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2.1. INTRODUCTION

In the early 1970’s economic anthropologist Keith hart observed from his research on Ghana that the “informal sector” had not just persisted but expanded. The terminology of “Informal sector” gained widespread acceptance after the ILO used it to analyses economic activities in Kenya for one of ILO employment mission in 1972 conducted by a number of specialists. The ILO team systematically analyzed these activities, nothing that they were unrecognized, unrecorded, unprotected and unregulated they observed that the informal sector included a range of activities from marginal survivalist work to profitable enterprises. Discussion of informality can be traced back to economic theories, prominent in the 1950’s of the “traditional sector”. Many economist such as Arthur Lewis and others believed that this sector-comprised of the vast pool of surplus labour in developing countries, and including petty traders small holders and casual wage workers - would gradually become absorbed into the modern industrial sector as economies
grew. It was also believed that this sector was marginal and not linked to the
formal economy or to modern capitalist development.

2.2. HISTORICAL REVIEW OF INFORMAL ECONOMY

It was widely assumed during the 1950s and 1960s that, with the right mix of
economic policies and resources, low-income traditional economies could be
transformed into dynamic modern economies. In the process, the traditional
sector comprised of petty trade, small-scale production, and a range of
casual jobs would be absorbed into the modern capitalist—or formal—
economy and, thereby, disappear. This perspective was reflected in the
prediction by W. Arthur Lewis, in the 1954 essay for which he received a
Nobel Prize in Economics, that economic development in developing
countries would, in the long-term, generate enough modern jobs to absorb
surplus labour from the traditional economy. This would lead to a turning
point when wages would begin to rise above the subsistence level: what is
referred to even today as the “Lewis Turning Point”.

This perspective was reinforced by the successful rebuilding of Europe and
Japan after World War II and the expansion of mass production in Europe
and North America during the 1950s and 1960s. By the mid-1960s, however,
the optimism about the prospects for economic growth in developing
countries began to give way to concerns about persistent widespread
unemployment. This led development economists to argue in 1970 that they
saw no sign of the “Lewis Turning Point” in developing countries. In sharp
contrast with the historical experience in developed countries, unemployment
and under-employment of various kinds were on the rise in developing
countries, even those that were growing economically. However, this trend to
an imbalance resulting from technological advances: an imbalance between
limited creation of jobs due to the extensive use of capital-intensive
technology and significant growth in the population—and labour force—due
to technological progress in health and disease control.

Reflecting this concern, the International Labour Office Organization sent an
employment mission to Kenya. The Kenya Mission found that the traditional
sector in Kenya, which they called the “informal sector,” included profitable
and efficient enterprises as well as marginal activities. The term "informal sector" had been coined the year before by a British anthropologist, Keith Hart, in his 1971 study of low-income activities among unskilled migrants from Northern Ghana to the capital city, Accra, who could not find wage employment.

Both Keith Hart and the Kenya Mission were largely positive about the informal sector. Hart concluded that, informal activities that had "autonomous capacity for generating incomes". The Kenya Mission stressed the potential of the informal sector to create employment and reduce poverty.

But the informal sector as an economic reality received a mixed review in development circles. Many observers considered the informal sector to be marginal or peripheral and not linked to the formal sector or to modern capitalist development. Some of these observers believed that the informal sector in Ghana, Kenya, and other developing countries would disappear once these countries achieved sufficient levels of economic growth or modern industrial development. Others argued that industrial development might take a different pattern in developing countries—including the expansion of informal economic activities—than it had in developed countries.

By the 1980s, the terms of the informal sector debate expanded to include changes that were occurring in advanced capitalist economies. Increasingly, in both North America and Europe, production was being reorganized into small-scale, decentralized, and more flexible economic units. Mass production was giving way to "flexible specialization" or, in some contexts, reverting to sweatshop production. These changes were associated with the informalization of employment relations. Standard jobs were being turned into non-standard or atypical jobs with hourly wages but few benefits, or into piece-rate jobs with no benefits; production of goods and services was being subcontracted to small-scale informal units and industrial outworkers. In the process, the informal economy had become a permanent, but subordinate and dependent, feature of capitalist development.
Meanwhile, the economic crisis in Latin America in the 1980s highlighted another feature of the informal sector: namely, that employment in the informal sector instead of—or alongside—open unemployment, increases in many countries during periods of economic crisis. During the Asian economic crisis of the 1990s, millions of people who lost formal jobs in the former East Asian Tiger countries tried to find jobs or create work in the informal economy. Meanwhile, structural adjustment in Africa and economic transition in the former Soviet Union and in Central and Eastern Europe were also associated with an expansion of employment in the informal economy.

As mentioned in chapter 1, employment in the informal economy often expand during periods of economic crisis. When enterprises are downsized or shut down, the workers who are laid off and cannot find alternative formal jobs often end up working in the informal economy. This is particularly true of those who cannot afford to be unemployed, more so in countries without unemployment insurance or compensation. If hard economic times are accompanied by rising inflation or cutbacks in public services, households often need to supplement formal sector incomes with informal earnings.

During the 1990s, globalization of the economy contributed to the informalization of the workforce in many industries and countries. Whereas globalization can generate new jobs and open new markets, many of the jobs are not “good” jobs and many of the new markets are inaccessible to small-scale or disadvantaged producers. This is because, in response to global competition, formal firms tend to hire all but a few core workers under informal arrangements or to outsource the production of goods and services to other firms and countries. Further, informal firms and small producers often lack the market knowledge and skills to compete with formal firms for export markets and often face competition from imported goods in domestic markets.

At present, there is renewed interest in the informal economy worldwide. In part, this is because the informal economy has grown worldwide and also emerged in new guises and in unexpected places. In part, this stems from the fact that informal employment expanded significantly during the recent great recession. Today, informal employment is more than half of non-agricultural employment in most developing regions.
2.3. THEORETICAL FRAMEWORK

Over the years, the debate on the large and heterogeneous informal economy has crystallized into four dominant schools of thought regarding its nature and composition, each school of thought subscribes. The dominant schools of thought have different perspectives on this topic. It has to be mentioned here that each view of the informal economy, in fact, is a part of evolution about informal economy over the years. Dualistic view stated by economists of early 70s and in this period informal sector was just discovered and it was predicted it will be absorb after sometimes by formal economy, structural view is belong to 80s and it has more attention to characteristics of informal sector, legalistic view which stated by economists of 80s and 90s is more comprehensive view and it is after prediction of economists of 60s was not true and contrary to those prediction informal sector didn't absorb but even grow and in this time informal sector began to become informal economy, finally last and recently view is voluntary view which has its attention on informal workers and informal employment. Though each theory is belong to different period of time and even is part of evolution of informal economy however, all four of them together can give an understanding on topic and together can describe it because each of them states a different perspective of informal economy, hence, there are four main view of the informal economy as follow:

The dualistic school of thought, which was dominant in the 1960's and 1970's, has its intellectual roots in the work of Lewis (1954) and Harris and Todaro (1970). Dualists view the informal Sector as the inferior segment of a dual-labour market with no direct link with the formal economy. It is a residual sector that arises from the transformation process in a developing economy and exists because the formal economy is not able to offer employment opportunities to a portion of the labour force with economic growth, according to this view; the informal economy is ultimately expected to be fully absorbed.
by the formal sector. The Dualist school sees the informal sector of the economy as comprising marginal activities—distinct from and not related to the formal sector—that provide income for the poor and a safety net in times of crisis. The Dualists argue that informal operators are excluded from modern economic opportunities due to imbalances between the growth rates of the population and of modern industrial employment, and a mismatch between people's skills and the structure of modern economic opportunities. The Dualists subscribe to the notion that informal units and activities have few (if any) linkages to the formal economy but, rather, operate as a distinct separate sector of the economy and that the informal workforce—assumed to be largely self-employed—comprise the less advantaged sector of a dualistic or segmented labour market. They pay relatively little attention to the links between informal enterprises and government regulations. But they recommend that governments should create more jobs and provide credit and business development services to informal operators, as well as basic infrastructure and social services to their families.

The structuralist school of thought emphasizes productive decentralization and the connections and interdependence between the formal and informal sectors. Structuralists see the informal sector as comprised of small firms and unregistered workers subordinated to large capitalist (formal) firms. The former supply cheap labour and inputs to the latter, thereby improving their competitiveness. In structuralist view, growth is unlikely to eliminate informal production relationships, which are intrinsically associated with capitalist development. This view introduced by moser and portes. The Structuralist school sees the informal economy as subordinated economic units (micro-enterprises) and workers that serve to reduce input and labour costs and, thereby, increase the competitiveness of large capitalist firms. The Structuralists argue that the nature of capitalism/capitalist growth drives informality: specifically, the attempts by formal firms to reduce labour costs and increase competitiveness and the reaction of formal firms to the power of organized labour, state regulation of the economy (notably, taxes and social
legislation); to global competition; and to the process of industrialization (notably, off-shore industries, subcontracting chains, and flexible specialization). The *Structuralists* see the informal and formal economies as intrinsically linked. They see both informal enterprises and informal wage workers as subordinated to the interests of capitalist development, providing cheap goods and services. They argue that governments should address the unequal relationship between “big business” and subordinated producers and workers by regulating both commercial and employment relationships.

The *legalist* school epitomized by Hernando do soto in the 1980’s and 1990’s, views the informal as comprised of micro-entrepreneurs who prefer to operate informally to avoid the costs associated with registration. Compare to two former views legalistic view is more voluntary. The *Legalist* school sees the informal sector as comprised of “plucky” micro-entrepreneurs who choose to operate informally in order to avoid the costs, time and effort of formal registration and who need property rights to convert their assets into legally recognized assets. The *Legalists* argue that a hostile legal system leads the self-employed to operate informally with their own informal extra-legal norms. The *Legalists* focus on informal enterprises and the formal regulatory environment to the relative neglect of informal wage workers and the formal economy. But they acknowledge that formal firms—what de Soto calls “mercantilist” interests—collude with government to set the bureaucratic “rules of the game”. They argue that governments should introduce simplified bureaucratic procedures to encourage informal enterprises to register and extend legal property rights for the assets by informal operators in order to unleash their productive potential and convert their assets into real capital.

The *Voluntarist* school also focuses on informal entrepreneurs who deliberately seek to avoid regulations and taxation but, unlike the legalist school, does not blame the cumbersome registration procedures. The *Voluntarists* argue that informal operators choose to operate informally—after weighing the costs-benefits of informality relative to formality.
The *Voluntarists* pay relatively little attention to the economic linkages between informal enterprises and formal firms but subscribe to the notion that informal enterprises create unfair competition for formal enterprises because they avoid formal regulations, taxes, and other costs of production. They argue that informal enterprises should be brought under the formal regulatory environment in order to increase the tax base and reduce the unfair competition to formal businesses.

Given the heterogeneity of the informal economy, there is merit to each of these perspectives as each school reflects one or another “slice of the (informal) pie.” But the informal economy as a whole is more heterogeneous and complex than the sum of these perspectives would suggest. Some of the self-employed choose—or volunteer—to work informally in order to avoid registration and taxation, while others do so out of necessity or tradition. Also, many of the self-employed would welcome efforts to reduce barriers to registration and related transaction costs, especially if they were to receive the benefits of formalizing. Further, much of the recent rise in informal wage employment is due to the informalization of once-formal employment relationships. In many such cases, it is the employers, not their employees, who are avoiding regulation and taxation. Employers often choose to retain a small, core, regular workforce and hire other workers on an informal basis in order to avoid payroll taxes and employer’s contributions to social security or pensions. In some such cases, payroll taxes and social security contributions are avoided by mutual consent of the employer and employee, as when employees prefer to receive greater take-home pay instead of employer contributions to social security. This may be the case when social security systems are managed poorly—or their terms and conditions are not transparent or well understood—with the result that employees do not expect any benefits in return for contributions.

In sum, some informal entrepreneurs choose, or volunteer, to work informally. Yet informal employment tends to expand during economic crises or downturns, suggesting that necessity—in addition to choice—drives informality. Also, informalization of employment relations is a feature of
contemporary economic growth and the global economy. Further, in many
developing countries, the vast majority of the workforce has never had a
formal job and continues to engage in traditional or survival activities.

2.4. REVIEW OF LITERATURES

Arthur Lewis first presented the Dualistic labour market theory as a general
model of development in less developed countries. His model divides the
economy into two sectors: a modern industrial sector and a traditional,
agricultural sector. The modern sector is characterized by capital modes of
production, capital accumulation and economic growth. Lewis assumed that
an unlimited supply of unskilled labour was available in the traditional sector.
For Lewis economic growth occurred as unskilled labour was reallocated
from the traditional sector to the modern sector. As the modern sector was
able to match unskilled labour with capital, productivity and output would
increase and consumer prices would fall. As a result, consumer demand
would increase. Lewis assumed that capitalist would reinvest profit in capital
so that output and revenues would continue to increase. In turn, reinvestment
in capital would increase demand for unskilled workers from the traditional
sector. This process would continue until all surplus labour in the traditional
sector was reallocated to the modern sector.

Harris and Todaro in their model explain rural-to-urban migration and their
model explain the individual worker's decision to migrate from the rural farm
to the industrial city even in the presence of urban unemployment. Harris
and Todaro assume that a wage gap exists between rural and urban areas
because of a high minimum urban wage and the inability of labour to move
costlessly back to the rural area once they have migrated to the city. As a
result, the search for urban employment is not costless and a certain level of
unemployment exists within urban areas. Consequently a rural worker only
chooses to migrate to the city if the present value of his expected urban
wages exceeded the present value of his expected rural wages where
expected urban wages are based on the probability of finding employment in
the formal manufacturing sector. As a result, migration will ensue to
reallocate labour until expected urban wages. Thus even in the presence of
urban unemployment. Migration would occur as long as expected urban
wages exceeded expected rural wages.

Keith Hart intensified informal sector in 1971 as a result of study on Ghana's
dualistic labour market. Hart's distinction between formal and informal job
opportunities was based on the differentiation between wages earning and
self-employment. In his view the key variable was the degree of
rationalization of work, i.e. whether or not labour is recruited on a permanent
and regular basis for fixed rewards. Based on his study Hart described formal
and informal employment opportunities in Ghana and attributed the former to
salaried job and the later to self-employment.

In his book the other path, De Soto defines the informal sector as "the refuge
of individuals who find that the costs of abiding by existing laws in the pursuit
of legitimate economic objectives exceed the benefits"). This definition
highlights a causal factor that is believed to underlay the growth of the
informal sector namely government rules and regulations. From his study of
the informal sector in, Peru, De Soto concludes that state intervention and
regulation hinder the development of enterprises and so calls for a new kind
of legal system, one that promotes "Economic efficiency". De Soto
recognizes enterprises in the informal sector as being creative and operating
under healthy competition. Efficient laws are necessary, he write, "in order to
free and increase the vendors entrepreneurial energies and to allow them
within the competitive process in which they are immersed to use their talents
to the full" He states to allow informal activities to develop their full potential
need to greater private property rights and less state intervention although
there are genuine problems created by excessive bureaucratization and
badly designed laws impede development it does not follow that remediying
the legal system is sufficient to promote economic development. His
approach also ignores the positive role of public intervention in the
development of small scale production. The De Soto's approach can be
interpreted as a populist version of the neo-classical approach. He argued
that small-scale enterprises in developing countries have the "right" factor proportions as they use more cheap labour and less expensive capital. De Soto in his book "The other path" attributes the development of the informal sector not to surplus labour but to costly government regulations such as health care mandates, high minimum wages, lengthy incorporation procedures, collective bargaining agreements for example. De Soto claimed that in Peru, a lack of well-defined private property rights induced small-scale entrepreneurs toward informal activity. De Soto created the legalist school which sees the informal economy as a subordinated economic unit and workers that serve to reduce input and labour costs and thereby increase the competitiveness of large capitalist firms.

Fields did lots of study on informal sector, he believed that the dualistic approach was overly simplistic and he modified the Harris and Todaro model and demonstrated the existence of an urban informal sector can result in lower unemployment rate than predicted by Harris and Todaro. Unlucky rural migrants who do not find work in the formal manufacturing sector ended up accepting employment in the informal sector. In his model, the informal sector is attractive to unemployed migrants because there are few barriers to entry. Field believed that informal employment activities such as petty trading, domestic service, and petty commodity production were activities with free entry. In addition informal employment provided migrants with a subsistence wage and flexible hours that allowed them to continue their job search in the formal sector. Thus in the dualistic labour market approach informal employment is an involuntary solution to unemployment. It is perceived by rural migrants as a temporary survival strategy while they wait for job opportunities to open up in the formal sector. As a result fields predicted that wages in the informal urban sector would be even lower than wages in the traditional rural sector.

Renooy in his book takes a theoretical approach and explains about the informal economy character. He brings several features that distinct informal sector from formal sector. He states that in informal sector:

There are absent of formal regulations and rules
There is often a higher degree of flexibility than in the formal labour market.

There is a lower level of productivity.

The prices of goods and services is lower that formal sector.

There is no complete information

This sector is highly fragmentary.

In causes of informality he argues that there are two groups of factors which determine decision to become active in the informal sector, more specifically the ‘structural’ and ‘opportunity’ factors. The structure factors consist of financial pressure, socio-psychological pressure and institutional constraints.

The opportunity factors consist of individual background skills, education, contacts and living situation, or non-individual components: environments, cultural tradition, values and standard and geographical factors. Then he according to these factors explains the existence of informal economy.

Grossman did study on informal economy he also provides evidences about the informal activities especially for the USSR. His research has shown the following: The demand for informal income and the supply of informal goods and services inevitably reinforced each other, and

Exchange of favor in the form of access to goods or services was a salient feature of the soviet informal sector.

More specifically, some forms of informalization were private lucrative use of socialist property, bribe taking by officials; and bribe-giving. He concludes that these characteristics might have been similar in other communist countries of Eastern Europe. In his view he includes illegal activities as a part of informal economy.

In critics of the dualistic approach Moser provided an alternative formulation of the informal sector based on petty commodity production, that is concomitant with, and subordinate to, capitalist production. He states majority of petty commodity producers are considered to be part of the informal sector. Moser also recognizes a continuum of economic activities rather than a two sector distinction so; workers are seen to be employed in a number of
different categories outside the well defined wage sector of large-scale enterprises. This include, among others, wage workers in small enterprises, self employed persons, unpaid family workers and casual workers in the wage sector. Here, the form of employment or the wage labour relation is considered an important feature demarcating the different but inter-connected sector of an economy.\(^9\)

The importance of interdependencies between sectors is also reflected in the Latin American discussion on the marginality, a term used to refer to the urban poor in general and to those not integrated economically or socially into society. He emphasize the links between enterprises in the formal and informal sectors and argue against viewing the informal sector in isolation links with the capitalist or formal sector set crucial constraints on the potential growth of small enterprises and petty commodity producers. He states policies for raising incomes and employment among petty producers, therefore would need to take account of structure of an industry as a whole.

Frey did a research about informal sector workers, He emphasized that the lack of voice of agents involved in the informal sector in the political-economic process.\(^10\) He explains that, interests of informal workers are not represented by any trade union. Given this and the fact that most of these workers work part-time, they show no interest in becoming union members. Trade unions, on the other hand are negatively affected in the membership rate if the informal economy increases. Hence, they emphasize the costs and disadvantages of this sector and oppose it. He says that the position of informal producers is worse than the position of formal producers. He says that competition from the informal economy through flexibility in production, low cost of labour, no bureaucratic costs and lower prices for goods and services is strongly feared by formal producers who having the possibility of influencing the political-economic process also try to fight the informal economy. Frey completes the picture with the public administration with according to him even more strongly opposes the informal economy.

Joshi distinguished between organized and unorganized activities on the basis of a
(a) Market structure

(b) Technology

(c) Relationship with government

Unorganized or informal activities were defined as those using an indigenous labour-intensive technology operating in competitive markets and having no relation with government. By contrast, the organized sector typically comprised large firms operating in the oligopolistic markets with capital intensive technology, a protected workforce, and enjoying access of government.

Maloney analyzed the informal employment, the result of his study in Latin America which identifies the voluntary nature of informal self-employment. In Mexico, over 60% of those in the informal, self-employed sector left their previous job voluntarily. The main reasons cited for entering the informal sector were a desire for greater independence or higher pay. In Brazil, over 62% of self-employed men were happy with their job and were not looking for formal sector employment. In Argentina, survey data revealed that 80% of the self-employed had no desire to change jobs and only 18% of the self-employed perceived their job to be a temporary substitute for formal sector employment. The result of his study shows that the vast majority of those in the informal sector had chosen their employment voluntarily.

Breman argues against adopting a dualistic or compartmentalized view of the labour market and instead suggests that the labour market be viewed as "fragmented" on the ground that the distinctions between formal and informal sectors are more noticeable at the poles. He has stressed the complementarities, continuities and linkage between formal and informal sector rather than their separateness. He states the informal sector is characterized as being dependent and subordinates to the capitalist sector with the capitalist or formal sector exploiting the informal sector by obtaining cheap labour and wage goods.

Kingdom a knight did a comprehensive study of unemployment in South Africa. They argue that the country's high unemployment rate is casual by rapid growth in the labour force participation rate relative to growth in formal
sector labour demand. They claim that an increase in labour force participation is primarily due to the end of apartheid restrictions on movement and the perceived employment opportunities that this created especially among women and black South Africans. They stated further more, the large informal settlements that have formal around major towns and cities over the last several decades attest to the rural-to-urban migration that has taken place and provide additional evidence for the dualistic view. They claim that the formal sector is unable to absorb this sector.\textsuperscript{14}

S.V. Sethuraman, has done a remarkable research study on women's working condition in informal sector. His study is about impact of globalization on women and their involvement in the informal sector and the implications for poverty.\textsuperscript{15} Moreover he analyses existing wage gap between men and women working in informal sector. According to his study women in all age groups depend on the informal sector more heavily than men. Women are over-represented in this sector in the sense that their share in the sector is higher than their share in total labour force. Most women tend to be own account workers; and only a few are heads of micro-enterprises.

He argues that, there is gender differential in informal employment and the discrimination is because limitation for women to access to formal employment. He says that women also face additional constrains because of their home making and child care responsibilities, which limits their participation in formal employment. He discusses that even within the formal sector more women than men seem to be in poor quality employment. A significant part of the income differential among women operators in the informal sector is the result of gender based discrimination not only in the labour market but more importantly in other markets such as credit, training, land an infrastructure, hence not only labour market but also other markets appear to be segmented. He argues that women households, especially from poor families seem to be over represented in the informal sector.

Madhura Swaminathan did a survey in informal sector.\textsuperscript{16} The result of this survey revealed a variety of meaning given to the term informal sector a failure to distinguish between enterprises and employment it was argued led to ambiguities in definitions of the informal sector. She examined three
features of an activity that were commonly used to define the informal sector namely forms of employment, forms of ownership and types of regulation. She argued that in analytical terms the only approach to defining informal sector enterprises and employment that stands up to close scrutiny is that based on certain types of regulation. This does not; however preclude the use of a larger set of operational characterizations in empirical work. Take, for instance, the use of scale to identity informal sector enterprises. She states that scale may be a good proxy for certain aspects of regulation and forms of employment.

International labour organization have done same exclusive and comprehensive studies on the subject and has many publication which are most authentic references on the subject of informal economy in the term of Meaning, Definition and Measurement of informal employment throughout the world. At the 2002 international labour conference (ILC), ILO proposed a constituent by name if decent work. According to the report the need to expand opportunities for people to find productive work and earn a decent livelihood. The report explains that with the ultimate objective of supporting transition to formality, this report suggests solution to bring the informal economy progressively into formal channels of protection and support. The report proposes the integrated strategy to support the move out of informality.

Proposed decent work constitutes by four pillars: (Employment, Social protection, social dialogue and rights), this provides a coherent framework for identifying which aspect of informality need to be looked at and also which types of policy and institutional instruments can foster or hinder greater inclusion with the mainstream economy. There is a manual published by ILO on the measuring of informality (2012) according to this manual for implementing, monitoring and analysis macro-economic and related development polices there is need to statistical information.

According to this study informal employment can exist in both the formal and the informal sector of the economy. According to study in most developing countries informal employment is a larger component of the workforce than formal employment. Based on the data in developed countries and share of
the labour force works under part-time temporary work and own-account employment that offer limited benefits or social protection. Another comprehensive report by ILO analyzed informal employment between men and woman in different regions in the world. The result of study shows in more than half of the countries the proportion of people in informal employment exceeds 50 per cent and in about one-third informal employment account for at least 67 percent of non-agricultural employment. In all except two countries the number of persons employed whiten the informal sector exceeds those in informal employment outside the informal sector. According to this report the percentage of woman employed in the informal sector is generally higher that of men in the majority.

A comprehensive study held jointly by International labour organization (ILO) and world trade organization (WTO) about impact of globalization in informality in developing countries. The results of study shows that globalization had a limited effect in reducing labour market vulnerabilities in many developing countries. The report discusses that over the past decade global trade had reached move than 60 percent. However strong growth in the global economy has not so far improved in working conditions and living standards for many. Absolute poverty has declined but in many developing countries job creation has mainly taken place in the informal economy where around 60 percent of workers find income opportunities. However the informal economy is characterized by less job security, lower incomes, an absence of access to a range of social benefits and fewer possibilities to participate in formal education and training program. The study discusses that these persistent labour market vulnerabilities have prevented developing countries from fully benefiting from dynamics of globalization. The study examines the role of open market economy in shaping informal labour market it reviews the current state of economic intelligence in this field and presents new empirical evidence. The report argues that informality in developing countries deprives about 60 percent of the workers, at the same time, high informality rate limit government resources, which could be used productive this means that successful formalization strategies would not only improve the working conditions of informal workers, they would also constitute a
significant engine of further growth. According to this reports formalization polices cannot overcome persistent problems overnight building up the legal and public infrastructure to promote a return to formality for those who drop out voluntarily or to support job seekers in the informal labour market. Then the report addresses issues of formalization of firm and issues related to formalization strategies and suggest some policies to support transition out of informality. Another study undertaken by International labour organization (ILO) on informality in G20 countries shows that informality is an important characteristic of many G20 labour markets, with millions of economic units operating and hundred of millions of workers pursuing their livelihoods in conditions of informality. It has shown resilience including in countries they have recorded high economic growth, it has reappeared under new forms in the context of globalizing economies and increased in several countries as a result of the global financial crisis. Informality exists in both advanced and emerging economies of the G20 although it is move prevalent in the latter. Where it is related to structural underemployment. This study shows that the particular characteristics and circumstances of informality vary greatly across countries and regions.¹⁸

The result of this study shows that the share of non-agricultural informal employment varies from 30.6 percent in turkey and 32.7 percent in South Africa to 72.5 percent in Indonesia and 83.6 percent in India. According to the study the majority of informal employment occurs in the informal sector for instance, two out of three informal jobs are in the informal sector in India. However a significant number of workers in formal enterprises are informally employed. In fact twelve to twenty percent of workers in the selected countries are informally employed outside the informal sector.

A research undertaken by World Bank group about the challenge of informal Employment to health coverage.¹⁹ The aim of report is to review existing approaches and available policy option to improve access to health care services and financial protection for informal sector workers. The report focuses on informal sector workers health care because informal sector workers represent the majority of population in many developing countries. It reviews the definition and measurement of the informal sector and the
literature on efforts toward its health insurance coverage. It also examines several countries cases. The result show that Developing countries efforts to expand health coverage are characterized by a common enrollment and financing pattern starting with formal sector workers and following with government Subsidized enrollment of the poor. Thus the informal sector workers are typically left behind and have been referred to as "the missing middle".

Miriam Altman did research about informal economy, according to her "Informality" defines as entail precariousness in that the activity operates outside of bureaucratic rules or regulation. She also argues that there are some background conceptual issues associate with emerging definitions of informality and she believes that some definitions don't clearly define what the informal sector is.

She focus on the experience of South Africa and states that South Africa's economy is characterized by unemployment amongst low-skill workers, she also says that small but burgeoning informal economy of the country is very poorly understood in particular there is little knowledge of how it interacts with formal economic activity. According to her informality is an important concept for poor working people or as she calls "working poor" who are in the developing countries.

Result of study shows that the most informality in South Africa found in formal companies and not in informal firms. Author argues that focusing policy on structural solution to reduce precariousness in the assembly of household livelihood is particularly important in developing countries and given the importance of the informal economy for livelihood there should be a better understandings as government and civil society mobilize to solve unemployment and poverty by identifying the set of policies that might be required to reduce precariousness Martha Chen did researches on informal sector workers in particular on women informal workers, according to her the majority of women in the informal sector are own account, men and women tend to be involved in different activities or types of employment even within the same trades, in many countries, for example, male informal workers tend to have larger scale operations and to deal in non-food items while female
workers tend to have smaller scale operations and to deal in food items while female workers tend to have smaller scale operations and to deal in food items. Result of her study shows that the average incomes of both men and women are lower in the informal sector than in the formal sector and she states that the gender gap in income wage appears higher in the formal sector and exists even when women are not wage workers. According to study the relatively large gender gap in income/ wages in the informal sector is largely due to two interrelated factor:

i) Informal income worldwide tend to decline as one moves across the following types of employment, employer, self-employed, casual wage

ii) Women worldwide are under-represented in high income activities and never-represented in low income activities.

Jacque charms has studied and analyzed about informal economy in developing countries and measures the size of informal sector. he analyzed the trend of informal employment in five-years periods over the last four decades, he cautioned the reader that his analysis was based on nonagricultural employment only, according to him the relatively high contribution of the agricultural sector to employment in developing countries, and the high share of informal employment in that sector, makes it advisable to examine trends in informal employment outside of agriculture. He used various procedures and sources of data over time, different sets of countries were included in each regions of the world, in each study period. Overall, he found that in four of six regions of the developing world, informal employment grew over time.

He has developed a highly innovative methodology for measuring trends in the size of the informal economy. Charms Measures the number of workers in the informal economy as a residual that emerges from two data sets in various countries:

Labour force surveys and censuses, which are intended to measure all people engaged in income-generating forms of employment, and business registration data, in which businesses are supposed to list all employees in their enterprises.
According to charms' definition, therefore people who are informally employed are those who earn income from jobs, but they are not employed by business that officially registers their enterprise with the government. This definition may in fact underestimate the extent of informalization, because some businesses that provide business registration information to governments may operate with substandard work environments for employees. Moreover, for charms to effectively utilize the methodology he has developed obviously depends, first, on countries' having undertaken both pairs of surveys least twice in recent years.

Jan. L. Losby, Marcia E. Kingslow and Jhon F. Else did study on informal Economy. The study examines the attitudes and behavior of informal workers, and explores the aspects of working informally that are appealing and may discourage people from taking steps to formalize their enterprises. The study focuses specially on the experience of African Americans operating informal businesses or working informally. The study attempt to explore the nature of informal economic activities among African American, the reason people participate in the informal economy.23

Bargain and kwenda examined the existence of the informal wage penalty. According to them this a phenomenon by which informal sector workers would receive lower after- tax wages than equivalent formally employed workers. In their empirical work from Brazil, South Africa, and Mexico, they estimated the wage gap between informal and formal salary workers they found that younger workers face large penalties especially in Brazil and South Africa, the informal wage penalty in all countries is smaller for those with higher education.24

Ravi Kanbur, development economist posited a conceptual framework for distinguishing between four types of economic responses to regulation as follows:25

A) - Stay within the ambit of the regulation and comply.

B) - Stay within the ambit of the regulation but do not comply.

C) - Adjust activity to move out of ambit of the regulation.
D) - Outside the ambit of the regulation in the first place, so no need to adjust.

Under the Kanbur framework, category A is “formal.” The other categories are “informal.” B is the category that is most clearly “illegal.” According to Kanbur, regulations do not apply to either C or D: for example, because the regulation stipulates minimum enterprise size and these enterprises are below that minimum size. But there is clearly a difference between them: category C has adjusted its size to come below the minimum size, while category D was below the minimum size in any case so the regulation has not affected it at all. Kanbur argues that using a single label, “informal” for B, C, and D obscures more than it reveals as these are distinct categories with specific economic features in relation to the regulation under consideration. While acknowledging that it is useful to have aggregate broad numbers on the size and general characteristics of the informal economy, Kanbur concludes that disaggregation provides for better policy analysis.

Ravi Kanbur specified his mode in terms of responses to formal regulate, in his categories B, C, D. Parallel the three types of exist formal regulation

According to a study by Tim Ruffer and John Knight, informal sector constitutes a separate market segment from the formal sector characterized by ease of entry, reliance on indigenous resources, family operation of business, small scale of production, labour intensive and adapted technology, and skills acquired outside the school room and the bypassing of regulation and taxation. They have stated that for understanding informal sector employment issues there is need to study of the economic circumstances and institutions of particular countries and of the contexts in which policy objectives are pursued. According to their study segmentation in the labour market for different region and country has different reasons. Then they introduce some case study to explain different causes of segmentation for instance in China segmentation driven by state support for urban residents, in South Africa segmentation driven by the power of organized workers. Later they argue that informal economy is not always involuntary as Lewis dualistic model and that is also depend to circumstances according to the
China and South Africa have seven labour market segmentation with formal sector being preferred and entry to the informal sector generally being involuntary on the other hand Brazil and Mexico the informality is preferable and voluntary for reasons of independence and higher earnings. They have agreed that it is certainly not the case that the formal sector necessarily good and the informal sector necessarily bad. David Duane Kay studied the relation between formal and informal sector in South Africa. He discusses different theories have dominated debates about the nature of informal employment. According to him there are three views, the dualistic theory claim that informal sector is a substitute for formal employment, the alternative theory claim that the informal sector is a compliment to formal employment and the structural theory claims that heterogeneous groups exist within the informal sector. His studies contributes to the literature by providing empirical evidence that heterogeneous sub-sector do exist within South Africa’s informal sector and that the structural theory with its focus on dynamic and static sub-sector is the most appropriate framework to adopt when thinking about informal employment in South Africa. Further more the study also adds to the literature by providing evidence that race is significant identifier of informal sub-sector and that a national poverty line can be used to identify the dynamic and static sub-grouping within South Africa’s informal sector finally he suggests that the existence of heterogeneous sub-groupings implies the need to better target policy interventions for the informal sector.

In research by MD uys, UNISA & PF Blaauw has studied the dual nature of labour market is informal sector of South Africa. They have explained that among South Africa’s grave socio-economic problems unemployment is one of the most serious and intractable. Traditional dual labour market theory maintains that jobs can be roughly divided into two groups: - those with low wages, bad working conditions and those with relatively high wages and good working conditions dualism in South Africa’s market confirmed, to determine whether the dualism is also present within informal sector itself authors used the cause study of car guards. The paper provides further knowledge on informal employment in South Africa and shows that this is an
area that requires a lot of attention give the importance of informal sector in south Africa the result of study shows that south Africa's labour market is fragmented consisting a well-paid formal sector and the periphery that consists of worker in the informal sector the case study of car guards confirm that the dual labour market theory can be extended to make provision for this dualism even within the informal sector.

Bill Gibson and Bruce Kelley have present the theoretical definition of informal sector, the basic feature of their model is that informal sector behaves as a reserve army of unemployed. This theory allows for the informal sector to mature into its formal counterpart so long as the distance between the formal and informal processes is not too great and the wage rate is sufficiently low. They conclude that the informal sector is likely to be a durable aspect of under development, not to be confused with dynamic industries in their early stages of development.

In the research by Sangeeta Pratap and Erwanquintin about informal economic activities shows that the size of the informal sector varies greatly across nations; this size is strongly correlated with economic development, the tax burden and the rule of law.

Authors stated that the informal sector emphasizes small-scale, self-financed and unskilled labour intensive economic activities and while financial markets are generally segmented along formal/informal lines in developing nations there is no compelling evidence that this true for labour markets then they argue the existing theoretical literature on the informal sector and describe a simple model with a trade off between tax evasion and access to formal sources of outside finance which is consistent with much of the existing evidence and then discussed the challenges associated with measuring informal sector assets.

In a research by DESA about impact of economic crisis on labour market in Developing countries has explained that in last two decades there is a decline in the employment to population rate for most regions in the world.

Study argues that a noticeable trend in last 20 years in labour market is "precarization" of labour precarization of workers in developed countries is
manifest by changes in employment state, replacement of traditional labour contracts by outstanding contracts, more flexible work arrangements, an increase in part-time work, etc. In developing countries, the precariousness is more clearly manifest in the existence of a pervasive "informal sector" in the economy or "Informal economy". This phenomenon according to this study is not restricted to poor developing countries and the existence of the informal economy is partly related to the changes in the structure of employment especially for the poorer regions the increase of employment in the service sector reflects an increase in the share of workers engaged in informal activities. It concludes that the negative effect of financial crisis on the labour market can be detected in a number of indicators. Open unemployment typically rises substantially during a crisis, real wages often fall, unemployment rises and workers shift from the formal sector to informal sector economy.31

Fazel Ahmed conducted a study survey on working condition of labours in informal sector this study gives a comprehensive sociological in sight into the life of the multi dimensional profile of labours of informal sector in respect of their subjective perceptions on relevant issues of their concern as also a scientific treatment of the objectives conditions, social, economic, organizational and cultural which govern their life.32 The present study deals at the labours of informal sector following points have been emphasized in his study:

i) Information about the working condition.

ii) Nature of employment.

iii) The protective and welfare measures of government and the extend of these benefits it's for the cause of workers.

Jamie Alderslade, John Talmage in a research study on urban informal economy attempt to examine recent works that focused on the urban informal economy in particular and evaluates different and techniques for measuring it. Methods discussed include in direct estimation method such as currency demand and labour force statistical profiles and direct estimation measures such as labour force and household surveys.33 The report discusses the
prospects for applying these largely macro-level methods to more micro-
market analysis and speculates on the availability and usefulness of existing
data sources in the United States. It concludes by suggesting that there is
much room for further research on the size, determinants and implications of
the informal economy in American cities because a deeper understanding of
how the informal economy operates is measuring its size and to knowhow it
interacts with formal economic activities.

In a research study by Saumya Chakrabarti and Anirban Kundu an formal-
informal conflict has argued that, though sizable portion of informal sector
exists independent of formal sector a large segment bears a complementary
relationship with these formal production. Study has its force on India’s
informal sector and constructs a multi-sector macroeconomics framework to
analyze the conflict between two sectors and also shows that agriculture-
formal sector interaction is distinctly different from agriculture-informal sector
linkage. Study also examines the impacts of variations in agriculture
productivity and that of fiscal policy changes on this formal-informal conflict
and shows that first case of increasing agricultural productivity while both
formal and informal sectors expand the former benefits proportionately more
than the latter, in the second case of expansionary fiscal policy the informal
sector expands even at the cost of contraction of the formal one.

In survey by Kalvita Gerxhani has provided a general overview of the
contribution to the literature on the informal sector and has a special focus on
the public choice approach. She also compared these contributions across
two institutionally different types of countries: developed and less developed
(developing and transition) countries. She also focused on the criteria used to
define the informal sector, the relationship between formal and informal
economy, tax evasion, and public choice analysis. Author concluded that
recognizing the distinction between the two types of countries is very
important and puts us a step forward.

Alzua in 2008 investigates Argentinean labour market to show dualistic
nature of its labour market. Result of study show that two different wage
setting mechanisms and rationing in the access to primary sector jobs Alzua
estimates switching wage regression model with unknown regimes using
maximum likelihood search algorithms. The estimation comprise two wage equations (i.e. one for the primary and one for the secondary sectors) and a switching equation which measures the probability of being in the primary sector one of the main contributions of the study is that the estimation are conducted without assuming ex-aute sector attachment. The result of study supports the existence of two different wage – setting mechanisms with different returns to education and experience thereby provide credence to the dual labour market theory.

Tansel investigated the wage gap between formal and informal sector in turkey the result indicate substantial wage differences between formal and informal wage earners for both men and women, there by suggest the existence of segmentation in the Turkish labour market. She also examines the factors which determine employment sector choice and wage differentials for covered and uncovered wage earns and the self-employed. Tansel reports that for men covered wage earners are better off compared to uncovered wage earners and self employed. Whereas for women wages in both sectors are similar. moreover, male wage workers who are covered earn are about twice of their female counterparts, whereas wages of male workers are found near parity with those of female workers overall Tansel provides important evidence for the presence of segmentation and discrimination against women in the Turkish labour market

Maria Sagrario and Debraj Ray in study investigate vertical linkages between formal and informal financial institutions especially it studies a policy that expands formal credit to informal lenders, special attention is paid to the Philippine in this report. It is argued that the effects of stronger vertical links depend on the form of lender competition. In particular if the relationship between lenders is one of strategic cooperation sustained by threats of reprisal in a repeated setting an expansion of formal credit may worsen the terms faced by informal borrowers.

A report by Eliane Badou, Eric Strobl and Frank Walsh analyzed existence of wage penalty in informal sector and has its focus on South Africa’s labour market. The report examined whether individuals working in the informal sector suffer from a wage penalty as is commonly believed. The results
finding from this report is very interesting first of it shows 70 percent of wage penalty that is observed by comparing simple average gross earning across the informal and formal sector is due to observable differences in human capital and job characteristics once the characteristic are controlled for however gross logged wages are still 37 percent lower for those employed in the informal sector. 

Janneke Pieters, Ana I. Moreno-Monroy and Abdul A. Erumban did a research on formal- informal linkages. In this study they analyze the formal-informal sector relationship, distinguishing a traditional and a modern informal subsector. Based on existing literature they argue that modern informal firms have a forward production links with formal firms while traditional informal firms do not. They show that in Indian manufacturing growth and competitiveness in the formal sector benefits the modern informal sector, in line with this production linkage. The link does not exist for the traditional informal sector. The result emphasizes the importance of accounting for informal sector heterogeneity when analyzing the formal – informal relationship and when designing appropriate policies.

In a comprehensive study on measuring informal sector of Nepal, Bishnu D. Pant, Sami and Rudra Surwal describe that the informal sector activates account for a significant proportion of production, consumption and employment of the Nepal economy. However the measurement of the informal sector activities has been problematic. They argue that the collection of the informal sector statistics is limited to the non-agriculture sector because of the difficulty in defining informal sector activities in the agriculture sector. They say that the informal sector activities are defined only on the basis of the person’s main job in respect of those currently engaged in the non-agricultural sector. Other secondary job has not been incorporated because of the nature of the complexity of jobs to be counted in the informal sector.

Finally, since its discovery, the notion of the “informal sector” has been subject to debates and criticisms, particularly in terms of the heterogeneity
and its division of the formal sector. The implication of the initial 1970s formulations by Keith Hart and of the ILO mission to Kenya in 1972 was that modernization and economic growth would facilitate the absorption of the "informal sector" by the modern sector.

In the beginning, the informal sector was considered as a residual sector and informal labourers were considered as "Reserved Army" which it will be absorb by formal sector after economic growth.

The literature during the 1980s emphasized the links between formal and informal sector rather than the divisions, pointing to the dependency of modern sector (formal sector) on the informal sector.

The 1990s saw a deepening of these processes and an expansion of informality under neo-liberal policies, thus increasing the need to further understand the factors that have reversed the initial predictions. Despite all debates and discussion on the topic, in the reality informal sector persisted and even increased worldwide, hence informal activities are no longer viewed as the anomaly that eventually will disappear.
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