CHAPTER II

URBAN INFORMAL SECTOR:
A REVIEW OF LITERATURE

The informal sector forms a very large segment of the urban economy. The substantial increase in labour force, the heavy population pressure on land, the declining labour-output ratio in the modern sector, and the ability of the informal sector to accommodate almost all categories of people have encouraged the growth of the urban informal sector in developing countries.


Research on urbanisation and employment has shown that both population and labour force in urban areas have been on the increase. Much of the addition to urban labour force has been absorbed not in the large scale, organised industry or services but in very small scale activities labelled as the informal sector (ILO, 1987a). The definition of the "informal" for long has remained elusive (Sethuraman, 1976: 1978). Those economic units that escape the administrative, legal or statistical framework in the developing countries are often labelled as the "informal sector".

Informal sector is also that economic sector which "is characterised by smallness, lack of organisation, dependence mainly on family labour, very high labour-capital and labour-output ratios, limited access to the market, very wide dispersion in space and, above all, a very low level of income" (Bose, 1980: 24).

Informal sector consists of "units established, owned and operated by one or a few individuals who neither possess adequate capital, skills and know-how nor do they have free access to them". They are small and labour intensive, reflecting a relative scarcity of capital and management skills. They have poor premises and infrastructure, with little or no access to markets for finished
products. ‘Informal’ has also been treated as synonymous with micro enterprises. Two-thirds of the units have been found to be owned and operated by single individuals, without any family or hired workers.

There has been a large amount of empirical research in recent years on the nature and effect of the informal sector... And clearly, for actually designing policy, knowledge of this sector is essential, from a theoretical point of view, however, the existence of the urban informal sector, need not be particularly disturbing (Basu 1998: 172).

Several countries, including the developed and the developing, recognise informal sectors role in generating employment and incomes, notably for the poor. There is some scepticism among planners and policy makers as to the merits of promoting this sector. Growth opportunities in non-agricultural sectors have generally been concentrated in the urban areas. Positive measures in terms of promotion of informal sectors could exacerbate the urban situation with poorer living and working environment through internal migration. There is therefore need to emphasise decentralisation of employment opportunities in the informal sector and away from the urban areas (ILO, 1987b).

Alternative approaches to raising productivity of, and income from, the informal sector for the workers have been a subject of debate. Liberalising access to inputs and markets and changes in policy environment have been suggested as important measures to promote informal sector. It has been argued that the growth in informal sector depends much on the formal sector, as well. Since labour is allocated between the formal and the informal sectors, the promotion of informal sector is very closely linked to the functioning of urban labour markets. Policies and measures to promote informal sector activities will thus have salutary effect on labour earnings and on the conditions of work.

Informal sector, from an economic point of view, transforms human resources, as a vast majority relies on it for learning skills through
apprenticeship and on-the-job training. As such, far from draining the national resources, the informal sector generates its own savings, however small it may be, for physical investment.

There is a hierarchy of formal and informal sector establishments, which represent different degrees of formality and informality. In the five-tier hierarchy, the transnational corporations (TNCs) occupy the top rung and are in the formal sector. The next three tiers, namely, the national monopolies in the third world, other large and medium units and small scale units fall under the category of both formal and informal. The fifth of the tiers, known as the tiny, mainly self-employed units, are exclusively in the informal sector.

What makes the most difference among the formal and the informal sector establishments are, in brief:

(a) the organised nature of the establishments in the formal as against the lose-knit and unorganised in the informal;

(b) the relatively large number of employees in the formal against the small number in the informal;

(c) the licensed of the formal against the unlicensed of the informal;

(d) the relatively sophisticated technologies in the formal against the crude, if any, of the technologies which could be handled manually; and

(e) the intense use of labour in the informal as against intense use of capital of the formal.

For the purpose of our study, the truly informal is the tiny, self-employed sector of the economy. In this sector, vegetable, fruit and flower vendors of the urban informal economy, whether sedentary or itinerant, of the individual or of the family, enterprises, have definite contributions to make to the home economics. This sector is so important that, in India, 89 per cent of the total work force of 270 million in 1980 was employed by this sector. Of the
informal sector, the most significant in terms of the national economy is that of agriculture which employed as much as 74.4 per cent of the work force, leaving 14.4 per cent of the work force employed in the urban, non-agricultural informal sector. Two decades later, at an estimated increase of about 5 million new entrants a year into the informal sector, the total employed in the sector is indeed very large (Bose, 1980).

**Box 1.1: Informal Economy, Informal Sector: Definitions**

*Informal economy* is that of a national economy, which is a sub-set of the secondary labour markets. It undertakes necessary and productive labour without formal systems of control and remuneration and which operates outside official recognition (Siddhartha and Mukherjee, 1996: 140).

*Informal sector* is that part of the urban economy of the LDCs characterised by small competitive individual or family firms, petty retail trade and services, labour-intensive methods of doing things, free entry and market determined factor and product prices. It often provides a major source of urban employment and economic activity (Todaro, 1990: 631).

*Informal sector* emphasises the growth potential of small, labour intensive businesses. The small businesses are generally considered to be independent, unorganised, almost unregulated, little related to the authorities or to big businesses, and essentially honest, legitimate and entrepreneurial (Bromley, 1978: 1168).

According to Mathew (1988), the formal sector is an expression of capitalist, individual profit motivation while the informal is socialist, egalitarian and maximisation of social welfare. While the formal is relatively more rigid in terms of production and consumption or exchange, the informal
takes into account the complexities of the real world of *human relations* in a better way. Simon Kuznets has made seminal contributions in the area of theories of economic growth. He has defined it as a process by which a country's real national income grows over a period of time. Keith Hart, who was first to use the term ‘informal’, has defined it on the basis of the concept of income opportunities. He has also made the distinction between two views of employment, namely, wage employment and self employment. The latter is related primarily to the informal sector, as the former to the formal sector. Hart’s line of analysis of the economy was given a concrete shape in the Report of the ILO/UNDP Kenya Employment Mission in 1972. This report, for the first time recognised the positive role of *the shoe-shine boys, petty traders, the street hawkers and the working poor, in economic development*.

**Urbanisation as an Economic Process**

Urbanisation is a complex process. The factors responsible for urbanisation are numerous. The main factors are however: agricultural improvements, industrialisation, market forces, growth of services, improvements in transport and communication, towns as socio-cultural centres and natural population increase (Siddhartha and Mukherjee, 1996).

For very long, urban areas have been likened to parasites as they thrived on the agricultural surpluses of the rural areas. But this is no longer tenable and there are mutual trade-offs between urban and rural areas. The town or city has now become a focal point of productive enterprises. The urban areas now grow and exist on the strength of their own economic activities within. In addition, they provide services and goods to the rural hinterland. As such, the hinterland is economically dependent on the urban places. It is the nature and level of economic activity that generates growth in the city and therefore further urbanisation (Ramachandran, 1989). Urbanisation, from this angle, is an economic process, with production at three levels, namely, primary, secondary
and tertiary. Informal sector actually spans the entire spectrum of the three bases of production.

**Primary Production and Urbanisation.** Agriculture, fishing, mining and forestry are all found in the urban areas, primarily in their peripheries, coastal zone and forest patches within the city. Mining may have special urban locations and generate new towns and cities where they exist, as in Neyveli in Tamil Nadu and Jamshedpur in Bihar. Whereas mining employs high level of technology, the other sectors are behind. Forestry may be an exception, except where timbering is carried on. Urban settlements with different primary occupations have shown distinct urban characters. The process of urbanisation through modernisation of primary activities is an ongoing and significant urbanisation process in India.

**Secondary Production and Urbanisation.** Industry and trade have been the vital components of urbanisation in India since time immemorial. Kautilya mentions as many as 64 industries in the urban centres of his times. He speaks of the artisans who organised themselves into guilds to protect their economic activities. The level of urban development was such that there were no parallels to the Indian cities of that time. While products made in India of that time were marketed both in India and abroad, the industrial urbanisation thrived in periods of political stability. In the era of the British rule, even with political stability and Rule of Law, urbanisation declined. This was because of the erosion of Indian industrial base. Indigenous and the British entrepreneurs contributed to the urbanisation process during the late phase of the British rule. There is no gainsaying the fact that secondary production was the backbone of industrial urbanisation of India. With Independence, the legitimate interests of the secondary sector were protected by the government and urbanisation gained momentum along with industrialisation.
India now has a diversified industrial base and is poised to emerge as an industrial giant in the future, with far reaching influence in the global economy. Industrial townships and estates have proliferated at the peripheries of the metropolitan areas. Industries show a tendency to grow along the major transport corridors, all over the country. The contribution of industry to employment, salaried jobs, is a major force attracting rural folk to the city (Myrdal, 1970). The unorganised informal sector, on the other hand, has nearly 25 million workers, in 1981. The employment in secondary industries is not only employed substantial in numbers but also significant in relation to India's urban population.

**Tertiary Production and Urbanisation.** In the urban areas, tertiary activities become very varied and employed a relatively large proportion of population. The varieties of tertiary activities in a town or city depend on the socio-economic conditions of life and the level of technology. Tertiary services have played a significant role in the urbanisation process from ancient times. The earliest of the cities emerged primarily to provide for tertiary services to their hinterland. The modern city has services such as the educational institutions, hospitals, cinema houses, law courts, banks and financial institutions, shops selling a wide variety of goods.

The tertiary services in a city assume a more dominant role than primary or secondary production. In the developed countries, employment in the tertiary sector is greater than the combined employment in the primary and secondary sectors. The growth in the tertiary contributes in a direct way to city growth. During the British period, the tertiary sector contributed significantly to urbanisation. The rate of urbanisation is subdued. The role of tertiary services at this time is no less significant. The countryside and the town interact more closely today than ever before. The cultural gap between the two is being narrowed as well. The city has become an agent of rural change, just as
it has become the place for employment of the rural people who are forced to migrate to the city.

The people from the outskirts and the peripheral villages commute to the city everyday, and most commuters are within a radius of 20-25 km around the city. The economic activities of the city sustain the city as well as generate further addition to population. Large cities have a larger pool of labour and a process of cumulative causation attracts more capital and skills. Consequently, the cities tend to grow bigger and bigger.

Urban Economic Development

Development is defined in Box 1.2. Traditional economics, according to Todaro (1990: 8), is that concerned with the efficient, least-cost allocation of scarce productive resources and with the optimal growth of these resources over time so as to produce an ever-expanding range of goods and services. Development economics is concerned with the efficient allocation of scarce resources or idle productive resources and their sustained growth over time. It deals with the economic, social, political and institutional mechanisms, both public and private, necessary to bring about rapid and large scale improvements in levels of living for the masses of poverty stricken, malnourished and illiterate peoples of Africa, Asia and Latin America. In these countries, although commodity and resource-markets are imperfect, and consumers and producers have limited information, major structural changes are taking place in both the society and the economy. At the individual level, family, clan, religious and / or tribal considerations may take precedence over private, self-interested utility or profit maximising calculations.

As this study is primarily concerned with the informal sector of the city of Chennai, it is important to define urban economic development. Urban
economic development, according to Young and Mason (1983), is that which is concerned with the extent to which the urban governments have stemmed the rise of unemployment and promote local industrial development. The consequences of adoption by local authorities of an economic development role for relationships within and between agencies and between private and public sectors are also a concern in urban economic development. Special attention is paid in urban economic development for novel developments in public/private relationships as partnerships and labour market management, to the specific circumstances of inner-city areas, to problems in implementation and evaluation, and to a comparative review of the very different experiences in the cities.

Todaro (1990) emphasises that there can be no single development economics for all the Third World, for its concepts and theories are exactly not relevant to all countries. In fact, development economics could be eclectic so as to combine relevant concepts and theories from traditional economics to make new models. Today development economics is riding on the crest of breaking a new wave, as new theories and models and data that continuously emerging.

A major focus of development theory has been on the dualistic nature of the national economies of the developing countries, namely,

- the existence of a modern urban capitalist sector geared to capital-intensive, large scale production; and

- a traditional rural subsistence sector geared to labour-intensive, small scale production.

In recent years, this dualistic economy concept has also been applied to the urban economy, which has been decomposed into a formal and an informal sector. The existence of an unorganised, unregulated informal sector was recognised in the early 1970s following the observation in several developing countries that massive additions to the urban labour force failed to show up in
formal, modern sector unemployment statistics. It appeared that the new
comers to the cities created their own employment or began working in small
scale, family owned enterprises. The self employed were engaged in a
remarkable spectrum of activities ranging from hawking, street vending, knife-
sharpening and junk collecting. Several people found jobs as mechanics,
carpenters, artisans, barbers and personal servants. The informal sector of these
types are characterised by a large number of small scale production and service
activities that are individual or family-owned and use labour intensive and
simple technology.

Thus the informal sector constitutes:


Box 1.2: Development

It is the process of improving the quality of all human lives. Three equally
important aspects of development are:

- raising people’s living levels, that is, their incomes and consumption
  levels of food, medical services, education and others through relevant
economic growth processes;

- creating conditions conducive to the growth of people’s self-esteem
  through the establishment of social, political and economic systems and
institutions which promote human dignity and respect; and

- increasing people’s freedom to choose by enlarging the range of their
  choice variables, that is, increasing varieties of consumer goods and
  services
2. Unpaid family workers, domestic servants, and those of self-employed who are not professionals and technicians (Tokman, 1986).

3. A way of doing things, characterised by ease of entry, reliance on indigenous resources, family ownership of enterprises, small scale of operation, labour intensive and adapted technologies, skills acquired outside the formal school system, and regulated and competitive markets (ILO, Kenya Report 1972: 6).

4. All workers in small-scale units of production (usually those with fewer than 5 or 10 workers).

5. All the above and those including domestics and casual workers and low wage employees of large modern firms (II.O. Schaefer and Spindel, 1976).


7. Illegal, clandestine and unregistered economic activities (Castells and Portes, 1986).

8. Traditional, subsistence and marginal mass sector.


10. A number of very small economic units or micro business or enterprises.

The informal sector is largely an empirical concept. The discovery that a large number of people in the urban areas work without formal employment contracts and in unregistered enterprises has stimulated a lot of work on measuring its size and structure. However, the attitude of mainstream economists is well captured in the following statements by Basu (1998. The informal sector is largely an empirical concept. The discovery that a large number of people in the urban areas work without formal employment contracts and in unregistered enterprises has stimulated a lot of work on
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The origins and dynamics of the informal sector have attracted renewed interest for at least two reasons:

1. Increasing labour market efficiency and flexibility are considered essential complements to the market based reforms in the developing world (World Bank 1995).

2. Informality.

The formal sector, small though it may be, is the driving force of the economy and what happens in the informal sector is derivative of this (Sudarshan, 1997)

Definitions and methodology of informal sector statistics: The informal sector may be named quite differently. A recent UNSD survey in the ESCAP revealed that only 10 out of 25 answers said that the term ‘informal sector’ is used in their countries, the term ‘household economic activities’ was mentioned 8 times. However, in the following term ‘informal sector’ will be used primarily (see Table 2.1).

Informal Sector and Urban Development

Informal sector has a pivotal role in determining the overall pattern of urban development and distributing the resources, physical and manpower, of the economy between the rural and urban areas. The thrust has however been on employment, transfer of resources and products. Evidence from several studies (for example, Mitter, 1988: 28) indicate that the informal sector is both vast and variegated in the urban labour market. The employment in the informal sector has been steadily increasing, both absolutely and relatively,
absorbing the addition of labour pool from the natural growth and growth due to migration.

Table 2.1: Names Applied for the Informal Sector in the ESCAP Region

<table>
<thead>
<tr>
<th>Name</th>
<th># Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informal Sector</td>
<td>10</td>
</tr>
<tr>
<td>Small industries/enterprises/business</td>
<td>1</td>
</tr>
<tr>
<td>Unorganised sector</td>
<td>3</td>
</tr>
<tr>
<td>Unincorporated enterprises</td>
<td>1</td>
</tr>
<tr>
<td>Household economic activities</td>
<td>8</td>
</tr>
<tr>
<td>No answer</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>25</td>
</tr>
</tbody>
</table>


The oft-quoted hypothesis is that the informal sector absorbs rural manpower which is able to find gainful employment in the formal sector later. Consequently, the current income of the manpower absorbed by the informal sector naturally accrues to the rural population. In the absence of remittances by labour in the informal sector of the cities, the rural population would become deprived of the gains of urban development. It is hypothesised also that the earnings from the informal sector go to other regions and help to keep the linkages between the rural and urban economies up by contributing to further flow of resources back and forth. The informal sector also caters to some consumer goods at relatively cheaper prices.

The informal sector is also distinct in that they use capital-saving and labour-using technology. The technologies in use in informal sector are often less sophisticated and are easy to use. Training may become necessary only in
per cent in 1901 and this went up to 26.7 per cent in 1981. In the end of the century, India is expected to boast of 4 mega cities with populations exceeding 10 million each. They are Mumbai (until recently, Bombay), Calcutta, Delhi and Chennai. In 1981, the four cities accounted for nearly two-thirds of the total metropolitan population of 42.1 million.

The Indian cities have been measured using an index known as the concentration index\(^1\). The index reaches its maximum of 100 for Delhi and drops to the low of 5.08 for Lucknow city. It is evident that the population pressures on the top 5 cities is relatively high when compared to all other cities.

Chennai, the capital of the state of Tamil Nadu, on the eastern coast of the peninsula, has grown from a small village named Madraspatnam or Chennaiapatnam. The name Chennai has thus a historical root and the city was renamed Chennai on 30 of September 1996 by an Act of 1996, namely, the Alteration of Name Act (Figures 3.1 to 3.3).

Chennai has a long history, as it has been in existence from 1639. It was in 1639 that the foundation for the present settlement of Chennai was laid, when the site where the Fort St. George is situated was acquired by the British East India Company. The area under Chennai has gradually expanded with the expansion of population and settlement of Madras. In 1798, the areal extent of the city was 67 square kilometres containing 16 hamlets. The size expanded to 71 sq. km. in 1871. With the addition of Mambalam, currently known as T.Nagar, a zone of this study, as a suburb of Madras, its total geographical area increased to 75 sq. km. in 1923. In the next two decades, further additions to the area of Madras made it a city spread over 129 sq. km. In 1978, the area increased to 170 sq. km. with the merger of 10 panchayats.
certain cases. Low productivity therefore determines the low per capita income and virtually no savings with the workers. As such, the informal sector enterprises employ very little capital. It is also found that the occupations, which required some technical or professional skills have earned much more than the others. These have been able to make savings and hence potential investment incomes.

On the human side, it has been observed that a large share of population outside the prime age group has to be found in the informal sector. It is because the entry into this sector is free and legal constraints mostly absent (Mazumdar, 1980; Souza and Tokeman, 1976). It has been hypothesised and proved that a significant proportion of them in the informal sector is functionally illiterate. On the other hand, permanent wage workers are relatively highly educated and the casual workers are relatively poorly educated. Women in the informal sector are relatively poorly educated than men (Harris, 1982). The unpaid family workers constitute between one-fourth and one-third of the workers of the informal sector. Family labour dominates small units of the informal sector (Kalpagam, 1981). While the informal sector units normally have weaker or no forward linkages, the larger units have strong backward linkages with the formal sector (Aryee, 1981).

Linn (1979) is of the opinion that

- the activities carried out by the urban poor of the informal sector are often closely linked with the activities of the modern sector, and

- it is also not correct to view all or even most of the activities carried out by the urban poor as representing residual or unproductive or superfluous employment.
Informal sector gained popularity as an operational concept from the ILO/UNDP employment mission in Kenya (ILO, 1972). Six studies that followed in the urban development series have been undertaken to measure and analyse the role of the informal sector in different countries as a prelude to the policy formulation for the sector. Tentative share of the informal sector in the urban labour force place the cities in the class of 40 to 60 per cent: Calcutta 43 per cent (1971); Jakarta above 40 per cent (1967); Abidjan 31 per cent (1970); Lagos 50 per cent (1963); Bagota 53-58 per cent (1974) and Sao Paulo 35-43 per cent (1970) (Bosc, 1974; Sethuraman, 1975; Joshi, Lubell and Mouly, 1975; Fapolunda et al., 1980; Lubell and McCallum, 1980; Schaefer, 1976). In India, the share of the informal sector could roughly be placed over 76 per cent consisting of 20 per cent unregistered workshops, 10 per cent household industries, 38 per cent consumer oriented services and about 10 per cent others in the category of informal sector (Wishwakarma, 1980: 43).

In Africa, urban development and employment are a matter of great concern. With rapid urbanisation due primarily to high rate of population growth, the urban labour force has been increasing rapidly, by more than 3 per cent a year. Rather than remain unemployed, the newcomers to the cities seek work in the informal sector, either on their own account or in poorly paid jobs (Sethuraman, 1976; 1977). The informal sector provides work for some 60-70 per cent of all employed persons. The enterprises are located in or near slum areas such that a majority of them have no premises at all or carry on from tents, shacks or temporary structures. As several countries apply a variety of restrictive policies, the enterprises are forced to move owing to overcrowding, health considerations, traffic congestion, environmental, and aesthetic factors. Yet, they have not only survived but also are growing. The obvious reason for their survival and continued growth is that the goods and services offered by
them are in demand. These goods and services range in variety from ready-to-eat foods to light industrial products, and from simple household articles to automobile repairs. In Ghana, informal sector manufacturing and repair services are an important source of employment for men, while trade and services are more important for women (ILO, 1977).

Demand is not the only factor of scale of the informal sector. On the other hand, factors such as availability of skills, opportunities for acquiring new skills and access to credit are very important in determining the scale of informal sector operations. The development of informal sector depends not only on market opportunities but also on access to skill, credit, raw materials and intermediate inputs and technology. The informal sector enterprises find banks unhelpful and unsympathetic to their needs. It is because they cannot provide the necessary collateral. In Freetown, for example, banks provide only 2 per cent of investment funds in the informal sector, while in Kumasi only 9 out of 298 enterprises have ever obtained loans.

A vast majority of workers in the informal sector are illiterate migrants, often from regions not far from the urban centres where they now live. For example, two-thirds of the informal sector employees have never been to school; 12 per cent are dropouts and 6 per cent have not gone beyond primary school. It has also been found that a majority of the informal sector workers have no skills when they enter it. Forty per cent of the workers from Freetown has indicated that they have had no need to learn any skills, as they have been engaged in petty trading (Callaway, 1976; Hakam, 1970).

The interesting thing about the informal sector is its ability to innovate. This is particularly noticeable in Ghana where goods are manufactured in the informal sector, using innovative techniques (ILO, 1972; 1976) at a fraction of the cost of importing them.
The industrial structure of Senegal is such that a single export commodity (groundnut) constitutes a disproportionate share of the value of national production. The Senegalese modern sector however concentrates upon light industrial activity, making available commodities which are mainly destined for consumption by the more privileged sections of the community. Petty producers constitute a considerable proportion of the urban economically active population. They have considerable linkages with large factories and commercial concerns as well as with various state institutions. The world of the petty producer, casual worker and others interpenetrates with that of the multinational corporation.

All relationships are characterised by domination-subordination, there is neither evenness nor equality in the extent and nature of this interpretation. BATA, the large multinational corporation operating in Senegal’s footwear sector, produces leather and synthetic articles on an industrial scale. There is also a large number of small enterprises which, despite their relatively small scale and lack of technology, mass produce hand-made footwear particularly in the Medina district of Dakar. The petty producers usually work in family-organised caste groups and had traditionally produced leather footwear to standard Islamic and regional patterns as their forefathers had done. Even the petty producers who work entirely for the tourists have tended to develop commercial relations with BATA, from whom they purchase leather (Gerry, 1974; 1978).

Petty production, from traditional artisanal handicrafts to the ‘refuge’ occupation and recycling discarded materials, is highly dependent on capitalism. The capitalist mode of production benefits from the existence and relative viability of petty production for the maintenance of a low level of
subsistence and a low cost of labour reproduction. As Davies (1974) has commented:

The optimum strategy is not one of elimination but rather of keeping the (informal) sector an optimal size, not too big to be competitive, not so small as to have no influence on wages.

Yet it is in this optimum strategy is the seed of destruction of the apparent equilibrium. Petty production transfers part of the value of its production to activities of a capitalist nature. It can do this less easily as capitalist accumulation and the pursuit of increased labour productivity increasingly dominate the economy. Progressive impoverishment, a growing surplus or marginalised population are the direct result of the capitalist mode of production with a relatively diminishing need for a growing active labour force (Gerry, 1978; Oliver and Gerry, 1975; Kilby, 1969; Obregon, 1974; Cordova, 1972).

Latin America

Street trading is one of the most visible and important occupations in African, Asian, Middle Eastern and Latin American cities. The street traders, despite their numerical importance, have cornered less academic attention than most other occupational groups. Street trading lies on an ill-defined research frontier between employment research and social pathology. The most significant research so far has been that of McGee (1970; 1973) and his co-workers in Asia (McGee and Yeung, 1977; McGee and Ho, 1978). There have been other studies smaller in scale and significance (for example, Benedict, 1972), focusing on rural and small town itinerant vendors (Constant, 1937), and on groups of traders with distinctive origins, organisations and specialisations (Prakash, 1972).
In Cali, Colombia, street traders are found in all sectors of the city, but partially concentrated also in the central zone, in the municipal markets, stadia and entertainment centres. About four-fifths of them have fairly fixed locations on the street, while a fifth of them are mobile. About 75 per cent of them are also migrants, with about four-fifths of them having been in Cali for more than 5 years. Urban authorities and local elites consider the street traders as a nuisance, causing traffic congestion, litter, molesting passers-by, and depriving the law abiding and tax paying shops of their customers. There are no wage workers among the street traders and their image is that they are independent, self-employed whose success depends on their own efforts and their ability to attract clientele. The commission selling and dependent working are essentially exploitative in the sense that the street trader is at disadvantage in dealing with large scale enterprises in situations of considerable instability and insecurity (see Bromley, 1977). The street traders of Cali have been members of six trade unions, although the membership constituted only 12 per cent of the total street traders at that time. These unions are federated to the national trade union, giving them relatively strong support in their existence and in resolving some of their, if not all of their, problems. They have a collective political clout.

Cali’s street traders have shown various forms of economic and political organisation, as most traders operate illegally and official regulation results in containment rather than eradication. Nearly 50 per cent of the street traders are self employed, while the remainder fall into one or both of the two increasingly important and potentially exploitative, working relationships with larger enterprises. There are (a) commission selling, and (b) dependent working (Bromley, 1978). Government intervention to promote selected small enterprises is highly problematical because of (a) negative official and elite attitudes, (b) illegality of most enterprises, (c) factional self-interest of vendors’ trade unions, and (d) leakage of benefits to large enterprises using commission sellers and/or dependent workers. Also most important is the upward mobility
of a favoured minority accompanied by the worsening conditions for the majority.

Cali’s garbage pickers are another class of informal sector employees. One is confronted with a group of 400 workers at work amidst flies, vultures and garbage (Birkbeck, 1978). Because the garbage pickers work amidst vultures, they are nicknamed ‘vultures’ as well. They are neither municipal employees nor are they concerned with garbage collection (Birkbeck, 1977). They are a part of recycling network, which feeds some large factorics and a few small industries with raw materials such as paper, bottles, scrap metal, and bones. They are but a facet of a large industrial operation and organisation. Although each garbage picker works independently, there are certain internal and external factors which help him/her to organise and regulate the work in an informal way. Garbage picking is the oldest component of the recuperative system in Cali, in the Cauca valley. Recuperation itself has undergone great changes in the 20 years since 1960. The activity began to expand some 15 years before 1978 and went into the supply of raw materials for industries which would use garbage picked recyclable materials. It has not been possible to subject the work to capital-intensive operations, because of the domestic nature of the wastes / recyclable materials. The garbage pickers have fairly regular working hours, just as in a factory, and start their work at 8 a.m. and break off at 2 p.m. During these hours, a stream of garbage trucks arrives to dumb the city wastes collected from various parts of the city. On any busy day, there could be as many as 500 pickers, milling around the dump. Wednesdays and Saturdays are reckoned to be bad days for the pickers as the municipality collects garbage from the poorest sections of the city on those days. The garbage pickers are doing very well because of the hazards of the job they are doing. It is not surprising therefore that they have to live in continuous poverty. However, there is a good deal of entrepreneurship and innovation. This is reflected in their attitude towards the buyers. It is important to mention that the
garbage pickers perform an important and significant activity in the recycling of materials (see Sfeir-Younis, 1977).

Asia

Indonesia. Open unemployment in many large metropolitan areas of the developing countries has risen to unprecedented levels, during the decade 1965-75, endangering social, economic and political stability. The rate of unemployed jumped from 7.4 per cent in 1961 to 12.8 per cent in 1971. Employment failed to grow fast enough to absorb the additions to the labour force.

Sethuraman (1975) writes eloquently about Djakarta, Indonesia, where small private enterprises predominate. Of the registered commercial enterprises, 90 per cent was privately owned and about two-thirds of them have had fewer than 4 workers to an establishment. The regional gross domestic product of Djakarta at 1969 prices was reported to have grown at an annual rate of 9.1 per cent between 1966 and 1971. The rate has quickened in the early 1970s, having risen from 7.8 per cent in the earlier period to 9.9 per cent per year. Tourism and related industries have contributed in a short period to the employment-oriented income.

In Indonesia, the share of agriculture in total employment dropped from 65 per cent in 1971 to 56 per cent in 1980. But most of the non-agricultural employment was not in the formal sector. More than half the people engaged in non-agricultural employment was in the informal sector. This estimate included all self-employed persons, temporary workers and family workers engaged in non-agricultural pursuits.
India. Informal sector is on the increase, primarily because the development of the core sector (power, steel, cement, machines, fertiliser) for this organised sector displaces more people than it is able to absorb (Wishwakarma, 1988; Choudhry, 1988). Formal sector is developing also at the expense of informal sector at the same time. The Seventh Plan has also recognised the fact that the Indian industry has steadily become capital intensive which has negative implication for employment generation. The Plan pleads and provides for modernisation, at the same time. It is important to remember at this juncture the observation of the National Commission on Urbanisation (NCU) that:

*while population growth in urban areas through natural increase and migration from rural areas as well as small towns continues unabated at the rate of approximately 4 per cent annually, the capacity of urban areas to create jobs in the formal sector has been dwindling (Wishwakarma, 1980: 53).*

Informal sector is not an individual entity but is interlinked with the production economy as a whole (Papola, 1978). According to Morley (1982), the size and growth of informal sector is related to the real wages of the urban poor than to the existence of employment opportunities in the formal sector. A drop in the minimum wages, on the other hand, increases the size of the informal sector by increasing the participation rates of women and children. There are evidences to suggest that the small scale enterprises survive and exhibit the potential for generating employment for the poor. The means of achieving this or informal sector contributing to the development and modernisation are:

- A high degree of self-help and self consumption in the informal sector favours self sufficiency and considerable savings: it is for this reason it is observed that the levels of imports and national indebtedness could be much higher if it was not for the rapid expansion of the informal sector in the urban areas;
• The low cost and high flexibility of labour in the informal sector attracts local and foreign capital into industrialisation, which in the long run will lead to development and modernisation; and

• The manufacturing part of the informal sector in fact become accumulative, contrary to the existing notions of its inability (Enzo, 1984: 67).

Thus, the growth and development of informal sector is an asset to the urban economy (Bose, 1980 for an alternative view point).

Papola (1978) suggests that the informal sector is capable of generating higher employment and more equitable process of income growth than the formal sector. As it is sizeable, it is desirable to use its or development rather than to dismantle it to build a costlier and not necessarily a superior structure. Writing about Ahmedabad, Papola indicates that the activities employing a major proportion of workers on an informal basis, such as agriculture allied activities, construction, trade and commerce, and transport have increased in importance.

On the other hand, the formal sector has declined in importance. The extent of informal sector differs among the various activities. It constitutes 77.5 per cent in agriculture and allied activities, 27.5 per cent in manufacturing, 50 per cent in construction, 67 per cent in trade and commerce, 76 per cent in transport and communication, and 49.5 per cent in other services. Within trade, the major items are retail trade in vegetables, fruits, eggs, beverages (tea and coffee), bidi, cigarettes, sweetcakes, biscuits, clocks, watches and sunglasses, and fibres and footwear. In occupations, independent workers are hawkers, peddlers and street vendors in 42 per cent of the cases, launderers, washermen
or dhobis in 10 per cent of the cases, and smaller and smaller proportions in other cases. Likewise, the income contribution of the informal sector is, such that, 28 per cent to the total domestic product of the city. Manufacturing establishments of the informal sector contribute around 78 per cent and the independent workers' segment 17 per cent. More important, the informal sector serves a very useful function in terms of goods and services in the urban economy and provides employment to practically the entire residual labour force.

Calcutta, in the 1970s, was in a crisis. This crisis arose mainly from the mortal sickness of the manufacturing industry. In 1961, the manufacturing industry contributed 61 per cent of the total income generated in the metropolis. There was no reason to think that, in orders of magnitude, the relative positions had changed in the meantime. The extent of stagnation-cum-decline, both in the volume of output and employment in the registered factory sector, is such that the volume of output has increased by a meagre 6.5 per cent in 15 years, with an average rate of growth per annum of 0.40 per cent. The corresponding figure for employment is 9.6 per cent for 15 years at 0.64 per cent per year (Bose, 1978).

The output in the informal sector has been going up while the same in the formal has been going down. In the years 1960-61 to 1965-66, the real income from the informal sector grew at 5.2 per cent per year. In the next 11 years, the income from the informal sector grew at 4.67 per cent per year while it declined at 1.65 per cent only in the formal sector. Mitter (1988) has studied the informal sector of the city of Patiala, in the state of Punjab. A fairly large proportion of the workers in the city (42.4 per cent) was self-employed. They comprise of 29.3 per cent of own-account workers, 6.8 per cent of unapied workers, and 6.22 per cent employees. The remaining 57.6 per cent were wage-
workers. Nearly 72 per cent of the informal households have been self-employed.

Ramakrishna (1999) in an article examines the inherent inter-relationships between economic growth and urbanisation, through a study of the patterns of urbanisation and economic growth in India, and sees the association between economic growth and urbanisation in India since 1961. In his view, urbanisation and economic growth are positively associated and the two together reduce rural poverty and overall population growth in Indian economy. The argument put forward by the study is that economic growth, through industrialisation, increases urbanisation and this inversely affects rural poverty through the migration processes. According to the study, the association between economic growth and urbanisation measured by rank correlation coefficient is not statistically significant.

The contemporary empirical literature on this problem perceives the informal sector as dynamic, efficient and full of hidden but creative entrepreneurial talents. Further they point out the significant changes in the Indian economy during the 1970s, when there occurred an occupational shift out of agriculture to non-agriculture at an increasing rate (Bhattacharya, 1996). The rural – urban migration in India indicates some of the broad economic changes in the country during the 1970s. Thus, the informal sector played an important role during this period and that, for from being a passive absorber of labour, it has been a dynamic and productive sector, attracting and sustaining labour in its own right (Battacharya, 1998).

The National Accounts Statistics (NAS) in India defines the organised sector as:

*Generally, all enterprises which are either registered or which come under the purview of the Indian Factories Act, 1948. Mires and*
Minerals (Regulation and Development) Act, 1957, the Company Law, the Central, State Sales Tax Acts and the shops and establishment acts of the state governments. Also included are all governments. Also included are all government companies, departmental companies.

The unorganized sector consists of the rest of the economy and includes unincorporated enterprises and household industries, which maintain accounts or do not do so but are wholly managed by self-employed workers.

Meher (1995) observes that the introduction of modern factory-based production in a capitalistic framework during the British rule led to the systematic destruction of the village and cottage industries as well as truncation of the rural economy.

This has resulted in large-scale unemployment and under-employment of population in rural areas, with a heavy pressure of population on agriculture, in an over-populated country like India. Hence, under the circumstances, the poor and distressed people from the countryside are pushed into urban areas in large numbers to eke out their livelihood in the urban informal sector of the city which proliferates in close collaboration with and patronage of the organised and formal industries, services and establishments. The structural dualism of urban economies is manifested in the forms of highly formalised and organised large scale manufacturing and servicing establishments at a limited level and the growth and proliferation of unorganized and informal sector economic activities in much larger way.

In many countries, the informal sector plays a significant role with regard to employment and income generation. The informal sector comprises (1) a set of production units engaged in the production of goods and services with the primary objective of generating employment and incomes to the persons concerned, (Becker, - 1997)

Informal sector has substantial weight with regard to the GDP (over 20 per cent of Africa's GDP; UN 1996) and even more in employment. For
example, in Latin American, Asian and African countries, informal activities seem to contribute 40, 55 and 77 per cent respectively of the total urban or non-agricultural employment (Hassmanns, 1996: 2; Becker and Dabbagh 1992).

Informal sector is an umbrella concept describing a variety of activities producing goods and services through which individuals derive employment and income (Hussmanns, 1995, pp. 47 - 62). These activities range from shoe-shining and hawking to manufacturing and modern workshop.

The size and extent of informal sector tend to increase in most of the urban centres in developing countries (Papola, 1987; Samal, 1991: 31-38). In a new industrial establishment with its township for its employees, informal activities grow at a rapid pace in the initial stages. The employees of the industrial establishments and others demand consumer goods and services, which are met by informal sector. This is what is happening in Angul sector of NALCO in Orissa (Samal, 1997)

The urban informal sector, despite its title as a sector, is not limited to any one type of activity, each as petty trading, but covers a heterogeneous set of activities, including repair work, light manufacturing, transport services and house-building, undertaken by an equally heterogeneous set of actors (Sethuraman, 1981).

The growth and development of informal sector is an asset to an urban economy. A rise in the wage can improve the physical quality of life and an improvement in the situation of poverty. The National Commission on Urbanisation (1988) has felt that bold, intensive and co-ordinated efforts are needed to improve the income and consumption levels of bottom 30 percent of our population and to extend their access to basic environmental and social services by ensuring various packages as strategy in:

(1) **Income** and Employment,

(2) **Basic Services**.
(3) Shelter,
(4) Public Distribution,
(5) Social Security, and
(6) NGO Sectors.

Lubell and Zarour (1990) commend the contribution made by Dakar’s (Senegal) informal sector to employment, income and transmission of skills. The informal sector’s apprenticeship system provides two important services for Senegal: vocational training for a predominant proportion of urban youth; and a temporary and flexible cushion against open unemployment. Here is a considerable volume of financial savings among the micro-enterprises themselves.

Jan Breman (1976) examines the utility concept of the informal sector and concludes that the informal sector cannot be demarcated as a separate compartment and or labour situation. He interprets the relationship between formal and informal sectors in a dualistic economy and fragmented nature of the labour market and considers social classes associated with the urban labour force, in the study of south Gujarat towns.

Should we abandon the informal sector concept as a fuzzy category? It is argued that, for organising research and answering important questions about the lower strata of society, the term continues to serve a useful purpose (Khundker, 1988). In responding to Lisa Peatti’s (1987) article, An idea in good currency and how it grew: The informal sector: It is formal vis-a-vis the sectors below it and it is ‘informal’ vis-a-vis the sectors above it. In this hierarchy, the last place is occupied by the very small, tiny, mainly self-employed units in production and distribution.

This last group of units occupying the last place in the hierarchy may be conceived as the informal sector. Thus, we have the following hierarchical arrangement:
1. **Giant Multinational Corporations** | Formal sector
2. **National monopolies in the third world** | Formal sector
3. **Other large and medium units** | Both formal and informal
4. **Small scale units** | Both formal and informal
5. **Tiny, mainly self-employed units** | Informal sector.

These five sectors are, in practice, the five sub-sectors of the overall international economy, which our national economy, with its various divisions, as an integral part (Bose, 1980).

**Table 2.2: Criteria for Distinguishing Sectors within the Urban Sector**

<table>
<thead>
<tr>
<th>Sector(s)</th>
<th>Wage</th>
<th>Productivity</th>
<th>Employment</th>
<th>Capital</th>
<th>State technology organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modern</td>
<td>High</td>
<td>High minimum wage</td>
<td>Wage labourer</td>
<td>Capital intensive</td>
<td>Large indigenous technique</td>
</tr>
<tr>
<td>Intermediate</td>
<td>Low</td>
<td>Medium</td>
<td>Wage, also apprentice family, self-employmen</td>
<td>Some fixed capital but relatively capital intensive</td>
<td>Small (may have some employees)</td>
</tr>
<tr>
<td>Informal</td>
<td>Low</td>
<td>Low</td>
<td>Self-employmen Non-wage family</td>
<td>No fixed capital</td>
<td>Very small - No formal business organisation</td>
</tr>
<tr>
<td>Unemployed</td>
<td>No earned income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

**Source:** Stuart W. Sinclair (1978): Urbanisation and Labour Markets in Developing Countries, London: Croom Helm: 100.
The informality of the informal sector grows with the most popular assumption that the formal sector will provide an outlet for the under-employed in rural areas as new entrants into the urban labour force. But the new migrants, finding it difficult to get absorbed in the mainstream of formal sector, enter into the domain of informal sector establishments to earn their livelihood and accept earnings even below their alternative incomes in agriculture sector, probably as an investment in job search (Majumdar, 1976).

The unorganised informal sector is however characterised by the economic units having characteristics which define the concept in terms easy entry; reliance on indigenous resources; family ownership of enterprises; small scale operations; more labour intensive; low skills; and tradition based technology having untaxed and unregulated markets (ILO, 1972). Further developments put more emphasis on the lack of protection and access to government, and resources and its vulnerability to legal harassment (Louis, 1974).

Bienfield (…) has written of the need to split up the sector on the basis of occupations if progress is to be made in identifying those parts of the city economy where initial absorption and assimilation of new entrants to the labour market takes place. Sinclair (1978), in his survey of Dar-es-Salam, tentatively concluded that only street hawking performed the role of absorbing recent arrivals to the city, and that in general the sector did not act as employed of last resort for all who turned to it.

Elkan (1976) too has argued that aggregation of the multitude of urban activities into ‘an informal sector is not only a piece of needless obscurantism but also raises the question whether these activities do in fact constitute a sector’.
Hypotheses of the Informal Sector

Certain crucial hypotheses were formulated and written in 1982 as a discussion paper for the Reference Group of the Phase II of the Research Project on the Informal Sector in Botswana, sponsored and funded by the Ministry of Finance and Development Planning of the Government of Botswana and the USAID. Vinod Anand (1994), one of the Consultants for the project, summarised them in 24 different hypotheses for the Indian audience. Some of the hypotheses relevant to the present study are given below, in brief descriptions.

1. Micro-enterprises abound in heterogeneity of small-scale manufacturing, wholesaling and retailing with a bias towards retailing.

In a study on Wad Medani in the Sudan, Anand and Nur (1985) have shown that more than 64 per cent of the micro-enterprises were engaged in the distribution of goods and services. In another study, on Allahabad in North India, Anand (1991) has found this figure to be as high as 80 per cent.

2. Micro-enterprises sector is normally dominated by single person owned units.

Anand (1991) has shown that out of a total of 5,857 informal sector units in Allahabad, as many as 5,245 (or 90 per cent) were single person owned and 612 units (around 10 per cent) were jointly owned. No other type of ownership, including co-operative, was found. Romatet (1983) has shown similar results from a study of Calcutta’s informal sector: 91 per cent of the units are single person owned and 9 per cent of the units are jointly owned. Anand and Nur (1985) have shown that the single person units constituted 84 per cent of the total and the rest jointly owned.
3. *Micro-enterprise informal sector is invariably inhibited by a number of constraints related essentially with infrastructure, availability of basic inputs such as the capital, raw materials and finance.*

Anand (1991) and Anand and Nur (1985) show that there is an interesting evidence on finance that most of the capital for informal sector comes from personal earnings, or from relatives and friends, retained earnings and only a few obtained capital from commercial and formal banks, government or informal sector. While 96 per cent of the entrepreneurs used their own funds, others used finance from moneylenders, in Allahabad, India.

Summary

The concept of informal sector, definition and the characteristics are portrayed in this chapter. The role of informal sector in urban economic development has been vividly reviewed. In the review and appraisal, case studies from both developing and developed countries have been considered. The continents covered in the process are Africa, Latin America, and Asia including India. Various theoretical underpinnings are helpful to further the study on the objectives and the hypotheses formulated.

The following chapter provides the background for the study by speaking about the study area, which is the Chennai metropolis, in terms of the informal situation and environment.