Chapter - 1
INTRODUCTION

1.1 Overview

1.1.1 Importance of Informal Sector (IS)

IS has a large size of employment and contributes a big proportion of total NDP in the Indian Economy. So far as the employment is concerned it varies from 88 per cent to 93 per cent of the total employment from different sources of employment\(^1\). Even in urban areas, where there is concentration of formal sector, about 70 per cent of the employment is in IS. In the non-agriculture sector, if we consider rural and urban together, about 69 per cent of the employment is in IS (NSSO, 2001b and NSSO, 2001c). In terms of net domestic product (NDP) also, in the year 1999-00, about 59 per cent of its share was contributed by the unorganized sector (Government of India, Planning Commission, 2002, p.6). In agricultural activities (including forestry and fishing), its contribution to total NDP during that year was more than 96 per cent (Kulshreshtha and Singh 2001, p.69).

Most policies were geared towards formal sector income and employment growth. The economic reforms initiated in 1991 were meant to reverse the poor growth performance. It was expected that rapid and sustained growth of output and employment would reduce poverty (Chaudhari, 2002). Informal sector is contributing a large share of employment and NDP, in spite of this the government policies and regulations are not favourable to this sector. A study conducted by IAMR in urban areas of India found that government functionaries of 35 agencies were visiting various informal sector establishments. Out of these 35 agencies, 29 agencies had a potential to harass those establishments (Ramanujam, Goel, et. Al. 1992, p-59). These regulations are non-transparent and ambiguous (Islam, 1998). This is the reason they want to remain outside the regulatory net of the government. In most of the cities, IS enterprises are either not recognised at all, or are discriminated against, or at least have very low quality premises for which they have to pay rent (Islam, 1998). Because of discriminatory policies of informal sector, as compared to formal sector, price of

\(^1\) See Tables 6.1 and 6.2 of chapter VI.

\(^2\) There is some difference in the terms ‘unorganised sector’ and ‘informal sector’ which have been defined in the next section on ‘Concepts and Definitions Used for IS’. However the two terms have been used interchangeably until and unless specified.
cotton had risen very high in the late eighties and nineties. This had effected millions of workers like spinners, handloom and power loom workers, craft persons and garment manufacturers (Jhabwala, Renana 1997).

In spite of the unfavourable government policies and regulations towards informal sector, we in India, have lot of expectations from this sector, to generate employment for all new unemployeds who are joining the labour force and existing backlog of unemployeds in the country. The special Group on “Targeting Ten Million Employment Opportunities per year over the Tenth Plan Period” constituted by the Planning Commission, Government of India, has concluded in its report by saying that “exclusively for generating the desirable high level of employment, we have to target the unorganized sector, including small and medium enterprises, which also cover a large part of service sector of the economy” (Government of India, Planning Commission, 2002, p.4).

As discussed in the next sub-section, “Concepts and Definitions of IS”, International Labour Organisation (ILO) considers informal sector, a single sector, which comprises of units engaged in different types of activities. The activities in which these units are engaged encompass manufacturing, repair services, construction, transport, trade including restaurants and services. Due to different types of activities in this sector, there is lot of heterogeneity in this sector. This heterogeneity would further increase in a country like India, where different states have different policies and regulations for this sector. If we want to generate the required amount of employment with a sustainable level of productivity in this sector, we would have to priorities our policies by finding commonalities in this sector. Keeping these facts in view, it is very important to study the informal sector along with its heterogeneity.

1.1.2 Concepts and Definitions of Informal Sector

The term “informal sector” was first used in the report of an employment mission of ILO which had gone to Kenya in 1972. After that, development economists, researchers and policy makers of different countries used this term frequently and took lot of interest in the study of informal sector. The term “informal sector” though widely used in the development literature has remained controversial, because it has several definitions, and researchers have viewed it from different angles.

Researchers investigating the trends and pattern in Informal sector at the national or state level have generally defined it on simple rules like the size of
employment, capital employed, use of electricity, registration with certain public agency, etc. In India, this has enabled the scholars, to use the national level data available from Economic Census, Central Statistical Organisation (CSO) and National Sample Surveys (NSS) at different points of time. Non-availability of data relating to other parameters at national level in a temporally comparable manner has not permitted the scholars to go beyond these indicators. Knowledgeably, many have found this approach unsatisfactory; as some of the important characteristics of informal sector pertaining to labour relations, producer-trader connections, linkage with the government and other formal agencies, that are considered important features of this sector in the theoretical literature, are not taken into consideration in identifying the sector empirically (Kundu, Thakor and Arora, 2004).

Researchers insisting on a more elaborate identification have used more complicated and diversified indicators based on their studies on field data. Knowledgeably, they could conduct such detailed analysis only at local or activity level. Voluminous literature has come out on the basis of these indicators comprising case studies of industries, towns/cities and localities. The problem which has come up, as a consequence is, non-comparability of the results across industries/urban areas/rural areas, permitting no generalisation of any kind. Sometimes, the results have been contradictory and have provided little assistance in policy formulation at macro level. The size of the informal sector at the national and state levels and its trend over time has, therefore, remained a subject of heated debate (Kundu, Thakor and Arora, 2004).

With a view to helping the member countries in providing comparable statistics of employment in the informal sector, ILO. took a keen interest in this subject and it was a subject of discussion at the Thirteenth, Fourteenth and Fifteenth International Conferences of Labour Statisticians (ICLS) held in 1982, 1987 and 1993. The resolution adopted at the Fifteenth ICLS held in 1993, relating to the definition of informal sector, was later on endorsed by UN Statistical Commission in the same year.

The Household Sector and Informal Sector in the System of National Accounts (SNA) 1993 by United Nations

As per the SNA of the United Nations brought out in the year 1993, the informal sector has been identified as a sub-set of the Household Sector. Before knowing the relationship between the Household Sector and the Informal Sector we should know what is household. It is defined as a small group of persons who share the same living accommodation, but pool some or all of their income and wealth. These persons
should consume certain types of goods and services collectively, mainly housing and food. In other words, each member of the household has some claim upon the collective resources of the household. Households often coincide with families, though members of the same household do not necessarily have to belong to the same family but there has to be some sharing of resources and consumption (Kulshreshtha, 1998, p.450). As a production unit, an household is considered as an unincorporated enterprise, producing goods for domestic consumption as well as market disposal. It includes the production units located outside the premises of the house, employing or not employing hired workers, as long as these do not constitute separate legal entities outside the household. (Kundu, 1998, p.440).

The informal sector consists of following two types of enterprises:

(i) Informal own account enterprises, and
(ii) Enterprises of informal employers.

The informal own account enterprises may be owned and operated by own account workers which may employ contributing family workers and employees on an occasional basis. The enterprises of informal employers may employ one or more employees on a continuous basis and which, depending on national circumstances, may be defined in terms of one or more of the following criteria (Kulshreshtha, 1998):

(a) Size of the unit below a specific level of employment;
(b) Non-registration of the enterprise

Difference between the informal sector and the household sector is that the household sector includes the production units producing for domestic consumption as well as market, but informal sector includes the units that produce for market only.

In other words, informal sector excludes own account production for final consumption (even when a part of the production is marketed), and production of housing services by owner occupiers. Besides this it excludes the domestic services produced by servants and hidden/illegal production, etc. This is a great limitation in the definition of informal sector given by SNA 1993. Moreover, the word 'unincorporated' used is so vague that each country has interpreted it in its own way.

With a view to giving fillip to the development of international standards in several areas of official statistics, several International Expert Groups (popularly known as City Groups) have been formed by ILO, namely the Canberra Group on household income statistics, Ottawa Group on price statistics, Paris Group on labour and compensation, Voorburg Group on service statistics and Delhi Group on informal
sector statistics (Kulshreshtha and Singh, 2001, p.71). Recently the International Expert Group on Informal Sector Statistics (Delhi Group) recommended that since the informal sector manifests itself in different ways in different countries, national definitions of the informal sector cannot be fully harmonised at present (CSO, 1999b). Countries may disseminate informal sector data according to the national definition used. In order to enhance the international comparability of informal sector statistics, they should disseminate data for the subset of the informal sector, which can be defined uniformly. From this, one should not conclude that a country can also have different definitions for its own states/regions. Different definitions of informal sector in the same country can create difficulty in the distribution of its resources to its states/regions. So a country must have a working definition of informal sector for planning purposes.

Unorganised Sector and Informal Sector Definitions used in Indian Statistics

National Accounting System (NAS) in India has basically attempted to cover the whole economy as per the United Nations' System of National Accounts (SNA), 1993 on production boundary basis to capture the activities of production of goods and services in each of industries (economic activities) (Kulshreshtha, 1998).

The term generally used in India to denote the 'informal sector' is 'unorganized sector' (National Commission for Enterprises in the Unorganised Sector, 2006). In the Indian NAS the 'unorganised sector' refers to collection of those operating units whose activity is not regulated under any statutory act or legal provision and/or which do not maintain any regular accounts (Kulshreshtha, 1998). For example, units not registered under the Factories Act constitute unorganised segment of manufacturing. Similarly, in tertiary sector, all non-public operating units irrespective of their size constitute the unorganised sector. Inclusion of all non-public operating units in the unorganised tertiary sector also poses a difficulty in the definition of unorganised sector used in the Indian NAS.

The term 'informal sector' was used for the first time in our NAS in the year 1999-2000. During that year "Socio-Economic Survey" was conducted (55th Round), and the informal sector included all unincorporated enterprises which operated either on proprietary or on partnership basis. It differed from the 'unorganised sector' used in the Indian NAS. The unorganised sector, in addition to the proprietary or partnership enterprises includes co-operative societies, trusts, private and public limited companies.
in the private sector. Thus informal sector could be considered a subset of the unorganised sector (NSSO, 1999b, page F-1). This definition of informal sector was quite reasonable but the major difficulty of using the definition was that, information was available at one point of time (for the year 1999-2000).

National Commission for Enterprises in the Unorganised Sector, set up by the Government of India has used the terms informal sector and unorganized sector interchangeably because of their minor difference, in its report on "Social Security for unorganized Workers" (2006). The commission has adopted the following definition of unorganized sector.

"All unincorporated private enterprises owned by individuals or households engaged in the production and sale of goods and services and operated on a proprietary or a partnership basis and employing less than 10 persons".

Informal Manufacturing Sector Definition Used in the Study:
Informal sector definition used is based on the availability of secondary data for different years. It is the same as that used by CSO and NSSO in their surveys on unorganized sector. Informal manufacturing sector as per this study includes:

(a) Manufacturing enterprises, which are not registered under sections 2m(i) and 2m(ii) of the Factories Act, 1948. The manufacturing enterprises, registered under sections 2m(i) and 2m(ii) of Factories Act, 1948 are covered in Annual Survey of Industries (ASI). It also includes enterprises engaged in cotton ginning, cleaning and baling that are not covered under ASI.

(b) Manufacturing enterprises registered under section 85 of Factories Act, 1948.

(c) Enterprises manufacturing bidi and cigar that are not covered under ASI (irrespective of legislation under bidi and cigar workers Act, 1966).

Informal Manufacturing Sector comprises of three types of enterprises viz Own Account Manufacturing Enterprises (OAME), Non-directory manufacturing Enterprises (NDME) and Directory Manufacturing Enterprises (DME). The definitions of these three types of manufacturing enterprises are given below:

Own Account Manufacturing Enterprises:
An enterprise engaged in manufacturing and/or repair activities, which is run without any hired worker employed on a fairly regular basis, is termed as own account manufacturing enterprise.
Non-directory manufacturing Enterprise
An establishment engaged in manufacturing and/or repair activities and employing less than six workers (household and hired workers taken together) is termed non-directory manufacturing enterprise. Further an establishment is an enterprise which employs at least one hired worker on a fairly regular basis.

Directory Manufacturing Enterprise:
An establishment engaged in manufacturing and/or repair activities, and employing six or more workers (household and hired workers taken together). Upper limit of employed for these enterprises is nine, in case they use power and nineteen, in case they do not use power.

1.1.3 Diversity of Views Relating to Informal Sector (IS)
In spite of some commonality in views on IS, researchers have different views on many aspects relating to it. Some of them are discussed below:

(a) Magnitude of Employment in IS:
One view relating to the Magnitude of Employment in IS is that it has been increasing over the years. Papola (1998, p-28) has said that over the period of 10-15 years, the extent of informal employment has increased in each of the non-agriculture sector. Sundaram (1998, p-88) has given the estimates of employment in IS, which have increased for all the industry groups including manufacturing during the period 1972-1987. Another study by IAMR (Ramanujam, Goel, et.al. 1992, p-19) conducted in five towns of different states, says that establishment based informal sector employment has grown at the rate of 10 to 13 per cent per annum.

Contrary view relating to employment in IS is that, in manufacturing sector, as also the informal sector within it have shown a declining trend in urban areas during the Eighties and Nineties (Kundu, Lalitha and Arora, 2001, p-100).

(b) Relationship of Informal Sector Employment and Poverty:
One view regarding the relationship of informal sector employment and poverty in different states is that, percentage of employment in informal sector varies inversely with industrialisation and urbanisation (Mitra, 1998, p-442). Anand argues that the informal sector is largely a manifestation of urban poverty which pushes people into the petty jobs in this sector (Anand, 1998, p-197). Weak bargaining power keeps the
urban informal sector in low income and low production activities (Kabra, 1998, p-1994).

Another view regarding the employment in Informal Sector is that it grows in two ways. It grows when the formal sector does not grow. It also grows when the formal sector grows. The reasons for growth in the two ways are different. When the formal sector does not grow, informal sector grows because people have to find employment for their livelihood howsoever it is possible. When the formal sector grows fast, it throws up demand for various kinds of goods and services leading to its faster growth (Papola, 1998, p-28). Mitra has also argued that with poverty, informal sector employment has positive relationship but not significant.

(c) Linkages of IS and FS
One view is that there is complementarity between the IS and FS. The Paper on "Employment in Informal Sector" by Arup Mitra says: percentage of informal sector workers varies inversely with industrialisation. It means that informal sector employment is strongly linked to the employment in formal industries (Mitra, 1998, p-442). Another study on "Scalar Linkages in Industries: Implications for Productivity and Employment" by Amita Shah argues that the growth rates of value added in organised and unorganised sectors are strongly correlated across the categories of industries (Shah, 1998, pp-501-14).

Some scholars have identified certain informal manufacturing activities as dynamic – opting for modern technology, high rate of capital formation, etc., resulting in an increase in labour productivity (Singhania, 1997). These may have linkages with the formal manufacturing sector, often catering to regional and national markets (Ribeiro, 1993; Singh, 1997).

The other view that IS has been exploited by the FS is also not without empirical evidence. "FS blocks the growth of IS because small producers are exploited by a variety of mechanisms, such as the pre-existence of advanced technology, the control of large firms over product markets and the difficulties of IS producers in obtaining access to raw materials and credit" (Lays, 1975, pp-4-8; Portes, 1978).

Dupant (1995), has highlighted the segmentation of the labour market, based largely on non-economic criteria and highly exploitative conditions for certain categories of workers in Jetpur town. Some studies tend to suggest that a number of informal manufacturing units owe their existence to subcontracting of jobs on a piece
meal basis by formal industries (Nagraj, 1984; Venkata Ratnam, 1997). The informal units, it is argued, thus complement and subsidize the formal sector of economy (Subrahmanian, Veena and Bhanumati, 1982). This is basically due to IS workers undercutting their wages and supplying their products and services at extremely low rates, owing to their excess supply in a fragmented labour market (Breman, 1996).

Similar views are expressed by Swaroopa Rani and Galab in the study on “Organisation and Economic Performance of Manufacturing Activities in Urban Slums of Hyderabad City”. The authors blast the myth that marketing support, coming from private traders and moneylenders, is a solution to the poverty cum low productivity syndrome of the own account entrepreneurs. In fact the contractual tying up, instead of helping the artisans in marketing, has serious adverse impact on their productivity, performance indicators and most importantly their future growth (Swaroopa Rani and Galab, 1998).

Dhar argues that regulatory framework has usually been openly hostile to informal sector. On the other hand, it has been largely helpful to formal sector. This duality in the impact of regulatory framework has arisen, primarily, because of the reason that State has failed to recognise the importance of complementarity between the informal and formal sector units in the development process (Dhar, 1998, p-142; Oberai and Chadha, 1999).

(d) Dynamism of IS

Regarding the dynamism of IS also there are conflicting views. As per the one view it is dynamic and as per the other view it is not dynamic. Amita Shah in her paper on “Scalar Linkages: Implications for Productivity and Employment” argues that the employment shares of OAME and NDME, the two categories at the lower end, are noted to have declined while these at higher level, viz., DME, small scale industries (SSI) and factory sectors, including the large factories, have gone up during 1984-89. The growth of DME and SSI sector at the cost of the lower order categories is thus posited as a healthy trend as the value added and emoluments per employee increases consistantly as we move up along the scale categories (Shah, 1998). Kishor Samal in his paper on “Dynamics of Urban Informal Sector: Study of Micro Business, Petty Producers and Small Capitalist Producers at Two Points of Time to Redefine Informal Sector,” argues that ability to survive is directly linked to ability to mobilise own capital (Samal, 1998, p-85).
Regarding the second view also there are a number of empirical evidences. Kundu and Lalitha argue that informal sector is at low level of productivity employing very little capital assets. The growth in units or employment in the IS enterprises do not correspond to improvements in their performance indicators. This is because for many of the persons in the IS, being in business is a matter of survival and not of profitability (Kundu and Lalitha, 1998). Mahadevia in a study of Ahmedabad argues that there are distinct signs of casualisation of employment, growth of IS and marginal workers in metropolis (Mahadevia, 1998, p-444). Further she observes that the growing labour force is being encouraged to seek absorption in less polluting informal industries and tertiary activities or pushed to the peripheries of Ahmedabad.

(e) Social Security for Informal Sector
The ILO convention concerning minimum standards of social security (convension no. 102 of 1952) stipulated the provision of social insurance of following benefits: medical care, sickness benefit, family benefit, maternity benefit, invalidity benefit and survivors' benefit (Government of India, Ministry of Labour, 1999, p-38). India being a founder member of ILO has developed over the years, a number of schemes providing social protection. However, these schemes have been framed piecemeal. These schemes do not conform to any overall plan or design. The approach has been fragmented resulting sometimes in setting up more than one administrative organization to provide components of social security to a common target group (Government of India, Ministry of Labour, 1999, pp. 38-39).

From time to time, government has also constituted a few study groups and labour commissions to give recommendations on various aspects of social security. Based on their recommendations, Five Year Plan Documents have emphasized the aspect of social security. Approach paper to Ninth Five Year Plan has clearly stated, "social security will be provided to workers both in the organized and unorganized sectors. An integrated comprehensive scheme of social security will be evolved by having a single legislation covering all the existing social security schemes" (Government of India, Ministry of Labour, 1999, p. 40).

In spite of all these efforts, the present social security system in India is limited basically to formal/organized sector which constitutes a small share (8 to 10 per cent) of the total workforce. It was estimated that out of a total workforce of about 401 million
in the year 2000, only 40 million (about 10 per cent) were covered by the legislated and occupational plans, mainly in the formal sector (Subrahmanya, 1998).

The Second National Commission on Labour (NCL), appointed in 1999, was mandated to suggest, umbrella legislation for the workers in the informal sector (Government of India, Ministry of Labour, 2002b, p-1). The Commission had submitted its report to the government in July 2004, and recommended an umbrella legislation for ensuring a minimum level of protection to such workers. As an outcome of this, the then Government, had brought out a scheme of "unorganized sector workers social security scheme, 2004" in the year 2004. But with the change of the government, the scheme had gone off the priority list of the new government.

1.2 Objectives and Hypotheses
Keeping in view the issues discussed above, the study would have the following objectives:

(i) To study the information base of secondary data for the informal sector.

(ii) To study the growth pattern of employment in informal manufacturing sector for different years.

(iii) To study the growth pattern of the segments (OAMEs, NDMEs and DMEs) of informal manufacturing sector.

(iv) To study the factors effecting the performance of informal manufacturing sector enterprises.

(v) To study the relationship between the informal sector employment and poverty.

(vi) To study the linkages within the informal manufacturing sector and between informal manufacturing sector and formal manufacturing sector.

(vii) To study the coverage of informal manufacturing sector workers under social security schemes.

For this purpose following hypotheses would be examined

(i) Despite inadequacies in the information base pertaining to informal sector, it is possible to get considerable insight into the functioning of this sector by using the secondary data that have not been used so far extensively.

(ii) Employment in informal sector has reached a saturation point and the projections of massive labour absorption in this sector made by policy makers are over optimistic.
(iii) Growth pattern of various segments of informal manufacturing sector (OAMEs, NDMEs, and DMEs) is not consistent in suggesting serious anomalies in the database.

(iv) Growth in units and employment of informal manufacturing sector is not linked with the performance or efficiency of the enterprises indicating that a large part of the growth may be due to excess labour supply in informal market.

(v) Developed states have less percentage of employment in IS than that of developing states, indicating weak economic base of this sector.

(vi) Access to credit, fixed capital, working capital, land and official registration are the factors which improve the performance of informal manufacturing sector enterprises.

(vii) Various segments (OAME, NDME and DME) of Informal manufacturing sector have no forward and backward linkages among themselves and with the segment of formal manufacturing sector that are mutually beneficial.

(viii) IMS units do not have the capacity to bear the financial burden of the existing legislated social security schemes.

1.3 Data Base of the Study, Coverage and Sample Design for Field Investigation

1.3.1 Data Base

Data base used for analysis is mainly from secondary sources. However, for substantiating the findings of the secondary data and filling up some gaps, primary data collected at micro level has also been used. Secondly, through field survey we could compare the micro level situation in a small town and a big city. The next chapter on “Data Sources and their Limitations” discusses exclusively about the secondary data sources of informal sector, and their limitations.

Detailed analysis of Informal Manufacturing Sector at one digit level and two digit level of National Industrial Classification (NIC) available from secondary sources has been done at the national level separately for OAMEs, NDMEs and DMEs. State-wise data for Informal Manufacturing Sector has also been used for analyzing the interdependences among development indicators across states. Like all India analysis of secondary data, at the regional level, was done for Rajasthan state (for the location of the state see chart I). Rajasthan state was selected because it is the fastest developing state in terms of total and industrial gross state domestic product. Rajasthan state’s real Gross State Domestic Product (GSDP) recorded an impressive
CHART I
MAP SHOWING THE LOCATION OF RAJASTHAN IN INDIA

Source: Registrar General and Census Commissioner, India, Census of India 2001
average annual growth rate (AAGR)\(^3\) of 7.17 per cent during nineties (i.e. 1993-94 to 2001-02). This was the highest growth rate seen among all the major states in the country (Table 1.1). Similarly, as compared to a 6.42 per cent AAGR in the all India industrial GDP at constant prices, the state exhibited the highest growth of 8.65 per cent during that period.

**Table 1.1**

State-wise Average Annual Rate of Growth (AARG) in State Gross Domestic Product (SGDP) and State Industrial Sector for Major States during 1993-94 to 2001-02

<table>
<thead>
<tr>
<th>State</th>
<th>AARG</th>
<th>SGDP</th>
<th>Industry Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andhra Pradesh</td>
<td>5.49</td>
<td>5.98</td>
<td></td>
</tr>
<tr>
<td>Assam</td>
<td>2.29</td>
<td>2.47</td>
<td></td>
</tr>
<tr>
<td>Bihar</td>
<td>4.18</td>
<td>6.85</td>
<td></td>
</tr>
<tr>
<td>Chhattisgarh</td>
<td>3.73</td>
<td>3.99</td>
<td></td>
</tr>
<tr>
<td>Gujarat</td>
<td>6.84</td>
<td>7.62</td>
<td></td>
</tr>
<tr>
<td>Haryana</td>
<td>5.82</td>
<td>6.85</td>
<td></td>
</tr>
<tr>
<td>Karnataka</td>
<td>7.00</td>
<td>7.75</td>
<td></td>
</tr>
<tr>
<td>Kerala</td>
<td>5.47</td>
<td>5.13</td>
<td></td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>4.52</td>
<td>7.86</td>
<td></td>
</tr>
<tr>
<td>Maharashtra</td>
<td>4.93</td>
<td>3.45</td>
<td></td>
</tr>
<tr>
<td>Orissa</td>
<td>4.33</td>
<td>5.58</td>
<td></td>
</tr>
<tr>
<td>Punjab</td>
<td>4.35</td>
<td>5.94</td>
<td></td>
</tr>
<tr>
<td>Rajasthan</td>
<td>7.17</td>
<td>8.65</td>
<td></td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>6.19</td>
<td>5.61</td>
<td></td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>4.56</td>
<td>6.55</td>
<td></td>
</tr>
<tr>
<td>West Bengal</td>
<td>7.03</td>
<td>6.12</td>
<td></td>
</tr>
<tr>
<td>All India</td>
<td>6.24</td>
<td>6.42</td>
<td></td>
</tr>
</tbody>
</table>


Beside the secondary data analysis, field investigation has also been done for two urban areas in Rajasthan state. Basis of selection of these urban areas for field investigation in the State is that one is big city, having a population of more than one million and one small town having a population of less than 50,000. The decision to include urban centers of different population size has been made with the objective of comparing the characteristics of the informal activities at different scales of urbanisation. Studies from developing countries suggest that the small scale activities in small towns tend to be linked to other rural activities and thus differ significantly from those found in large cities (ILO, 1994, p-14).

\(^3\) The terms average annual growth rate, average annual rate of growth and average compound growth rate have been used interchangeably.
In Rajasthan, Jaipur was the only city having a population of more than one million. Jaipur city is a part of Jaipur district and was included in the sample. Among the small towns, Sangaria town was selected because it was a small industrial town having a population of over thirty five thousand in the year 2001. Sangaria town falls in Hanumangarh district of Rajasthan. Hanumangarh district was formed in the year 1994 after bifurcating Gangangar district (for the locations of Jaipur district and Hanumangarh districts see chart II). Beside this, as per 1991 Population Census, Sangaria town had the largest share of non-agriculture workers in the total workers (88 per cent) among all the towns, having a population of 20,000 to 50,000 in the two districts (Sriganganagar and Bikaner) in the state which got irrigation benefit from Bhakra Canal during the last two decades (Annexure I A). Jaipur and Sangaria towns have a similarity of being the headquarters of development activities: former being the headquarter of state development activities and the latter being the headquarter of Tehsil development activities.

1.3.2 Coverage
Informal sector activities of rural areas are dominated by the agricultural activities. Agriculture sector requires a special strategy for its development, which is altogether different than the strategies of development for non-agriculture sectors. So we have kept the rural areas analysis, out of the purview of our study. Secondly, among all the non-agriculture sectors, manufacturing sector has been substantially covered by the follow-up surveys conducted after each economic census. Keeping this in view, our analysis has been focused mainly on informal manufacturing sector in urban areas.

Field survey was conducted during the months of April/May, 2003 in Jaipur city and during the months of June/July, 2003 in Sangaria town. However, the information collected from the field survey belonged to the financial year (2002-03).

1.3.3 Sample Design for Field Investigation in Urban Centres
For field investigation in urban centres, it was decided to survey informal manufacturing enterprises: 50 from Jaipur and 50 from Sangaria. The sample of 50 enterprises in Jaipur was distributed, at two digit level of NIC, on the basis of the distribution of male manufacturing workers in the household industry in Jaipur city, available from the latest Population Census conducted in the year 1991. Similarly, the sample of 50 enterprises in Sangaria was distributed, at two digit level of NIC, on the basis of the distribution of male manufacturing workers in the household industry in urban areas of
CHART II

MAP SHOWING LOCATIONS OF JAIPUR AND HANUMANGARH DISTRICTS IN RAJASTHAN

Source: Director of Census Operations, Rajasthan, Census of India 2001
Ganganagar district in which Sangaria town falls. Distribution of male workers in household industry at two digit level of NIC as per 1991 Population Census, for Jaipur city and Ganganagar district (urban areas), are given in Annexure IB. City/town-wise and industry-wise sample enterprises at two digit level of NIC, selected for investigation are given below (table 1.2)

For conducting the informal sector survey in urban areas, National Sample Survey Organisation (NSSO) selects the first stage units (FSU) by adopting a stratified sampling design. Urban Frame Survey (UFS) blocks are the first stage units. A group of UFS blocks constitutes an Investigator unit (I.V. unit) in urban areas. Sampling frame comprising of Investigator unit-wise UFS blocks and number of informal sector workers were obtained for the latest survey on unorganised (informal) manufacturing conducted during July 2000-June 2001 (fifty sixth round) from the regional office of NSSO at Jaipur.

### Table 1.2

<table>
<thead>
<tr>
<th>NIC Code</th>
<th>Description</th>
<th>Sample Size Selected</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Jaipur</td>
<td>Sangaria</td>
</tr>
<tr>
<td>20-21</td>
<td>Manufacture of food products</td>
<td>1 5 6</td>
</tr>
<tr>
<td>23</td>
<td>Manufacture of cotton textiles</td>
<td>1 1 2</td>
</tr>
<tr>
<td>26</td>
<td>Manufacture of textile products (including wearing apparel)</td>
<td>3 2 5</td>
</tr>
<tr>
<td>27</td>
<td>Manufacture of wood and wood products; furniture and fixtures</td>
<td>4 5 9</td>
</tr>
<tr>
<td>28</td>
<td>Manufacture of paper and paper products and printing, publishing and allied industries</td>
<td>1 1 2</td>
</tr>
<tr>
<td>29</td>
<td>Manufacture of leather and products of leather, fur and substitutes of leather</td>
<td>2 12 14</td>
</tr>
<tr>
<td>32</td>
<td>Manufacture of non-metallic mineral products</td>
<td>4 7 11</td>
</tr>
<tr>
<td>34</td>
<td>Manufacture of metal products and parts, except machinery and equipment</td>
<td>3 4 7</td>
</tr>
<tr>
<td>35-36</td>
<td>Manufacture of machinery and equipment other than transport equipment</td>
<td>0 1 1</td>
</tr>
<tr>
<td>38</td>
<td>Other manufacturing industries</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(i) Manufacture of jewellary and related articles</td>
<td>30 4 34</td>
</tr>
<tr>
<td></td>
<td>(ii) Others</td>
<td>0 6 6</td>
</tr>
<tr>
<td>97</td>
<td>Repair of capital goods</td>
<td>1 2 3</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>50 50 100</td>
</tr>
</tbody>
</table>

*Population Census 1991 does not give the distribution of male household manufacturing workers at two digit level of NIC for Sangaria Town, so the sample was distributed on the basis of the distribution of household manufacturing workers in urban areas of Ganganagar district in which it falls, during the year 1991.*
In Jaipur city, there were about 110 investigator units (I.V. units) in the year 2000-01. Out of 110 I.V. units, 49 I. V. units were the Units from which one or more UFS blocks were selected for the survey. Among these 49 I. V. Units, I. V. Unit no. 64 had the maximum number of workers (i.e.3339) in the selected UFS blocks for NSSO survey. The I. V. Unit no. 64 being most representative in the 56th round, was considered for this survey also. In Sangaria town there were only two I.V. units, out of which one I. V. unit( no. 2) was covered in the 56th round. Thus in Sangaria town I.V. Unit 2 being more representative as compared to I.V. unit 1 in the NSSO survey was considered for our survey also.

Thus, we adopted a multistage purposive sampling technique for selecting the enterprises in Rajasthan state. As discussed above, at the first stage, city/town was selected. At the second stage I. V. unit having maximum number of workers among the selected I.V. units for the 56th round of NSSO was selected. However, if the selected I.V. unit did not have the requisite number of enterprises of any industry at two digit level, then they were taken from the adjacent I.V. unit on a purposive basis keeping in view the following criterion:

(i) Effort was made that enterprises belonging to each category of industry (at two digit level) should be selected from that area of the I.V. unit which has maximum concentration of those units.

(ii) While selecting the enterprises preference should be given to the enterprises having more than one worker (family and hired both combined).

Main localities in I.V. unit 64 of Jaipur city covered in the survey are: Ghat gate, Laxmi narain puri, Top khana ka rasta, Chand pol, and Bhata basti. Similarly, the localities covered in I.V. unit 2 of Sangaria town are: Bhagat singh chok, Railway road, Agarsen colony, Balmiki colony, and Goal bazaar.

1.4 Methodology

Major part of the findings, has been derived from the secondary data analysis. However, primary data from two towns of Rajasthan state (i.e. Jaipur and Sangaria) has been collected to substantiate the findings of secondary data and filling up of some gaps. Various sources of secondary data available for informal sector and their limitations have been discussed separately in the chapter on, 'Data Sources of Informal
Sector and Their Limitations'. While discussing their limitations, estimates of the data from these sources at the same period of time are also compared.

Trends of units, employment and productivity in informal manufacturing sector have been analysed, at one digit level and two digit level of National Industrial Classification (NIC), by using the data obtained from the follow-up surveys conducted by NSSO during the years: 1978-79, 1984-85, 1989-90, 1994-95 and 2000-01. Wherever possible, these trends of informal manufacturing sector were compared with the manufacturing sector as a whole and the total economy of the state. For knowing the changing composition of the industries within informal sector, trend of OAMEs, NDMEs and DMEs was analysed separately. Besides the follow-up surveys, data obtained from Economic Censuses, Population Censuses and Employment market Information (EMI) collected by DGE&T were also used to analyse the trends of informal sector.

For knowing the incidence of informal sector in different states, each state was cross-classified by the incidence of poverty and its size of informal sector employment, and correlation coefficients were calculated between state-wise informal sector employment and persons below poverty line, at two points of time (i.e. 1994 and 2000). These are the years during which two quinquennial surveys on Employment-Unemployment were conducted. Employment estimates given by these two surveys and a special survey on informal sector (for non-agriculture activities) conducted during the year 1999-2000 by NSSO, and employment market information (EMI) collected by the director general of employment and training (DGE&T) for the formal sector, were used for estimating the state-wise informal sector employment.

Various reports published by Government of India, Ministry of Labour, Employees Provident Fund Organisation, Employees State Insurance Corporation and the primary data collected from two urban centres were used for analyzing the objective of social security for informal sector workers.

Linkages between the formal manufacturing sector and informal manufacturing sector and within informal manufacturing sector (i.e. among OAMEs, NDMEs and DMEs) have been studied by using the data obtained from Annual Survey of Industries, Follow up surveys and the primary data collected from the two urban centres in Rajasthan. Secondary data has been used to study three types of linkages viz through labor market, product market and technology transfer. Beside this, industry-wise
growth relationships among OAME, NDME and DME have also been analysed for the selected periods.

Each follow-up survey provides information relating to a number of indicators at two digit level by location, separately for OAME, NDME and DME. Analysis of ‘Dynamics of Informal Sector’ and identification of the factors effecting the performance of informal sector were studied by calculating the interdependencies of the indicators of informal manufacturing sector also through correlation matrices. These interdependencies of informal manufacturing sector in urban areas were analysed at three stages, viz., (a) All India (b) Rajasthan and (c) Across the States. Before mentioning the indicators selected for analysis by using the correlation matrices, it would be worthwhile first to discuss the importance of each of those indicators.

High growth of employment in an informal industry is likely to be associated with a corresponding growth in the number of units. The increase in employment may lead to an increase in average employment per unit only when units grow at a slower rate than that of the employment. This may not be the case in many industries because of the very logic of emergence of this sector. Individuals, failing to get employment in labour market, often start a venture on their own, as a part of their survival strategy, leading to an increase in the number of units. As a consequence, increase in total employment may not lead to an increase in employment per enterprise, particularly in the lowest rung of this sector, OAME. Given this scenario, it was considered important to include indicators pertaining to number of units, employment and employment per enterprise and their growth rates in the analysis.

Employment in a new enterprise may comprise full-time, part-time and other workers. Interestingly, the full-time workers are more than 95 per cent (that include the family labour as well) in the total workforce in the informal manufacturing activities in urban areas. Nonetheless, certain units may employ people on part-time or short-term basis, depending on the demand situation. Indicators pertaining to different types of employment were considered important because it would give an insight into the market conditions that the units are facing in different industries.

Informal manufacturing sector in India consists of a large number of small enterprises that are generally either under proprietorship or under partnership. Often they are not registered with any official agency, which enables them to remain free from bureaucratic hassles and have flexibility in decision-making. Registration nonetheless, makes it easier for them to access institutional credit, inputs in short
supply as also getting government clearances for expansion, import, etc. Importantly, majority of the units operates throughout the year but the number of seasonal operators is also not negligible. Keeping this in view, it was considered important to include indicators pertaining to the nature of proprietorship, registration with any public agency, seasonality of operation, etc.

Value added per worker or per enterprise reflects the state of health or economic viability of a unit or an industry which depends on the inputs of the enterprise. Positive relationships between inputs and value added imply that the unit or enterprise is responding to economic stimuli. In any analysis of interdependency, inclusion of value added and input indicators would, therefore, make it possible to assess the extent to which economic factors determine the functioning and growth of an activity.

Understandably, credit plays an important role in the functioning of the informal sector. Finances are required both for meeting day-to-day requirements arising from the operation of the unit (payment of wages, procuring raw materials, hiring of fixed assets or acquiring or leasing in machinery or land) as also for incurring capital expenditure. Consequently indicators pertaining to both, working capital as also fixed assets, have been included. Outstanding loans have also been included to see their impact on the performance of the units. In view of the fact that units owning land may have easier access to government facilities like getting registered or securing loans, indicators pertaining to land assets have also been considered relevant in the analysis.

Depending upon the availability of data relating to various indicators from various follow-up surveys, and their importance discussed above, following 18 indicators were used for calculating the correlation matrices. This would also enable us to critically examine some of the myths and stipulates about the informal sector's capacity in providing long term solution to the problems of unemployment and poverty in the developing countries, that are often taken as valid without empirical verification.

1. Number of enterprises (NE)
2. Growth in the number of enterprises (GNE)
3. Total employment (TE)
4. Full-time employment (FTE)
5. Part-time employment (PTE)
6. Growth in Total Employment (GTE)
7. Employment per enterprise (EE)
8. Percentage of units under perennial operation to total units (POE-P)
9. Percentage of units under proprietary ownership to total units (POW-P)
10. Percentage of units not registered with any agency (NRG-P)
11. Working capital per enterprise (WCE)
12. Fixed assets owned per enterprise (FAOE)
13. Fixed assets leased/hired or fixed assets not owned per enterprise (FANOE)
14. Land owned per enterprise (LOE)
15. Land leased/hired or not owned per enterprise (LNOE)
16. Outstanding loan per enterprise (OLE)
17. Value added per enterprise (VAE)
18. Value added per worker (VAW)

1.5 Chapter Scheme

Including the first chapter on "Introduction" there are nine chapters, as given below:
I. Introduction.
II. Sources of data for informal sector: their limitations and comparability.
III. Trends in units, employment and productivity within various components of informal manufacturing sector in urban India.
IV. Pattern of interdependencies within informal manufacturing sector in urban India.
V. Trends in units, employment and productivity, and pattern of interdependencies within various components of informal manufacturing sector in urban Rajasthan.
VI. Structure of informal sector and poverty: an analysis of interdependencies among development indicators across states.
VII. Informal manufacturing enterprises in Jaipur and Sangaria: micro level analysis.
VIII. Coverage of informal sector under social security system.
IX. Summary of conclusions and their policy implications.
Annexure IA

Details of Towns in Ganganagar and Bikaner districts of Rajasthan State having a Population between 20 to 50 Thousands as per 1991 Population Census

<table>
<thead>
<tr>
<th>District</th>
<th>Town</th>
<th>Population</th>
<th>Total</th>
<th>Non-agriculture</th>
<th>Workers</th>
<th>Percentage of Non-agriculture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ganganagar</td>
<td>Suratgarh</td>
<td>45870</td>
<td>12394</td>
<td>8965</td>
<td>72.3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sangaria</td>
<td>25290</td>
<td>6746</td>
<td>5928</td>
<td>87.9</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Nohar</td>
<td>32722</td>
<td>8217</td>
<td>5827</td>
<td>70.9</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bhadra</td>
<td>28912</td>
<td>7333</td>
<td>4509</td>
<td>61.5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Plibanga</td>
<td>26140</td>
<td>7263</td>
<td>4677</td>
<td>64.4</td>
<td></td>
</tr>
<tr>
<td>Bikaner</td>
<td>Nokha</td>
<td>38854</td>
<td>8630</td>
<td>6519</td>
<td>75.5</td>
<td></td>
</tr>
</tbody>
</table>

Source: Director of Census Operations, Rajasthan (1997b)

Annexure IB

Distribution of Male Workers in Household Manufacturing Industry at Two Digit Level of NIC as Per 1991 Population Census For Jaipur City and Ganganagar

<table>
<thead>
<tr>
<th>NIC Code</th>
<th>Description</th>
<th>Jaipur City</th>
<th>Ganganagar District (Urban Areas)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Workers</td>
<td>Percentage</td>
</tr>
<tr>
<td>20-21</td>
<td>Food products</td>
<td>456</td>
<td>3.1</td>
</tr>
<tr>
<td>22</td>
<td>Beverages, tobacco</td>
<td>21</td>
<td>0.2</td>
</tr>
<tr>
<td>23</td>
<td>Cotton textiles</td>
<td>383</td>
<td>2.6</td>
</tr>
<tr>
<td>24</td>
<td>Wool, silk and man-made fiber textiles</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>25</td>
<td>Jute and other vegetable fiber textiles</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>26</td>
<td>Textile products</td>
<td>660</td>
<td>4.4</td>
</tr>
<tr>
<td>27</td>
<td>Wood and wood products</td>
<td>817</td>
<td>5.5</td>
</tr>
<tr>
<td>28</td>
<td>Paper and paper products</td>
<td>377</td>
<td>2.5</td>
</tr>
<tr>
<td>29</td>
<td>Leather and leather products</td>
<td>552</td>
<td>3.7</td>
</tr>
<tr>
<td>30</td>
<td>Basic chemicals and chemical products</td>
<td>55</td>
<td>0.4</td>
</tr>
<tr>
<td>31</td>
<td>Rubber, plastic, petroleum and coal products</td>
<td>41</td>
<td>0.3</td>
</tr>
<tr>
<td>32</td>
<td>Non-metallic mineral products</td>
<td>975</td>
<td>6.6</td>
</tr>
<tr>
<td>33</td>
<td>Basic metal and alloys</td>
<td>33</td>
<td>0.2</td>
</tr>
<tr>
<td>34</td>
<td>Metal products and parts</td>
<td>596</td>
<td>4</td>
</tr>
<tr>
<td>35-36</td>
<td>Machinery and equipment other than transport</td>
<td>21</td>
<td>0.1</td>
</tr>
<tr>
<td>37</td>
<td>Transport equipment and parts</td>
<td>18</td>
<td>0.1</td>
</tr>
<tr>
<td>38</td>
<td>Other manufacturing industries</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(i) Manufacture of jewellery and related articals</td>
<td>9164</td>
<td>51.8</td>
</tr>
<tr>
<td></td>
<td>(ii) Others</td>
<td>486</td>
<td>3.3</td>
</tr>
<tr>
<td>39</td>
<td>Repair of capital goods</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>97</td>
<td>Repair services</td>
<td>163</td>
<td>1.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>**</td>
<td>14829</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Director of Census Operations, Rajasthan (1997a)