CHAPTER-1

EMPLOYMENT GENERATION IN THE URBAN INFORMAL SECTOR OF ASSAM: A CASE STUDY OF GUWAHATI CITY

1:1 Introduction:

Rapid urbanization together with rural to urban migration has been an integral part of the developing economies in the last few decades. This has caused a significant increase in the urban work force along with a decline in urban environment and living conditions of the developing world. Therefore, a huge effort goes into capacity building within governments to manage this problem. However, until and unless, the level of urban poverty is considerably reduced, there is little scope of changing the current situation. Significant urban poverty not only reduces the scope for managing the revenue of urban authorities, more importantly it actually limits the effective demand for housing and other basic services due to low income of the people. Therefore, employment is the most effective mechanism to reduce poverty on a substantial basis and it is crucial that urban policies in these countries place emphasis on higher efficiency and income of workers. (Sethuraman, 1997). However, due to lack of suitable employment prospect in the public sector and in the private formal sector, many people are compelled to join the “informal sector” to earn a living. Although earnings are low in this sector and a large numbers are classified as poor, without the informal sector their earnings would be meager and as a result, their poverty would be more severe.
Thus, “poverty is one of the most serious problems faced by developing countries and economies in transition in the ESCAP (Economic and Social Commission for Asia and the Pacific) region. Although the region has made considerable progress in reducing poverty, about $2/3^{rd}$ of the world’s poor live in Asia and Pacific based on one dollar a day poverty line. If poverty line is raised to $2$ a day, the region’s share of the world’s poor exceeds $2/3^{rd}$. There are more than one billion people in the region whose income is between 1 and 2 dollar a day. The vast majority of the population is the working poor many of whom live in the informal sector. The problem of poverty cannot be solved without closer attention to the informal sector and its participants”, (E/ESCAP, 2006). Therefore, the development and promotion of the urban informal sector, has become the new operational strategy of the developmental policy in the 1990s and post 1990s in many of the developing countries.

The relevance of the ‘Informal Sector’ in economic development cannot be denied in an economy like India where an overwhelming share of the labour force i.e. 92% of the workers are in the informal sector. Just like the national scenario, Assam and especially Guwahati, the fastest growing city in the North –East has majority of its workers in the informal sector. According to a study conducted by Chakravarty and Barua, about 90% of the workers in Guwahati City were in the ‘IS’ during the period 1991-2001. In fact, Indian economy would have come to a standstill but for the enormous presence of the unorganized labour. Technological advancement and growing market orientation of the economy leading to industrialization, notwithstanding, the urban informal sector still absorbs the largest portion of the labour force in India. Economic growth of 8-9% prior to
the crisis in India failed to generate adequate employment opportunities in the organized sector of the economy which has further led to the growth of the urban informal sector. Also poverty and lack of gainful employment in rural areas and smaller towns drives large numbers to the cities for work and livelihood. This has led to the growth of Informal Sector in most metropolitan cities.

1.2: Informal Sector: Meaning and Definition:

The informal sector has been variously defined by different economists due to its highly heterogeneous nature. Keith Hart was the first person to introduce the term “Informal Sector”. He introduced it while making a presentation on “Informal income opportunities and urban employment in Ghana” in Institute of Development Studies (IDS) in September 1971 in Africa at a conference co-organized by Rita Cruise O’Brien and Richard Jolly on urban employment months before International Labour Organization (ILO) employment mission to Kenya came with its report “Employment Incomes and Equality” (jolly, 2006).

The term informal sector came in a broader sense in the academic literature only after the visit of an International Labour Organization (ILO) employment mission to Kenya in 1972. The ILO then evolved a conceptual framework and guidelines for the collection of statistics on informal sector and presented the same in the Fifteenth International Conference of Labour Statisticians (ICLS) held in February, 1993 in the form of a resolution. The resolution was then endorsed by the United Nations Statistical Commission (UNSC) and made a part of the “System of National Account (SNA) 1993”
by the United Nations Economic and Social Council. In 1993, the fifteenth International Conference of Labour Statisticians (ICLS) defined the informal sector as “all unregistered or unincorporated enterprises below a certain size, including: microenterprises owned by informal employers who hire one or more employees on a continuing basis; and own account operations owned by individuals who may employ contributing family workers, and employees on a occasional basis”.

The informal sector encompasses largely unrecognized, unrecorded and unregulated small scale activities including small enterprises, household enterprises, self employed sectors such as street vendors, cleaners, shoe shiners, hawkers etc. ILO (2004), Srinivas (2004), and Sethuraman (1997) have defined the informal sector, as essentially covering the unorganized spectrum of economic activities in commerce, agriculture, construction, manufacturing, transportation and services which absorbs as much as 60% of the labour force in urban areas of developing countries. The informal sector of an economy can thus be defined in terms of lack of governmental regulation or lack of institutions that provide job security and benefits.

In 2003, the seventeenth International Conference of Labour Statisticians (ICLS) broadened the definition of the informal sector to include certain types of informal wage employment outside informal enterprises. This larger concept is called informal employment.

The National Commission for Enterprises in the Unorganised Sector (NCEUS) in its “Report on Conditions of Work and Promotion of Livelihoods in the Unorganised Sector
(2007), defines the term “informal sector” as consisting of all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten total workers. For the present study, the organized/unorganized term is used interchangeably with formal/informal and as such they are consistent with the international definition as recommended by ILO.

1.3: Magnitude and role of Informal Sector in income and employment generation

The exact size of informal sector is difficult to estimate due to its subtle nature. Nonetheless, there is a general agreement that informal sector comprises a growing percentage of economic activities; particularly in the less developed countries. A study conducted in nine different cities of developing countries estimated that at least 50% of the labour force is engaged in the informal economy (Gottdiener and Budd, 2005: 77). Even in most developed countries economies, there are extensive estimates of the size of the informal economy starting from 5 to 10 percent of the nation in the United Kingdom and United States of America, 30 percent in Italy and 50 percent in Russia. (The Economist, 2004 cited in Gottdinener and Budd, 2007: 78). According to one estimate, more than 60% of those working in the non-agricultural sector are employed by the informal sector in Asia (ILO, 2002). The numbers of self-employed in non-agricultural activities are growing in order in all areas of the world. The own account workers and unpaid family workers represent nearly two-thirds of the total non-agricultural labour force in Africa, one-half in South-Asia, one-third in the Middle-East and one-fourth in East-Asia and Latin-America. A dramatic increase in self-employment has marked the transition process in former
centrally planned countries of Europe. In the 1990s, own account workers made up one-fourth of total employment in Poland, one-fifth in Romania and one-tenth in Czech Republic, Hungary and Slovenia. In India, own account enterprises constituted about 87 percent of informal enterprises with 73 percent workers engaged in them. (source: 55th Round, 1999-2000).

Table-1 shows the relative importance of informal sector employment in selected countries.

Table-1.1: Employment in the informal sector in selected countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Informal sector employment as a percentage of total employment in non-agricultural sector</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>National</td>
</tr>
<tr>
<td>India</td>
<td>2000</td>
<td>55.7</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>1994</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>1995</td>
<td>11.7</td>
</tr>
<tr>
<td></td>
<td>1996</td>
<td>-</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>1994</td>
<td>8.2</td>
</tr>
<tr>
<td></td>
<td>1999</td>
<td>24.9</td>
</tr>
<tr>
<td>Nepal</td>
<td>1999</td>
<td>73.3</td>
</tr>
<tr>
<td>Pakistan</td>
<td>1997</td>
<td>64.6</td>
</tr>
<tr>
<td></td>
<td>2000</td>
<td>65.8</td>
</tr>
<tr>
<td>Thailand</td>
<td>1990</td>
<td>81.7</td>
</tr>
<tr>
<td></td>
<td>1992</td>
<td>79.1</td>
</tr>
<tr>
<td></td>
<td>1994</td>
<td>76.8</td>
</tr>
<tr>
<td></td>
<td>2000</td>
<td>71.0</td>
</tr>
</tbody>
</table>


The informal sector, at the same time, is connected to the formal sector of the national and global economy through sub contracting networks and commodity chains. It proves to be the main mechanism for economic growth and development. In the majority of the less developed countries the informal sector is the principal source of employment,
investment and government revenue. This is because the informal sector offers the best prospect for the upward mobility in lifeline of the poor people and their children. (Brown, 2005:5)

The informal sector, which consists of vary small scale economic activities, accounts for a significant and increasing share of urban employment in most developing countries and given that a large majority of the urban poor depends on such activities for their livelihood, any compelling plan to reduce urban poverty in these countries must pay a right and proper attention to this sector.

Because of the complexity in measuring the contribution of the informal sector to the national income and because of lack of appropriate statistics, there is little available empirical data on the size of the informal sector in terms of income. During the 1990s, the informal sector’s contribution to non-agricultural gross domestic product amounted to 45 percent in India, 31 percent in Indonesia, 32 percent in the Philippines and 17 percent in the Republic of Korea. (ILO, Women and Men in the Informal Economy: A Statistical Picture, Geneva, 2002).

1.4: Review of Literature

Theoretical Background: The informal sector (‘IS’), a segment of the urban economy has attracted much interest, discussion and disagreement since its beginning in the 1970s. This sector is described variously by different scholars as “Modern” and “Traditional”, “Upper” and “Lower Circuits” etc. Majority of the studies begin by stating the tremendous difficulty of defining this sector. The theoretical concept of the informal
sector can be seen as an expansion of the dual economy or dichotomy literature originating in Lewis (1954) and Todaro (1969), with the informal sector traditionally being considered as the “residual sector” of a segmented urban market (e.g. Fields 1974 or Mazumdar 1976). The theoretical background of the informal sector can be divided into three broad groups.

1.4.1 The Lewis-Fei-Ranis Theory of Development: The Lewis-Fei-Ranis model of development deals with the process of labour transfer and on the expansion of employment in the modern sector. In this model the economy consists of two sectors—the traditional sector with negligible productivity and surplus labour and a modern industrial sector with high productivity into which labour from the traditional rural sector is gradually transferred. The supply of labour to the modern sector from the traditional sector is assumed to be unlimited at constant real wages. This process of modern sector growth and employment expansion is assumed to continue until all surplus rural labour is absorbed in the urban industrial sector. The urban extension of the traditional sector, therefore, lends a dual character to the urban economy. But this model has been criticized because it did not turn out to be true in many countries. It has been observed from this model that there is no urban unemployment since it emphasizes merely rural unemployment or hidden unemployment. Thus, sectoral dualistic models are not compatible with present economic structure of the economics of developing countries. These models are very simplistic in the sense that they failed to represent the dichotomy of urban economies of such countries.

1.4.2 The Harris-Todaro Model: Harris and Todaro have projected a reasonably simple model to connect the urban formal, urban informal and rural labour markets. They start by
assuming that migration emerges in response to urban rural differences in expected rather than actual earnings. The basic premise is that migrants consider various labour market opportunities available to them between the rural and urban sectors and choose the one which augment their expected gains from migration. The model further hypothesizes that, rural to urban migration will continue till the expected urban wage is equal to the wage in rural areas. This simple model can now be easily extended to the urban informal sector. While a migrant is searching for a formal sector job, he generally has the choice of earning something in the informal sector where entry is effortless. However ‘IS’ employment will slow down the search for formal sector employment to some extent, so that some migrants will decide to take up a temporary job, whereas others will not. The ‘UIS’ therefore, operate as a kind of “parking lot” for migrants, while they search for a better job in the ‘FS’. Thus the informal sector adds to urbanization. Subsequently a number of scholars like Reynolds (1969), McGee (1975), Santos (1979) and others started explaining the structure of an urban economy in terms of “dichotomy”.

1.4.3 The Theory of Segmented Labour Markets: This Theory envisages that the urban labour market is fragmented in the sense that although new workers may find it comparatively easy to enter the informal sector, their movement into the formal sector is hard or restricted. The huge difference in earnings between the two sectors along with restricted entry into the high wage modern sector creates a labour aristocracy in the urban labour market. A moderately small section of the labour force employed in this sector is able to share the high income generated in the modern economy, whereas a large number of workers are left permanently in low wage low productivity sector.
The informal sector gained prominence in developing countries in 1972 because of ILO/UNDP Mission that was carried out to Kenya and Ghana to make sample investigation about employment scenarios with reference to developing nations and has suitably proved to be the best alternative to the formal sector where employment opportunities are limited. Consequently, other missions were also sent with same purposes and it was noticed that, unskilled, migrants and under qualified human resources were absorbed by the informal sector as it provides opportunity for easy entry. Scholars like K.Hart, (1972), Sethuraman (1979), Lubell (1974, 78), Papola (1980), Joshi & Joshi (1976), Jhabwala & Jumani (1988) etc. have immensely contributed to the informal sector.

1.4.4 Empirical Studies: The “IS” which depicts a picture of unorganized, unregulated, unregistered and labour intensive activities has become an essential part of the urban economy due to varying socio-economic structure of the country. The empirical research on the informal sector, with the ILO Kenya Mission Report of 1972 (ILO 1972) probably being the first famous one, has focused on stationary considerations of earnings differentials (Maloney 1997) and it tended to support the theory of segmented labour markets. Almost all studies indicate that it would be practical to consider ‘IS’ a self employment sector since activity in this sector are largely in the nature of self employment. Also substantial data shows that the earnings in the informal sector are very much low compared to the formal sector. Further, the earning differential among different sectors and different activities within the informal sector itself appear to be considerably influenced both by the personal characteristics of workers and by the structural factors in the urban economy.
Hart (1973) in the study of urban Ghana found a large self employed sector which provided means of livelihood for new entrants to the urban labour force who were unable to gain entry into the formal sector.

According to Lubell (1973), the ‘IS’ comprises of the residual labour market characterized by self employment and low income producers of marginal goods and services due to lack of any other means of earning a livelihood. It is also recognized as a reservoir of traditional and modern skills which can be made productive if effective demand is created for them.

Mazumdar (1975) makes a distinction between formal and informal sectors and terms the informal sector as unproductive sector because it does not enjoy any social security benefits, nor is it protected by the government or trade unions or both.

Weeks (1975) abandon the traditional conceptualization of the IS in terms of low income generation, labour intensive techniques, indigenous ownership, etc. and makes a difference between the formal and informal sectors on the basis of the organisational characteristics of exchange relationship and position of exchange activities vis-à-vis the State. Weeks is the advocate of the “structural disadvantage” argument which implies that the very nature of smallness of the informal units is itself a factor which debars it from getting access to various state benefits and favours that the formal sector derives automatically.. These benefits include tariffs and quotas protection for import substitution industries, tax rebates, holding low interest rates, credit benefits and so on.
Breman (1976) distinguishes between the formal and informal sector on the basis of modes of production and describes the informal sector as comprising the mass of the working poor, whose productivity is much lower than those in the urban formal sector.

Jhabwala and Jumani (1988) have delineated the informal sector in terms of three groups of self employed workers which include (a) small scale vendors, petty traders and hawkers (b) home based producers such as weavers, potters, bidi makers and (c) labourers selling their services. These groups of workers comprise nearly 45 to 52% of the urban workforce in most of the metropolitan cities. Besides it is mostly the women who belong to this category.

According to Grice (1989), who made a study in Singapore and Hong Kong found that people embark into hawking by their own choice and not because of lack of opportunities for employment. Obtaining higher income, gaining personal independence and accomplishing greater social and economic mobility were among the reasons for choosing hawking as an occupation.

Kapunda and Mmolawa (2005), have focused on the role of informal sector and self employment in poverty alleviation in Botswana. On average the study has shown that the income/welfare of those who joined the ‘IS’ has improved significantly and most of them expressed that they would remain in their business activities.

Romatet (1983) examines the concept of ‘IS’ and discusses the importance and soundness of the concept as applied to Calcutta’s economy and advocates ways of how it can be improved. The study covers the following aspects – the employment characteristics
of the participants, capital invested, turn over and value added, working of the unit and attitude and opinions of the entrepreneurs.

The National Commission for Enterprises in the Unorganized Sectors (NCEUS) chaired by Arjun Sengupta (2007) examines the condition of the work as well as livelihood issues of the unorganized workers who formed the overwhelming proportion of the Indian workforce. According to this Commission, the informal workers constitute 92% of the total work force. The Commission also carried a detail analysis of the various dimensions of the challenge confronting the informal or unorganized workers. They work as so called self employed or wage workers sometimes located at their homes but mostly outside.

According to Fidler and Webster (1996), the urban informal sector is a major source of employment and income to three class of socio economic groups in urban area: survivalist or the very poor people who work part time in income generating activities, the self employed who sells goods and services and very small businesses i.e., micro enterprises that by and large operates from a fixed location with more or less regular hours.

The Save the Children’s Fund and a few other NGOs argued that the ‘IS’ can bid markets, expand trades, manage natural resources, fight poverty, generate employment, strengthen communities, and feed most of the world’s children (as cited in Salter, 1998). The sector also utilizes waste materials such as old tyres, metals disposed equipments etc. to produce goods some of which otherwise would have been imported, and to provide services which could be too expensive for low income earners.
Papola, (1981) has discussed in general the various traits of urban informal sector in a developing economy and has considered the city of Ahmadabad as a case study. The study aimed to estimate the income and employment generating capacity of the ‘IS’ vis-à-vis ‘FS’. The principal hypothesis which was tested here relates to the advantage of the informal sector in providing higher employment per unit of capital output.

Teilhet–Waldrof and Waldrof’s (1983) study on the informal sector in Bangkok, offers an analysis of the work behavior of urban self employed categorized into three job-related groups i.e. the vendors, brick workers and shopkeepers. The study found that the average earnings of the informal workers were significantly higher than those of unskilled workers in the formal sectors, about a third of the informants had moved from jobs in the formal sector and recent migrants among the self-employed tended to earn less than those born in the cities but more after a period of adjustment.

Teltscher (1994) in her paper examines the way small vendors are linked to national and global systems of production and distribution and how this creates differences among informal workers with respect to income, profit levels, and socioeconomic well-being. Field research carried out in Quito, Ecuador, demonstrates that informal trade is distinguished by a variety of features that lead to a range of economic and social well-being, starting from pure survival to ownership of well-established businesses. Important economic variables that define vendors’ economic conditions are associated with product and capital supply linkages. Based on these findings, she develops a typology of informal traders (employing cluster analysis), representing the diverse structure of the trade sector. She concludes by saying that informal traders cannot be viewed as independent workers
involved in survival activities, but that sophisticated distribution systems incorporating urban informal vendors operate at local, national, and international levels.

According to Joshi and Joshi (1976), the formal and informal sector can be separated on the basis of three main factors i.e. market structure, technology and its relationship with the government. According to them, informal activities take place outside the scope of formal regulations governing such matters as the setting up of shops or workshops, employers-employees relations, taxation, control of technical skills and product quality. The informal sector is normally characterised by a great deal of heterogeneity and low earnings. Studies have established that the labour market in India is segmented with workers having better education and skills, take up regular jobs while the illiterate and unskilled end up in contract and casual work (Quadeer and Roy, 1989; Deshpande, 1992).

McLaughlin (1990) in his study finds that the informal sector is characterised by the use of family and unpaid labour and rely on physical labour rather than on sophisticated machineries and equipments. It is flexible in the sense that people can enter and exit economic activities in response to market demand; simple and sometimes has precarious facilities; it has the ability to improvise products from scrap materials and a willingness to operate businesses at times and locations convenient to customers and a tendency to locate to small markets, out of the reach of the larger firms.

Tokman (1992) and Portes (1994) define IS on the basis of characteristics. According to them IS is the collection of marginal enterprises characterised by – low entry
barriers in terms of skills, capital and organisation; family ownership enterprises; small scale of operation; labour intensive production with outdated technology; unregulated and competitive markets; low levels of productivity; and low levels of capacity for accumulation.

The United Nation’s System of National Accounts (1993) refers to the IS as consisting of units engaged in the production of goods or services with the primary objectives of generating employment and income for the persons concerned. They form part of the household sector as unincorporated enterprises owned by the households. System of National Accounts (SNAs) characterize the IS productive units by (a) low level of organisation, (b) little or no division of labour and capital, (c) labour relations based on casual employment and social relationship, as opposed to formal contracts.

N.C.Barooah in his paper “Strategic Approach to job creation in Urban Informal Sector in Assam” has stressed on self-employment generation in the UIS to solve the problem of unemployment. Due to sluggish growth in Assam’s economy, there has been stagnancy in the development of the State’s organized sector. Therefore the UIS has to step in to absorb the pressure of the expanding army of job seekers. Barooah is of the view that the UIS must be studied at the micro level to remove any bottlenecks or impediments that may act as constraints in the actual implementation of the proposals. It is only through entrepreneurship development that meaningful employment generation is possible and Barooah says that in the beginning five districts should be given importance for employment generation in the UIS.
According to Reddy, Naidu and Mohanty, urbanization with all its challenges, has resulted in the growth of the UIS which is a common phenomenon in almost all developing countries. According to them, the UIS has significant capacity to absorb the surplus labour and provide them with employment opportunities, though it may not be of very high quality. Their study is based on primary data from three urban areas of Fiji and results show that there has been a significant increase in the incomes and assets of those who are involved in the IS compared to their pre-informal days.

Prof. N. S. Sastry in his paper “Estimating Informal Employment and Poverty in India” tests the international conceptual framework on the 1999-2000 National Sample Survey Data. It makes several observations on the informal sector, informal employment and the rural–urban scenario at both the national and state levels. The methodology and conclusions of the study can be applied to subsequent surveys as well, making it possible for policy makers and analysts to identify areas where informal employment needs intervention and the process that lead to unemployment.

The study indicates that self-employed workers in urban areas tend to perform somewhat better when seen in terms of average earnings than casual workers. The existence of the informal sector in urban India has to a large extent made it possible for a sizeable proportion of workers to sustain themselves through self-employment.

Chakravarty and Barua in their paper (2008) “Employment Generation in Urban Informal Sector: A Case Study of Guwahati City” concludes that the informal sector played a very significant role in the economy of Guwahati by contributing about 90
percent to total employment generated. Acknowledging the significance of this sector the paper offers various policy prescriptions for the optimum utilization of human resource operating in it.

According to S. Bhanu Baba Saheb in his book (2011) “Women Vendors in Urban Informal Sector” is of the view that petty trading is one of the most rapidly growing economic activities in the urban economy and has studied the petty traders by dividing them into three categories namely street traders, small petty vendors and petty vendors. He makes an attempt to study the functioning of three categories in two different types of activities, i.e. fish vending and vegetable vending in Visakhapatnam city. The main aim of the study was to analyze the profits earned by women vendors with respect to seasonal variations and also to focus on determinants of profits like availability of working capital, literacy and age.

B.Ratna Kumari (1994) conducted a study on self-employed women in Visakhapatnam City and found that investment, literacy and age of the women are important determinant of the earnings of the self-employed women engaged in food processing, small business, tailoring etc. activities.

Upadhyay (2007) in her study on “Employment and Earnings in Urban Informal Sector-A Study on Arunachal Pradesh” investigates the nature of contractual relations, quality of employment and labour market characteristics of informal sector workers in the urban areas of Arunachal Pradesh. The relationships between earnings, education and skills
have also been looked into. The socio-economic condition of the workers brings about the employment-earning-poverty interlinkages in the specific context of urban informal sector.

Arunatilake and Jayewardene (2010) in their paper “Why People Choose to Participate in the The Informal Sector in Sri Lanka” uses household survey data to answer the question as to why a huge proportion of the labour force chooses to participate in the informal sector despite its low social security and changing incomes. The paper also lays emphasis on how access to services and infrastructure affects participation in the informal sector. The results of the survey show that a multitude of factors like individual preferences, location characteristics and labour market conditions affects the occupational choice of individuals. Moreover participation in the informal sector is due to a mix of market conditions and skill mismatches by household and societal factors.

Raihan (2010) in his article “Informal Sector in Bangladesh: Implication for Growth and Poverty” uses a Computable General Equilibrium(CGE) model to explore the linkages between formal and informal sector. His findings suggest that a growth in formal sector would also result in the growth of the informal sector and that there is a positive impact on household welfare and poverty. According to Raihan, the major factor that have led to the growth in the informal sector is the rise in household demand for informal sector goods and services as well the rise in the demand for intermediate goods.

According to Kulshreshtha (1998), “Informal sector refers to economic activities, i.e., production and distribution of goods and services by the operating units of the households which basically differs from the formal sector in terms of technology,
economies of scale, use of labour intensive process, and near absence of well maintained accounts. Informal sector has been identified as a sub-set of the household sector”.


Suharto (2003) highlights one of the important informal activities in urban areas is Street-vending. As street-based traders, they use space in the streets that are originally not intended for trading activities and it is also considered illegal. This illegality status makes the street vendors face harassment and threat from police and other government authorities.

Marjit (2003) argues that the informal sector has in fact two roles in a globalised economy: Firstly, as a supplier of intermediary goods to the FS; and secondly, as producer of final goods. In her study, a theoretical model is proposed where the IS consists of both capital-intensive (producer of intermediary goods) and labour-intensive segments (producer of final goods).

Unni (2005) defines that the IS economy consists of heterogeneous group of workers (Unni and Rani, 2003). They form a continuum of relationship from the very independent to the most dependent categories (Unni, 2004), while workers in the informal economy constitute both wage and self-employed workers, within the self-employed also they constitute segments having varying levels of entrepreneurial capacities. Given this
heterogeneous nature of informal workers, there are likely to be both voluntary and involuntary entry into this sector.

Ademu (2006) defines the IS as embracing those employment generating activities which are undertaken for survival in the absence of formal employment. These activities are set apart by the lack of regulations by institutions of society in a social and legal setting in which resembling activities are regulated. Some of the common features of operators in the informal sector according to Ademu (2006) include-

(i) Easy access to production factors which are derivable from social organization of family and friends,
(ii) Involves entrepreneurs in virtually all branches of the economy ranging from productive activities, general services and specialised services,
(iii) Technology is determined more by the constraints of the social relations, and
(iv) Motivation for production by the operators in the IS is becoming more profit oriented.

1.4.5 Studies on Role of human capital: The contribution of human capital to earnings and growth is well known (Schultz, 1961). Becker (1964) developed a theory of human capital formation and analysed the rate of return to investment in education and training on growth. Since then, a considerable body of research has concentrated on the role of human capital investment in explaining the level and variation in production and earnings. There is overwhelming evidence at the micro level, particularly at the firm and worker levels, that education and training accompanied by experience enhance productivity and hence earnings. The education productivity nexus is demonstrated in micro- economics by using

Shabbir, Tayyeb uses a nationally representative sample of male earners to estimate the Mincerian Earning Function (MEF) both in its strict as well as the extended forms. The study finds that in terms of the strict MEF, the main findings are that the marginal rate of return to schooling for males and the experience earning profile for Pakistan is consistent with the pattern implied by human capital theory.

Rajesh Raj and Duraiswamy (2008) examines the role of human capital in determining labour productivity earnings in the unorganized manufacturing sector by focusing on the coir yarn manufacturing units in the Indian state of Kerala. They have analysed the influence of education and experience on labour earning by estimating a earning function. The study has established that there is a positive relationship between education and earnings and the sector should stand to benefit from an educated labour force.

1.5 Present Study – Its Necessity

From the above review of literature on IS in general, it is found that there is disagreement among scholars relating to the concept of informal sector and all have studied the concept from different angles. Some have studied it as a low income and low productivity sector, some have highlighted on the linkage aspect, some have investigated the role of human capital in this sector, and some have studied the labour aspect while
many others have studied it as a combination of issues. However, the necessity of the present study arises because of the following reasons:

**Firstly**, most of the studies are based on big and metropolitan cities, involving the wage/salaried workers and casual labour, while the self-employed have been neglected.

**Secondly**, the economy of Guwahati is mainly based on the tertiary sector. Therefore, it is quite appropriate that the present study is concerned with the informal sector workers in the tertiary sector.

**Thirdly**, previous work on these issues is characterized by a strong bias toward production and the manufacturing sector, whereas trading sector, services and the street traders and vendors has been neglected. Despite a fair amount of empirical research on small-trading activities in LDCs, little work has been done on theorizing these activities within the broader concepts of work force segmentation, international divisions of labor, or industrial subcontracting (Bromley 1989). Most previous studies of trading activities thus have either a strong empirical focus or consider small traders as a homogeneous group of workers with few differences in terms of income and economic well-being. To summarize, early work on small-scale urban activities assumed a homogeneous structure in the informal sector, with little difference in terms of income and profits or economic upward mobility. Links to other economic sectors were either neglected or, if recognized, interpreted as benign or exploitative. Emphasis was on small-scale manufacturing, whereas studies on activities in informal trade and services were hardly considered.
Fourthly, the human capital approach has not been attempted at by previous researchers in case of self-employed informal sector workers in Assam. Therefore this study hopes to fill this gap and thereby provide ideas about the type of education policies that should be followed by the government.

Studies relating to large cities may not represent the real characteristics, problems and prospects of the ‘IS’ in smaller cities due to the fact that governments invest a lot of funds in these cities to create infrastructure facilities thereby generating employment opportunities and income. This in turn increases the demand for goods and services produced by different units of the ‘IS’, thereby resulting in the growth of ‘IS’ employment. Moreover, large cities provide greater opportunities for mobility between occupations and this provide an incentive for potential migrants. Thus in large cities and metropolitan, circumstantial economic forces play an important role in guiding the development in the informal sector, whereas in small and medium towns the influence of these forces may not be significant. In Assam, not much work has been done in the ‘IS’ and since Guwahati the gateway to the North East, is one of the main cities, it is quite appropriate that a study on the role of self employed in urban informal sector is conducted.

1.6: Statement of the Problem

The informal sector is a source of endurance for the urban poor in reply to insufficient job creation in the formal sector of the economy. In addition, it is a very significant constituent of national economies for several reasons: first, it provides goods and services at a low price to the poor and vulnerable sections of the society; Secondly, it
plays the role of a reservoir for the huge number of unemployed individuals that cannot find their way to the formal sector of the urban economy and finally, it provides an opening for earning income to the indigenous city residents and migrants poor. Thus, the traditional economic analysis tends to portray informal activity as unproductive and low paid a last resort for workers that cannot find a formal job. But rising evidence in many countries question in some respect these conventional views of the informal labour market. Emerging evidence suggest that, many chose to be in the informal sector and type of employment which make best use of their utility. This utility depends on the individual personality and their preference. In fact, besides pay and job security, other factors such as independence, flexibility, working hours, distance to work and prospects offered in the informal sector also determine job satisfaction and may lead workers to opt for informal employment.

In India, 93.92% of the total workforce (i.e. about 436.98 million as of 2009-10) is unorganized workers and for Assam it is 89.77% (i.e., 9.77 million according to 2009-10). For most of them, conditions of work are utterly deplorable and livelihood options extremely few. Therefore, it is imperative to study the condition of the unorganized workers and suggest policy measures to improve their living conditions.

Indian economy is dominated by what is called the “Self- Employed” and the figures for 2009-10 suggest that this category accounts for the majority of the work force (51%) followed by casual workers (32.4%) and regular workers (15.6%). For Assam, during 2009-10, 68.5 percent of total workers were self-employed, followed by casual labour (18.9 %) and regular wage/salaried employees (12.7&). In Assam, particularly in
case of Guwahati, the informal sector is a source of employment, income and survival for a large number of populations, especially the middle and low income earners. Guwahati in recent times has seen a large growth of small commercial establishment, petty trading activities, services etc. giving a chance to study the role of the self employed in the informal sector.

Broadly, there are three sub-categories within the self-employed. The largest is the ‘own account operators’ accounting for 46 percent during 2004-05 of the unorganized sector workers. They work on their own, using their labour power to attain a reasonable standard of living. The second category is that of the ‘unpaid family worker’ who do not get an independent remuneration though they contribute to the family income. They are also referred to as ‘contributing family member’. The third refers to the ‘employer’ i.e. those who hire at least one wage worker but less than 10 total workers.

It is assumed that, U.I.S of Guwahati makes a tremendous contribution to the state’s economy and as a result there is a great urgency to investigate the growth of the sector and suggest possible measures to improve this sector.

1.7: Objectives of the Study:

The general objective of the study is to examine the role of the urban informal sector in the reduction of unemployment and eventually poverty. Self employment has been increasing in recent years. Self employment activities has also tend to generate further employment to either paid or unpaid workers who are employed by owners of such
activities. The study also aims to show that individual income has increased after joining the informal sector. The main objective of the study is

(a) To estimate the magnitude of workers in the IS of Guwahati,

(b) To find out the general socio-economic condition of the informal sector workers (i.e. own account entrepreneurs and employers).

(c) To analyze the nature and structure of establishments in the urban informal sector

(d) To examine the role of human capital (education, experience) on worker’s earnings.

(e) To advance policy prescriptions for a healthy growth of the informal sector.

1.8: Hypothesis:

(a) Informal/Self employment activities generate further significant employment to others

(b) Individual income has increased after joining the informal sector.

1.9: Significance of the Study:

According to one study, around 90 percent are informal sector workers in Guwahati and therefore, the justifications for the existence of the large informal sector in Guwahati are the contribution it makes to the economic functioning of the city and to the economizing of scarce resources.

Guwahati City is economically backward compared to other metros with no significant industrialization and its main activities are centered on small and commercial
establishments and petty businesses and services oriented activities. Industrialization is quite slow and due to sluggish economic atmosphere, people have to seek livelihood on their own by assessing local needs and opportunities in the absence of overall institutional support. One reason for the thriving of the informal trading sector is the comparatively low prices it charges due to the absence or very low establishment charges and low profit margins. The tax exceptions and concessions enjoyed by the informal sector also facilitate lowered pricing.

Given this situation, the study of informal sector assumes significance. The findings of this study may not be imitated elsewhere, but they may be helpful in weighing like situations elsewhere in the country which may eventually lead to the development of institutional support for the ‘IS’.

1.10: Methodology and data source:

Both primary and secondary data is used for the study depending on the objective of analysis. The primary data has been collected during the period march-december, 2015 by distribution of structured schedules among the self-employed workers. The questions in the schedules have been framed keeping in mind the objectives to be fulfilled by the study and the requirements of the model to be tested.

Secondary data has been collected both at national and state levels. The secondary sources of information are official publications, journals, magazines, news papers, websites, thesis and various reports and documents of the government, seminar papers, research papers and unpublished works. At the state level, information has been collected
from the NSSO, Population census, Directorate of Economics and Statistics, Assam, Office of Labour Commissioner, NEDFi journals, District Employment Exchanges, etc.

1.10.1 Sample Size: According to Krejcie and Morgan (1970), research activities require an efficient method of determining the sample size that would be representative of the given population. They reiterate that as population increases, the sample size should increase at a diminishing rate and according to their calculation should be stabilized at slightly around 384 cases. The Research Advisor (2006), also maintain that for a population of 1,00,000 and above, at 5% confidence interval and 95% confidence level, the sample size required is 384. According to a study made by Chakraborty and Barua (2008), there were 2,32,746 lakh informal sector workers in Guwahati during the year 2001. Another study by J. Saikia (2009) has estimated informal sector workers to be at 1,71,682 in Guwahati. Since the informal sector workers is more than one lakh, therefore according to Krejcie and Morgan’s formula, the sample size has been fixed at 384.

1.10.2 Sample Design: The study examines the role of urban informal sector/self-employment in providing income and employment opportunities to the working poor. Due to lack of disaggregate data on informal sector employment from secondary sources on an annual basis, the current study is based mainly on primary data. In order to collect the field-data, Guwahati City in Kamrup Metro District has been chosen because it is the most urbanized city in the entire north-east. Moreover, there is lack of studies on the informal sector in a relatively small city of neglected North east compared to big metro city like Delhi, Mumbai etc. The field study was conducted in March-December, 2015.
The area of our study is the Guwahati City and the self employed in this part of the region are engaged in various types of activities. Multi-stage sampling has been followed to collect primary data. For collecting primary data, the entire Guwahati city which is composed of 60 blocks/wards has been initially broken up into five zones according to population size (Appendix: Table -A). Then from each zone, the samples has been drawn according to proportional allocation.

Table-1.2  Distribution of Population in Guwahati City according to population sizes (2001) and calculation of sample size

<table>
<thead>
<tr>
<th>Population size (persons)</th>
<th>Population</th>
<th>Ward Code</th>
<th>No. of Wards</th>
<th>Propotiona l allocation of samples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total above 25000</td>
<td>86149</td>
<td>12,49,51</td>
<td>3</td>
<td>41</td>
</tr>
<tr>
<td>20000-25000</td>
<td>108137</td>
<td>14,41,46,58,60</td>
<td>5</td>
<td>51</td>
</tr>
<tr>
<td>15000-20000</td>
<td>236504</td>
<td>1,7,13,16,19,22,24,25,44,45,54,56,57,59</td>
<td>14</td>
<td>112</td>
</tr>
<tr>
<td>10000-15000</td>
<td>251172</td>
<td>2,3,4,11,15,17,20,23,26,27,32,33,34,35,36,37,39,42,48,50,55</td>
<td>21</td>
<td>119</td>
</tr>
<tr>
<td>Below 10000</td>
<td>127933</td>
<td>5,6,8,9,10,18,21,28,29,30,31,38,43,47,52,53,40</td>
<td>17</td>
<td>61</td>
</tr>
<tr>
<td>Total</td>
<td>809895</td>
<td></td>
<td>60</td>
<td>384</td>
</tr>
</tbody>
</table>

*Source:Census of India, 2001, Office of the Director of Census Operations, Assam, Guwahati

Thus, a total sample of 384 has been collected from the different population sizes according to proportional allocation. The ultimate stage units (USU) are the own account workers (OAEs) and establishments with at least one hired worker but less than 10 workers from whom data has been collected randomly. Primary data has been collected thorough personal interaction with the respondents using structured questionnaires designed to elicit quantitative and qualitative data. The economy of the city is essentially based on the
tertiary sector. Majority of the workforce in Guwahati is dependent on the government and public sector jobs indicating lack of development of Industries and enterprise. To study about the employment generation in urban informal sector of Guwahati city, the productive activities that is undertaken in the informal sector and chosen for study is classified as retail trading, services and street traders and vendors.

**Retail trade:** Retail trading is a broad word, which includes all those business activities associated with the selling of goods and services to an ultimate consumer or final user for personal consumption. It includes sweet shops, bakery shops, furniture and timber shops, books and stationary, iron and hardware shops, medical stores, grocery shops etc.

**Services:** It includes hotels and restaurants, hair cutting saloons, tailoring shops, beauty parlors, photo studios, laundries, Xerox centers, rickshaw puller, hand cart puller, recreation and sanitary services, cobbler, auto repair, etc.

**Street traders and vendors** are an important part of the informal sector not only because of their numbers but because of the crucial role they play in preserving this sector. A street vendor is broadly defined as a person who offers goods for sale to the public without having a permanent built-up structure from which to sell. Street vendors may be stationary in the sense that they occupy space on the pavements or other public/private spaces or, they may be mobile in the sense they move from place to place by carrying their wares on push carts or in baskets on their heads. In this essay, the term ‘street vendor’ includes stationary as well as mobile vendors. There is a substantial increase in the number of street vendors in the major Asian cities. In India, the National Policy for Urban Street Vendors/Hawkers
notes that street vendors constitute approximately 2 per cent of the population of a metropolis. The total number of street vendors in the country is estimated at around 10 million. The goods sold by street traders and vendors are usually consumed by those in the informal sector, as they are cheap. Moreover, a significant amount of goods produced by small industrial units in informal sector is marketed through them. They sell items of daily uses such as fresh fruits, vegetables, fishes, cooked food pan-bidi, cold drinks, horticultural produce like seeds and plants, etc. The above three segments have been specifically chosen for study because they are most prominent in Guwahati city according to data. Thus the total sample of 384 self-employed workers will be selected randomly in the following way:

Figure 1.1: Division of Informal Sector workers by types of sectors

![Diagram of Informal Sector workers by types of sectors]

- Informal Sector Workers: 384
  - Retail Traders: 159
  - Services: 105
  - Street traders and vendors: 120
1.11 Line of Analysis

The first objective of the study is to estimate the magnitude of workers engaged in the urban informal sector in Guwahati during the period 2001 to 2011 based on secondary data. As population data are available only for the year 2001 and 2011, the population for 2002 to 2010 has been estimated on the basis of the data of the above two census years. Informal sector employment generation in Guwahati City has been estimated on the basis of “Residual Method” which is formulated as followed:

\[
\text{Informal sector Employment} = \text{Total Employment} - \text{Formal Sector Employment},
\]

Where Total Employment=employment Rate*Labour Force,

Labour Force=labour force participation rate*population,

Formal sector employment=public sector employment + private sector employment.

The second and third objective of the study i.e. general socio-economic condition of the self-employed workers and size and structure of the establishments with at least one hired worker has been studied on the basis of primary data collected from field survey in Guwahati city. For this, the entire city of Guwahati which consists of 60 wards has been divided into five zones and from each zones a sample of own account workers and establishments (employers) are selected.

The fourth objective is to examine the role of human capital on workers earnings. Given the size and nature of workforce employed in the informal sector in India and
Assam, it becomes vital to study the impact of human capital on the earnings/productivity performance of the sector. This objective examines the relationship between education and earnings by using the earning function approach. A standard earnings function popularized by Mincer(1974) is used to investigate the determinants of labour earnings. Under this framework, the earnings of the workers are assumed to depend upon the level of education and on the job training augmented by job experience (usually approximated in literature by potential experience as age-years of schooling-6). In order to capture the non-linear effect of experience on earnings it is also the practice to include a squared form in experience.

The earning function may be specified as:

\[ \ln Y_i = b_0 + b_1 S + b_2 E_i + b_3 E_i^2 + u_i \]

Where,

\( \ln Y_i \) implies log of income,

\( S \) implies average number of years of schooling of the workers and

\( E \) implies average number of years of experience on the job.

The squared term in experience \( (E_i^2) \) captures the non-linear effect of experience on earning i.e. whether earnings rise with experience at an increasing rate (+ sign) or decreasing (- sign).

\( U \) is the disturbance term.

Finally, appropriate statistical tools will be adopted to test the above hypothesis.
1.12 Chapterisation Plan

The entire study is divided into the following six chapters:

**Chapter- 1:** Introduction; Meaning and Definition; Magnitude and Role of Informal Sector in income and employment Generation; Review of Literature; Present Study – Its Necessity; Statement of the Problem; Objectives of the study; Hypothesis; Significance of the Study; Methodology and Data Source; Line of Analysis.

**Chapter-2:** A Brief Profile of Informal Sector in India and Assam

**Chapter-3:** Employment generation in Guwahati City.

**Chapter-4:** The socio-economic condition of informal sector workers and nature and structure of the establishments.

**Chapter-5:** The role of human capital on workers earnings.

**Chapter-6:** Summary of findings, conclusions and policy prescriptions for strengthening the urban informal sector.