



Share of Formal and Informal Labor markets in Rural and Urban Regions of South-East of Iran (Case Study: Sistan and Baluchestan Province)

Samira Golshani*, **Amin Reza Kamalian**** and **Mahdi Saravani*****

**Master Science of Management, Department of Management, College of Humanism, Zahedan Branch. Islamic Azad University, Zahedan, IRAN*

***Associate Professor of Management, Sistan and Baluchestan University, Zahedan, IRAN*

****Membership at Islamic Azad University, Zabol Branch, IRAN*

(Corresponding author: Mahdi Saravani)

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ABSTRACT: The concept of the informal sector which was introduced for the first time in early 1970 by the International Labor Organization (ILO) includes all economic activities performed by workers and economic units which are not legally and practically covered by the informal sector. In this study, the residual method is used to combine employment data in order to evaluate the employment status in the informal sector. Workers of workshops with 5 or less employees are considered as informal workers. In this study, self-employed people are composed of employers, independent employees, and not-stated unpaid family workers. Thus, percentage of informal employment is obtained through dividing the number of self-employed people by the total number of employment. Sistan and Baluchestan Province which is the youngest one as far as the age of labors is concerned and the largest province in the country as far as the area is concerned, has been selected. This study was resulted in the estimation of the number of informal sector workers in Sistan and Baluchestan Province, separately for each city and for urban and rural areas in terms of economic activities, during the Fifth Economic, Social and Cultural Development Plan (2011-2015).

Keywords: Informal labor market, urban and rural areas, Iran, Sistan and Baluchestan

INTRODUCTION

The concept of the informal sector which was introduced for the first time by the International Labor Organization (ILO) is related to the activities that are not classifiable under the structure of organized formal sectors. Normally most of the goods that cannot be imported or exported are produced in this sector but it is not under domination of labor protection laws; and the level of capital and labor productivity in this sector is less than the formal sector due to the lack of formal contracts. In the past, this sector was considered as a bankrupt economy with objectionable activities, expansion of which had nothing to do with the effective and real demand for these jobs, but today, job market economists pay more attention to the informal sector of the economy as far as creation of jobs is concerned. There is not usually open unemployment in the informal sector and job seekers want to find good jobs in the formal sector. One of the most important factors that forces most people to do different jobs (regardless of whether they are hard or easy or good or bad) is poverty. Therefore, it can be said that the growing poverty is one of the key factors effective in the growth of informal jobs. Also the majority of impoverished informal sector workers live in rural or marginalized urban areas. By looking at the formal and informal sector workers, it can be found that the relationship between poverty and informal employment does not mean to escape poverty because sometimes the salary received by a lot of employees and workers in the formal sector is not even enough to afford the life costs. On the other hand, working in the informal sector is not always associated with the low income because sometimes self-employed workers in the informal sector can make more money compared to the people with the same level of expertise who are engaged in the formal sector jobs. One of the problems of doing any study in the field of informal sector is the weak data sources, because having accurate and exact data sources means the ability to identify the units. In this case their status of being informal worker will be largely removed. Another problem in the study of the informal sector is the number of criteria used for identification of this sector. These complexities force any researcher to make maximum use of available sources and observations while being aware of some shortcomings. So that, some statistical results, even in some special cases, are used as confirmation for some other statistical results.

Regulation of the labor market and improving its performance in any country depends on accurate planning and policy-making. In Iran and especially in Sistan and Baluchestan province, the high population growth rate, young population and mass migration from villages to cities, together with economic structural barriers have provided a wide gap between supply and demand of workforces. So that today the most important and most fundamental problem facing our society is increasing unemployment. Basically, the informal labor market is one of those sectors which are created due to the neglect of the role of labor market policies in the economic balance. This sector basically cannot be controlled by the government. And the ability to directly apply the government policies is very low. The growing labor supply and other institutional factors including the minimum wage, unemployment and so on have caused the informal sectors in Sistan and Baluchestan province to become highly developed. One of the important factors is that with the increase in the size of the informal sector activities, ignoring this sector will be resulted in the distortion of taking decisions and policies, particularly in relation to the labor market. Hence understanding the labor markets, including the informal labor market is very important and its importance will be more obvious when the structure of the young population of the province of Sistan and Baluchestan which is one of the most important issues for future policies of the government in creating jobs and curbing unemployment problem in the community are considered. As far as Iran's economy is concerned and following the economic momentum, employment in the informal sector was gradually increased, hence, the informal sector acted as a buffer against economic shocks in the labor market. Therefore, considering the importance of the employment issue in all developing societies including in Iran, evaluation of the role of informal labor market is important in this regard. So the role of informal labor market in the province of Sistan and Baluchestan is analyzed in this study for each city of this province using available desk information and also it was conducted in both rural and urban sectors for obtaining more information. Also, the share of informal labor market of this province during the Fifth Economic, Social and Cultural Development Plan has been calculated in this study. It is reminded that these calculations were conducted based on the growth rate of the informal labor market in this province from the year 1996 up to now using Excel software.

METHODOLOGY

In this study, the residual method of the World Bank is used. Self-employed people in this study include employers, independent employees, and not stated and unpaid family workers. Therefore, through dividing the number of self-employed people by the total employment, the percentage of informal employment is obtained. This approach was set to avoid under and over estimation in the field of informal employment. In this approach, all employees in the rank of employers are classified in the category of informal workers and all private sector salary and wage earners are not considered as the formal employees. Accordingly, employees (self-employed people and wage and salary earners) of workshops with less than 5 workers are considered as the informal workers and employees of workshops with 5 or more workers are considered as formal employees using the information of the general census conducted in the country. In order to calculate the level of informal employment, the proportion of employment in workshops with less than 5 workers to the total employment of workshops is calculated and the result will be multiplied by the sum of the number of employers and salary earners. Thus, the number of informal workers in these two groups is calculated. Also, percentage of informal employment in various fields of economic activity can be obtained by adding categories of informal employment and dividing it by the rate of total employment. For this purpose, 10 cities located in the province of Sistan and Baluchestan including Iranshahr, Chabahar, Khash, Zabol, Zahedan, Saravan, Nikshahr, Sarbaz, Konarak and Zahak were studied separately for their major activity groups and the conditions of employment in both rural and urban areas.

In this study, the following items have been thoroughly reviewed and analyzed:

- 1) Estimation of the number of informal sector workers in Sistan and Baluchestan separately for cities and rural and urban areas in terms of economic activity.
- 2) Estimation of the number of informal sector workers in Sistan and Baluchestan separately for urban and rural areas for the period of the Fifth Development Plan (2011-2015) in terms of economic activity.
- 3) Estimation of the number of employees of the informal sector of Sistan and Baluchestan separately for the urban and rural areas in terms of economic activity.

RESULTS

Following table shows the share of informal sector in different cities of Sistan and Baluchestan Province separately for the rural and urban areas in terms of conducted economic activities.

Table 1: Comparison of the population employed in the informal sector separately for the urban and rural areas of this province.

Township	Rural	Urban
Iranshahr	2153	7458
Chabahar	4300	6639
Khash	4148	6621
Zabol	9044	14897
Zahedan	3887	59078
Saravan	3895	5153
Nikshahr	8016	2946
Sarbaz	11851	1710
Konarak	2572	1893
Zahak	2940	778

Source: Statistical Center of Iran, Sistan and Baluchestancensus (2006) and research findings.

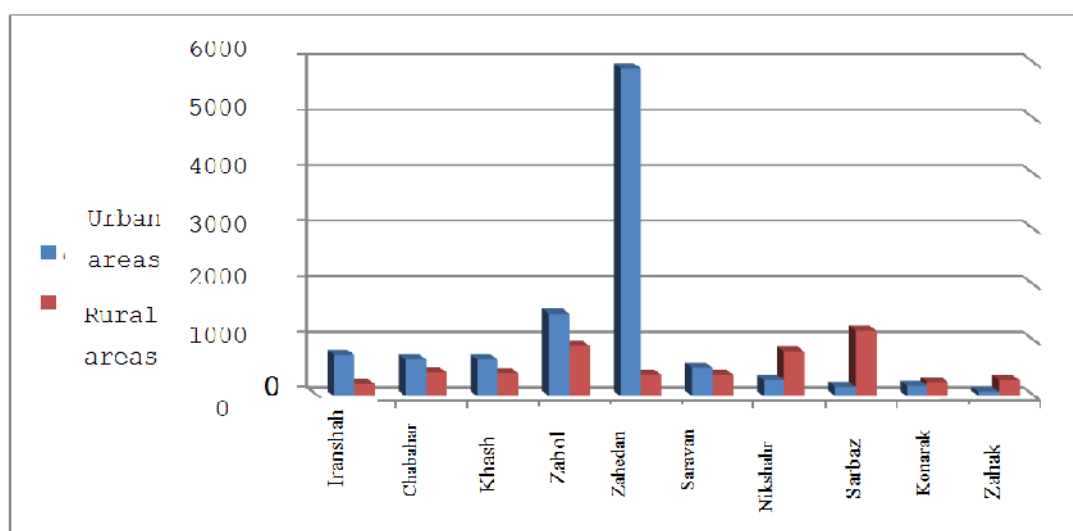


Fig. 1. Comparison of the population employed in the in formal sector separately for the urban and rural areas of this province.

Table 2: Titles of activities having largest working population employed in the informal sector separately for each town.

Town ship	Rural			Urban			Total
	Activities	Employed (%)	Population employed	Activities	Employed (%)	Population employed	Population employed
Iranshahr	Transport	16.5	545	wholesale	83.4	2741	3286
Chabahar	Transport	41.6	1323	wholesale	58.4	1862	3185
Khash	Transport	36.5	847	wholesale	63.4	1471	2318
Zabol	Transport	38.4	3304	wholesale	5.61	5282	8586
Zahedan	Transport	6.7	1351	wholesale	93.2	18793	20144
Saravan	Construction	39.9	1028	Construction	60.06	1546	2574
Nikshahr	Construction	77.6	3967	Construction	22.3	1139	5106
Sarbaz	Construction	87.9	4127	Construction	12.1	567	4694
Konarak	Construction	66.2	1847	Construction	33.7	940	2787
Zahak	Transport	79	2940	transport	20.9	778	3717

Source: Statistical Center of Iran, Sistan and Baluchestan census (2006) and research findings

In above table, titles of activities which have the highest share of employed community from the total informal employment of each town are listed. For example, in the city of Iranshahr, 83.4% of informal workers are engaged in the wholesale activities. Estimation of the number of informal sector workers in Sistan and Baluchestan province,

separately for the urban and rural areas in terms of economic activity. In this study, in order to avoid under or over-estimation of the informal employment, the above-mentioned method is used. Accordingly, results of the estimation of total number of employees and the results of the estimation of the number of workers separately for urban and rural areas have been shown in Table 3. Also the diagrams 1,2 and 3 respectively indicate the total number of formal and informal workers in this province, urban area share of workers in the formal and informal sectors and rural area share of formal sector workers in this province.

Table 3: Estimation of the number of employees with 10 years of experience in terms of major activity groups and job status in the province of Sistan and Baluchestan

Major groups	Rural areas			Urban areas				Province				
	Percentage	Informal	Formal	Total	Percentage	Informal	Formal	Total	Percentage	Informal	Formal	Total
Total	47.2	51136	57229	108365	43.5	104694	136011	240705	44.6	155829	193238	349067
Mining	12.5	32	224	256	28.6	164	410	574	23.6	196	634	830
Construction	70.3	13136	5551	18687	62.2	13230	8031	21261	66.0	26365	13583	39948
Industry	21.0	286	1079	1365	9.9	422	3845	4267	12.6	708	4924	5632
Supply of	40.9	9115	13160	22275	52.5	20022	18096	38118	48.2	29136	31257	60393
Fluoridite	80.1	7887	1962	9849	76.8	33617	10147	43764	77.4	41504	12109	53613
Construction	18.8	140	606	746	52.1	692	635	1327	40.2	832	1240	2072
Hotels and	72.9	12616	4686	17302	68.7	24067	10972	35039	70.1	36682	15659	52341
Restaurants	0.0	0	182	182	3.6	145	3913	4058	3.4	145	4094	4239
Transport, ,	31.5	137	298	435	42.5	1373	1855	3228	41.2	1509	2154	3663
Financial	0.0	0	12782	12782	0.0	0	39124	39124	0.0	0	51906	51906
Intermediation	9.0	1057	10727	11784	7.3	2045	26148	28193	7.8	3101	36877	39978
Real estate,	5.5	143	2474	2617	10.9	829	6795	7624	9.5	973	9268	10241
Office of Public	56.9	582	441	1023	54.6	2428	2020	4448	55.0	3009	2462	5471
Affairs	62.1	244	149	393	61.0	757	482	1241	61.3	1002	632	1634
Education,	0	0	0	0	0.0	0	123	123	0.0	0	123	123
Health and social	0.0	0	140	140	36.0	28	32	50	9.5	18	172	190
work	67.6	5760	2767	8527	59.1	4886	3381	8267	63.4	10647	6147	16794
Other activities												
Activities of												
household												
Organizations												
Headquarters												
Not stated												

Source: Statistical Center of Iran, Population and Housing Census findings (2006) in Sistan and Baluchestan and research findings.

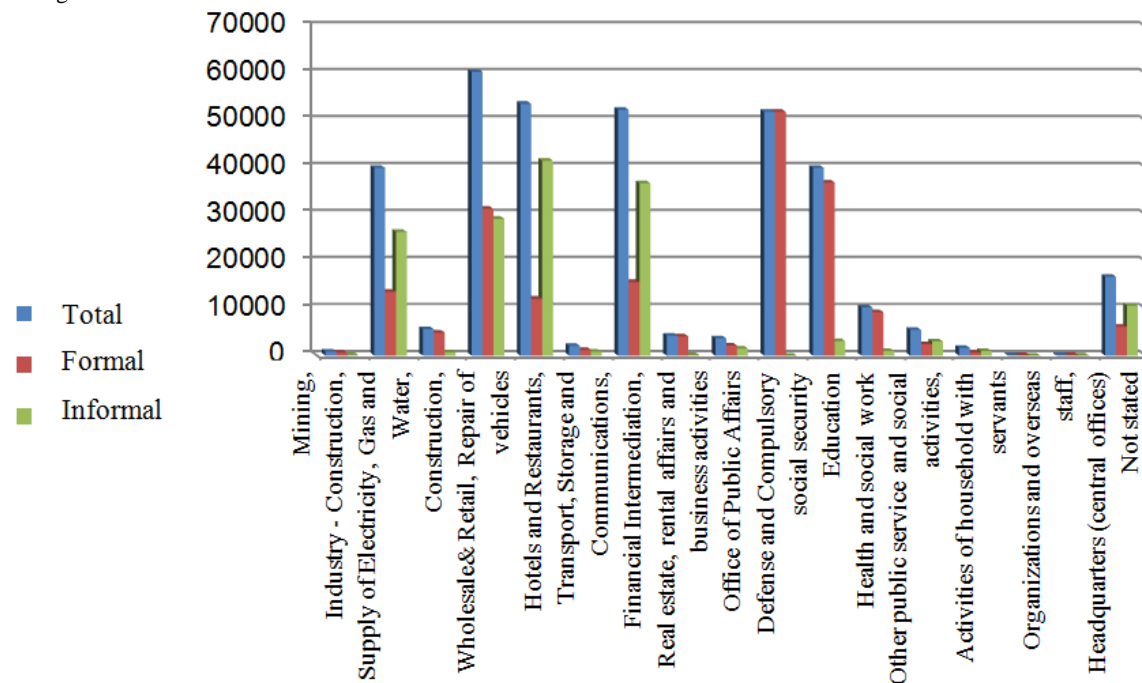


Fig. 2. Total number of workers, separately in the formal and informal sectors.

As can be seen in the above table, the total number of workers in the province of Sistan and Baluchestan during the year of 2006, regardless of agriculture and fisheries, is 349,067 people, 193,238 people of which are working in the formal sector and 155,829 people are working in the informal sector. In other words, we can say that of the total employment in Sistan and Baluchestan in 2006, about 55% of workers were engaged in the formal sector and 45% of them were other workers in the informal sector. It is also observed that of total employment during the year of 2006, 240,705 people were engaged in the cities and 108,365 people were engaged in the rural areas, of which share of urban informal sector and the share of rural informal sector were 104,694 and 51,136 people respectively. Also, the highest share of the informal sector of Sistan and Baluchestan of total employment during the year of 2006 was related to the wholesale, retail, repair of motor vehicles and personal and household goods activities with 41,504 people which is equal to 26% of total employment.

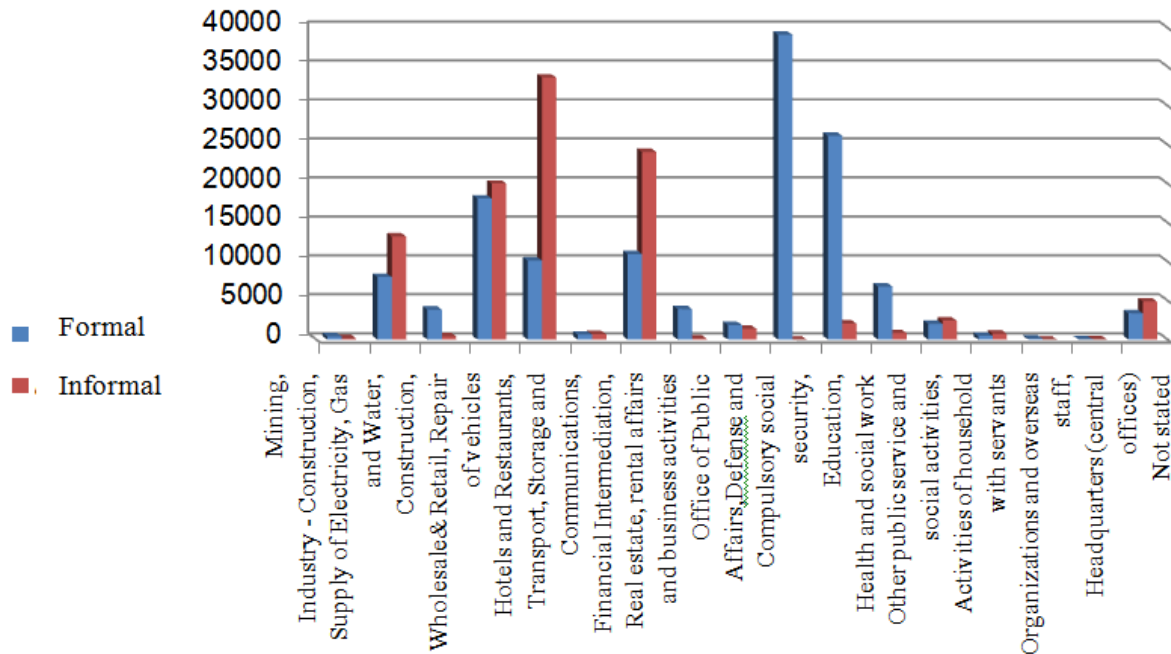


Fig. 3. Share of workers in urban areas of the province of the formal and informal sectors.

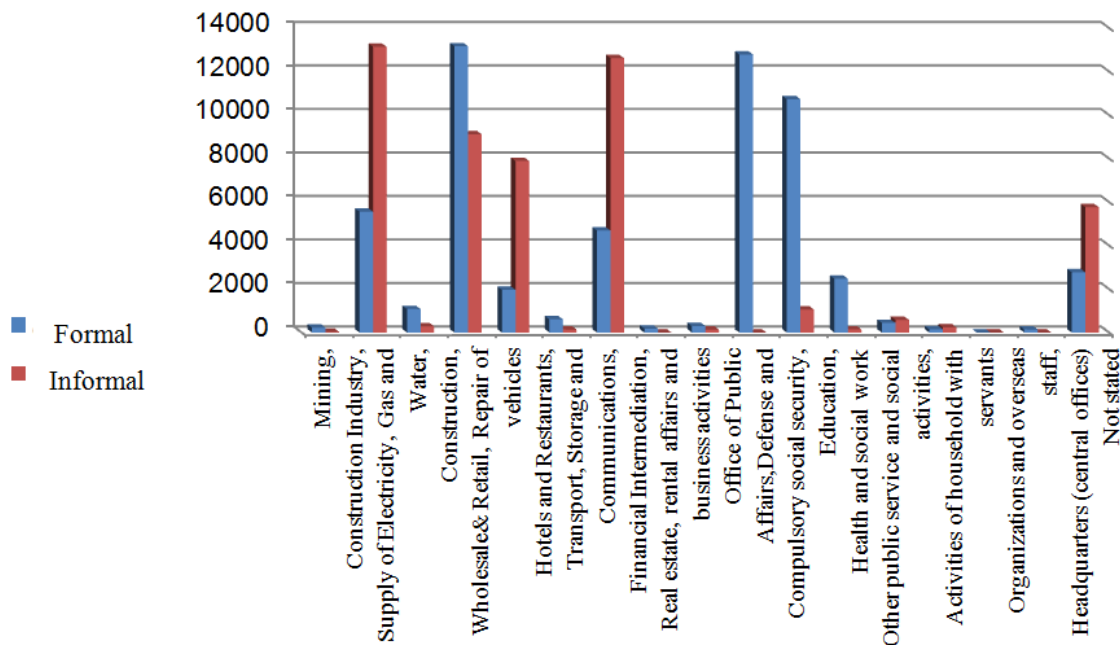


Fig. 4. Share of workers in rural areas of the province of the formal and informal sectors.

Table 4: Rate of employment in the informal sector, 2006.

Title	Employment (1996)	Employment (2006)	Employment rate (%)	Informal employment rate in 2006(%)
Real estate, rental affairs and business activities	1763	3663	7.6	41.2
Organizations and overseas staff	13	123	25.2	0.0
Hotels and Restaurants	699	2072	11.5	40.2
Transport, Storage and Communications	22045	52341	9.0	70.1
Public service, social and personal activities,	4067	5471	3.0	55
Financial Intermediation	1984	4239	7.9	3.4
Health and social work	6967	10241	3.9	9.5
Construction	49030	60393	2.1	48.2
Wholesale and	27069	53613	7.1	77.4
Supply of Electricity, Gas and Water	2963	5632	6.6	12.6
Construction Industry	19097	39948	7.7	66
Education	20926	39978	6.7	7.8
Mining	528	830	4.6	23.6
Office of Public Affairs, Defense and Compulsory social security	55659	51906	-0.7	0.0
Activities of household with servants	2665	1634	-4.8	61.4
Headquarters	378	190	-6.6	9.5

Source: Statistical Center of Iran, Population and Housing Census findings in Sistan and Baluchestan and research findings

Table 5: Prediction of the number of informal workers of the province during the Fifth Development Plan (2011-2015) separately for each economic activity.

Title	2011	2012	2013	2014	2015
Real estate, rental affairs and business activities	1624	1739	1853	1968	2083
Organizations and overseas staff	0	0	0	0	0
Hotels and Restaurants	929	1025	1120	1216	1312
Transport, Storage and Communications	39993	43295	46598	49900	53202
Public service, social and personal activities,	3099	3190	3280	3370	3460
Financial Intermediation	156	167	178	190	201
Health and social work	1011	1049	1087	1125	1163
Construction	29721	30332	30943	31555	32166
Wholesale and	44443	47389	50335	53281	56228
Supply of Electricity, Gas and Water	756	803	850	897	944
Construction Industry	28396	30426	32456	34486	36516
Education	3327	3536	3745	3954	4163
Mining	205	214	223	232	241
Office of Public Affairs, Defense and Compulsory social security,	0	0	0	0	0
Activities of household with servants	954	905	857	809	761
Headquarters	17	16	14	13	12

Source: research findings

Above table shows that among economic sectors, the "wholesale" sector has the highest rate of informal employment and "headquarters" sector has the lowest level of informal employment. Also as data of above table suggests level of informal employment with the exception of "headquarters" is increasing.

SUGGESTIONS

- 1) The technology used in the informal sector is generally worn. Hence the creation of centers for the development of capital equipment and its modernization seem useful. New technologies in the informal sector can be developed through mobile training workshops and social media with an understandable language for workers in this sector.
- 2) Given the importance of the developing small industries and taking into account the share of employment in these industries, the necessity to determine the appropriate role for small industries in the development projects of Policy-making Council in the informal sector which includes small industries is recommended. This Council is responsible for the protection, guidance and supervision of the activities of the informal sector and small industries in order to have more effective use of them to increase the rate of employment.
- 3) Receiving bank credits is of other issues that can make a substantial contribution to the development and improvement of the informal sector. Because usually one of the main problems of granting credit to the firms operating in the informal sector is the lack of related guarantee (collateral) and legal arrangements. Thus, workers in this sector provide the financial needs of their business mainly through private lenders with high interest rates. In this regard, establishment of Employment Fund in each province can somewhat remove management, economic, social problems and etc.
- 4) State aid for the modernization of the infrastructure and increased investment in this sector will contribute to the productivity, therefore, improving the transport network between rural and urban areas not only helps to establish cottage industries, but also facilitates the daily movement between rural and urban areas, because of which the growth rate of urban population will be reduced. It is recommended comprehensive studies in the field of wholesale, transportation and construction activities to be conducted.

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