CHAPTER-I

INTRODUCTION

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INTRODUCTION

Development from economic perspective refers to the resource utilization and thereby improvement of standard of living of the people and achieving social welfare. Improvement in social welfare is a comprehensive process and has several dimensions. Sustainable development approach with human development indicators has made such an understanding of social welfare. It encompasses from micro level, improvement of standard of living of people till the macro level, increase in Gross Domestic Product (GDP) and bettering of Human Development Index (HDI). The nature and level of welfare conditions may vary from economy to economy or across developing economy and developed economy. This is attributed to the differences in resource base, technological difference, and cultural difference and finally differences in sectoral priority. In this context, recognition of each sector in a given economic structure becomes crucial. Further, in the context of knowledge based developing economies of highly populated countries, which are experiencing a transformation, it is essential to find sustainable way to employ the human resources.

The study of economic development has attracted the attention of economists’ right from Adam Smith down to Marx and Keynes, yet they were mainly interested in the problems which were essentially static in nature and largely related to a Western European frame work of social and cultural institutions. It is however, in the forties of the 20th century and especially after the Second World War that economists started devoting their attention towards analyzing the problem of underdeveloped countries and formulating theories and models of development and growth. Meanwhile, emphasis of development economics has undergone changes, focusing more on human capital formation and environment protection. The emphasis shifted from growth in GDP to the creation of employment, redistribution of income, basic human needs, structural adjustment and sustainable development. Recognizing the role of local culture and local people participation in development makes development process more interdisciplinary and integrated.
It is realized that the economic development process need to be initiated from an indigenous base. It means the urge for economic progress and social betterment need to arise from within. It cannot be implanted from outside. External factors like foreign capital, skill, technology etc can stimulate and support domestic forces but they cannot serve as substitutes. It is generally agreed that the foreign forces can, at the most, ginger up the growth process for a short period, but they can hardly strengthen the economic development. The desire for development provides lubricating oil to the wheels of the economic progress. When lubricating oil is found in ample quantity, the process of development will be cumulative and self generating. If urge for development is missing, then many obstacles come to the surface and block the process of development. Economic development is impossible if it does not take place in the minds of men. Determination and strong will for development lay the foundation for progress and prosperity. (Cairncross A.K)

The desire for economic development can be aroused among the masses when political, social and religious institutions create the necessary and favorable climate for economic development. Economic development is a multidimensional phenomenon and economic and noneconomic factors influence the social environment. The favourable environment provides stimulus and incentive to domestic investors, who would feel impelled for making larger investments.

Structural change is a common feature of economic development. The structural changes refer to those transformations, which change the structure of an economy. The forces which transform the subsistence agriculture economy into a modern industrial economy or an import economy into an export economy are basic structural changes. These changes are brought about by the new social institutions, economical organizations, new method of production and new motivation etc. These changes promote economic development in two ways. They help in the optimum utilization of resources and maximum exploitation of productive opportunities through enlargement of markets, factor mobility, and expansion of credit institutions etc. secondly, they provide impetus to pushing up production frontier through increased supply of production factors. In an underdeveloped country structural
changes may begin with the transfer of surplus population from agriculture to non-agricultural sector.

Capital formation would strengthen the process of economic development. In developed countries high capital formation results in more production and stimulates economic expansion. Capital formation is thus key to economic development. The basis and problem, however, before the underdeveloped countries is to raise the capital formation and solve the problem of capital deficiency. This problem requires the formulation and implementation of practical investment policy. Economic development also requires the existence of efficient, honest and stable government. In its absence, it would be difficult to formulate and implement economic policies for security and accelerated rate of economic growth.

Low per capita real income is generally regarded as one of the main indicators of underdevelopment. A study by the World Institute for Development Economics Research of the United Nations (2006), found out that the richest one percent of adults in the world owned 40 percent of the planets wealth. Europe, the United States and some Asia Pacific nations account for most of the extremely wealthy. Many African nations as well as North Korea and the poorer Asia Pacific nations were the places where the worst off lived.

Population growth rate is more among the Under Developed Countries (UDCs) as compared to the developed countries. Most of UDCs are passing through the second stage of demographic transition also known as the stage of population explosion. When a country gets trapped for too long in this stage, it leads to a significant growth in the number and proportion of unemployed people who tend to migrate from the countryside to the cities in search of employment (World Development Report 1998-99)

Wide spread unemployment is a common characteristic of the UDCs. Unemployment is caused by a number of factors like the population pressure, a low level economic activity, poor growth rates, the choice of capital intensive techniques of production, unrealistic education, rigidly of the wage structure, lack of investment
opportunities. Unemployment, underemployment and disguised unemployment results from the fact that labour in the UDCs is relatively abundant in relation to capital and the productivity in the developed countries. Unemployment is the major cause of widespread poverty in the UDCs.

‘Dualism’ is another characteristic of underdeveloped economy. By dualism we mean the existence of two different segments in the economy such as agriculture and industry, rural and urban, backward and developed sector. One segment of the economy is developed and makes use of modern techniques of production. It is market oriented, while the other segment is the subsistence type of economy that makes use of primitive methods of production.

The presence of informal sector is one of the important characteristics of low developed countries. In many of the underdeveloped nations a large proportion of work force depends on informal sector. Unemployment, underemployment and disguised unemployment are the major problems of development among the underdeveloped and developing nations. Informal sector became a major sector providing huge employment opportunities to the unskilled labour force in the developing nations.

**Informal Sector**

Informal sector is characterized as consisting of units engaged in the production of goods and services with primary objectives of generating employment and income to the person concerned. These units typically operate at low level of organization, with little or no division between labour and capital as factors of production and on a small scale. Labour relations, where they exist are based mostly on casual employment, kinship or personal or social relations, rather than contractual arrangements with formal guarantees. Thus, production units in the informal sector are not constituted as independent legal entities of the household or household members that own them and for which no complete sets of accounts are available, which would permit a clear distinction of the production activities of the enterprises from other activities of their owners. The owners of their production units have to
raise the finance at their own risk and are personally liable, without limit for any debts or obligations incurred in the production process. For statistical purpose, the informal sector is regarded as a group of production units which form part of the household sector as household enterprises or equivalently, unincorporated enterprises owned by households.

The term informal sector was first initiated by Kieth Hart (1970) in a study on urban Ghana. He describes the informal sector as that part of the urban labour force, which falls outside the organized labour market. The concept has been further refined by the Mission of International Labour Organization (ILO-1972), which studied the employment situation in Kenya within the frame work of the world employment programme. The study reveals that the informal sector has characteristics like easy entry for the new enterprises; reliance’s on indigenous resources, family ownership, small scale operations, unregulated and competitive markets, labour intensive technology and informally acquired skills of workers.

Sethuraman (1976) has defined the informal sector as consisting of small scale units engaged in the production and distribution of goods and services with the primary objectives of generating employment and income to their participants notwithstanding the constraints on capital, both physical and human.

In India, the term ‘Informal sector’ is used as a synonym for unorganized sector. The National Commission for Enterprises in the Unorganized Sector (NCEUS) setup by the Government of India in September 2004 considered various aspects of the matter and defined the unorganized sector as “The unorganized sector consists of all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten total workers” (NCEUS). It further defines , unorganized or informal employment as “Unorganized workers consist of those working in the unorganized enterprises or households, excluding regular workers with social security benefits and the workers in the formal sector without any employment / social security benefits provided by the employers.” This definition
excludes casual or contract workers and thus captures unorganized sector employment in a more realistic manner.

From these definitions of the informal sector following features can be observed.

1. Low level of organization- small scale usually employing fewer than ten workers and often from the immediate family.
2. Heterogeneity in activities
3. Easier entry and exit than in the formal sector.
4. Usually minimal capital investment, little or no division between labour and capital.
5. Mostly labour intensive work requiring low level of skill, there is usually no formal training as workers learn on job.
6. Labour relations based on the casual employment and or social relationship as opposed to formal contracts. Employer and employee relationship is often unwritten and informal with little or no rights.
7. Workers in the informal sector are often largely unaware of their rights, cannot organize and have little negotiating power with their employers and intermediaries (ILO-2000).

INFORMAL SECTOR IN INDIA

Informal sector plays a major role in Indian economy providing gainful employment opportunity for millions of people and also contributing significant share to the nation’s output. The emergence of informal sector is a major source of employment and income generating sector in developing countries in the recent years. It is mainly manifestation of increasing pressure of burgeoning population, immaturity of employment market and inefficient alternative income generating source of rural surplus labour. The rising inflation rate and growing poverty further aggravate the situation and force the labourers to enter into the informal sector for their livelihood.
India is a developing economy, the nature of unemployment, therefore, sharply differs from the one that prevails in the industrially advanced countries. Lord J.M. Keynes diagnosed unemployment in the advanced economies to be the result of a deficiency of an effective demand. It implied that such economies machines become idle and demand for labour falls because the demand for the products of industry is no longer there. Thus Keynesian remedies of unemployment concentrated on measures to keep the level of effective demand sufficiently high so that the economic machine does not slacken the production of goods and services.

This type of unemployment caused by economic fluctuations did arise in India during the depression in 1930’s which caused untold misery. But with the growth of Keynesian remedies, it has been possible to mitigate cyclical unemployment. Similarly, after the Second World War, when war time industries were closed, there was a good deal of frictional unemployment caused by retrenchment in the army, ordinance factories. These workers were to be absorbed in peace time industries. Similarly the process of rationalization which started in India since 1950 also caused displacement of labour. The flexibility of an economy can be judged from the speed with which it heals frictional unemployment.

But more serious than cyclical unemployment or frictional unemployment in developing economies like India is the prevalence of chronic underemployment or disguised employment in the rural sector and existence of urban unemployment among the educated classes. It would be worthwhile to emphasize that unemployment in developing economies like India is not the result of deficiency of effective demand in the Keynesian sense, but a consequence of shortage of capital equipment or other complementary resources.

At present Indian economy is passing through the process of economic reforms and liberalization. During the process of merger, integration of various firms within the industry and upgradation of technology and other innovative measures takes place to enhance the competiveness of the outputs both in terms of cost and quality to compete in the international market. The low inefficient unit either closes
down or merges with better performing units. In this situation there is a special need to take care of the interests of the workers by providing them training, upgrading their skills and other measures to enable them to find new avenues of employment, improve their productivity in the existing employment, necessary to enhance the competitiveness of their product both in terms of the quality and cost which would also help in improving their income and thereby raising their socio-economic status. It has been experienced that formal sector could not provide adequate opportunities to accommodate the workforce in the country whereas informal sector has been providing employment for their subsistence and survival.

Studies on informal sector

Classical theory of informal sector (Bill Gibson, Bruce Kelley 1994) reveals that the underlying principle which underlines previous literature is that the informal sector arises from the capital limited nature of the economy. Informal sector producers are neither capitalists nor workers, but rather they constitute a distinct social class, which processes will be operated formally versus informally is seen to be non-trivial and depends on the position on the wage profit line. In the short run, informal sector processes may earn positive or negative profit, but in the long run, the implicit wage in the informal sector determines the formal sector wage rate.

Women constitute 48.26 percent of the total population in India and 25.67 percent of female population is designated as workers. Almost 400 million people (more than 85.00 per cent of working population in India) work in unorganized sector and of these at least 120 million are women. (Census 2001)

Growth rate of employment during the 1980’s as measured from the 1981 and 1991 Censuses shows that the primary sector employment grew faster than the manufacturing sector, while the tertiary sector employment grew faster than even the primary sector. Within the manufacturing sector, public sector employment grew fast during this decade. However, manufacturing employment in the private organized sector fell in absolute terms. The private unorganized manufacturing employment grew rapidly enough during this period to give an overall positive growth rate to the
private manufacturing sector in this decade. Hence within the broad category of non agricultural sector it is mainly the unorganized sector in manufacturing and the tertiary sector where employment has been created. (Jeemol Unni)

The National Commissions for Enterprises in the Unorganized Sector (NCEUS), also known as the Arjun Sengupta committee, submitted its report to the government of India in 2006. The committee’s report estimates that over 92.00 per cent of the country’s working population is engaged in the unorganized sector, and that the majority of the women workers also work in this sector. Yet in spite of their vast numbers and their substantial contribution to the national economy, they are amongst the poorest sections of our population. Unorganized sector is characterized by low wages that are often insufficient to meet the minimum living standards including malnutrition, long working hours, hazardous working conditions, lack of basic services such as first aid, drinking water and sanitation at the work site.

A large invisible sector of workers is employed in what is called ‘home based work’ where; typically workers use their own premises to do piece-rated work. This not only includes traditional crafts, handloom, weaving, beedi rolling, but also more modern industries such as electronics. A survey done by AIDWA (All India Democratic Women’s Association) as far back as 1989 in Pune city identified over 150 occupations where women did home based work that ranged from making flower garlands, folding paper for the book printing industries, supplying chapatis to caterers, making incense sticks, weaving plastic seats for chairs and packing sweets and so on. Both formal and informal survey reveals that on an average, unorganized sector workers do not earn more than Rs 30 to Rs 50 per day. Some may appear to earn more but the work is often seasonal and the total earning amounts to roughly the same.

The NCEUS Report 2009 reveals that unorganized sector constitute 93.00 per cent of total workforce in India. The recent study on ‘conditions of work and promotions of livelihood in the unorganized sector report’, states that the world’s second fastest growing economy is being largely driven by workers in this sector.
About 44.00 per cent of all unorganized urban workers now work for India’s booming construction industry, the report says, mostly migrants who stream in from remote villages where agriculture can no longer support their growing numbers. From road construction crews to domestic help, they work for long hours for less than minimum wage, receive no compensation for work related injuries and have no social security, reveals the 450 page report that examines studies conducted in several states and analyses data from the national sample survey organization.

Stainless steel workers constitute one of the worst affected category, both in terms of conditions of employment and level of living. The average earning of stainless steel workers is much below the poverty line. By and large the stainless steel workers live in abject poverty and illiteracy. Vessel making is a monotonous job which involves large working hours; say 10-12 hours a day. Child labour is widespread in the stainless steel industry. The stainless steel workers in general do not have any contact with the manufacturers. The middlemen or the agents act as buffers between the workers and manufacturers. The unorganized nature of work, the close and private nature of relationship between the stainless steel workers and the individual employer, the small premises of work, small workforce, illiteracy, and inadequate alternative source of income are the reasons for their exploitation. (Ravichandra Babu).

Growth of informal sector in countries like India is spectacular. Informal sector existed even before the growth trade unions. The important reasons for the growth of informal sector are labour and capital market distortions and change in the government policies. The growth of informal sector is said to be inevitable in the changing labour market conditions. (Meera Bai.M and Merlin Joseph)

Creation of employment and income generating opportunities in the non-farm sectors such as construction activities, brick manufacturing, candle making, tailoring and agricultural and allied activities such as dairy farming, poultry farming, goat, sheep, pig rearing and agro-based rural industries, oil mills, flour mills would be a concrete solution to address the problem of rural indebtedness. Creation of
infrastructure and providing employment avenues in non-farming and allied farming activities would certainly be a permanent solution to the problems of rural indebtedness. Provision of micro credit under self help group concept is proved as a successful attempt to eradicate rural poverty. On similar lines, non-farming activities would also be a permanent venture towards the problems of indebtedness. (Senthil Kumar T.K and Chockalingam S.M)

The occupational shift of women towards rural non-farm sector was mainly driven by the poverty / distress related factors, whereas in case of men, it was determined by growth related factors originating from agriculture in favour of rural non-farm sector which tends to raise the wage rates of the existing labourers in agriculture and thereby contributing to a decline in poverty. Occupational diversification in favour of rural non-farm activities, therefore, has dual impact direct and indirect on reduction of poverty. In view of a gradual decline in the share of the government expenditure for rural development and poverty alleviation programmes, the promotion of rural non-farm activities followed by agricultural growth and human resource development can be considered as an important policy intervention to tackle the long standing problem of poverty in rural areas. (Kusugal N.S. and Biradar R.R)

The component of social insurance such as old-age pension, death and disability benefit (life insurance) and maternity benefit are the three requirements of a minimum social insurance programme for those working in the unorganized sector. (Shyamala A and Haridoss R)

Even though the National Rural Health Mission (NRHM) has led to significant increase in public spending, it is still only 1.3 percent of the GDP, one of the lowest in the world, and is barely expected to rise to 2.0 percent of the GDP at the end of the eleventh plan period. (2007-2012).

Social insurance system for unorganized sector workers should not be voluntary. A compulsory social insurance system would thus be required for the
benefit of the informal sector workers. However, India has, for the long run a system of ration cards for BPL families.

Intensive research has not been made on the provisions of employment generation in the informal sector. Hence, research work carried out in this area.

STATEMENT OF RESEARCH PROBLEM

Human resource development is emerging as a significant and discrete field of knowledge complimenting that of human resource management. (Harrison1997, Wilson1999). In highly populated developing countries like India, providing employment opportunities to the less educated and low skilled or indigenously skilled traditionally skilled labour force is a big challenge. On the other hand, in such transforming economy, owing to the structural changes and emerging strong competitive market, the nature of demand for labour force will be dynamic. In the sense, economy looks for potential labour force with increased productivity and updated knowledge and skill.

It is imperative in the context of new business reality to maintain the indigenous/traditional informal sectors for employing those labourers who are not equipped to get employed in the new business activities by learning or acquiring required skills immediately. Such labour force will have more employment opportunities in informal sector which caters to the local market requirements using the local resources and traditionally trained labour force.

Review of literature on informal sector indicates that not much research has been carried out to investigate its conditions after the adoption of globalization policy. Following research questions still remain unanswered hence the following research gaps are evident:

1. How to preserve local labor force and informal sector?
2. What is the nature of structural changes taking place in the informal sector?
3. What are the major problems of informal sector?
4. How employment opportunities are created in informal sector?
5. What is the nature of response from supply side in labour market for the changes in demand for the products of informal sector?

**OBJECTIVES**

The main focus of this research is to analyze the employment opportunities generated in the informal sector. Further, present status of the informal sector and their problems are analyzed. The specific objectives of the study are;

1. To identify the major Informal sector activities that could absorb the labor force in Coastal Karnataka.
2. To evaluate the employment potential of informal sectors (non-farm) in Coastal Karnataka
3. To analyze the role of entrepreneurship development activities of NGO’s, SHG’s, in imparting employability skills among the people?
4. To probe into the problems of employment in the Informal sector.
5. To provide a comprehensive form of welfare engaging employment in the Informal sector.

**Hypotheses**

H$_1$: Informal sectors have remarkable employment potential.
H$_2$: Informal sectors have problems of marketing their products in the changed globalised context.

**RESEARCH METHODOLOGY**

Methodologically, researching employment potential of any sector is a challenging task. Assessing the demand for labour force in Informal sector is very much uncertain, due to the structural and technological changes. However, in a developing economy, where labour force is abundant with low skills, traditional informal activities will be the major sources of employment. But, in the developing process when transformation takes place there will be a shift in the employment effected both from demand and supply side. Such changes taking place in the grass root level are analyzed in this study.
Attempt is made to analyze the economics of informal sector, considering income generation, cost of production, employment and marketing the products. Changes in occupation and employment potential in the informal sector are also analyzed and compared.

Problems of informal sector activities are analyzed to understand their internal constraints of growth or expansion. Further, satisfaction level of those engaged in informal activities are analyzed using Likert’s five point range scale, with reference to income earning, employment, availability of inputs, and working conditions. Trends of structural changes in the informal sectors are also analyzed using ‘before – after’ analysis.

**Source of Data and Sampling**

The study is based on primary and secondary data. The important activities of informal sector were identified. The employment potential of this sector was listed out. The various problems of the people engaged in this sector were studied. The employment prospects of this sector are also highlighted.

For collecting primary data, a well structured interview schedule was employed for field level interaction. Secondary data is collected from various journals, periodicals, published and unpublished articles and books and research thesis. A necessary random purposive sampling tool was adopted for the field study. A total of 300 Informal sector activities were selected as sample from three districts of Coastal Karnataka. Proper care has been taken to make sure that most popular activities under informal sector are selected.

**Tools of Analysis**

Secondary and primary data were analyzed using percentage, ratio and central tendency values. Further, comparative analysis of various activities of informal sectors has been attempted in terms of cost structure, revenue, employment, marketing and other problems. Impact assessment of the Informal sector on
household income, employment, assets and standard of living has been attempted on the basis of the opinions of the respondents using Likert scale.

Likert scale is a method of ascribing quantitative value to qualitative data to make it amenable to statistical analysis. The original idea of Likert scale was found in Rensis Likert’s 1932 article in Archives of Psychology ‘A technique for the measurement of Attitudes’. This idea was expanded by Lkert’s 1934 journal of social psychology article entitled ‘A Simple and Reliable method of scoring the thurstone Attitude Scales’. His goal was to develop a means of measuring psychological attitudes in a ‘scientific’ way.

Respondents are asked to indicate their level of agreement with a given statement by way of an ordinal scale. Comparative analysis of districts pertaining to the employment and wage structure has been attempted.

The field survey related to the research problem was conducted during the year 2013-14. The information pertaining to change in cost, values and marketing of the informal sector products and services are collected from 2008 to 2013. The sample informal sector entrepreneurs have furnished this information on the basis of available past records.

**Study Area**

The study is undertaken in Coastal Karnataka districts-Dakshina Kannada, Udupi and Uttara Kannada, which have a rich tradition of informal activities. Historically, traditional informal non-farm activities like pottery, bell metal making, black smithy, beedi rolling and such other activities were popular in the districts of Coastal Karnataka. Major transformation in informal sector activities are witnessed in the area selected for this study. Hence, the districts of Coastal Karnataka were selected for the field study. Presently, many enterprises like flour mills, tailoring, telephone services, photo copy centres, iron and steel works are being carried out in this area. Further a large number of NGOs, Self-Help Groups are functioning in these districts to make people self-sufficient and economically independent. The functioning of SHGs and NGOs enables people to depend on informal non-farm
activities. Hence, the research is focused to know the result of non-farm activities on the extent of employment generation.

Scope and Limitation

The research work intends to cover the nature and extent of informal sectors in the grass root level and their contribution to the employment of human resources, and analyses their economics. Further, problems faced by the informal sectors are also analyzed to probe into their present status in the study region. However, few activities of the informal sectors have been taken up for the in depth analysis and therefore, the findings of the research may not be replicable in other regions.

CHAPTER SCHEME

The proposed study titled “Employment Generation in Informal Sector: A Case study in costal Karnataka” will be coordinated in seven Chapters as detailed below.

CHAPTER - I : “INTRODUCTION” presents an overview of the subject matter of the research study by clearly detailing the conceptual framework, need for the present study, research questions, objectives, and hypotheses. In addition, sources and methods used for data collection, scope and limitations of the present study, and chapter classification are also given in this chapter.

CHAPTER - II : “THEORETICAL BACKGROUND AND REVIEW OF LITERATURE” outlines a thumb-nail sketch of theoretical background of economics of informal sector and provides a detailed review of earlier research studies conducted in this field of knowledge.

CHAPTER – III : “MACRO PROFILE OF THE INFORMAL SECTOR” provides an overview of informal sector in India.

CHAPTER - IV : “PROFILE OF THE STUDY AREA AND SAMPLE
DESCRIPTION” provides the geographical, demographical, socio-cultural and economic profile of the study area. Further, profile of the sample respondents is also discussed.

CHAPTER - V : “ECONOMICS OF INFORMAL SECTOR” provides discussion on employment generation, marketing and financial aspects of informal activities in the study area analyzing the results of the study.

CHAPTER - VI : “ECONOMIC IMPACT OF INFORMAL SECTOR AND ITS PROBLEMS” provides discussion on impact of informal sector activities on household income, employment, household assets and standard of living and analyses the problems of informal sector in the study region.

CHAPTER-VII : “SUMMARY AND CONCLUSION” presents a summary of the research results and discussions given in the earlier Chapters and important economic implications for enhancing the overall effectiveness of development programmes. Finally, the Chapter concludes by providing the directions for further research in this field of knowledge.
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