and its related evils such as congestion in towns which leads to delays and inconveniences to the people, increased crime rates etc.
- It has hindered the provision of quality services in the country. This is because it is not easy to control their activities.

PROBLEMS FACED BY PEOPLE IN THE INFORMAL SECTOR:

- Inadequate capital to expand their businesses. This is because it is difficult for the people in this sector to borrow from financial institutions, since they do not have collateral security.
- Lack of permanent premises such as houses, majority of the people in this sector operate from open spaces.
- Lack of legal recognition which leads to harassment by the urban or peri-urban authorities e.g. town council inspectors.
- Unfavorable climatic changes e.g. during the rainy season it becomes difficult for the people to operate especially those with businesses in open space.
- Stiff competition among the members where some members are outcompeted hence leading to the closure of some businesses.
- Limited space where they can operate from.
- Small market size. This is due to the low purchasing power by the majority of the people who are poor and at the same time the products are of poor quality which attracts low demand.
- Low levels of technology. The informal sector is faced with poor state of technology which leads to production of poor-quality products.

- Limited entrepreneurial ability/ skills. This leads to poor management of the businesses which results into collapse of such businesses.
- Limited skilled labor. The sector mainly uses semi-skilled and unskilled labour. This results into low quality products/ output.
- Political instability in some areas. This disrupts the activities in the informal sector.

POLICIES TO REDUCE THE PROBLEMS FACED BY THE PEOPLE THE INFORMAL SECTOR:

- The government should lower the taxes especially on raw materials or semi processed goods and other intermediate inputs that are used in the informal sector. This helps to reduce the costs of production and hence motivating such people to increase production in this sector.
- The government should improve infrastructural facilities such as power so as to help the people in this sector to reduce their operation costs.
- The government should help people in this sector to establish permanent structures in order to enable them to operate without any interruption especially during the rainy season.
- Provide affordable credit facilities to the people in the informal sector. This will enable such people to get adequate capital to run their businesses.
- Government should carry out research and spread information about market opportunities for the small-scale producers.
- Restrictions should be put on harassment of the members of the informal sector by the city authorities
- Producers in the informal sector should be encouraged to form co-operative societies; this will enable them to expand their businesses.
- The government should register all producers in the informal sector so that they are officially known by the government; this makes it easy to plan for them.

THE FORMAL SECTOR:

The formal sector consists of the businesses, economic enterprises and economic activities that are monitored, protected and taxed by the government.

CHARACTERISTICS OF THE FORMAL SECTOR IN UGANDA:

- Made up of predominantly registered businesses.
- Mainly provide salaried employment.
- Has proper record keeping.
- Businesses are mainly governed by laws/ Acts of Parliament.
- Dominated by corporate ownership of resources.
- Has employees and employers unions.
- Mainly uses better/improved/ modern techniques of production/Mainly uses capital intensive technology.
- Mainly produces better/ Improved quality output.
- Mainly Urban or Sub urban based.

- Mainly uses skilled labor.
- Production is for commercial purposes/markets/profit oriented.

THE STRUCTURE OF SUBSISTENCE SECTOR:

SUBSISTENCE SECTOR:

This refers to a sector that involves the production of goods and services for one's **own/self**-use or consumption.eg, a carpenter making his own chair, a Tailor making his own shirt or a farmer growing food crops for his own consumption etc.

CHARACTERISTICS/ FEATURES OF THE SUBSISTENCE SECTOR:

- Producers mainly use poor/backward/primitive technology
- There is limited specialisation and trade.
- Mainly produce poor quality output.
- Mainly use unskilled Labor.
- Mainly barter system of exchange is used.
- Mainly family labor is used.
- Mainly produce low output.
- There are limited innovations and inventions due to lack of competition.

REASONS WHY THERE IS A LARGE SUBSISTENCE SECTOR IN UGANDA:

- Because many people are poor and therefore lack capital to carry out commercialised production.
- Because of low levels of education, producers are not able to carry out commercialized production but rather concentrate on subsistence production.
- Because of poor technology. This makes it hard to produce high quality products in case the producer has to sell.
- Conservatism by the people and therefore resist change from subsistence production to commercial production.
- Because of poor infrastructure. This makes it very difficult to take the products to market especially agricultural products.
- Because of the small market which cannot sustain commercialised production.

Advantages/ Merits/ Positive Implications a Subsistence Sector:

- There is limited wastage of resources since whatever is produced is consumed by the producer.
- It is cheap; this is because it uses cheap and abundant (unskilled) family Labor.
- It uses simple tools that are easy to get by the low-income groups e.g. hand hoes, knives etc
- It is easy to manage, this is because it is organised on small scale; therefore require limited managerial and supervision skills.

- It is the main source of food.
- There is no transport cost involved since the producer is the consumer.
- It is highly flexible. Subsistence productions easily change from one activity to another.

Disadvantages/demerits/shortcomings of subsistence sector:

- It leads to low tax revenue because people in this sector do not pay taxes.
- Leads to limited innovations and inventions in the sector due to lack of competition, this discourages technological development in the economy.
- It leads to slow economic growth rate/ low quantity of output.
- It leads to the production of poor-quality output because they use poor technology and also due to lack of competition.
- It leads to high levels of under- employment and seasonal unemployment because producers rely on family labor.
- It leads to underutilisation/under exploitation of natural resources because production is on a very small scale.
- It leads to limited specialization and trade which hinders commercialization of the economy since the goods produced are not for exchange.

THE NEED TO REDUCE THE SUBSISTENCE SECTOR:

- To widen the tax base in the country, this is so because commercial producers are in position to pay taxes imposed on their output.
- To encourage innovations and inventions in the economy, this is possible because the monetary sector is associated with competition which encourages research so to come up with modern technology.
- To accelerate the rate of economic growth. This is because the monetary sector involves high output levels.
- To encourage production of high-quality products, this is so because the monetary sector involves competition since production is for the market.
- To reduce seasonal unemployment. This is so because the monetary sector involves the use modern methods of production like irrigation farming which ensures continuous production throughout the year.
- To promote resource utilisation/exploitation. This is so because the monetary sector produces for the market which necessitates high output levels thus promoting the exploitation of the would be idle resources.
- To promote specialisation and trade. This is because the monetary sector encourages large scale production which promotes concentration on a particular economic activity.

(b) MONETARY SECTOR:

This is a sector that involves the production of goods and services for **sale** or for **the market** in order to make profits. E.g. a carpenter making chairs for **sale**, a farmer growing crops for sale, tailor making clothes for sale etc.

FEATURES/CHARACTERISTICS OF MONETARY SECTOR:

- Producers are mainly profit oriented/motivated.
- There is specialization because the producers sell their output in order to get what they do not produce.
- They mainly produce high quality products because of the need to compete in the market.
- They mainly employ skilled Labor.
- They mainly use improved techniques of production.
- Production is mainly on large scale.
- The exchange of output is basically done using money.
- Production mainly involves research into better means of production and adding value.

MERITS/ POSITIVE IMPLICATIONS OF THE MONETARY SECTOR:

- It contributes to government revenue; this is because the commercial production activities are taxed by government.
- It leads to improvement in quality of goods; this is because commercial production involves competition, use of skilled labor, modern technology etc.
- It facilitates economic growth because of increased output due to production on large scale.
- It encourages technological development because producers carry out innovation and invention into better techniques of production
- Economies of scale are enjoyed in the fields of transport, marketing, technical development and management which reduces the cost of production.
- Specialisation in production is possible because of large size of the production plants and hence the advantages of specialization such as improved quality and increased output.
- Commercial production facilitates the development of infrastructure since there is constant need for transporting final output to the market or need for producers to transport inputs to the production unit.
- It generates more employment opportunities, this is because production is organised on large scale and involves many activities like actual production, processing, transporting, warehousing, marketing etc.
- Leads to increased export earnings, this is so because some output from commercial production is exported to other countries, this eventually leads to improvement in the country's balance of payment position.
- It leads to increased utilisation of the country's resources, this is because of production on large scale which necessitates the utilisation of the would-be idle resources such as land.

DEMERITS OF THE MONETARY SECTOR:

- It is expensive; this is because it involves high costs of production like high cost of hiring skilled labor, buying modern machinery, paying high indirect taxes etc, these reduce the profit margin of the producers.
- It leads to resource wastage; this arises in case of over production where producers remain with unsold output.
- In case of change in demand or change in tastes of consumers against a product, the producers suffer great losses leading to wastage of resources.
- There is danger of technological unemployment as a result of mechanisation in production where human beings are replaced by machines at work.
- It leads to rise in the cost of inputs such as raw materials and other intermediate products; this is due to the increased competition for such inputs by many commercial producers.
- It leads to quick depletion of resource; this is due to over exploitation of resources as a result of large-scale production.
- It leads to diseconomies of scale in the long run. This is because large scale production results into management problems, transport problems, supervision problems etc. All these result into increased cost of production.

LIMITATIONS OF MONETARY SECTOR:

- Small market.
- Limited capital.
- Poor infrastructure.
- Conservatism.
- Limited Labor skills.
- Limited entrepreneurial skills.
- Political instability.
- Poor technology.
- Poor land tenure system.