



## A Case Study

# Structure and operational performance of informal enterprises in the urban area of Muzaffarnagar

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### Paper History :

Received : 01.07.2014;

Revised : 16.07.2014;

Accepted: 30.07.2014

**ABSTRACT :** The present study examined the nature and structural attributes of informal enterprises engaged in a wide spectrum of diverse activities. It aimed at investigated and evaluated a number of important growth parameters of informal enterprises with special reference to productivity of labour and capital, employment levels, income and saving potentials as well as techno-economic characteristics. Data were sourced from secondary and primary data. The data were analyzed using multiple regression analysis. The results showed that the unorganized sector is in no way an independent and exclusive sector. It is linked to or in many cases, dependent on the organized sector and the rest of the economy through a variety of linkages. It depends on the organized sector for raw-materials and other capital requirements, generation of employment, marketing facilities and so on. The sub-contracting model is also used by the formal sector for engaging labour in the unorganized sector. Both these sectors are mutually dependent on each other not with standing the incidence of exploitation of the informal sector by the formal sector. It was therefore concluded that the need of an appropriate policy structure to enable the informal enterprises to play a more significant role in urban development.

**KEY WORDS :** Informal sector, Formal sector, Enterprises

**HOW TO CITE THIS PAPER :** Goel, Varsha (2014). Structure and operational performance of informal enterprises in the urban area of Muzaffarnagar. *Internat. Res. J. Agric. Eco. & Stat.*, 5 (2) : 299-308

## INTRODUCTION

The urban informal sector has today become a subject of increasing interest especially in developing countries like India. The logic of this interest can be attributed partly to the market disillusionment with the industrial growth experience of these countries in the 1960s and 1970s when contrary to what conventional theorizing had projected industrial growth (*i.e.* a panacea an open sea same for ailing economies) high rates of industrial growth were ironically enough, consistent with urban stagnation and poverty. Instead, the urban informal sector has provided an explanation of how the urban poor manage to service as the margins of modern economy in a large number of cities and towns, and how the urban poor are creating an economy which represents an important source of employment and form of production of goods and services which society needs.

A study of the United Nations population division

concluded that the proportion of urban residents in developing areas rose from 16 per cent in 1950 to 43 per cent by the year 2000 A.D., thanks to natural population increase and the inflow of migrants from the rural areas (UNPD, 1970).

The Pearson Commission on International Development observed, "The failure to create meaningful employment is the most tragic failure of development. All indications are that unemployment and under utilization of human resources have increased in the 1960s (CID, 1969). This statement suggests, *prima facie*, a possible incompatibility in the developing countries between the twin objectives of maximizing employment and output. In fact it is the informal sector which is a major contributor to the maximizing of employment and improving the living conditions of surplus labour in developing countries.

The size of the informal sector in India is quite large. Available data suggest that more than 90 percent of the total workforce of 380 million is engaged in the informal sector

(Oberai and Chadha, 2001). In urban areas, this figure is close to 65-70 percent. Not all of these workers are poor but crude estimates suggest that close to half this number is in dire need of occupational up-scaling. The truly dynamic segments may constitute less than one-third of the total size of the informal sector.

According to the survey carried out by the National Sample Survey (NSS) in the year 1999–2000, the total employment in both organized and Unorganized sectors in the country amounted to 39.7 crore. Out of this, 2.8 crore were in the organized sector and the balance 36.9 crore in the unorganized sector constituting 93 per cent of the total employment. Out of 36.9 crore workers in the unorganized sector, 23.7 crore were employed in agriculture sector, 1.7 crore in construction, 4.1 crore in manufacturing activities and 3.7 crore each in trade and transport, communication and service.

Although, the informal sector has provided almost all additional employment in recent years, and is now India's major hope for future employment generation, it has not yet achieved such desirable economic targets as high growth, technological break-through, productivity improvement or substantial income propagation. Over the years, the sector has displayed a contrasting mingle of strength and weakness. Its failures need to be understood and dealt with, at the institutional, market and individual levels.

The present study opens with the identification of the informal sector and its distinguishing features. The dualistic classification of market economy has also been examined critically and in detail. The present study also delineates the different views of development theorists on informal sector, it also capsulate the role played by informal sector in developing countries, especially in India.

#### **Identification of informal sector and its distinguishing features :**

The concept of 'informal sector' was first used in a study on Ghana (Keith, 1973) and then in the report of the ILO/UNDP employment mission to Kenya (ILO, 1972). Later, in 1970s, the concept had gained considerable currency in the literature on development policy in particular. In 1987, ILO postulated the role of this sector in promoted employment, the absence of adequate laws for providing protection to workers in this sector, and the scope for application of international labour standards in this area. In recent years, the formal sector has failed to generate adequate employment opportunities for the growing labour force in the Indian economy. Accordingly, there is now a growing realization among policy makers and development specialists in India that bulk of the future employment expansion has to be found in the informal sector. This sector cannot, however fulfil the task of providing more, and better quality employment unless it achieves such desirable goals as high growth, technological breakthrough, productivity improvement and substantial income propagation.

Informal sector embraces a widely dispersed multitude of operating units with high rates of birth and death and considerable mobility, essentially differing from the formal sector in technology, economies of scale, use of labour intensive processes for producing goods and services, virtual absence of well maintained accounts and dependence on government subsidy. It is informal in the sense that it is not regulated by Government under any statute.

Notwithstanding many attempts to clarify the concept, the definition of the terms "informal sector" has remained elusive. Since "informal" implies the existence of something "formal", it is evident that the concept is related to what one considers as formal. As both the formal and the informal sectors refers to economic activities, that is, production and distribution of goods and services, the distinction between the two sectors must lie in the nature of economic units engaged in the activities and the manner and milieu in which they function.

In the Indian National Accounts Statistics (NAS) the unorganized 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. Non-availability of regular accounts has been the main criterion for labeling this sector as unorganized. This definition helps to demarcate organized from unorganized. For example, units not registered under the Factories' Act constitute unorganized segment of manufacturing. In case of the sectors –trade, transport, hotels and restaurants, storage and warehousing and other services, all non-public operating units constitute the unorganized segment on account of non-availability of regular accounts of activity. Significantly more than 60 percent of the income of the economy is generated in the unorganized segment in India.

The unorganized segment is labour intensive and in the Indian context it can be typically viewed as a proxy to the household sector combined with non-profit institutions serving households. Though the major component of the unorganized sector is the household enterprises yet there are sizable number of establishments as well in the unorganized sector as all the manufacturing establishments which are not covered by the Annual Survey of Industries (ASI) and all the non-public sectors and unincorporated enterprises / establishments in various non-manufacturing economic activities are very much there in the unorganized sector.

Thus, the informal sector can conveniently be defined as that which is not a part of the formal organized sector. It must be pointed out that it has almost become the universally accepted practice to treat the words "Unorganized sector" and "Informal sector" as denoting the same area. They are therefore, regarded as interchangeable terms.

However the informal sector concept as put forward by the ILO and the unorganized sector mentioned above are conceptually quite different. Whereas the ILO concepts focus on a particular target group, the unorganized sector depends

on the country practices to generate information for the different parts of the economy. In the Indian context, the unorganized sector is one which is not organized and may include own accounts, production of goods and services at owner-occupied dwellings, domestic services and some quasi corporations. Therefore, strictly speaking, to get information on the informal sector one is expected to work out the contribution of activities mentioned above from the unorganized sector. Normally the unorganized sector would be larger than the informal sector but it could be the other way round as well if the country practices for generating information in an organized way on a regular basis become strong.

In the Indian context, 'unorganized sector', 'unregistered sector' or 'traditional sector' can all be used as a proxy for the informal sector. The informal sector also came to be known variously as 'unregulated' or 'unprotected' or 'sweated' or 'traditional' or 'household' or 'peasant' or 'unremunerated' sector because of its diversified definitions in the dichotomous model of modern economy. The organized sector is governed by statutory obligations such as taxation and labour laws, employs formalized procedures such as modern accounting methods, extensive division of labour and specialization. Its nature and operational functions are, more or less, clearly defined. The informal sector on the other hand, is conspicuous by the absence of these features. One of the most convenient ways of identifying the informal sector is to define it in terms of the source of employment of the urban poor.\* Since the vast majority of the urban labour force, particularly the urban poor would depend on private sources of employment, public sector employment would be considered to fall outside the informal sector. The large industrial and commercial establishments in the private sectors are excluded because only a small fraction of their labour force consists of the urban poor. Informal sector includes all economic units engaged in the production of goods and services with the exception of registered commercial enterprises, formal non-commercial enterprises and the government sector (ILO, 1972). Considering the vast heterogeneity of the informal sector which creates problems of its identification in daily life, a criterion for identification of an informal sector enterprise should satisfy at least one of the following characteristics :

- It should employ fewer than ten persons (part-time and casual workers).
- It operates on a non-legal basis in the absence of government regulations.
- Family members of the head of the enterprise work on it.
- It does not have fixed hours of work or days.
- It does not use power or mechanical power in the production process.
- It does not have an access to formal credit, and,
- Workers engaged should have less than six years of formal schooling

It has also been observed that in recent past there has been, due to a number of economic reasons, a mass exodus from rural to urban areas. The immigrants entering cities often fail to seek employment in the formal sector. It is the informal sector which has worked as a labour sponge for this swelling male and female working population.

Naturally the increasing number of micro-enterprises in the informal sector have posed and are posing a number of problems like scarcity of finance, creation of slums and threat of legal action by governmental agencies. Moreover, the use of old technology leading to lower labour productivity per man-hour and also lower capital productivity are eating into the vitals of this sector. Keeping in view the large number of labour force engaged in this sector it merits a special attention by researchers. The exploitative character of the informal sector, the need of up-gradation of technology, lower wage structure and poor working conditions are important factors which claim attention.

It is a sad state of affairs that despite its overwhelming importance in a developing economy like ours, this sector in India has so far remained neglected, so much so that even our Five Year Plans have chosen to bypass it! The Planning Commission has failed to recognize the importance of this sector in urban economy and so far precious little has been done for its amelioration!

#### **Literature Review :**

In order to analyze the role of informal enterprises in urban area of MZN, a brief review of literature has been made.

There are not many studies in India which are addressed mainly to one or the other aspects of informal sector. The few studies that the researcher came across during the literature survey are briefly discussed here. One of the studies on the informal sector in the Calcutta metropolitan economy deals with the pattern of functioning of the industrial units in Calcutta slum areas (Bose, 1974). Many of others have used some of the criteria mentioned above for empirical delineations of the two (or more) sectors, (Joshi and Joshi, 1976; Breman, 1977, Papola, 1978, Bose, 1978, Deshpande, 1979 and ORG 1978). All of these studies have in some way or the other attempted to identify the informal sector for the city as a whole and estimated the proportion of work force in this sector.

In general studies on informal sector in recent years (Mitra, 1998; Kundu and Lalita, 1998; Mahadevia, 1998; Nair, 1998; Rani and Galab, 1998 and Patrick, 1998) results are quantitative without being analytic and have not been of much help in understanding the pattern or nature of interdependencies or the dynamics of this sector.

Many papers presented at a National workshop on strategic approach to job creation in the urban informal sector held by under the South Asia Multidisciplinary Advisory Team (SAAT) of ILO, New Delhi in June 2001, highly focused on different segments of this informal sector in India (Kundu, 2001;

Chadha, 2001; Dewan, 2001, Damodaran, 2001; Kumar, 2001; SIngh, 2001; Pradhan, 2001; Verma and Mohan, 2001; Subramaniam, 2001; Barooah, 2001; Viswanathan *et al.*, 2002; Singh, 2003 and Chaganti, 2004). Scholars working on the subject hold different views on the concept of informal sector. With a view to helping the member countries in providing comparable statistics of employment in the informal sector, the informal sector is defined irrespective of the kind of work place where the productive activities are carried out, the extent of capital assets used, the duration of the operation of the enterprise and in its operation as a main or secondary activity of the owner.

Theoretical research on the development dynamics in India as also in other developing countries has stipulated several characteristics of the informal sector in terms of technology, production relations, conditions of work and workers, among others. It also envisages certain types of relationship between the formal and informal sectors. Unfortunately, empirical studies analyzing the pattern of growth of the informal sector at the national or state level have generally used a single criterion such as the number of workers, capital employed, use of electricity or registration with certain public agencies, as the basis for identification of the informal sectors. Understandably, development economists have found this approach, based on limited indicators, inadequate and unsatisfactory for capturing the whole gamut of informal sector activities. They have argued that some of the crucial characteristics of the informal sector pertaining to labour relations producer trader nexus, linkage with the government and other formal agencies, considered important in the theoretical literature, has been ignored in macro level analysis based on secondary data.

Though it is difficult to estimate either the absolute magnitude or the rate of growth of employment in the urban informal sector in various countries, it would appear, based on the evidence available, that there are some similarities between the rate of urbanization and the evaluation of the urban informal employment. The proportions of urban employment in the informal sector in selected countries are : Indonesia (1986) 72 per cent, Thailand (1988) 62 per cent, Myanmar (1983) 57 per cent and Pakistan (1990) 79 per cent.

A quantum of employment in informal sector in the different surveys is given in Table A :

2<sup>nd</sup> Labour Commission Report, Report of the National Commission on Labour, Shri Ravindra Verma, Vol.-I (Part Two), No. 4 of 2002 to JMJ Book INFO, Oct, 2002, Akalank Publication.

In India, as is clear from table 1.1 the unorganised sector accounts for well over 90 per cent of the total workforce and forms an overwhelming large factor affecting the health of our economy. As such it merits serious consideration both by scholars and policy makers.

**Table A : Employment in organised and unorganised sectors in India**

Years	Organised sector	Unorganised sector	Total (million)
(1)	(2)	(3)	(4)
1961	14.60 (7.8)	174.10 (92.2)	188.70
1971	20.20 (8.9)	206.70 (91.1)	226.90
1981	22.90 (9.7)	214.00 (90.3)	236.90
1991	26.70 (9.4)	259.38 (90.6)	286.08
2001-04	28.11 (7.08)	368.89 (92.9)	397.00

Source : Economic survey 2001-2002 and draft tenth five years plan

Note: percentages in brackets.

#### Objective of the study :

- To delineate the nature of economic activities undertaken by informal enterprises and their structural attributes.
- To throw light on the pattern of employment, capital investment, earning levels, sales turnover, age and physical structure.
- To examine the nature of linkages between the formal and informal sectors.
- To study the extent of savings of informal enterprises and the form of such financial savings.
- To identify the technological level and productivity pattern of informal enterprises.
- To suggest an appropriate policy structure so as to enable informal enterprises to play a more significant role in urban development.

#### Hypotheses :

The present study is to test a number of hypotheses (listed below) commonly stated in connection with the structure and operational performance of enterprises in the informal sector.

- For an enterprise it is easy to establish itself in an informal sector.
- The informal enterprises have relative advantages in providing higher employment and output per unit of capital and more equitable growth in comparison with units in the formal sector.
- The enterprises in the informal sector are conspicuously heterogeneous and exhibit a wide diversity of incomes.
- The enterprises which constitute the informal sector act as a great absorbent for the unemployed as compared to those in the formal sector.
- The technology used by informal enterprises is mostly old and obsolete, so the productivity of labour per man hour is lower and the quality of product inferior.

The present investigation focuses on the plight of the structure and operational performance of informal enterprises in the urban area of Muzaffarnagar, which environs Muzaffarnagar municipal area as the base. The present study

is limited to the informal sector units in the self-operated enterprises in Muzaffarnagar city. 200 enterprises in Muzaffarnagar city was selected as a sample which included five sub-sectors *viz.* manufacturing (35.0 %), construction (7.5 %), transport (7.5 %), trade (25.0 %) and service (25.0 %).

Special efforts have been made by the researcher for selecting female enterprises. The data was collected with the help of a well designed self-made questionnaire. Each enterprise was approached personally to solicit information through this questionnaire.

#### Limitations :

There are three major limitations of surveys of the economically active population and similar household surveys as source of information about the informal sector : (i) Unless they are specifically designed for this purpose, the samples of such surveys may not include a sufficiently large number of persons engaged in different types of informal sector activities, and hence it may not be possible to obtain reliable estimates of the structure of informal sector employment at a detailed level of disaggregation. (ii) There is a limit to the quantity as well as to the quality of the information that can be obtained. For practical reasons, the information must often be obtained from proxy respondents. Moreover, such surveys are surveys of all household members, including not only employers and own account workers but also employees and unpaid family workers, *i.e.* persons who are not themselves the working owners of an enterprise. Even when there is no proxy response, employees and unpaid family workers are likely to have only limited knowledge of the characteristics of the enterprise in which they work while they should normally be able to provide information about those characteristics of the enterprises which are used as criteria in the proposed definition of the informal sector. Obviously they cannot provide exact information on the functioning, production and income generation of the enterprises. The same is true of persons who answer in proxy response for own account workers and employers. (iii) On the basis of the results of such surveys it is difficult to estimate the total number of informal sector units for obvious reasons. Informal sector units are generally excluded from the scope of these surveys because it is well nigh impossible to maintain an up-to-date list of such units. This difficulty results from the very nature of informal sector units and the conditions under

which they operate. Informal sector units are large in number, small in size, and diverse in activity patterns and modes of operation. Such units are subject to marked fluctuations, because of diverse factor such as changes in activity or location, or because they operate on a seasonal or casual basis. Moreover, many informal sector units are difficult to identify and locate because they are operating in the homes of their owners or have no fixed location for conducting their business.

## RESULTS AND DATA ANALYSIS

The findings of the present study as well as relevant discussion have been presented under the following heads :

Informal enterprise activities have been divided into five categories *viz.* manufacturing, construction, transport, trade and business, service and repairs. A manufacturing enterprise may be included in the informal sector if it satisfies one or more of the following conditions : (a) It employs 10 persons or less (including part-time and casual workers), (b) It operates on a non-legal basis by passing government regulations, (c) Members of the household of the head of the enterprise work in it, (d) It does not observe fixed hours days of operation, (e) It operates in semi-permanent or temporary premises, or in a shifting location, (f) It does not use any electricity in the manufacturing process, (g) It does not depend on formal financial institutions for its credit needs, (h) Its output is normally distributed direct to final consumer, (i) Almost all those working in it have fewer than six years of formal schooling. A construction enterprise may be included in the informal sector if satisfies one or more of the following conditions: (a) Any of manufacturing (a)-(c) or (i) above (b) It does not own power-operated construction machinery and equipment. (c) It is engaged in the construction of semi-permanent or temporary buildings only. An enterprise providing services related to transport, storage and communication may be included in the informal sector if it satisfies one or more of the following conditions : (a) Any of manufacturing (a)-(e), (g) or (i) above. Condition of manufacturing (e) does not apply to transport activity per se. (b) It does not use any mechanical power. A trading enterprise may be included in the informal sector if it

**Table 1 : Sectoral distribution of informal enterprises in the urban area of Muzaffarnagar**

Sr. No.	Category	Male	Female	Total
1.	Manufacturing	25 (12.5)	45 (22.5)	70 (35.0)
2.	Construction	15 (7.5)	-	15 (7.5)
3.	Transport	15 (7.5)	-	15 (7.5)
4.	Trade	18 (9.0)	32 (16.0)	50 (25.0)
5.	Services	12 (6.0)	38 (19.0)	50 (25.0)
	Total	85 (42.5)	115 (57.5)	200 (100.0)

Note : Figures in brackets indicate percentage of the total.

satisfies one or more of the following conditions: (a) any of manufacturing (a)-(e) above. (b) It deals in secondhand goods, or sells prepared foods. A service enterprise may be included in the informal sector if it satisfies any of manufacturing (a)-(e) above.

Table 1 analyses category-wise (sectoral) distribution of enterprises in the urban area of Muzaffarnagar. Out of 200 samples, just 42.5 percent male enterprises were engaged in informal enterprises. The manufacturing sector claimed maximum number of male enterprises *i.e.* 12.5 per cent. 9.0 per cent enterprises were engaged in trade. Out of the 42.5 per cent male enterprises, 15.0 per cent enterprises were engaged in construction and transport (7.5% in each category). The remaining 6.0 per cent were engaged in service. In service category, male enterprises recorded minimum participation. Construction and transport segments were the exclusive preserve of male enterprises. The traditional perception of female as a helper in the occupation of husband and a home-maker is gradually vanishing. Women have started proving their worth in many fields and their participation in informal activities also has increased considerably. In the urban area of Muzaffarnagar, quite a large number of female enterprises have set up their enterprises and have been running business successfully, though majority of female enterprises work at either micro-level or tiny sectors. Presence of female as owners even in large scale enterprises is not uncommon.

In a broader sense, the informal sector can be said to include any economic unit engaged in the production and distribution of goods and services whether it provides employment only to one person (may be the proprietor himself) or more, irrespective of the fact whether it employs fixed capital or not, whether or not, it has a fixed location for operation of the business. Thus a self-employed mason, a shoeshine boy, a rag-picker, a hair-dresser, a rickshaw puller, a tailor and unlicensed dentist can be treated as constituting an individual enterprise and brought within the fold of informal sector although they have no employees, own little or no capital, have no fixed business location and produce only services.

A dominant feature of the informal sector is the small size of its enterprise in terms of the number of people working in each unit consists mostly of small entrepreneurs who are often dubbed as 'own account' workers engaged in both traditional and non-traditional activities. Entrepreneurs belonging to this type perform the basic function of organising and maintaining small business enterprises and irrespective of the magnitude of capital employed, are responsible for decision making and risk bearing.

Activity-wise sectoral distribution of the selected enterprises is given in Table 2. This table clearly shows a more detailed classification of activities in such division in order to have a more precise idea of the structure of activities in the informal sector enterprises in Muzaffarnagar city. Out of the

200 samples, 35.0 per cent are engaged in the manufacturing sector. Trade and services claim 25.0 per cent each and the remaining 15.0 per cent belong to construction and transport (7.5% in each). In the manufacturing sector out of the total 70 samples, maximum number of respondents (13.0%) were engaged in food products like making tomato-sauce, biscuits, jams, beverages, chips, savai-jave, medicinal oils etc. 11.0 per cent enterprises were related to cotton textile, 3.5 per cent to metal products like making hanger, chatkni (lattices or door knobs), hair-pins, nails, cages mouse-traps etc. 3.0 per cent to

**Table 2 : Activity-wise, sectoral distribution of the informal enterprises of the urban area of Muzaffarnagar**

Sr. No.	Activity	No. of Units
1.	Manufacturing	70 (35.0)
	Food Products	26(13.0)
	Cotton Textiles	22(11.0)
	Metal Products	7(3.5)
	General Machinery	6(3.0)
	Printing and Publishing	4(2.0)
	Transport Equipment	2(1.0)
	Others	3(1.5)
2.	Construction	15 (7.5)
3.	Transport	15 (7.5)
	Taxi	3(1.5)
	Cycle Rickshaw Pullers	5(2.5)
	Freight Transport	7(3.5)
4.	Trade	50(25.0)
	(a) Wholesale Trade in	31(15.5)
	Manufactured Goods	19(19.5)
	Fruits and Vegetables	4(2.0)
	Timber	2(1.0)
	Provisions	2(1.0)
	Gas, Kerosene etc.	1(0.5)
	General Goods	3(1.5)
	(b) Retail Trade in	12(6.0)
	Manufactured Goods	7(3.0)
	Provisions	1(0.5)
Gas, Kerosene etc.	1(0.5)	
General Goods	3(1.5)	
(c) Both The above (a+b)	7(3.5)	
5.	Services	50 (25.0)
	Education	12(6.0)
	Vocational Services	8(4.0)
	Social Services	4(2.0)
	Religious Services	4(2.0)
	Repair Services	18(9.0)
	Other Services	4(2.0)
	Total	200(100.00)

Note : Percentages in brackets

Source : Prepared by the researcher

general machinery (like different parts of local electrical appliances). In informal sector majority of the people were engaged in general machinery because of the high cost of company appliances which everyone cannot afford. Only 2.0 per cent respondents were engaged in printing and publishing like stationery, paper cloth, banner, pamphlets etc. A little over 1.0 per cent worked in transport equipment. The remaining 1.5 per cent worked in other activities (like very low weight plastic show-pieces, different types of decorative items) of manufacturing sector.

In the construction sector 7.5 per cent enterprises were making window frames and grilling etc. 7.5 per cent respondent belonged to the transport sector. Of them 1.5 per cent were taxicabs, 2.5 per cent cycle rickshaw pullers and maximum number (3.5%) were engaged in freight transport. Among general trade enterprises maximum number (15.5%) dealt in wholesale trade. Only 6.0 per cent were engaged in retail trade. The remaining 3.5 per cent were found in both the categories. Out of the total service samples, a larger number of samples were engaged in repairing services like plumber, masonry, shoemaking and repair etc., followed by 6.0 per cent in education such as tuition, 4.0 per cent were engaged in vocational services like handicrafts, vocational courses, hobby courses. Only 4.0 per cent were engaged in social and religious services.

The unemployed and underemployed people especially from the rural sector move into the urban informal sector which can accommodate any and every one. In other words, informal sector provides employment and livelihood to a large number of persons. Hence we are concerned with the actual number of persons engaged in the units under study and the employment generation in the informal sector in the urban area of Muzaffarnagar.

Table 3 shows the employment structure for the enterprisers, family members engaged in the sample units. It

was found that the 200 units in the sample had provided jobs to as many as 911 persons. On an average, each enterprise provided employment to about five persons. However, the average number of persons per unit differs from segment to segment. It was seven in trade and six in manufacturing, three in services and construction and two in transport. It was also found that out of the total (911 persons), a large number (380) were engaged in the manufacturing category. This indicates that the manufacturing segment was the major source of employment in the informal sector of Muzaffarnagar. In this segment 283 persons (88 males and 195 females) worked as full time workers and the remaining 97 persons (50 males, 47 females) worked as part time workers.\* If we look at the trade category, we find that this segment stands at the second place. In this category out of the total 324 persons engaged. In this 228 persons (96 males, 132 females) worked as full time workers and 96 persons (43, males, 53 females) worked as part-time workers. Service category comes third. In this segment, only 150 persons (52 males, 98 females) achieved employment and in this 138 persons (48 males, 90 females) worked as full time workers and the remaining 12 persons (4 males, 8 females) worked as part-time workers. In the construction category, total 35 persons (28 males and 7 females) achieved employment, in this 30 persons (24 males, 6 females) worked as a full time worker or only 5 persons (4 males , 1 females) worked as part time workers. The lowest source of employment was in the transport sector. No female was found working in this category. Only 22 males were getting employment in this segment, 18 persons worked as full time worker and the remaining 4 as part time workers.

Table 3 analysis indicates that informal enterprises provided jobs to a large number of persons. It was also hypothesised in the present study that the informal enterprises had relative advantages in providing higher employment. Figures support this hypothesis.

**Table 3 : Employment structure**

Workers	Manufacturing	Construction	Transport	Trade	Service	Total
<b>Family workers</b>						
<b>Full -time</b>						
Male	88 (9.6)	24 (2.6)	18 (1.9)	96(10.5)	48(30.0)	274(30.0)
Female	195 (21.4)	6 (0.6)	-	132(14.4)	90 (9.8)	423 (46.4)
Total	283 (31.0)	30 (3.2)	18 (1.9)	228(25.0)	138 (15.4)	697 (76.5)
<b>Part- time</b>						
Male	50 (5.4)	4 (0.4)	4 0.4)	43 (4.7)	4 (0.4)	105 (11.5)
Female	47 (5.1)	1 (0.1)	-	53 (5.8)	8 (0.8)	109 (11.9)
Total	97 (10.6)	5 (0.5)	4 (0.4)	96 (10.5)	12 (1.3)	214 (23.4)
<b>Total (a+b)</b>						
Male	138 (15.1)	28 (3.0)	22 (2.4)	139 (15.2)	52 (5.7)	379 (41.6)
Female	242 (26.5)	7 (0.7)	-	185 (20.3)	98 (10.7)	532 (58.3)
Grand Total	380 (41.7)	35 (3.8)	22 (2.4)	324 (35.5)	150 (16.4)	911 (100.0)

Note : Percentages in brackets, Source : Prepared by the Researcher

While an important part of the long-term solution to the employment problem is to restore higher rates of growth in the modern sector, there are nevertheless undeniable benefits in promoting the informal sector. Many of its activities being this sector therefore provide an easy way to create and expand employment. By supporting and interacting with the formal sector, informal activities are not only a sponge for extra labour but also an alternative source of rapid growth.

Table 4 shows the status of only sampled workers as per their skill level. This table reveals that out of 200 samples, 68 were skilled, 106 semi-skilled and the remaining 26 were unskilled workers.

In the male category, out of 200, 85 males enterprises could be divided into 3 skill levels (*viz.* skilled, semi-skilled and unskilled). In the skilled part of the male category there were 47 enterprises found 9 each in manufacturing and construction, 8 in transport, 13 in trade and 8 in service segment.

32 units comprised of semi-skilled workers, 12 in manufacturing, 5 in construction, 7 in transport, 4 in trade and 4 in service. Remaining 6 units were unskilled 6, 4 in

manufacturing, 1 in construction, 1 in trade and none in transport and service. Clearly mostly units had skilled or semi-skilled workers whom expertise exercised in a positive effect upon the quality of the product hence the profitably. Even in the case of unskilled workers the effect was not altogether harmful or negative. Combined with skilled or semi-skilled hands, they were doing quite well in their respective spheres of activity.

Out of the total 115 females in the sample 21 were found skilled, of these, 5 were in manufacturing, 12 in trade, 4 in service. 74 units had semi-skilled enterprises 27 in manufacturing, 19 in trade and 28 in service. The remaining 20 units were unskilled *i.e.* 13 in manufacturing, only 1 in trade and 6 in services. In female category, mostly units had unskilled while on the male category, most units had skilled hands. It means mostly female enterprises were not getting high or proper skills to operate their activity. They started or operated mostly on semi-skilled level.

It was found that 200 enterprises invested total Rs. 1,52,80,000 and own labour also and they gained Rs. 2,24,03,300

**Table 4 : Distribution of enterprises on enterprises' skill level**

Workers status	Manufacturing	Construction	Transport	Trade	Service	Total
1	2	3	4	5	6	7
<b>Male enterprises</b>						
Skilled	9(4.5)	9(4.5)	8(4.0)	13(6.5)	8(4.0)	47 (23.5)
Semi-skilled	12(6.0)	5(2.5)	7(3.5)	4(2.0)	4(2.0)	32(16.0)
Unskilled	4(2.0)	1(0.5)	-	1(0.5)	-	6(3.0)
Total	25 (12.5)	15(7.5)	15(7.5)	18(9.0)	12(6.0)	85(42.5)
<b>Female enterprises</b>						
Skilled						
Semi-skilled	5(4.5)			12 (6.0)	4(2.0)	21(10.5)
Unskilled	27(13.5)			19(9.50)	28(14.0)	74(37.0)
Total	13(6.5)			1(0.5)	6(3.0)	20(10.0)
	45(22.5)			32 (16.0)	38(19.0)	115(57.5)
<b>Total enterprises</b>						
Skilled	14 (7.0)	9(4.5)	8(4.0)	25 (12.5)	12 (6.0)	68(34.0)
Semi-skilled	39(19.5)	5(2.5)	7(3.5)	23(11.5)	32(16.0)	106(53.0)
Unskilled	17(8.5)	1(0.5)	-	2(1.0)	6(3.0)	26(13.0)
Total	70(35.0)	15(7.5)	15(7.5)	59(25.0)	50 (25.0)	200(100.0)

Note : Percentage in parenthesis, Source : Prepared by the researcher

**Table 5 : Level of productivity in the selected enterprises**

	Total invested capital	Monthly earnings of the units	Total units also a form of labour	Per units annual earning	Net output (productivity)
Manufacturing	36,40,000	5,97,000	70	1,02,348	71,64,360
Construction	70,000	32,000	15	25,596	3,82,940
Transport	7,43,000	1,35,000	15	1,08,000	16,20,000
Trade	1,07,27,000	10,50,000	50	2,52,000	1,26,00,000
Service	1,06,000	4,53,000	50	1,08,720	54,36,000
Total	1,52,80,000	19,69,000	200	5,80,668	2,24,03,300

Source : Prepared by the researcher

as annual turn over. So, it can be said that informal enterprises did earn profit. But how ?

Table 5 shows that the total investment by the 200 samples amounted to Rs. 1,52,80,000 where as the earning per month worked out to Rs. 2,24,03,300 which is almost one and a time the amount invested. However, this nature of earning being different in different items, the percentage of income also differs from segment to segment. The 70 enterprise in manufacturing invested Rs.36,34,000 and they were earning Rs. 71,64,360 nearly double the amount of investment. There being no hired labour. The entire earning went to the enterprise and the members of his family whose labour along with the capital invested forms is the total input. In construction segment, capital invested was only Rs. 70,000 since construction work involves a lot of manual labour. 7.5 per cent enterprises were earning five times their initial investment. For example, a worker purchases his tools and implement once and continues to use their year after year. So the investment initially incurred ensures 'output' for year to come.

Transport demands heavy initial investment as well as manual labour. This segment was earning just two and a half times of the capital invested. In view of the periodic rise in fuel prices and money spent on the maintenance and repair of vehicles tend to force some increase in the working capital.

Trade segment ensures output almost as much as the investment. It is rarely more than that. There are several factors responsible for this phenomenon. They are bargaining, changing fashions, competition etc. All of these tend to affect profitability.

Percentage wise service segment is the most lucrative. For example the enterpriser purchases his tools only once which server him for decades most of his investment is in the shape of laour that too of his own. He has not to hire extra labour.

Thus the profit earned in all the segments is higher than the output for besides the capital invested it includes the labour of the enterprises, none of the whome engage extra hands. The profit earned is mainly due to their own labour put into their respective spheres of activity.

It had been hypothesized that informal enterprises have relative advantages in providing higher employment and output per unit of capital and ensures more equitable growth in comparison with units in the formal sector. The results matched this.

### Conclusion :

From the above analysis the results show that The informal sector is in no way an independent and exclusive sector. It is linked to, or in many cases, dependent on the formal sector. There existed more backward than forward linkages. The ratio being 60:40. The sub-contracting model is used by the formal sector for engaging labour in the informal sector. Sub-contracting relationship was observed only in the manufacturing, construction and trade segments. The overall

picture of our universe is not that bad. Muzaffarnagar being a prosperous city with per capita income much higher than the national average, provides good environ to informal enterprises to flourish. Even so, all is not rosy with this sector.

Last but not least is the need of an appropriate policy structure to enable the informal enterprises to play a more significant role in urban development. The present study has dealt with a large number of aspects relating to production and workers. It has been possible to broadly estimate the employment and income contribution and potential of this sector and to portray the characteristics of working conditions and pattern of living of workers engaged in this sector.

### Acknowledgement :

Author is thankful to Dr.R.K.Agarwal, Professor, Dept. of Economics, S.D.(P.G) College, Muzaffarnagar (U.P). India. for his kind guidance, motivation and unconditional support for this work.

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