

## The role of Informal Markets in Urban Development and Social Dynamics

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### ABSTRACT

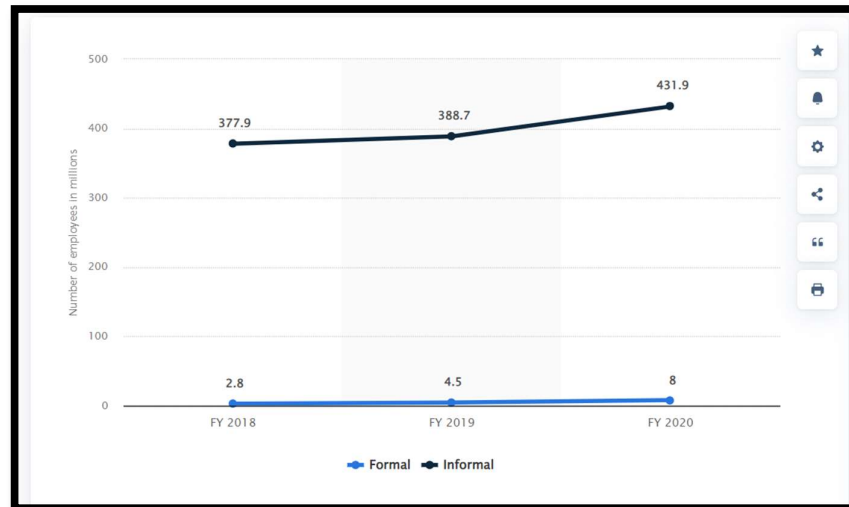
This research investigates the role of informal markets in India's urban economies, focusing on their economic contributions, socio-cultural significance, and associated challenges. Using secondary data from peer-reviewed sources, the study explores how informal markets provide employment, foster community bonding, and adapt to urban changes. Findings reveal significant socio-economic difficulties faced by informal market workers, including legal insecurities and economic vulnerabilities. The research highlights the need for inclusive urban policies to better integrate informal markets into formal economies, thereby enhancing economic resilience and social cohesion. This study offers valuable insights for policymakers on supporting informal markets as essential components of urban development.

**Keywords:** Informal markets, Urban economies, Socio-economic challenges, Legal protection, Social cohesion. Economic resilience, Urban planning, Street vendors, Employment Urban development

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### Introduction

Informal markets play a key role in India's urban economies, making large contributions to both economic activities and social interactions. These markets, which include street sellers and small traders, offer jobs and important goods and services to many urban dwellers, especially those with less money. According to the International Labour Organization, about 93% of India's workers are in the informal sector, with many of them working in urban informal markets (Ruchi Kumari and Meghna Dutta, 2023,). Even though they're important, informal markets are often left out of urban planning and rules, leading to a lack of legal protection and social and economic problems for people working in these markets.



**Figure 1: Number of employees in the unorganized sector in India from financial year 2018 to 2020 (in millions), by type**

(Source: Manya Rathore, 2024)

This research is important for several reasons. Firstly, grasping how informal markets work is crucial for making urban policies that include and bring these markets into the regular economy. Secondly, as cities grow quickly and economic conditions change, we need to look at how informal markets adjust and what challenges they face in keeping their livelihoods. Lastly, by exploring how these markets help social connections and town growth, the research aims to give insights into creating stronger and fairer urban environments. Doing this research will help fill gaps in what we already know and offer practical advice for policymakers to support informal markets as vital parts of urban life.

#### **Research Aim:**

The aim of this research is to analyze the role of informal markets in India's urban economies and understand their impact on social and economic dynamics within cities.

#### **Research Objectives:**

- To analyze the contribution of informal markets to urban employment and economic activities.
- To assess the challenges faced by informal market workers due to lack of legal protection and inclusion in urban planning.
- To explore how informal markets adapt to changing economic conditions and urban growth.
- To provide policy recommendations for integrating informal markets into formal urban planning and development frameworks.

## **1. 2. Literature Review**

Informal markets are very important in the cities of India. They help with city growth and shape how people interact. These markets, which are often not formally regulated, provide jobs for many people, boost the economy, and affect the social and political environment in cities.

### **1.1 2.1. Economic Impact and Livelihoods**

Informal markets, such as street vending, are vital for many city residents in India. Because of slow industrial growth and few formal jobs, many people in cities rely on these markets for a living. Street vendors, who make up a large part of these markets, sell goods and services directly to customers, often in public areas (Raveendran and Vanek, 2020). They meet the needs of the urban poor by offering affordable products, helping to boost the local economy. Research shows that informal markets are key economic centers, allowing low-income groups to buy necessary items at reasonable prices, which helps reduce poverty and economic inequality in cities.

### **1.2 2.2. Social Dynamics and Cultural Significance**

Informal markets are more than just places for buying and selling; they are lively social spaces that encourage community connections and cultural sharing. They are important for keeping the social structure of urban life intact by offering places where different social groups can interact, communicate, and share their cultural practices. These markets often showcase the local culture and traditions through the items sold and the social activities happening there. For example, the weekly markets in Delhi, called "Hafta Bazaars," provide a window into the cultural and social lives

of the city's people, displaying a mix of different traditions and community interactions (Sharma *et al.* 2020).

### **1.3 2.3. Urban Development and Spatial Politics**

Informal markets significantly influence urban development and the politics of space in Indian cities. They occupy strategic urban spaces such as sidewalks, street corners, and vacant lots, often leading to conflicts with urban authorities and formal businesses. The existence and expansion of these markets challenge conventional urban planning norms and compel authorities to rethink urban development strategies to accommodate the needs of the urban poor. The politics of space becomes evident as vendors negotiate with local authorities, resist evictions, and sometimes face violence or coercion (Recchi, 2021). These markets thus highlight the contestation over urban space and bring attention to issues of inclusivity and equitable development in urban planning.

### **1.4 2.4. Legal Framework and Regulatory Challenges**

The regulation of informal markets poses significant challenges for urban governance in India. Despite their economic and social importance, street vendors and other informal market participants often operate in a legally ambiguous space, with inconsistent or inadequate legal protections. The National Policy for Street Vendors and various state-specific regulations have attempted to provide a legal framework for these vendors, yet gaps in implementation remain (Nandru *et al.* 2021). Many vendors still face harassment, eviction, and extortion due to the lack of clear legal status and protection. Effective governance requires balancing the interests of various stakeholders, including street vendors, local businesses, and urban authorities, to create an inclusive urban environment.

### **1.5 2.5. Challenges and Vulnerabilities**

Despite their contributions, informal markets and their participants face numerous challenges, including economic vulnerability, lack of social security, and exposure to harsh working conditions. The informal nature of these markets means that vendors often lack access to formal financial services, healthcare, and social security benefits. They are also vulnerable to market fluctuations, eviction, and loss of income due to their precarious legal status. The COVID-19 pandemic further exacerbated these vulnerabilities, with lockdowns and mobility restrictions severely impacting the livelihoods of those dependent on informal markets (Narayanan and Saha, 2021).

### **1.6 2.6. Policy Implications and Future Directions**

To harness the full potential of informal markets for urban development, policymakers must adopt inclusive strategies that recognize and integrate these markets into the broader urban economy. This includes formalizing certain aspects of informal trade, providing legal protections, and ensuring access to basic amenities and services for vendors. Urban planning should consider the needs of informal market participants, fostering a more inclusive and equitable urban environment that accommodates diverse economic activities and social interactions (Chen, 2020). There is a need for a participatory approach in policymaking, involving street vendors and other informal sector workers in the decision-making process to address their unique challenges effectively.

### **1.7 2.7 Literature Gap**

The literature on informal markets in India highlights their economic, social, and spatial roles in urban development; however, significant gaps remain in understanding the gender-specific experiences and challenges faced by participants in these markets. Moreover, there is limited research on the long-term impacts of informal market participation on social mobility and economic resilience, particularly in the context of rapidly changing urban policies and development projects (Sultana *et al.* 2022). Future studies should explore how different demographic groups, including women and marginalized communities, navigate these markets and the broader urban environment to provide a more comprehensive understanding of the informal sector's dynamics and challenges.

## **2. 3. Methodology**

This research has been conducted based on valid and authentic secondary data. This secondary data was useful in terms of supporting the research with valid and peer-reviewed sources-based data. Secondary has helped the researcher in collecting the evidence on Indian informal market conditions. The wide range of secondary sources such as newspaper articles, author's articles, press releases and other authentic has provided the research with crucial facts such as street markets evidence from different cities of India. On the other hand, interpretivism research philosophy and inductive approach were followed in this research which were essential to pay attention to the ground-based reality of the research.

### 3. 4. Result and Discussion

#### 3.1 4.1 Contribution of Informal Markets to Urban Employment and Economic Growth

Informal markets play a critical role in India's urban economy. They provide livelihoods for millions and support urban economic activities. Informal markets, including street vendors, small traders, and local artisans, create significant job opportunities. A large portion of these workers operate in urban informal markets, contributing significantly to economic growth. Urban informal markets provide employment for a vast number of people. Street vending, for instance, offers jobs to approximately 10 million people in India (Reddy *et al.* 2020). In cities like Mumbai, Delhi, and Kolkata, street vendors are a common sight, selling goods ranging from fresh produce to household items. These vendors often operate without formal contracts, making the market flexible and accessible. This flexibility allows people from various backgrounds to participate, especially those with limited education or skills.



**Figure 2: Street-food vendors according to high, middle, and low income**

(Source: Reddy *et al.* 2020)

In addition to street vending, informal markets include home-based workers and small-scale manufacturers. Many women in urban areas engage in home-based work, producing garments, handicrafts, or processed foods. These activities provide a stable income, especially for women who need to balance work and household responsibilities. A study by the Self-Employed Women's Association (SEWA) found that over 50% of women in urban slums engage in some form of home-based work (ilo.org, 2024). Informal markets boost local economies by supporting small-scale trade and services. They provide essential goods and services at affordable prices, driving consumer demand.

Year	Urban Population (millions)	Percentage of Total Population (%)
2008	340	29
2020	483	35
2030	590	40

**Table 1: Urban Population Growth in India (2008–2030)**

(Source: <https://data.worldbank.org/indicator/SP.URB.TOTL.IN.ZS>)

City	Estimated Vendors	Percentage of Urban Workforce (%)
Delhi	300000	12
Mumbai	250000	10
Kolkata	200000	9
Chennai	150000	7
Bengaluru	100000	5

**Table 2: Estimated Street Vendor Population in Major Indian Cities (2023)**

(Source: <https://www.mckinsey.com/featured-insights/urbanization/urban-awakening-in-india>)

Sector	Annual Investment Required (billion \$)	Total Investment Over 15 Years (billion \$)
Housing	60	900
Transportation	50	750
Roads	40	600
Healthcare	20	300
Education	15	225

**Table 3: Annual and Total Urban Infrastructure Investment Requirements in India (2023–2038)**

(Source: <https://www.mckinsey.com/featured-insights/urbanization/urban-awakening-in-india>)

Year	Commercial Space Required (sq. meters in millions)		Growth Rate (%)
2023	700		8
2025	800		10
2030	900		12

**Table 4: Projected Growth in Commercial Space Requirements in Indian Urban Areas (2023–2030)**

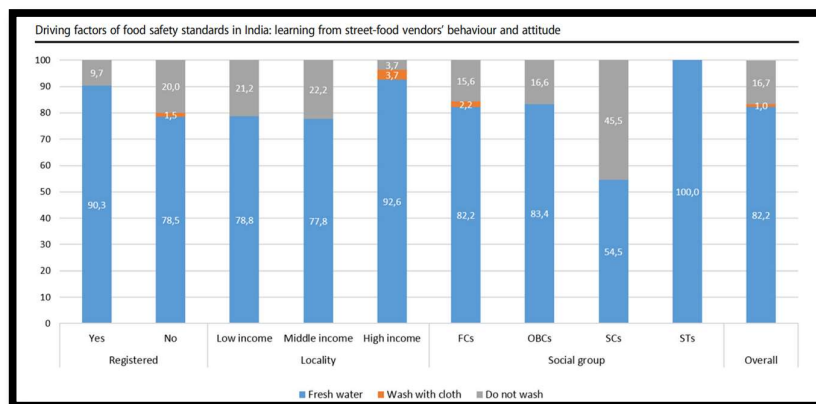
(Source: <https://nasvinet.org/research-document/Bhowmik-Hawkers-URBAN-INFORMAL-SECTOR.pdf>)

City	Informal Economy Contribution to City GDP (%)	Street Vending Contribution to GDP (%)
Mumbai	25	10
Kolkata	20	9
Hyderabad	18	8
Chennai	15	7
Bengaluru	12	6

**Table 5: Contribution of Informal Economies and Street Vending to City GDP in India**

(Source: <https://www.mckinsey.com/featured-insights/urbanization/urban-awakening-in-india>)

This high demand, in turn, stimulates local production and supply chains. For example, in Delhi's famous markets, such as Sarojini Nagar and Lajpat Nagar, thousands of small traders sell clothes, accessories, and household items (Kundu and Dutta, 2020). These markets attract a significant number of shoppers, boosting local businesses. Informal markets also contribute to urban economies by reducing transaction costs. They offer products at competitive prices, benefiting low-income consumers. These markets often bypass formal supply chains, reducing costs and making goods more affordable. This cost-effectiveness supports economic activity, especially in low-income urban neighborhoods. According to a study by the National Association of Street Vendors of India (NASVI), street markets in Delhi alone generate over INR 8000 crores daily (nasvinet.org, 2023). For example, during festivals like Diwali or Holi, street vendors in cities sell seasonal items such as decorations, sweets, and festival attire. This adaptability allows them to capitalize on peak sales periods and sustain their businesses.



**Figure 3: Method of washing raw materials by street-food vendors (%)**

(Source: Reddy *et al.* 2020)

Informal markets contribute to the economic resilience of cities. They act as a buffer during economic downturns or crises. During the COVID-19 pandemic, many formal businesses faced severe disruptions. However, informal markets showed remarkable resilience, quickly adapting to the changing environment. Street vendors began selling masks, sanitizers, and essential goods, meeting urgent public demand (Arsene *et al.* 2020). This adaptability helped maintain economic stability in many urban areas. Informal markets also create a diverse economic base, reducing cities' dependence on formal sectors. This diversity strengthens urban economies against shocks, such as financial crises or natural disasters. In Mumbai, for instance, after the 2008 financial crisis, many formal sector employees turned to street vending and small trading to sustain themselves (Agarwal and Brahmo, 2020). This shift helped mitigate the overall economic impact on the city. Despite their contributions, informal markets face numerous challenges. Workers often lack legal protection, social security, and access to credit. This lack of support makes them vulnerable to exploitation and economic instability. Municipal regulations often restrict street vending, leading to frequent evictions and loss of income. In Mumbai, over 15,000 street vendors faced eviction in 2017 due to new zoning laws, impacting their livelihoods (Kapoor *et al.* 2022).

### 3.2.4.2 Socio-Economic Challenges Faced by Informal Market Workers

Informal market workers in India face many socio-economic challenges. These include legal issues, social discrimination, and economic difficulties. Despite their crucial role in urban economies, informal workers often struggle without formal recognition or protection. One major issue is the lack of legal status and recognition. Informal workers, such as street vendors, often lack licenses to operate. Without legal permits, they face frequent harassment from local authorities. Police and municipal officers regularly conduct raids, confiscating goods and imposing fines (Thachil, 2020). In cities like Mumbai and Delhi, street vendors report frequent evictions. These actions disrupt their livelihoods and create economic instability. The lack of legal recognition also means no access to social security benefits. Informal workers are excluded from schemes like Provident Fund or Employees' State Insurance. This exclusion leaves them vulnerable to health emergencies or accidents. According to a 2020 report by the International Labour Organization, only 6% of informal workers in India have any social protection (ilo.org, 2022).

Informal market workers often face social discrimination and stigma. They are perceived as occupying lower social and economic status. This perception affects their access to public services like healthcare and education. Many vendors and daily wage earners live in informal settlements or slums. These areas often lack basic amenities such as clean water and sanitation. In Mumbai, Dharavi's residents face frequent water shortages and inadequate sanitation facilities (Saha *et al.* 2021). Social stigma also affects their interaction with customers and local communities. Middle-class consumers often view street vendors with suspicion. They assume that the products sold are of lower quality or unhygienic. This bias affects the earning potential of informal workers. It limits their ability to expand their customer base and increase profits.

Economic difficulties are another significant challenge for informal market workers. They often earn low wages and face income instability. The absence of a fixed salary makes it difficult to predict monthly earnings. Many street vendors live on daily income, making long-term financial planning impossible. According to a study by the National Association of Street Vendors of India (NASVI), the average daily income for a street vendor in Delhi is between INR 200-300 (nasvinet.org, 2023). This amount is barely sufficient to meet basic living expenses in an urban setting. High

inflation and rising living costs exacerbate these economic challenges. The cost of essential commodities has increased significantly in recent years. Informal workers, with their limited earnings, struggle to cope with these rising costs. For instance, in 2021, the price of vegetables increased by 20% in major cities, affecting both vendors and consumers. Middle-class informal workers, such as small shop owners, also face high tax rates. While they operate in the informal sector, they still pay indirect taxes. Goods and Services Tax (GST) is applied to most goods they purchase for resale (Mehrotra and Kalra, 2020). This tax burden reduces their profit margins, affecting their financial stability. A study by the Centre for Policy Research found that small shop owners in Kolkata experienced a 15% decrease in profits due to GST-related expenses.

### 3.3.4.3 Role of Informal Markets in Strengthening Social Cohesion

Crawford Market is a bustling informal market in South Mumbai. It is known for its wide range of products, from fresh produce to household items. The market is a place where vendors and customers interact daily, often forming personal relationships over time. Many shopkeepers know their regular customers by name and offer personalized service, which fosters a strong sense of community. The market acts as a social space where local residents gather, share news, and engage in community life, reinforcing social bonds. Dilli Haat is an open-air market in Delhi that showcases a variety of traditional crafts, food, and cultural items from across India (Sethi, 2022). The market brings together artisans from different states, promoting cultural exchange and interaction. It serves as a platform for people to learn about diverse cultures, interact with artisans, and appreciate traditional crafts. The shared experience of shopping, eating, and enjoying cultural performances at Dilli Haat promotes social interaction and community bonding among visitors from different backgrounds (Ahmed *et al.* 2020).

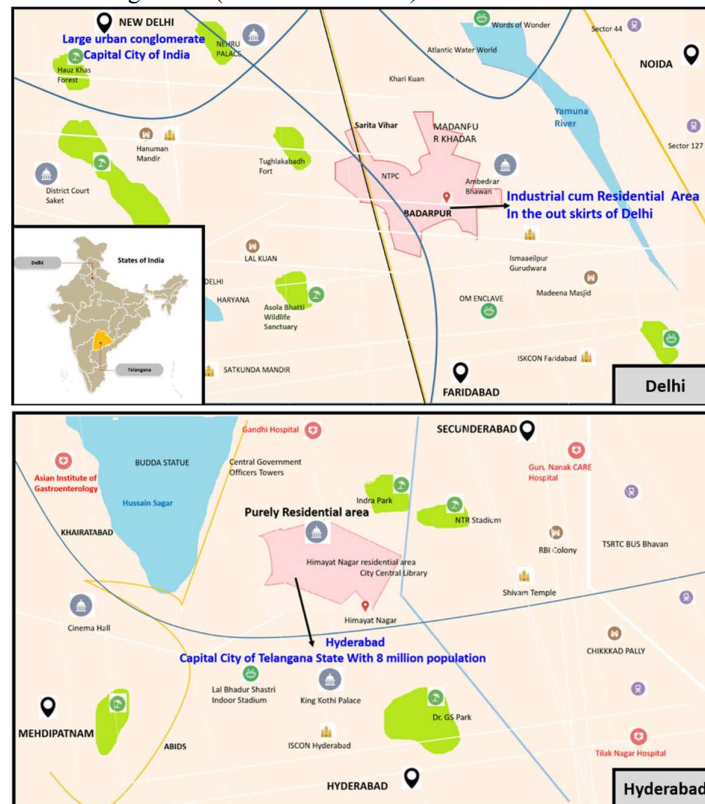


Figure 4: Location of Himayatnagar (Hyderabad) and Badarpur (Delhi) case studies  
(Source: Reddy *et al.* 2020)

Gariahat Market is a popular informal market in Kolkata known for its street vendors selling clothing, accessories, and local crafts. It is a vibrant space where people from different walks of life come together (Sinha and Ali, 2021).





**Figure 5: Social interaction in Gariahat Market, Kolkata**

(Source: Debraj Mitra, 2022)

The market is not just a place for buying and selling goods but also a social hub where people interact, exchange news, and engage in lively conversations. The bustling environment and the variety of goods available make it a melting pot of different cultures, fostering a strong sense of community. The informal market around Charminar in Hyderabad is famous for its jewelry, traditional clothing, and local snacks. It attracts a diverse crowd, from tourists to local residents. The market is known for its lively atmosphere, where bargaining and friendly interactions are common. Vendors and customers often engage in casual conversations, discussing everything from daily life to cultural traditions. This creates a sense of community and belonging, as people from different backgrounds come together in a shared space.

#### 4. 5. Conclusion

This research successfully highlights the critical role of informal markets in urban economies, demonstrating their contribution to employment, economic resilience, and social cohesion in India. It reveals significant socio-economic challenges faced by informal workers, including legal insecurity, social marginalization, and financial instability. The research underscores the need for inclusive urban policies to integrate informal markets into the formal economy. By providing real-life examples, it illustrates the vibrant social dynamics fostered by these markets, strengthening community bonds. Overall, the study is valuable for policymakers to understand the importance of supporting informal markets as vital components of sustainable urban development.

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