The informal sector also provides repair and other support services to the formal sector. Formal sector operations would be less sustainable and efficient without reliance on this exogenous, ancillary system. “In fact, were informal sector activities suddenly to cease at the behest of a bumbling city – saver, one can be sure that our urban economies would collapse into recession and anarchy”.¹

The informal sector has for long been the neglected sector. The underemployed groups on the streets of big towns, such as petty traders, street hawkers, shoe shine boys etc. also come under this sector. Within the informal sector can be found traders offering virtually the full range of basic skills for the larger low income section of the population; carpenters, masons, tailors, cooks and taxi drivers also come within this sector.

While the popular view has tended to conclude that the informal sector is unproductive, lacks potential and has no significant role in the development process, empirical evidence has revealed that the bulk of employment in the informal sector, far from being merely marginally productive, is economically efficient and profit making despite limitations imposed by its small scale nature, simple technology, little capital and lack of links with the formal sector. The capacity of the informal sector to generate employment and equitable pattern of distribution is slowly emerging because information on informal sector has been highly limited and primarily impressionistic, although information on the organised formal sector was easily accessible.

Development strategy in the recent past worked according to the presumption that process of industrialisation could provide substantial employment opportunities in the modern urban areas. Yet, despite the best of efforts the scope for generating major increase in industrial employment in large scale manufacturing remains limited.

The failure of the modern sector to absorb the surplus labour has however not led to rampant large scale unemployment in the metropolitan centres as would be predicted by competitive models. The so called surplus labour unable to gain entry into the formal (modern) sector is generally found to be absorbed by the rest of the urban economy, i.e. the informal sector.

The urban economies in most developing countries have been found to have an increasingly large part of their activities in the informal sector. The following
estimates will show the high percentage of income and employment being generated by the informal sector. Employment in the informal sector constitutes around 60-70% in Nairobi (Kenya, 1972)\(^1\) and Kumasi (Ghana, 1977)\(^2\), 50% in Jakarta (Indonesia, 1976)\(^3\), 45% in Calcutta (India, 1974)\(^4\), Mumbai (India, 1976)\(^5\), Ahmedabad (India, 1978)\(^6\) and 58.7% in Jaipur (India, 1992)\(^7\). The proportion of urban regional income attributions to the informal sector in the following cities is estimated at 33% in Asuncion (Paraguay, 1976)\(^8\), 25% in San Salvador (El-Salvador, 1976)\(^8\), 30% in Lima (Peru, 1976)\(^8\), and 28% in Ahmedabad (India, 1978)\(^9\). The availability of such statistics confirm the emerging view that the informal sector represents a source of growth promotion, employment and equity objectives vital to a developing economy. It is relevant to take note of the contributions of the informal sector in Jakarta, which totalled approximately US $ 400 Million in 1976, as compared to an estimated value of the GDP in the region in the remaining sectors of about US $ 940 Million, i.e., 30% of the total income generated in the Jakarta region\(^10\).

Other research studies on informal sector in India also reveal that the size of the informal sector in terms of employment ranges from a minimum of 45 percent to a maximum of 75 percent as shown in the following table:

\(^1\)ILO, Employment, Incomes and Equity; A strategy for increasing productive employment in Kenya, Geneva, 1972.
\(^3\)S.V. Sethuraman, Jakarta; urban development and employment, ILO Geneva, 1976.
\(^5\)Heather and Vijay Joshi: Surplus labour and city; A study in Bombay, Bombay 1976.
\(^7\)Surjit Singh: Urban informal sector; Rawat Publications, Jaipur and New Delhi, 1994.
\(^9\)T.S. Papola: The informal sector in an Urban economy; A study in Ahmedabad (Lucknow, 1978) p.74.
# TABLE: I.1


<table>
<thead>
<tr>
<th>Sl No</th>
<th>Author research</th>
<th>Study area (Ref. year)</th>
<th>Total population</th>
<th>Estimated size as a percentage of total employment</th>
<th>Method of Estimation</th>
<th>Data Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Joshi &amp; Joshi</td>
<td>Greater Bombay 1971</td>
<td>59,71,000</td>
<td>49.5</td>
<td>Exclusion: Organised sector defined as establishments with more than 25 employment</td>
<td>Directorate of Employment Bombay, Quarterly return, 1961, 1966 &amp; 1071 (with correction for 1961).</td>
</tr>
<tr>
<td>2</td>
<td>Despande (1979)</td>
<td>Greater Bombay 1961, 1971</td>
<td>41,52,000</td>
<td>(I) 51.3 (II) 41.0</td>
<td>-do-</td>
<td>I. Same without correction II. Same as above with corrections for 1961 &amp; 1971</td>
</tr>
<tr>
<td>5</td>
<td>ORG (1978)</td>
<td>Madras metropolitan area 1971</td>
<td>25,00,000</td>
<td>50 to 70</td>
<td>Exclusion: 10 workers + unattached workers</td>
<td>Census of India, 1971 Establishment Tables.</td>
</tr>
<tr>
<td>7</td>
<td>Swamy (1982)</td>
<td>Bangalore urban Agg. 1981</td>
<td>29,83,000</td>
<td>65.0</td>
<td>-do-</td>
<td>-do-</td>
</tr>
<tr>
<td>8</td>
<td>School of Planning 1983</td>
<td>Surat urban Agg. 1971, 1981</td>
<td>5,24,323</td>
<td>(I) 75.8 (II) 79.3</td>
<td>-do-</td>
<td>-do-</td>
</tr>
</tbody>
</table>

Source: Meera Mehta: Urban informal sector -- an Indian sketch.
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</tr>
<tr>
<td></td>
<td></td>
<td>59,71,000 II</td>
<td>50.4</td>
<td>39.5</td>
<td>-do-(II. Same as above with corrections for 1961 &amp; 1971)</td>
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</table>

It would therefore, be highly unrealistic to plan for development strategies without a reasonably sound base of information on the sizeable segment called “informal sector” in order to counter the main problems of developing countries—employment creation and income distribution.

Although empirical studies have revealed such an impressive picture regarding the vast potential of the informal sector in generating employment and equitable distribution of income, it is regrettable to note that in India, development strategies and policy measures are not directed towards the development of the informal sector.

“Whenever the government sets about supporting economic activity in the urban and rural areas their attention gets automatically riveted on large and so-called small—scale industry. The very extensive bulk/army of the educated and uneducated self employed, the numberless operators in the tertiary sector, and those in the secondary sector at a level too small to qualify even as “tiny” or “small—scale” as these terms are officially defined— all these escape attention and support despite the vast employment potential they represent. Apart from being overlooked by government’s promotional policies, the operators in this sector have to resist and survive persistent pressure and harassment from government and municipal inspectors, because they operate largely outside the law”.

As per the industrial policy of India with regards to policy measures for promoting and strengthening small/tiny and village enterprises, the economic activities in the informal sector have altogether been left out. “Only those

1 JBD Souza: The real city - savers; Economic and Political weekly May 20, 1989.
enterprises that are industry related qualify for registration and financial assistance. (Illustrative list of activities which are not recognised as small scale industry/Business (industry related) enterprises)”

Thus there is an urgent need to examine and redirect development strategies towards the development of this sector in the light of its immense potentialities in generating employment and equitable distribution of income.

NEED AND IMPORTANCE OF STUDY:

The importance of this study in the context of Nagaland is pertinent because the economy is more or less dependent on the presence of this sector for its survival. Despite, sincere efforts to build up a technical and institutional infrastructure for planned development of this backward state, the economy suffers from stagnation and is caught in the vicious circle of dependence and backwardness.

Nagaland economy is basically dominated by the primary sector, that too of the rudimentary nature of cultivation. Thus, the most important activity is agriculture, which occupies 73.38% of the working force. Besides agriculture, other economic activities in which people engage themselves are trade and commerce, transport and communication, household units, quarry, construction, servicing and repairing services.

Industrial growth in the state is negligible because of various constraints like, lack of desired level of infrastructure, shortage of capital, absence of indigenous entrepreneur, non – availability of trained man-power, institutional finance,

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1 Report on the second All – India census of small-scale Industrial units. Nagaland, Volume I, 1992 Anx.II.
difficult terrain and political instability. The few industries that were established have closed down having been declared sick industries. Those that continue do so at a loss. The problem of unemployment in this mountainous state has not found a solution in industrialisation. As per 1991 census Nagaland recorded the highest decennial growth rate in population compared to other states of the country that was 56.08%. The total number of unemployed youths recorded in the life register of the employment exchanges in Nagaland was 35,463 in 1999.

It is regrettable to note that although the state has large-scale unemployment problem, the local population are unaware of the immense potential that this sector offers in terms of employment and income. Most of the educated youths look for white-collar job in government offices. Perhaps this type of unemployment problem is prevailing at a large scale in the state.

The informal sector in Nagaland is dominated by people from outside the state, mostly immigrants, who have inherited skills, strong financial support and business links outside the state. In such a situation, the little revenue that is generated in the economy and the large sum of money that is being pumped by the centre to meet the financial needs of the state plan is diverted outside the state ultimately. It has been estimated that an amount above Rs. one crore daily goes out of the state in the purchase of food items only, excluding other expenses for daily maintenance, that is coming to Dimapur, the commercial hub of Nagaland. One can imagine the magnitude in terms of money that is being drained daily out of the state when all districts in Nagaland are taken into account.
According to an ILO study (1972) as published in Meir (1984), "informal activities are the way of doing things characterised by ease of entry, reliance on indigenous resources, family owner-ship of enterprises, small scale operation, labour intensive and adapted technology, skills acquired outside the formal school system and unregulated and competitive markets as against the characteristic of formal sector activities which are their obverse and listed as difficult entry, frequent reliance on overseas resources, corporate ownership, large scale operation, capital intensive and often imported technology, formally

CONCEPT AND DEFINITION OF INFORMAL SECTOR:
The concept of informal sector has acquired a special attention ever since it was used as a tool for analysis and policy formulation on unemployment and income by the Kenya Mission. The term informal, unorganised, unregulated, unincorporated, micro-enterprises, traditional and household enterprises are used interchangeably in contrast to formal, organised, regulated, modern and corporate sectors respectively. A strict and precise definition of the term informal sector is yet to be given because the activities encompassed by the sector vary. The term appears to be an all-inclusive one, referring to a broad variety of activities, which are not formal.

From the above picture it is evident that the informal sector has an important role to play in the economic development 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 recognised for the tremendous employment scope it offers. As the economic situation is similar in all the North Eastern states, the findings of the study will also be applicable to the economy of the whole North Eastern belt.
acquired skills often expatriate and protected markets through tariffs, quota and trade licences”.

Perhaps the most distinguishing and manifesting attribute between the formal and informal sector is the structure of their organisations. The enterprise belonging to the formal sector have a labour force which is stratified into managers and workers and is hierarchically ordered according to the levels of authority enjoyed for decision-making. The relationship of all such employees with the organisation is established and maintained through pre-contracted job descriptions and commensurate wages. The owner of the firms are hardly the member of the labour force. When they do work within the organisation they describe themselves as members of the top-level decision-makers.

In the informal sector, self-employment is the pervasive norm, where the owners are the managers as well as the workers. When additional hands are hired, they get the jobs of workers and occasionally as supervisors. Their job descriptions and wages are decided through negotiations. The duration of employment is hardly admitted in such negotiations. The wages rate is structured and stable in the formal sector, whereas in the informal sector, it is not.

Another distinguishing attribute which can be identified from the manifest expression of these two sectors is the composition of capital. In the formal sector, the value of fixed assets in the form of tools, machineries, sheds, buildings or land per worker engaged is strikingly higher than that obtaining

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within the informal sector. In other words, the formal sector uses relatively
capital-intensive technology. The machines and tools together with their
manuals of operation are generally imported, and if indigenous their
manufacture depends on imported technology. In contrast the informal sector
uses an essentially labour-intensive technology. The tools are basically
traditional or are locally fabricated by adopting the imported varieties. The
investment in capital is mainly in the form of stock of inventory, as the informal
sector units are not in a position to invest in assets like land, building and
machineries. Further, the size of circulating capital per worker is higher in the
formal sector enterprises. This is largely due to size of the inventory and the
wage bill. The average number of persons employed per enterprise in the formal
sector is generally higher than that in the informal sector. However, the number
of units in the informal sector being very high, these account for the large
segments of the employed workers in the economy.

The relationship with the customer in the informal sector is direct and
personalised, while it is impersonal (formal by contracts) in the formal sector. A
huge amount of money is spent on advertising and promotional activities in the
formal sector, whereas in contrast to this, the informal sector does not indulge in
advertisement and depends on communication through word of mouth.

Access to credit facilities from banks and other financial institution is another
distinguishing attribute of the formal sector. In contrast to this, the informal
sector enterprises have very little access to credits from the financial institution
as they cannot provide the collateral security, which is a pre-condition for
securing loans.
Though it is difficult to strictly define the informal sector it indicates a broad spectrum of heterogeneous activities ranging from employment in small-scale enterprises to self-employment. Over the years, authors and researchers have defined the informal sector in terms of several parameters. The most simple one is to consider it to be that component of the economy which is not included in the formal or organised sector, in the sense that it is not regulated by, or subject to, all specific rules and regulations that normally apply to units engaged in economic activities in the organised or formal sector.

The most common parameter used to define the informal sector is number of workers engaged in the enterprise, generally less than a specified figure, which ranges between 5 and 25. Majumdar, Papola and Aziz have defined an informal sector unit in Delhi, Ahmedabad and Bangalore respectively as having less than 10 workers, whereas Joshi and Joshi have defined informal sector units in Bombay as having less than 25 workers.

Another parameter, often used to define the informal sector is closely related to the number of employees which is the non-applicability of labour laws and the existence of highly unorganised and unhygienic working conditions.

Some other parameters that have been used to define an informal sector unit are type of activity, investment, turnover, type of market and level of technology.

"It was often believed that the informal sector unit is an unregistered unit in the sense that it is not registered with any official agency of the Government. Empirical evidence is now emerging to show that this definition is deficient because a large number of unit are registered with some public agency like the
Informal sector in the national capital region, 1986.

As the major objectives of this study is to estimate the employment and income generation capacity and potential of the informal sector as compared to the organised segment, it may not be appropriate to define it in terms of one strict criterion. The definition should be location specific, situation-specific and purpose specific. It has to be defined in the context of the stage of economic development attained and the political and social environment existing in a particular state or country.

The employment parameter for defining, the informal sector became popular as the ILO sponsored studies which initiated attention and research on the informal sector, sought to estimate the employment generation capacity and potential of the unorganised, as compared to organised industrial units.

As available studies have shown the informal sector to be highly variegated and extensive, it may not be appropriate to define it in terms of one strict criterion. The definition should be location specific, situation-specific and purpose specific. It has to be defined in the context of the stage of economic development attained and the political and social environment existing in a particular state or country.

The above statement is found to be true as many of the units registered with these agencies have similar characteristics attributed to the informal sector.

As the major objectives of this study is to estimate the employment and income generation capacity and potential of the informal sector as compared to the

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1 Vinay D. Lall: Informal sector in the national capital region, 1986.
formal sector, the size of employment has been used as the distinguishing operational criterion. All enterprises with less than ten persons (employed) and engaged in manufacturing, construction, transport, trade and service segments have been defined as the constituents of the informal sector.

OBJECTIVE OF THE STUDY:
In the light of the above, the major objectives of the study are:-
1. To estimate the contribution of informal sector in the income and employment generation in the economy of Nagaland.
2. An examination of the income and employment generating capacity of the informal sector, vis-à-vis the formal sector as well as the various segment of the informal sector in relation to each other.
3. A description of the socio-economic characteristics of the workers in the informal sector.
4. An analysis of the occupations and earnings in pre-migration and post migration period of the individuals engaged in informal sector.
5. To examine the problems faced by informal sector enterprises.
6. The study will put forward suggestions for the development of the economy of the state.

METHODOLOGY:
Since the study is primary data based, a questionnaire seeking the relevant information was designed and administered to enterprises engaged in manufacturing, construction, transport, trade and service segments having less than ten persons employed through personal interviews. The questionnaire has
presented in *appendix table no. V*. The information sought through the questionnaire was primarily focused on the following areas:

I. Personal data of the entrepreneurs like age, sex, marital status, year of establishment, location, educational qualification, native place with particulars, income, type of accommodations, economic status of the family and training or experience acquired in managing the present activity.

II. Activity analysis such as kind of activity, form of ownership, commodities dealt in, nature of activity, registration, activity premises, access to utilities, size of the unit and prospect of the activity in future.

III. Employment relating to number of employees, family members, non-family members (hired), educational qualification of the employees, native place with particulars, age, sex, nature of employment and working hours in a day.

IV. Market such as place of purchase, sale of products and problems relating to marketing.

V. Financial matters like initial and present investment, average stock of inventory, financial assistance sought, required amount to develop the activity, value of assets owned presently and maintenance of Accounts.

VI. Sales and Profitability such as average amount of sales per month and annually as well average profit per month and annually. The disposition of profit generated monthly is also covered.

VII. Problems faced by the enterprises initially and presently, such as finance, demand, location and bad debts.
Besides the primary data collected through the above questionnaire, secondary data pertaining to the formal sector were also collected from the Directorate of Industries and Commerce, Khadi and Village Industries Board, Directorate of Employment and Craftsmen training, various Town Committees and other relevant Government departments. Information was also collected by interviewing prominent Government officials and successful entrepreneurs of the state. For the purpose of statistical analysis the regression analysis technique was used to study the linear effect of investment on profit and sales on profit. The data thus obtained was analysed and conclusions derived based on the responses received.

SIZE OF THE INFORMAL SECTOR IN NAGALAND — AN ESTIMATE.
Determining the size of the informal sector is not easy because of conceptual difficulties associated with definition of the informal sector and classification of economic activities as formal and informal. The main difficulty arises because of the nature and composition of this sector and the heterogeneity found in it.

Despite the conceptual problems of classification faced, it is essential for an empirical study like the present one to adopt an operational criterion to identify the informal sector. While one can intuitively judge the relative importance of formal / informal component in each activity, it is necessary for the purpose of a study to set a dividing line between the sectors and on that basis estimate the size of the informal sector as a whole in the entire economy. One criterion, which is common to informal sector and its other approximate synonyms, is the size of production units which is also operationally a convenient criterion. Therefore, a general proposition has been postulated that all production units employing less than 10 workers, including establishments and own account
enterprises may be considered to constitute the informal sector. This postulation has been made based on the criterion adopted earlier in identifying the informal sector units in the present study i.e. all production units employing less than 10 workers.

The information available from secondary sources, particularly the economic census of Nagaland enables us to approach the problem on the basis of employment rather than production units. Adopting the criterion as above i.e. enterprises employing less than 10 workers, it is estimated that there are about 26,613 enterprises providing employment to about 65099 workers. This figure has been determined from the information provided in the fourth economic census 1998, conducted by Directorate of Economic and Statistics, Government of Nagaland. The calculation has been made on the following basis.

**TABLE 1.2**

Size of the Informal Sector in Nagaland.

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>ENTERPRISES</th>
<th>NO. OF UNITS/ ENTERPRISES</th>
<th>EMPLOYMENT (NO)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>OWN ACCOUNT ENTERPRISES$^{(i)}$ - (Employing less than 10 persons)</td>
<td>13,693</td>
<td>20,009</td>
</tr>
<tr>
<td>2.</td>
<td>ESTABLISHMENT ENTERPRISES$^{(ii)}$ - (Employing less than 10 persons)</td>
<td>12,920</td>
<td>45090.</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>26,613</strong></td>
<td><strong>65,099</strong></td>
</tr>
</tbody>
</table>


*Note*: (i). Own account enterprise :- Enterprises operated with the help of household labour only.

(ii). Establishments:- Enterprises operated with the assistance of at least one hired worker on a fairly regular basis.
THE SAMPLE SURVEY.

Urban areas: The sample survey of informal activities in urban activities in urban areas covered 2000 units employing less than ten persons and engaged in trade, service manufacturing, construction and transport activities. The units have been randomly chosen considering the concentration of activities in the urban areas. Thus, the sample survey of 2000 units comprises of 1050 units in trade, 140 units in service, 70 units in manufacturing, 310 units in construction and 430 units in transport.

Rural areas: Primary data relating to informal sector activities in the rural areas were collected by taking a village as a sample unit. The directorate of census operation, Government of Nagaland, has classified villages in the rural areas according to size of population as very small villages (1 to 499 persons), small villages (500 to 1999 persons), medium villages (2000 – 4999 persons) and big villages (5000 plus persons). Based on this classification 32 villages each from Kohima and Dimapur district having different population size as classified above has been surveyed. From the remaining 6 districts of Nagaland (Mon, Tuensang, Zunheboto, Wokha, Mokokchung and Phek), 10 villages each, having different population size, classified as above has been surveyed. From the above sample villages i.e. 185 villages, primary data from 375 informal sector units relating to trade, manufacturing, service and construction activities have been collected by administering the questionnaire to the persons engaged in informal sector activities. It has been observed from the field survey that in majority of the villages hardly 3 – 4 informal sector units are in operation. In some villages, particularly in the remote areas shops are even non-existent.
HYPOTHESES:
The present study undertakes to test the following hypothesis:
1. Informal sector contributes significantly to the economy of Nagaland.
2. Extensive development of the informal sector would create substantial employment opportunities to the local unemployed.
3. The informal sector is pre-dominantly owned by people from outside the state.

LIMITATION OF THE STUDY:
The present study on informal sector, being the first of its kind in the state, information about the informal sector is very limited, so far as official records and research data's are concerned. Further the respondents are mostly illiterate. Therefore the investigator had to personally interview and fill up the questionnaire himself. Besides, the geographical area covered by the study was so large that the targeted percentage (coverage) could not be achieved, because of time and financial constraint. However, the random sampling method has been applied which was satisfactory.

Regarding the secondary data collected from different sources, the analysis has been made depending on their reliability.

In certain cases the proprietors and workers may have overstated or understated their problems and grievances. Likewise, because of the political situation prevailing in the state many of the respondents may not have disclosed their true income. Further it has been observed that the informal sector units do not maintain proper accounts to record their daily transactions. Therefore, the answers received in the questionnaire are based on the perception of the
particular respondent’s responses. Hence, there are certain amounts of subjectivity in the responses, especially in the case where matters of opinion are involved. However, on the basis of facts extracted from reliable sources, the necessary adjustments have been made to ascertain the real situation prevailing in the state. Agriculture, though having many characteristics of an informal sector has not been covered in this study as agriculture is the primary sector of the economy in the state. It is a recognised sector and the government has a separate department to look after this important segment of the economy. This study tries to incorporate the commercial part of the agricultural produces in Nagaland.

PLAN OF STUDY:
The present study is divided into seven chapters. Chapter one gives an introduction to the study, which includes the background, need and importance, concept and definition of informal sector, objectives, hypotheses, methodology and plan of work.

Chapter two is the review of literature on informal sector. Studies on informal sector carried out in third world and developing countries like Africa, Latin America, Asia and India in particular have been reviewed. The common attributes of the informal sector emerging from these studies have been presented.

Chapter three examines the socio-economic profile of Nagaland. The various aspects of the economy has been highlighted to have an overall view of the economy of Nagaland.
Chapter four studies the informal sector activities in urban areas of Nagaland. The broad feature of the sample units like the enterprises, the pattern of ownership, the entrepreneur, Employment generation, Investment and Structure of financing, sales turnover and profitability have been presented.

Chapter five examines the informal sector activities prevalent in the rural areas of Nagaland. The broad features as above (Chapter IV) have been examined and presented.

Chapter six makes a critical review of the informal sector for economic development of Nagaland with statistical analysis. The relationship and growth between investment and profit, sale and profit have been analysed by fitting the data on these variables to a linear regression equation.

Chapter seven presents the summary and conclusions arrived at from the present study. Based on the findings of the study, certain suggestions were put forward for the economic development of Nagaland.

In the next chapter an attempt has been made to review the past workings on informal sector within and outside the country. It would be our endeavour to cover up the gaps lying untouched in earlier studies on the topic.