The present situation is one where absence of large scale industries and nominal private participation is felt acutely. Thus, the economy of Nagaland primarily depends upon informal sector activities to provide gainful employment opportunities to people of the state. The relevance of the study arises because the potential for employment and income generation in the informal sector has yet to be explored and recognized for the tremendous employment scope it offers.

Industrialization is still in its infancy in the state. Several constraints such as lack of desired level of infra-structure, difficult terrain and political instability have been responsible for lack of visible growth in the industrial sector in Nagaland. Despite sincere efforts to build up a technical and institutional infra-structure for planned development of this backward state, the economy suffers from stagnation. Thus the problem of unemployment in this hilly state has not found a solution in industrialization.

The role of informal sector in the development process of a developing economy has been a subject of debate and discussion for a long time. Perceptions of the informal sector in the past concluded that the informal sector was unproductive, that it lacked potential and was of little significance in the development process. However, empirical evidence from studies carried out in developing countries is showing a different analysis: a strong viewpoint has emerged that development strategy focusing on the sector could prove more effective in the generation of rapid and equitable growth of income and employment. The present study attempts to examine this proposition in the context of Nagaland.