

CHAPTER II

REVIEW OF LITERATURE

2.1 Informal Sector: Definition

The term 'Informal Sector' was first coined by Keith Hart in his study of urban Ghana in 1971. Hart described the informal sector as that part of the urban labour workforce which falls outside the extent of the formal/organized labour market. This concept of informal sector has been redefined by the International Labour of Organizations' (ILO) Kenya Mission Reports of 1972. More formally, ILO (1991) defined Informality as a way of doing things characterised by- "(a) Ease of entry, (b) Reliance of indigenous resources (c) Family ownership (d) Small scale operations (e) Labour intensive and adaptive technology (f) Skills acquired outside of the formal sector (g) Unregulated and competitive market."

Majumder (1975) defined "informal sector as an easy entry residual sector" providing mainly services and crowded with secondary workers with low and productivity as well as wages.

Tokman (1976) defined the informal sector as "a self-contained sector with well-defined and significant links with the remaining part of the economy".

2.2 International Definition:

SNA (1993) defined "informal sector is a sub-sector of the household sector or correspondently unincorporated enterprise owned by the household. The basic objective of informal sector is generating income as well as employment to the persons concerned. These units mainly operate at a low level of organisation. There is no division between capital and labour as factors of production here."

2.3 National Perspective: Informal Sector

In India, the term 'Informal' has neither been used in the official statistics nor in the National Accounts Statistic (NAS). The term in use in the Indian NAS is classified as "organized" and 'unorganized', though quite often researchers have used the term 'unorganized' and 'informal' interchangeably. In fact, the terms 'informal sector' and 'unorganized sector' are quite similar to each other though not identical.

NSSO's (1999-2000) definition covers all the unincorporated proprietary and partnership enterprises as constituents of informal sector enterprises. In addition to proprietary and partnership enterprises, other type of enterprises run by Co-operative Societies, trusts, private and Public Limited Companies not covered by Annual Survey of Industries are also the part of unorganized Sector. Hence, the unorganized segment would be larger than the informal sector and informal sector is considered as a sub-set of unorganized sector. In the survey, conducted by

NSSO during 1999-2000, all unincorporated proprietary as well as partnership enterprises have been explained as informal sector enterprises. This definition differs widely from the concept of unorganized sector used in National Accounts Statistics.

2.4 The Main Characteristics of Informal Sector has been given by ILO, (1990)

a) Independence and Flexibility:

Independence, freedom and flexibility are main characteristics of informal sector. Many workers of developed and developing countries get engaged in the informal sector because of independence and freedom of to use their creativity at work.

b) Ease of Entry:

Most of the rural population enters into the city life through employment in informal sector. They leave their villages in the expectation of higher incomes than the income they get from rural agriculture.

c) Tax Evasion:

Under informal sector, no formal record of economic operations or transactions needs to be maintained. As such, the incomes are neither recorded nor not reported for taxation.

d) Small Scale Operation:

Informal sector is considered to be a small in terms of size, scale of operation, capital strength and the rate of return on capital employed

e) Legal or illegal:

There are various types of activities in the informal sector that may be legal or illegal.

f) Unprotected labour market:

Unprotected and unregulated labour market is another important feature of Informal sector. It is competitive owing to freedom of entry and exit from this sector.

2.5 Formal and Informal sector linkages: -

Aside from the contrasting characteristics of formal and informal sector, it is necessary to identify the linkage between the two sectors. The linkages are categorized as direct and indirect. The direct linkages arise from the supply-side in the form of supply of resources, inputs as well as technology from formal to informal sector and through various market linkages. On the other hand, indirect linkages refer to the magnitude of demand for goods and services produced in the informal sector by the population whose income is dependent on the formal sector employment Papola, (1975). He also emphasized that, although the informal sector supply a significant part of

goods and services to the urban economy and generates employment for the entire residual labour force, its growth largely depends on the performance of the formal sector. Moreover, the direct linkages between formal and informal sectors in developing countries is the result of existence of a parallel urban informal sector Mitra, (2001)

The formal and informal sector's dichotomy structure was first developed by Keith Hart. He explained it in terms of informal income along with employment generating activities, unenumerated activities, unorganized activities, urban poor workers, self-employed activities. The informal sector is normally characterized by a great deal of heterogeneity and low earnings. The broad characteristics of formal-informal sector as identified by ILO, (1991) is explained below in table 2.1

Table 2.1

Characteristics	Formal	Informal
1. Working Hours	Fixed and regulated	Not fixed and regulated
2. Job Security	High	Low
3. Wages	Regulated and minimum wage	Not regulated/no limit
4. Social security	Most provided	None or little
5. Safe working environment	Safer and secure working conditions	Vulnerable to dangerous and hazardous work.
6. Employee & employer relation with employment control	Issue of appointment letter	Without appointment letter
7. Labour law right to freedom of association and collective bargaining	Protective	No or little legal protection

Source: ILO (1991)

2.6 Classification of the Informal Workers:

According to the ILO (1991), “Informal sector refers to an extensive range of economic workers such as street vendors, small automobile shops, small scale manufacturing, machine repairing shops, bicycle menders, rickshaw peddlers, domestic workers, fish mongers, fisherman, boatman, plumbers, porters, ragman, barbers, florists, small tea shop and tea sweetmeat shop workers, green grocers, share croppers, hawkers, masons, carpenters, private tutors, small artisans etc.”

The Ministry of Labor Government of India, has categorised the informal sector labour under four groups depending on occupation, nature of employment, distressed categories and service categories

Informal Sector worker can be categorized broadly under the following four groups-

- 1) In terms of Occupation: Land less agricultural labourers, Small and marginal farmers, fisherman, leather worker, artisans, weavers, beedi rolling, labeling and packaging, those engaged in animal husbandry, building and constructions, oil mills, sawmills etc.
- 2) In terms of nature of employment: Agricultural labourers, migrant workers, bonded labourers; contract and casual labourers come under this category.
- 3) In terms of specially distressed categories: Scavengers, toddy tappers, carries of head loads, loaders and unloaders, drivers of animal driven vehicles belong to this category.
- 4) In terms of service categories: The service sector includes the various service categories, Beauticians, Barbers, Domestic workers, Vegetables and fruit vendors, newspaper vendors etc.

2.7 Literature on Significance of Socio-economic Indicators on Informal Sector

Studies from developed and developing countries observed that the socio-economic status of an individual may be indicated by various indicators like age, education, family size, social class, occupation, income, and other consumer durables like fridge, microwave, washing machine and so on Das, (2016).

a) Age:

Age and education level of the entrepreneurs could have significant influence on the design of assistance programmes in the informal sector and also on the performance and management of individual enterprises Wanangiri (2001), Geetha (2012). They found that the younger workers enter into the informal sector at the age of 14 -28 earning higher amount of income and contribute to their family. But due to engagement in younger age their formal education suffers. Saheb (2011) found, in his study of Madhya Pradesh, that 35.73% of the entrepreneurs in the informal sector had 12-13 years of formal education. This observation explains how low level of

family income and subsistence living compelled the young age population to engage themselves in various informal jobs. Again Md. Alam (2012) observed that above 52 percent of the total workforce engaged in the informal sector in Bangladesh, fall in the younger age group 6-18 years. Out of this, 35% school dropout children in the age group 6-13 years who are compelled to join the informal workforce to earn their family livelihood, due to absence or demise of the family's prime bread-winner.

b) Education:-

Level of educational attainment determines the quality of the workers. Education and training are two important components by which employability, productivity, capability, and hence income as well as earnings of the workers can be improved. ILO, (2002). Higher educational attainments of the workers are one of the important pre-requisites to move from informal to formal job market. The illiterate people have no other choice but to work in the informal economy ILO, (2002). Chadha (2004), have classified informal workers into three categories, namely, i) illiterate or low quality workers (illiterate and below primary level of schooling), ii) semi-educated or medium quality workers (those who have completed primary and middle level of schooling) and iii) high educated quality workers (those who have completed secondary and above level of education). Yamada (1996) found in his research that as per the survey data out of 250 worker 17 vendors were less than 16 years of ages, 36 between 16-21, 84 between 22-25. The data shows that there are a high number of females participating in the vending activity who are still under 16. Thus, by compromising their studies and education, this activity will eventually pull them further in the same stream only leaving them unskilled. Romatet, (1983) from his study on socioeconomic conditions of domestic workers in slums of Calcutta found that 50 per cent of the women workers were illiterate and 44 per cent had education up to primary level only. So, they are unable to find job in the organized sector. Illiteracy is the main constraint for females to find jobs in modern sphere Mohapatra, (2012).

The above discussion indicates that informal workers have less scope for education as they are compelled to join jobs at a young age. However, this may not be the case across all the regions or across countries. There are evidences of workers involved in informal sectors who are highly educated and trained. Oberai As. (2001) in his research observed that 29% percentage of the entrepreneur had primary education. He found that informal workers are more literate and educated. This could be attributed to the rising level of unemployment of secondary school graduates who eventually end up in this sector as an action of last resort.

c) Family size:

Family sizes of the entrepreneur heavily influence his income, savings and investment. Larger family size has a positive impact on informal sector Naik, (2009). He found in his study of Calcutta that 56% workers entered into the informal sector at an early age due to their large

family sizes because of which they have a pressure to earn more. Again, Singh (2005) observed that a large family can put pressure on the prime member either to work harder or use up his reinvestible surplus. He also found that those entrepreneurs that had either one or two dependents in their family, don't have much pressure to earn.

d) Vocational Training:

Rathgeber, (1987) in his study suggested that formal vocational training had a direct influence on improved health conditions and productivity of workers. Vankatsamy, (2016) compared formal and informal training of informal workers engaged in service sector of Chennai City. He found that the majority of men and women were working in the sectors such as beauty parlor, Xerox and DTP center etc., had formal vocational training and they earned good amount of salary. In his study, he also found that the income of the women workers who acquired formal training was much greater than the men workers. Srivastava, (2010) in his study of Madras found that 36% of the informal workers acquired formal training, 28% of the workers had informal training, and rest of the 36% of the worker did not acquired any types of training.

e) Economic status:

The economic indicators like status of dwelling house, drinking water, sanitation, medical facility may also play an important role on their informal sector income. D.P. Singh (2005) in his study of workers in informal sector has an extensive exploration of women workers engaged in brick kiln industry of Madhya Pradesh. The study observed that maximum women workers in brick kilns industry have very poor socio-economic background. Nearly all of them belong to schedule castes and economically backward class which is not always sufficient to support their families. They are extremely deprived of good living standards as well as working conditions. Their dwellings are poor and availability of space is extremely inadequate with a small space being used as bedroom, stores and even kitchen. The facilities of sanitation, drainage, ventilation and lighting are either absent or poorly constructed. Their continuous unhygienic living conditions increase the probability of contracting diseases of the skin, eyes, bronchial and respiratory problems like cough and asthma.

2.8 Problem faced by the workers of Informal Sector in India and Assam

2.8.1 Low wage & long hours of work:-

Low wages accompanied by long hours of work is a characteristic of the informal sectors in most of the developing countries like India. Generally, the long working hours is a severe problem on the social and family life of labourers, especially for women labourers in particular. They do not find any time to take part in cultural or social activities as well as to take proper child care. Mohabatra, (2012) explained the problem of female workers employed in informal sector. They found that women workers are facing the problems of exploitation, low wages, and long working hours. They were struggling with many problems fraud, menacing, assault and

sexual exploitation in informal sector. Majumder (1975) in his research paper on working condition of women workers in Maharashtra identify the temporary nature of job, long working hours, absence of leave facilities, lack of opportunity for promotion, low wages and deprivation from minimum wage and gender discrimination as unique features of the sector.

2.8.2 Poverty and Indebtness

Studies from developing countries enumerate various factors which push the informal sector workers below poverty line such as low wages and salaries Ibrahim, (2016). Saheb, (2011) focused on the poverty of unregistered male and informal sector workers. He found disparate proportion of workers which were below poverty line i.e., in Puri 37%, in Agra 51% and in Kanpur 47% were below poverty line. Most of the workers in these cities belonged to below poverty line because of their fathers' indebtedness. Further, death of the main earner involved additional expenses for which the families spent their savings, sold assets, and finally borrowed money from landlords at high rate of interest, thus getting trapped in vicious circles of poverty.

2.8.3 Problem of street vendor and market vendor: -

Street vendors are an essential part of urban economies around the world. They sell fresh vegetables to prepared foods, from building materials to garments and crafts, from consumer electronics to auto repairs to haircut ILO, (2002). Researchers have found that the street vendors have faced dozen of problems. The bulk of street vendors are bearing all types of harassment by the police and authorities due to absence of licenses A.Muthusamy & M.S.Ibrahim (2016). They also found that the street vendors are a vulnerable population, because they are neither protected by the government, labour unions, and NGOs, nor by any labour law. They always suffer from labour union laws He also observed that the street vendor are exploited by the local police daily and they are forced to pay 15 to 20 percent of their daily income as bribes. The municipal authorities, Police as well as local muscleman all contribute to paving devastation in their lives by taking away their earnings. Not only do the vendors pay bribe but occasionally a polic- jeep would draw up and the police would pick up their products such as fruits, vegetables from them free of cost.

A.H.Subratty, P.Beehary, M.Chansun (2014) found their survey in rural areas in Mauritius about hygienic practices among food vendors. Generally the food vendors were quite aware of hygienic conditions. But the majority of the street vendors were not executing their knowledge into practice. They become aware of that their products were little risk to the customers. It focuses attention on the need for further health education of street food vendor

2.8.4 Insecurity of job:

Ahmed & Ahmed, (2017) their study of Maharastra city found that workers in the informal sector enterprises, irrespective of which state they belong to, do not secure any documented job-contact, paid leaves and other social security benefits. She observed that illiteracy and the lack of

training increase the risk of getting insecure jobs. This job insecurity implies income insecurity. Srivasta, (2010) found his study of Chennai that the informal sector workers often undertake multiple jobs, and call this a sign of job insecurity. These workers in the informal economy are exposed to various forms of risk that could be structural or random shocks.

2.9 Theoretical Background:

2.9.1 The Harris-Todaro Model:

Harris and Todaro have formulated a basic model to link the urban organized as well as informal/unorganised labour market with rural labour market. It begins with an assumption that migration decision is based on the expected income differentials between rural and urban areas rather than just wage differentials. The essence of this model is that migrant labours compare the different labour market opportunities accessible to them from the urban and rural sectors and then choose the one which increase their expected gains from migration. Moreover this model premises that, the migration from rural to urban will continue till the expected urban wage is equal to rural wage. Now this model can be easily extended to the urban informal sector. When a migrant is exploring for a formal job, he has the initial choice of earning something in the informal sector where entry is not difficult. Nevertheless, informal sector employment will postpone the hunt for formal employment to some extent, so that majority of the migrants will decide to engage in a temporary job.

2.10 Research Gap

From the above review of literature on informal sector, it is clear that there are various interpretations of the concept of informal sector and it has been studied from different angles.

The necessity of the present study arises as existing studies in the field of informal sector are based on large and big metropolitan cities, and not on smaller towns and districts. The present study focuses on two small towns in Dhemaji district of Assam to explain the socio economic status of workers in informal sector. Moreover, this study, unlike existing studies on informal sector employment, emphasizes on both the social and economic conditions of those engaged in the informal sector.