CHAPTER I

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The informal sector characterized by unrestricted entry, low capital intensity, small scale of operations, reliance on indigenous sources, adapted technology, skills acquired mainly outside the formal system of education and training and unregulated competitive market plays a pivotal role in Indian economy in terms of both actual and potential employment. It accounts for 90.4 percent of the total workers in the economy. Although the concept has drawn much attention since 1970s with the report of the ILO Mission, Kenya, there is dearth of regional studies in Kerala on urban informal sector where workers have a wide variety of occupations. As the sector is heterogeneous, an analysis of informal economic activities based on analytically distinct categories is a prerequisite for employment planning.

Apart from the heterogeneity of the urban informal sector in Kerala, employment in the sector is determined over a period of time by a long dynamic

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1 For a discussion of the term, see chapter II.


There are several parameters. The nature of employment also keeps on changing due to intrasectoral and intersectoral occupational mobility of the informal workers. The socio-economic characteristics of the workers also have a bearing on the employment in the sector. In addition to this, it is to be examined whether there is any linkage between the formal sector and the informal sector. There is lack of empirical evidence on these aspects of employment in the urban informal sector of Kerala economy.

In this context, the present study is designed to throw light on the process of employment determination in the urban informal sector. It also studies the structure of the sector and examines the intrasectoral and intersectoral occupational mobility of the informal workers.

Objectives

The following are the objectives of the study:

1. To study the structure and composition of the urban informal sector.

2. To analyse the nature, determinants and mobility of employment in the urban informal sector.

3. To study the socio-economic characteristics of the informal workers.
4. To examine whether there is any linkage between the formal sector and the urban informal sector.

**Hypotheses**

The following are the hypotheses to be tested for the present study:

1. That there is significant intrasectoral occupational mobility in favour of B-sector.4

2. That there are more cyclical workers than structural workers.5

3. That there are significant intrasectoral linkages but intersectoral linkages are insignificant.

**Methodology**

Owing to the 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, Kottayam municipality was chosen as it presents itself as an interesting case as it is the first municipality in India to be declared as 100 percent literate. Moreover, there is lack of studies on the informal sector in a relatively small municipal town. The field study was conducted in July, 2000.

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4 B-Sector denotes self-employed independent informal workers.

5 A structural worker is that worker whose occupational mobility is only within the informal sector whereas a cyclical worker has unlimited mobility.
A sectoral framework for the study has been adopted in order to delineate the sub-sectors of the informal sector. All the workers have been classified into A-sector worker, B-sector worker and C-sector worker based on the following criteria: A worker is termed as an informal A-sector worker, if the worker is attached to an informal enterprise or establishment. An enterprise is an informal enterprise, if it satisfies the following four conditions: (1) The total number of employees is less than or equal to ten. (2) The total value of the fixed capital excluding the building is less than or equal to Rs.150000/-. (3) It should not be a government or semi-government unit. (4) There is unrestricted exit of the enterprise from the business or work.

An informal worker is termed as a B-sector worker, if the worker is self-employed. Thus, B-sector consists of self-employed independent labourers.

An informal labourer is termed as a C-sector worker, if the worker is unattached to any specific establishment, though not totally independent like the self-employed. In other words, they are casual labourers. A domestic servant is also considered to be a C-sector worker.

The universe for the present study is composed of all those workers in the 32 wards of Kottayam municipality in Kerala which satisfy the foregoing criteria. To construct a sampling frame, the study relied on various sources of information such as the Census of India, 1991, the Department of Economics and Statistics,
Kottayam and the Town planner's Office, Kottayam. To supplement this, a pilot survey of the sector was done.

Stratified random sampling method was used for the primary data collection. Each ward of Kottayam municipality was taken as a stratum. Then from each stratum 10 samples were drawn. As there are 32 wards in Kottayam municipality, the total size of the sample is 320. Direct personal interview method was followed to elicit information from the samples and for this a schedule was canvassed which appears in the appendix. In addition to this, informal discussions were held with the head and other workers of the enterprise so as to cross-check the information.

In order to analyse the determinants of employment in the informal sector, two sets of multiple regression models have been constructed. In each set, there are one general model and three sectoral models. Besides, the step-wise regression estimates of the models have been made. As it is difficult to measure the changes in employment directly, two proxies - monthly average earnings and work participation rate - have been used in the models.

The basic form of the first general model is as follows:

$$ E = f (S, Y, X, Z, F, O, W, A, M, R) $$

Where the earnings (E) are assumed to be a function of sector(S), years spent on education (Y), experience (X), skill (Z), father's education (F), father's
occupation (O), work participation rate (W), age (A), number of adult males in the family (M) and religion (R).

The basic form of the second general model is as follows:

\[ WPR = f(E, F, C, R) \]

Where the work participation rate (WPR) is assumed to be a function of the monthly average earnings (E), the number of females in the age group of 15 - 60 (F), the number of children below 15 years (C) and religion (R).

To find out the effect of the independent variables on the dependent variable, the multiple coefficient of determination has been found out. Moreover, t-values have been computed in order to find out the level of significance of the explanatory variables. Beta coefficients have been found out in order to standardize the regression coefficients. In the case of the first general model and the three related sectoral models, the dependent variables are transformed into their natural logarithms to reduce variations in them. Besides, the standard errors of the estimates have been found out.

Chapterization

The study consists of eight chapters. The introductory chapter deals with the study frame, objectives, hypotheses and methodology of the study. The second
chapter gives an overview of the urban informal sector, while the third chapter examines the demographic features and occupational structure of the study area, i.e. Kottayam municipality. The fourth chapter analyses the structure and composition of the informal sector in Kottayam and the fifth chapter studies the socio-economic characteristics of the informal sector. The sixth chapter examines the intrasectoral and intersectoral occupational mobility of the informal workers, while the seventh chapter analyses the determinants of employment in the informal sector. The eighth and final chapter presents the conclusions and the policy implications of the study.