

## Development of the Concept of the Informal Sector: a Literature Review

Hedayet Ullah Chowdhury

Department of Development Studies, University of Dhaka, Dhaka 1000, Bangladesh

---

**Abstract:** Since it's first coined by Keith Hart several schools have emerged to interpret and explore the informal sector concept in development literature. The present study has tried to review this concept to look at how it has grown and got the considerable currency in the development economics. It is realized that this sector has the potential to grow over time and able to build up an industrial base adaptable to local technology. In addition, it is a viable and dynamic part of the national economy which uses resources more efficiently. Obviously, this is the sector which one can identify as it constitutes a large part of the economic activity that is unregistered and unregulated on a small scale basis in most less developed countries. There may differences in the nature of activity of the informal sector between the developed and developing countries, but what is obvious is that the sector is contributing everywhere in the world, irrespective of the economic system.

**Key word:** Informal sector, development literature, development economics

---

### INTRODUCTION

During the last three decades much discussion has taken place in development economics on the origin, composition, nature and role of the informal sector and its contribution to the national economy. It has been realized that informal sector plays a significant role in creating employment opportunities, producing mass consumption goods and services mostly at prices that low income groups can afford. Development of the informal sector concept has come in front at the time when policy makers thinking inundated by a number of similar concepts like re-distribution with growth, new international economic order, basic needs, urban crisis, safety nets and reaching the poorest of the poor, etc. The informal sector concept seemed to fit well into the idea of alleviating poverty and boosting employment and lessen inequality in the distribution of income in developing countries. Among many slogan of development ideas the informal sector concept has managed to survive where others seem to become dim, each of a different reason. It is sometimes argued that this concept is very vague and difficult to understand as it covers a wide range of activities. As result before formulating policies regarding informal sector, the concept needs to be understood, its dimension should be precisely defined and policy objectives must be carefully worked out. It is much easier for policy makers to analyze and understand the activities of the formal sector and formulate appropriate policy measures because it works in much the same way as the administration itself. The informal sector is by definition a different world and its diversity and behavior pattern can not be fully perceived without a concerted and cognizant effort.

The aim of the present study is to focus on the

development of this concept to show how it got considerable currency in economic literature over time.

**Development of the informal sector concept:** The approach was initiated by divisions of economic activities and employment into traditional and modern sectors and the dualist thinking received an additional boost in the early 1970's with presentation of Hart's influential paper on urban employment in Ghana. Before that it is the Reynolds, L.G.<sup>[1]</sup>, who treated what is known now 'informal sector' as 'urban trade-service sector' in economics. According to him:

The urban trade service-sector includes the multitude of people whom one sees thronging the city streets, sidewalks and back alleys in less developed countries: the petty traders, street vendors, coolies and porters, small artisans, messengers, barbers, shoe-shine boys and personal servants. He also mentioned that in the early decades of development it employs (or underemploys) many more people than the industrial sector. It is a relatively open sector in the sense that, with little skill and little initial capital, a new comer can crowd his way into employment. It thus a natural entry point to the urban economy for migrants from the country- side.

Reynolds concluded that entrance to the occupations in question is open. Much of them require little or no skill and also little or no capital. They thus provide a natural entry point for migrants from the country, who win a precarious foothold in the urban economy by crowding into petty trade, services and other small-scale activities. Overmanning of these activities contributes to low output and income per worker.

The term 'informal sector' originated first by Keith Hart<sup>[2]</sup>, an Anthropologist, in an article 'Informal Income

Opportunities and Urban Employment in Ghana' describes the economic activities of the low-income section of the labour force in Accra, the urban sub-proletariat into which the unskilled and illiterate majority of Frafra migrants are drawn. According to him the distinction between formal and informal income opportunities is based essentially on that between *wage earning* and *self-employment*. He noted the following activities to distinguish the two sectors and emphasized that typology refers to activities or roles, not persons; actual individuals are often to be found on both sides of the analytical divide and in more than one capacity.

**Formal income opportunities:**

- Public sector wages
- Private sector wages
- Transfer payments/pensions, unemployment benefits.

**Informal income opportunities: legitimate:**

- Primary and secondary activities-farming, market gardening, building contractors and associated activities, self-employed artisans, shoemakers, tailors, manufacturers of beers and spirits.
- Tertiary enterprises with relatively large capital inputs-housing, transport, utilities, commodity speculation, rentier activities.
- Small-scale distribution-market operatives, petty traders, street hawkers, caterers in food and drink, bar attendants, carriers (kayakaya), commission agents and dealers
- Other services- musicians, launderers, shoeshiners, barbers, night-soil removers, photographers, vehicle repair and other maintenance workers; brokerage and middlemanship (the maigida system in markets, law courts, etc.); ritual services, magic and medicine.
- Private transfer payments-gifts and similar flows of money and goods between persons; borrowing; begging.

**Informal income opportunities: illegitimate:**

- Services-hustlers and spivs in general; receivers of stolen goods; usury and pawnbroking (at illegal interest rates); drug- pushing, prostitution, poncing (pilot boy), smuggling, bribery, political corruption Tammany, Hall-style, protection rackets.
- Transfers- petty theft (e.g. pickpockets), larceny (e.g. burglary and armed robbery), speculation and embezzlement, confidence tricksters (e.g. money doublers), gambling.

The main thrust of the Hart's study was that new entrants to the urban labour force are compelled to seek employment in the unorganized sector owing to inadequate opportunities in the formal sector on the one hand and their lack of training on the other. The individuals dependent on informal income opportunities are labeled the urban proletariat. Since the earnings received by this group are below the legal minimum wage they are also considered to be underemployed.

Since 1971 the term informal sector has gained considerable currency in the developing country context and it is the ILO who defused the idea with a view of effective development focusing on a specific 'target' population. In contrast with Hart's individual approach, the ILO mission on Kenya<sup>[3]</sup> focused on activities, the nature of the market and enterprise is the crucial to the characteristics of the sector. The mission reported that the popular view of informal-sector activities is that they are primarily those of petty traders, street hawkers, shoe-shine boys and other groups 'underemployed' on the streets of the big towns...the bulk of the employment in the informal sector, far from being only marginally productive, is economically efficient and profit making, through small in scale and limited by simple technologies, little capital and lack of links with the other (formal) sector. Often people fail to realize the extent of economically efficient production in the informal sector because of the low incomes received by the most workers in the sector. A common interpretation of the cause of these low incomes (in comparison to average wage levels in the formal sector) has been to presume that the problem lies within the informal sector; that it is stagnant, non-dynamic and a net for the unemployed and for the thinly veiled idleness into which those who can not formal wage jobs must fall. The informal sector as a sector of thriving economic activity and a source of Kenya's future wealth.

**[The mission defined informal activities are the way of doing things characterized by:**

- Ease of entry
- Reliance on indigenous resources
- Family ownership of enterprises
- Small-scale of operation
- Labour-intensive and adapted technology
- Skills acquired outside the formal school system and
- Unregulated and competitive markets

Informal sector activities are largely ignored, rarely supported, often regulated and sometimes actively discouraged by the Government.

**The characteristics of formal sector activities are the obverse of these, namely:**

- Difficult entry
- Frequent reliance on overseas resources
- Corporate ownership
- Large-scale of operation
- Capital-intensive and often imported technology;
- Formal acquired skills, often expatriate; and
- Protected markets (through tariffs, quotas and trade licenses)

By focusing on the characteristics of the enterprise, according to ILO<sup>[3]</sup>, it is the enterprises not individuals in the urban economy that are classified into formal and informal sectors. Like the ILO<sup>[3]</sup>, Weeks<sup>[4]</sup> also made the distinction between a formal and an informal sector based on the organisational characteristics of exchange relationships and positions of economic activity vis-à-vis the state.

Basically, the formal sector includes government activity itself and those enterprises in the private sector which are officially recognised, fostered, nurtured and regulated by the state. In some less developed countries the formal sector benefits from restriction on domestic as well as foreign competition. The combination of restricted competition and privileged access to resources such as foreign technology, foreign exchange and local capital ensures that the rewards from operating in this sector are disproportionately high. Operations in the informal sector are characterized by an absence of such benefits. Enterprises and individuals operate outside the system of benefits and regulations of government and thus without access to the formal credit institutions and sources of transfer of foreign technology. In some countries, many of the economic agents in this sector operate illegally, though pursuing economic activities similar to those in the formal sector. Illegality, then, is not usually a consequence of the nature of the activity but a consequence of official limitation of access to the formal sector<sup>[4]</sup>.

Weeks further noted that formal sector enterprises in less developed countries are characterized by a relatively large scale of operations, capital-intensive techniques, high wage rates and salary level similar to those prevailing in developed countries where as the informal sector, because of its limited access to resources and the freely competitive nature of its product and factor market, is characterized by small-scale operations, labour intensive techniques (sometimes indigenously developed or adapted), low income levels and indigenous ownership. As a result, production uses largely local inputs and

caters for a low- income market.

Souga and Tokman<sup>[5]</sup> defined the informal sector as comprising all those engaged in domestic service, casual labourers, the self-employed and employers, white-collar, blue-collar and family workers in enterprises with a total staff of not more than four persons. This definition tends to overestimate the size of the informal sector and an alternative is to define it in terms of all persons whose income is below a certain minimum level-usually the legal minimum wage-on the assumption that the low-productivity activities typical of the informal sector also generate low incomes.

Mazumdar<sup>[6]</sup>, defines informal sector in terms of distortions in the urban labour market in the following way: The basic distinction between the two sectors turns on the idea that employment in the formal sector is in some sense or senses protected so that the wage-level and working conditions in the sector are not available, in general, to the job-seekers in the market unless they manage to cross the barrier of entry somehow. This kind of 'protection' may arise from the action of trade unions, of governments, or of both acting together<sup>[6]</sup>.

He further noted that one of the important aspects of the distinction between the 'formal' and 'informal' sectors is that employment in the latter is often characterized by variable hours of work over a period of time (say, a week). This is because of (a) the lack of contractual relationships in this sector, a substantial part of total employment being on a daily or hourly basis; and (b) the prevalence of self-employment. The lack of contractual relationships in the employment means that there is relatively high turnover of labour in the informal sector. This is one of the factors favouring ease of entry into the sector. According to him, some job-seekers who are unable to find regular employment in the formal sector may, for short or long periods, participate in the informal sector rather than the wholly unemployed. In this view, a substantial part of the workers found in the informal sector will be 'secondary workers', i. e. those who are not the main earners in the household.

Sathuraman<sup>[7]</sup> defined informal sector as:

- All unregistered commercial enterprises; and (b) all noncommercial enterprises that have no formal structure in terms of organization and operation. He suggested the following criteria to identify the informal sector enterprises: it employs 10 persons or less; it operates on an illegal basis, contrary to the government regulations; members of the household of the head of the enterprise work in it ; it does not observe fixed hours/days of operation; it does not

depend on formal financial institutions for its credit needs; its output is normally distributed direct to the final consumer; almost all those working in it have fewer than six years of schooling and for certain activities it operates in semi-permanent or temporary premises, or in a shifting location and it does not use mechanical and electrical energy. Later on, Sathuraman<sup>[8]</sup>.

Defined informal sector as consisting of small-scale units engaged in the production and distribution of goods and services with primary objective of generating employment and income to their participants notwithstanding the constraints on capital, both physical and human and know-how. According to this definition, the size of the informal sector units is small, they are more labor-intensive as they have little capital to work with and they use relatively simple technologies.

Richardson<sup>[9]</sup> argued that large number of peoples in cities in developing countries work in the informal sector rather than in factories, government jobs, or other components of the formal sector. Many of these informal sector workers can be seen on the streets, selling goods or providing services, or in small workshops near the streets or in markets. But many more are hidden from the casual observer, since they work where they live, in squatter areas often many miles from the central core. The sector can be described as the mass of the people seen on streets and sidewalks and back alleys of cities, including petty traders, street vendors, colliers and porters, small artisans, messengers, barbers, shoeshine boys and personal servants.

As Richardson<sup>[9]</sup> points out, the informal sector is characterized by a large number of small-scale production and service activities that are individually or family owned and use labour intensive and simple technology. The usually self-employed workers in this sector have little formal education, are generally unskilled and capital resources. As a result, labour productivity and income is lower for the majority of workers in the informal sector than in the formal sector. Moreover, workers in the informal sector do not enjoy the measure of protection afforded by the formal sector in terms of job security, decent working conditions and old-age pensions. Most workers entering this sector are recent migrants from rural areas who are unable to find employment in the formal sector, although, as Richardson<sup>[9]</sup> correctly notes, some migrants directly enter the informal sector with the intention of remaining there. Most informal sector workers are motivated by employment and income for survival purposes rather than profit, relying on their own indigenous resources to create work. As many members of the household as possible, including women and

children, are involved in some generating activities, often working very long hours. Most inhabit slums and squatter settlements built with their own labour and lacking minimal public services such as electricity, water, drainage, transportation and educational and health services.

Bose<sup>[10]</sup> defined informal sector while making comments on Richardson articles as constituted those units and unorganized individual workers who can not, in the main, take advantage of the formal, organized market for capital, inputs or outputs, or other services like training. Such units and individuals are forced to operate in a different market where they are to pay significantly higher prices for whatever they purchase, be it inputs or services, capital, or even consumer goods, while receiving significantly lower prices for whatever they sell, be it goods or services or their labour power.

Drawing lesson from China Shen and Ping-Yu<sup>[11]</sup> defined informal sector as all those areas of production that (a) do not come under state planning or (b) have prices of goods and services which are not set by the state, but fluctuate according to changes in the market.

Jacques<sup>[12]</sup> defined informal sector as a pool of labour from which the modern sector takes what it requires and rejects what it no longer needs (the next subject of study is to measure the movements of labour between the two sectors and relative changes in wages and income), as a place of reproduction of the labour force with the lowest cost (at this stage the price of goods -wage is measured, i.e., goods consumed by wage earners, produced by the informal sector).

Fields<sup>[13]</sup> divided informal sector between two parts: one part of it consists of employment which is free-entry, low wage and desirable relative to formal sector employment. However, another part of it consists of employment which is limited-entry, high wage and preferred to formal sector employment. According to him at least some human and financial capital, often a considerable amount, is required before one get into this kind of work. He noted that from the point of view of worker, as well as that of the outside evaluator, these two groups are very different in their position relative to the formal sector: the first is worse and the second better. In most empirical research, however, these two segments are lumped together and treated as one. As a result of combining two very different groups, the typical empirical study, which purports to offer data on the informal sector, conceived of as a free-entry sector within the urban economy and broadside by firm size or some other equally indistinct categorizing variable, is rendered dubious, if not downright invalid. And he uses the terminology as easy-entry informal sector and upper-tier informal sector.

The International Conference of Labour Statisticians

(ICLS) introduced the discussion for the concept of the informal sector as early as 1987 and the concept was adopted by the fifteenth conference in Geneva in 1993 and informal sector is regarded as a group of production units which form a part, within the System of National Accounts (SNA), of the household sector as unincorporated enterprises owned by households. The conference defined the informal sector, irrespective of the kind of workplace, the extent of fixed capital assets and the duration of the activity of the enterprise and its operation as a main or secondary activity, as comprising.

- Informal self-owned enterprises which may employ family workers and employees on an occasional basis: for operational purposes and depending on an occasional basis: for operational purposes and depending on national circumstances, this segment comprises either all self-owned enterprises, or only those which are not registered under specific forms of national legislation (factories or commercial acts, tax or social security laws, professional groups regulatory or similar acts and laws or regulations established by national legislative bodies).
- Enterprises of informal employers which may employ one or more employees on a continuous basis and which comply with one or both of the following criteria:
- Size of the establishment below a specified level of employment (defined on the basis of minimum size requirements embodied in relevant national legislation or other empirical or statistical practices: the choice of the upper size limit taking account of the coverage of statistical enquiries in order to avoid an overlap); and/or
- Non registration of the enterprise or its employees.

Furthermore and for practical purposes, informal sector is restricted to nonagricultural activities. To make a comment on the above definition of the Informal sector, Xavier Oudin noted that the principal merits of this definition is to conciliate a national accounts approach and other more common approaches through employment or through the legal status of enterprises. Also, this definition is meant to be simple enough to be operational for surveys. In addition, it clears up the confusion between nonregistered economic activities of households and hidden transactions of individuals such as corruption and smuggling. He further noted that in the abundant literature on the informal sector from the 1970s and 1980s, there was widespread confusion between criteria of definition and descriptive characteristics. Size of enterprise (labour or assets) or registration can be criteria

of definition while characteristics such as ease of entry, low skills and low incomes are the result of investigation. He noted that a good criterion may be simple, operational (productivity of workers can not be operational, for instance) and meaningful (i. e., have an analytical utility). Any characteristic can be selected as a criterion, but the choice of the criterion has important consequences for the understanding of the informal sector as a socioeconomic phenomenon. The confusion between characteristics and criteria may lead to a misunderstanding in the nature of the informal sector and, in turn, to inadequate policies.

Amin<sup>[14]</sup> defines the informal sector as being comprised of : enterprises which employ less than ten persons (including the owner) per unit and which simultaneously satisfy one or more of the following conditions:

- It operates from open premises;
- It is housed in a temporary or semi-permanent structure;
- It does not operate from officially -assigned market places;
- It operates from residences or backyards; and
- It is not registered under the factory and business establishment acts. He pointed out that the growth of the informal sector in Asia is inevitable since the continent has a vast rural agricultural sector that continues to send millions of migrants to urban areas as a means of coping with the pressures of adjusting and adapting to the growth of the market economy that has now almost eliminated the self-sufficient village systems that had formerly existed in Asia. In this article he noted that variations in definition among different countries are not as wide as generally believed. Although known by different labels according to the country's traditions, the informal sector is largely defined to include:
- own account workers (some time referred to as self-employed)
- unpaid family labour; and
- wage workers employed in family/microenterprises and small-scale enterprises with less than ten workers.

MacIolm Harper<sup>[15]</sup> proposed to use the term informal business instead of *informal sector*. He viewed microenterprises as the smallest economic activities of the urban poor and this is what is intended by the term informal business. Informal businesses are more like games in the park or even conversations in the street. He argued that whatever meaning is given to informality and to planning, it is illegitimate to attempt to relate them to

one another because planning negates informality and vice versa. Informal enterprises is not only an urban phenomenon and it is by no means confined to the poorer countries, but this means of livelihood is already or very soon will be the world's dominant form of economic activity, in terms of the numbers who live by it. Planners and everyone else, should therefore be deeply involved with it.

Thomas<sup>[16]</sup> places informal sector activities within a broader definitional framework of the informal economy but with some caveats. Thomas defines informal economic activities as those not fully recorded in national income accounts and distinguishes among four categories of such activities, based on two criteria-market transactions and legality. His classification identifies four distinct informal economic groups, i.e., the household sector (no market transactions, legal output and legal production/distribution), the irregular sector (market transactions, legal output and illegal production/distribution) and the criminal sector (market transactions, illegal output and illegal production/distribution). Thomas explains the distinction between informal and irregular sectors as analogous to the difference between developing and developed countries, under which in developing countries there is little effort by the government to enforce regulations (IS), whereas in developed countries tax evasion and noncompliance with laws and regulations clearly constitute illegal activity (irregular sector).

Sanyal<sup>[17]</sup>, defines IS activities as market transactions, with production and distribution of output/services taking place on the margins, or completely outside of the formal economic and legal structure of the urban economy, in terms of not being legally established, not being subject to government regulation and policing and not contributing to the income of the public sector. Under this definition, The UIS is not simply a segment of the labour market, but a part of the urban economy, since it plays an important role in the provision of low-cost commodities and services to lower-income households, in the supply of low-cost raw-materials to industry (interindustry linkages) and in the supplementary provision of urban services where the performance of local governments has been inadequate.

In addition to raising a number of objections to the definitions of the informal sector in the development literature and the assumptions made about the independence of the informal from the formal sector and the benign nature of the contacts between them, critics questioned the value of the dualist, two-sector approach.

In his introduction to the special issue, Bromley, Ray<sup>[18]</sup> listed nine deficiencies of the informal/formal classification.

First, it is a very crude and simple classification, dividing all economic activities into two categories.

Second, the informal/formal division is logically inconsistent in that it is assumed that several different variables can be used to categorize a given economic activity into formal or informal sectors and yet no multivariate analysis procedure is used in classifications.

Third, many investigators using a dualistic classification and terminology are inclined to assume that the two sectors are essentially separate and independent, when it is more likely to be the case that they are in a continuously fluctuating state of interaction and that parts of one sector may be dominated and even created by, parts of the other sector.

Fourth, it is often mistakenly believed that a single policy prescription can be applied to the whole informal sector.

Fifth, there is a curious tendency to view the informal sector as exclusively urban.

Sixth, there is a great lack of clarity as to what else exists as well as the formal sector and the informal sector.

Seventh, the informal sector is often depicted as having a present but no future, precisely by those who advocate help to the 'informal sector'.

Eighth, there is a tendency to confuse neighbourhoods, households, people and activities with enterprises. The informal/formal division is inapplicable to many people as they work in both sectors at different stages in their life cycles, times of the year, or even times of the day. Only enterprises can usually conveniently be classified into one or other of the two sectors and extrapolations from classifications of enterprises to descriptions of activities, people, households and neighbourhoods frequently lead to confusion and error.

Ninth and last, there is a tendency to consider 'the urban informal sector' and the 'urban poor' to be synonymous.

Bromley<sup>[18]</sup> further pointed out about the 'informal sector' concept that the relevance of its set of associated policy prescriptions to liberal international opinion in the early 1970s.

The intellectual validity of the concept was, for many people, secondary to its policy implications. It provided the rationale for the sorts of policies which the mainstream international development community wished to recommend to Kenya and other Third World countries. In other words, the informal sector concept was adopted because it rose through effective communications at a convenient moment and because it embodied policy

implications which were convenient for international organizations and politically middle-of-the-road governments. Support of the informal sector appeared to offer the possibility of 'helping the poor without any major threat to the rich', a potential compromise between pressures for the redistribution of income and wealth and the desire for stability on the part of economic and political elites<sup>[18]</sup>.

Ray Bromley pointed out that de Soto's contribution to the IS debate has been to shift the ground of the discussion:

De Soto does not deviate from ILO or World systems (underground economy) concepts of informal sector; In the *Other Path* and numerous interviews, speeches and short articles, he has defined and elaborated a concept of informality with four fundamental characteristics. First, it is sociolegal in character. Second, it focuses on economic activities and enterprises, rather than on individuals, households, or neighborhoods. Third, it bridges the gap between production and reproduction. Fourth, it is not dualistic, because it does not presuppose that the whole economy is, or should be, divided into two sectors.

In this characterization, Bromley<sup>[18]</sup> may, to some extent, exaggerate the novelty of de Soto's thought. De Soto does, after all, find it perfectly possible to speak informals as a category.

According to Lisa Peattie<sup>[19]</sup>, the informal sector is an exceedingly fuzzy concept to serve the purposes of many different groups with a number of different-even conflicting-purposes. It serves none of them adequately as a tool of analysis or as a framework for developing policy. As a framework for considering problems of poverty, it doesn't work because it is factually incorrect and politically obfuscating. The informal sector however defined, is not necessarily a category within which to locate the poor. There are well-to-do petty entrepreneurs and workers underpaid by large enterprises.

It is politically obfuscating because the use of the category informal sector as central analysis of poverty carries as an implicit theme the notion that the more highly corporatized the economy, the better will be the position of working men and women.

She further noted that the concept is an opening into development economics and development planning. The opening is both conceptual and methodological. The concept has opened a space for considerations which might be called political or even moral.

Nasreen Khundker<sup>[20]</sup> who made comments on Lisa Peattie article noted that it is not only the self-employed who are poor and that there are both rich and poor within the informal sector; thus an adequate solution of poverty can not be based on policies that simply focus on the

informal sector. But research on the informal sector has helped to clarify the fact that the poor are also productive. Street hawkers, petty traders, or manufacturers of various simple consumer and producer goods are a segment of the population that have been hitherto characterized as backward or traditional, hiding the many useful functions that they perform in the economy. A recognition of their productive potential and the design of appropriate policies can raise incomes both of the participants in these activities and the populace whom they serve.

Anand<sup>[21]</sup>, proposed to take the issue with Lisa Peattie and other critics of the concept of the informal sector and to demonstrate that, far from being a ripe candidate for Occam's razor, it is an eminently serviceable analytic concept which, despite some of its inherent limitations, is usable for a variety of policies-employment, development, financial and welfare.

Peattie<sup>[22]</sup>, has little faith in the informal sector as an analytical concept. According to her voice, the informal sector seems to be one of those categories that seems to point to something important but which fails to identify the phenomena of interest with enough precision to yield accurate statements. From a Marxist perspective, economic institutions are the basis for political ones and determine the possibilities for political action. From a study of political organizations among informals, Lisa R. Peattie found that, whatever their political persuasion, trying to place their potential constituency in one or another Marxist category-in none of which, by the way, did they seem to fit with comport. According to her opinion, Marxist-oriented writers joined Lewis or Harris and Todaro in interpreting a great deal of non-industrial employment in Latin American cities as a kind of desperate self-help job-creation programme, in which urban migrants, confronting a very limited expansion of industrial jobs, were forced to settle for a variety of marginal odd jobs:

Since the primary and secondary sectors are not expanding fast enough, much of the population is attracted into, or rather forced into, the tertiary sector. There it does not of course go into the professions and other traditionally stable and larger service institutions but rather into small service establishments, individual self-employed entrepreneurs such as street vending, odd jobs and of course domestic service.

She noted that the Marxist denigration of services as unproductive contributed to this deprecation of informal activities as a sort of labour sponge. The informal sector characterization by way of doing things by ILO seemed to translate readily into a Marxist approach dealing in modes of production. The most important advance in the definition of the informal sector has been the agreement

to consider modes of production as the unit of analysis.

### CONCLUSIONS

Since it was first coined by Keith Hart several schools have emerged to interpret and explore the informal sector concept in development literature. The Reformist school, originated by the ILO and the World Bank, distinguishes the informal sector as having vast potential for employment creation and growth<sup>[2,3]</sup>. The Marxist school focused on 'modes of production' based on class struggles in determining unequal patterns of development. Two different standpoints are apparent in this school. Marginality theorists argue that the informal sector is a distinct marginal pole which, by acting as a reserve army of labor and producing cheap, poor quality subsistence goods, facilitates capital accumulation in the formal sector<sup>[2,3]</sup>. Petty commodity production theorists, in contrast argue that the informal sector is subordinated to the formal sector through direct links which enables the formal sector to extract the surplus from the informal sector<sup>[24-26]</sup>. Some other schools define the informal sector through state versus protection<sup>[4,6]</sup> and state versus legal system focusing on differences and relations with the formal sector.

Castles and Portes (1989) argued that the informal economy is universal, as similar arrangements are found in countries and regions at very different levels of economic development; second, that this sector is heterogeneous, as the forms adopted by unregulated production and distribution vary widely even within single societies and, third, that there has been an apparent increase of these activities during the last several years.

This sector has the potential to grow over time and able to build up an industrial base adaptable to local technology. In addition, it is a viable and dynamic part of the national economy which uses resources more efficiently. In Sathuraman's observation the informal sector, as its name suggests, is not formal in its character. Obviously, this is the sector which one can identify as it constitutes a large part of the economic activity that is unregistered and unregulated on a small scale basis in most less developed countries. There may differences in the nature of activity of the informal sector between the developed and developing countries, but what is obvious is that the sector is contributing everywhere in the world, irrespective of the economic system.

In empirical work, the criterion of size has often been used to measure the informal sector. Size of an establishment can be defined in terms of number of workers and/or capital investment. The criterion based on the number of workers has been more popular because it

is convenient to use. However, there is disagreement over the cut-off point-whether it should be less than 5, 10 or 20 workers. Researchers prefer the cut-off point of less than 10 workers. A definition of the informal sector based on the characteristics of workers, classifies salaried and wage employees as part of the formal sector and self-employed and unpaid family workers as part of the informal sector. In Less Developed Countries the analysis of informal sector is closely related to the analysis of self-employment. Yamada (1996) argues that self-employment in LDC's mainly occurs in the informal sector. ILO (1990) defines self-employment as own account workers and employers. Self-employment is the main employment of at least one out of every five members of the urban labor force in the developing countries. There are some evidence from Evans and Leighton (1989) that who are unemployed are more likely to enter self-employment.

A problem with this definition is that some self-employed professionals such as medical doctors, lawyers or computer experts will be considered as part of the informal sector, when they are clearly part of the modern formal sector. Similarly, wage employees in small-scale enterprises will be wrongly enumerated as part of the formal sector.

By definition the informal sector is heterogeneous in terms of actors, activities and scale. The sector can also be described as ease of entry, reliance on indigenous resources, family ownership, small scale of operation, the use labor intensive, local and adapted technology, skills acquired outside the formal education system and unregulated and competitive markets. It is considered that formal sector is protected in nature with many entry barriers, whereas entry into informal sector is easy. This is not always true as entry into some informal sector professions a certain level of skills and training is needed. On the other hand, reliance on internal resources is also true for large-scale enterprises as some of the large-scale enterprises in the formal sector are also established and successfully run with only internal resources. Another way is to define informal sector in terms of legalistic approach. However, there are problems with legalistic approach itself. Some enterprise may not register to avoid the cost of registration, taxes and excessive regulations, even when they fulfill all the requirements of registration.

### ACKNOWLEDGEMENTS

I am grateful to Professor Nobuaki MATSUNAGA, GSICS, Kobe University, Japan, for his invaluable supervision and comments on the earlier draft of this research paper.



## REFERENCES

1. Reynolds, L.G., 1969. Economic Development with Surplus Labour Some Complications, Oxford, Eco., Papers, pp: 89-103.
2. Hart, K., 1973. Informal income opportunities and urban employment in Ghana. *The J. Modern African Studies*, II, I, pp: 61-89.
3. ILO., 1972. Employment, incomes and equality. A: strategy for increasing productive employment in Kenya, Geneva, pp:
4. Weeks, J., 1975. Policies for expanding employment in the informal urban sector of developing economies *International Labour Review*, pp: 76-104
5. Souga, P.R. and V.E. Tokman, 1976. The informal urban sector in Latin America. *International Labour Review*, No. 3, November-December, pp: 355-365.
6. Mazumdar, D., 1976. The urban informal sector, world development, pp: 655-679.
7. Sathuraman, S.V., 1976A. Jakarta urban development and employment (Geneva:ILO), pp: 126.
8. Sathuraman, S.V., 1981. The urban informal sector in developing countries, employment, poverty and environment, ILO, Geneva, pp:
9. Richardson, H.W., 1984. The role of the urban informal sector: An Overview. *Regional Development Dialogue*, 5: 2.
10. Bose, A.N., 1984. Comment on article. A Role of the Informal Sector in Developing Countries by Richardson, H.W., (Ed.), *Regional Development Dialogue*, No. 2, pp: 41-48.
11. Shen, Ping-Yu., 1984. The impact of the informal sector on urban and rural socioeconomic development in China, regional development dialogue, pp: 105-113.
12. Jacques, C., 1990. A Critical Review of Concepts, Definitions and Studies in the Informal Sector, Turnham, D., B. Salome and A. Schwarz, (Eds.), *AIInformal Sector Revisited* OECD 1990.
13. Fields, G.S., 1990. Labour Market Modelling and the Urban Informal Sector: Theory and Evidence, , in Turnham, D., B. Salome and A. Schwarz, (Eds.), *AIInformal Sector Revisited* OECD 1990.
14. Nurul Amin, A.T.M., 1982. An analysis of labour force and industrial organization of the informal sector in Dacca, Ph. D. Dissertation, University of Manitoba, pp:
15. Harper, M., 1996. Urban planning and the informal sector. *Regional Development Dialogue*, pp: 97-112.
16. Thomas J.J., 1992. Informal economic activity, pp:1-7.
17. Sanyal, B. 1991. Organising the self employed the politics of the urban informal sector. *International Labour Review*, 130 1: 1991 : 41.
18. Ray, B., 1978. Introduction B The urban informal sector why is it worth discussing? *World Development*, No. 9/10, pp: 1033-1039.
19. Peattie, L., 1987. An idea in good currency and how it grew the informal sector. *World Development*, 7: 851- 860.
20. Nasreen. K., 1988. The fuzziness of the informal sector can we afford to throw out the baby with the bath water? *World Development*, pp: 1263-1265.
21. Anand, C., 1988. The informal sector: empty box or portmanteau concept a comment world development, pp: 1259- 1261.
22. Peattie, L.R., 1997. The organization of the Marginals. *Comparative Urban Research and Ruben Katzman and Jose Luis Reyna, (Eds.), Fuerza de Trabajo y Movimiento Laboral (Mexico City: El Collegio de Mexico, 1979), 7: 2.*
23. Obregon, Q., 1974. The marginal pole of the economy and the marginalized labor force *Economy and Society*, pp: 393-428.
24. Brun, L.O. and C. Gerry, A Petty producers and capitalism *Review of African Political Economy* No. 3, pp: 20-32.
25. AIInformal, M.C., 1978. Sector or petty commodity production. Dualism or Dependence in urban development, *World Development*, No. 9/10 pp: 1041-1064.
26. Tokman, V., 1978. An exploration into the nature of the informal-formal sector relationships, *A World Development*, No. 9/10 pp: 1065-1075.
27. Romanos, M. and C. Chifos, 1996. Contributions of the urban informal sector to environment management. *Regional Development Dialogue*, pp: 122B-155.