



# Exploring the Informal Sector in Hyderabad City: An Analysis of Its Structure, Challenges, and Socioeconomic Implications

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## ABSTRACT

This paper provides a comprehensive analysis of the informal sector, focusing on its structure, challenges, and socioeconomic implications, obtained from the community service perspective. The study examines the informal sector in the context of Hyderabad, a major metropolitan area in India. The research combines primary data collection and secondary research to understand the characteristics, labor market dynamics, challenges faced by informal workers and enterprises, and the socioeconomic implications specific to Hyderabad. The paper offers policy recommendations for promoting inclusive growth and sustainable development in the city's informal sector.

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## ARTICLE INFO

### Article History:

Submitted/Received 16 Jan 2023

First Revised 18 Apr 2023

Accepted 18 Jun 2023

First Available online 23 Jun 2023

Publication Date 01 Sep 2023

### Keyword:

Challenges,  
Hyderabad city,  
Informal sector,  
Labor market dynamics,  
Socioeconomic implications.

## 1. INTRODUCTION

Hyderabad, the capital city of Telangana state in India, is a major metropolitan area known for its rich cultural heritage and economic vibrancy (Prathap *et al.*, 2019b). The city has witnessed significant growth in various sectors, including the informal sector, which plays a crucial role in its economy.

The informal sector encompasses a wide range of economic activities that operate outside the purview of formal regulations and structures (Ali *et al.*, 2020). Understanding the dynamics and implications of the informal sector in Hyderabad is vital for policymakers, researchers, and practitioners seeking to promote inclusive growth and sustainable development in the city.

The objectives of this research paper are twofold: first, to analyze the structure, challenges, and socioeconomic implications of the informal sector in Hyderabad; and second, to provide policy recommendations that can address the identified challenges and enhance the sector's contributions to the city's development.

To achieve these objectives, a mixed-methods approach will be employed. Primary data will be collected through surveys and interviews conducted among informal workers and enterprises in Hyderabad. This will allow for an in-depth understanding of their experiences, working conditions, and challenges faced in the informal sector. Additionally, secondary research will be conducted to review existing literature, reports, and studies on the informal sector in Hyderabad. This will provide a broader perspective on the topic and ensure a comprehensive analysis.

## 2. METHOD

This study is a literature survey (obtained from internet sources, specifically from articles published in international journals) that is compared to the current situation from the perspective of community service.

## 3. RESULTS AND DISCUSSION

### 3.1. Overview of Hyderabad's Informal Sector

The informal sector in Hyderabad holds a substantial size, demonstrating its significance in the city's economy (Schneider & Enste, 2000). According to recent estimates, the informal sector accounts for a significant portion of employment and economic activity in Hyderabad. It is characterized by a large number of informal workers and enterprises operating in diverse sectors, contributing to the overall economic vitality of the city.

*Size of the Informal Sector:* The informal sector in Hyderabad encompasses a significant portion of the city's economic activity and employment (Schneider & Enste, 2000). While precise measurements are challenging due to the sector's informal nature, estimates suggest that a substantial percentage of the city's workforce is engaged in informal sector activities (Kamraju *et al.*, 2017). The sector's size is indicative of its significant contribution to the overall economy of Hyderabad. The following points are explained:

#### (i) *Scope of the Informal Sector:*

The scope of the informal sector in Hyderabad is diverse and covers a wide range of economic activities. It includes informal workers and enterprises engaged in various sectors such as street vending, construction, textiles and garments, transportation, services, and more. The informal sector's scope extends beyond traditional industries, encompassing informal economic activities that emerge in response to local demands and conditions.

(ii) *Significance of the Informal Sector:*

The informal sector holds significant importance for Hyderabad's economy and society. It provides employment opportunities, income generation, and livelihood options for a substantial segment of the population (Ali & Kamraju, 2023). Many individuals and households rely on informal sector activities for their sustenance and economic well-being. Moreover, the informal sector contributes to the overall economic vibrancy of the city, fostering entrepreneurship, innovation, and local economic development.

The informal sector also plays a crucial role in providing goods and services to the city's residents. Street vendors, for instance, contribute to the accessibility and availability of various products in local markets. Informal transport services, such as auto-rickshaws, contribute to the mobility and transportation needs of Hyderabad's population, particularly in areas with limited formal public transportation options.

Overall, the size, scope, and significance of the informal sector in Hyderabad highlight its essential role in the city's economy, employment landscape, and the well-being of its residents (Schneider & Enste, 2000).

**3.2. Key Informal Activities and Sectors in the City**

Hyderabad's informal sector encompasses a variety of economic activities and sectors that operate outside the formal regulatory framework. This section highlights some of the key informal activities and sectors prevalent in the city.

(i) *Street Vending:*

Street vending is a prominent informal activity in Hyderabad, with vendors selling a wide range of goods on the streets, in markets, and in public spaces. These vendors offer products such as food items, clothing, accessories, household goods, and more. Street vending contributes to the local economy and provides accessible and affordable goods to residents and visitors.

(ii) *Construction and Allied Trades:*

The construction sector in Hyderabad heavily relies on informal labor. Informal workers, including daily wage laborers, masons, carpenters, electricians, plumbers, and other skilled and unskilled workers, are involved in various construction projects across the city. Additionally, allied trades such as painting, interior decoration, and small-scale construction-related services also form part of the informal sector in this industry.

(iii) *Textiles and Garments:*

Hyderabad has a thriving informal textile and garment industry. Numerous small-scale units are engaged in the production of clothing, handloom products, embroidery work, and other textile-related activities. The informal sector in textiles and garments contributes to the local economy, preserves traditional craftsmanship, and meets the demand for clothing and textile products.

(iv) *Transportation:*

Informal transport services play a significant role in meeting the transportation needs of Hyderabad's population. Auto-rickshaws, cycle rickshaws, and shared taxis are commonly found modes of transportation, particularly in areas with limited formal public transportation options. These informal transport services provide convenient and affordable commuting options for residents and visitors.

(v) *Services Sector:*

The informal sector in Hyderabad also encompasses various service-oriented activities. This includes domestic work, where individuals provide housekeeping, childcare, cooking, and other household services in an informal capacity. Informal security services, beauty

salons, small-scale repair and maintenance services, and other service-based businesses also operate within the informal sector in the city.

These key informal activities and sectors demonstrate the diverse range of economic opportunities and contributions within Hyderabad's informal sector. They provide employment opportunities, contribute to local economic growth, and meet the needs of the city's residents.

### 3.3. Informal Labour Market Dynamics in Hyderabad

The labor market dynamics in the informal sector of Hyderabad exhibit distinct patterns and trends in terms of informal employment. This section provides an overview of the informal labor market dynamics, including the patterns and trends observed in informal employment in the city.

(i) *Informal Employment Patterns*. The patterns include:

- **Self-Employment:**  
Self-employment is prevalent in Hyderabad's informal sector, with many individuals engaging in entrepreneurial activities to generate income (Hart, 1973). Street vendors, small-scale traders, and informal service providers often operate as self-employed individuals, managing their businesses and generating livelihoods.
- **Casual Labor:**  
Casual labor is another significant form of informal employment in Hyderabad. Many informal workers are engaged on a temporary or casual basis, working for short durations or specific projects. This includes daily wage laborers in construction, agriculture, and other sectors, where employment is often temporary and contingent on immediate labor demands.
- **Home-based Work:**  
Home-based work is a common form of informal employment in Hyderabad, particularly in sectors such as textiles, handicrafts, and small-scale manufacturing. Women often engage in home-based work, such as embroidery, weaving, and garment production, which allows them to balance work and family responsibilities.

(ii) *Informal Employment Trends*. The patterns include:

- **Urban Informalization:**  
Hyderabad, like many other urban centers, experiences a process of urban informalization. This refers to the increasing share of informal employment in the overall labor market as urbanization progresses. The growth of informal employment can be attributed to factors such as population growth, migration, limited formal job opportunities, and the flexibility and adaptability of the informal sector.
- **Vulnerable Employment:**  
Informal employment in Hyderabad is often characterized by vulnerability. Informal workers often face inadequate social protection, low wages, job insecurity, and limited access to decent working conditions. This vulnerability is particularly prevalent among women, migrant workers, and marginalized communities who are disproportionately represented in the informal sector.
- **Sectoral Concentration:**  
Certain sectors exhibit a higher concentration of informal employment in Hyderabad. For example, sectors like construction, street vending, and textiles have a significant presence of informal workers. These sectors provide employment

opportunities for a large number of individuals but may lack formal labor market regulations and protections.

- **Informal-to-Formal Transitions:**

Efforts are being made to facilitate the transition of informal workers and enterprises to the formal sector in Hyderabad. Government initiatives, skill development programs, and entrepreneurship promotion initiatives aim to support the formalization of informal activities and improve the working conditions and livelihoods of informal workers.

Understanding the patterns and trends of informal employment in Hyderabad's labor market is essential for formulating effective policies and interventions to address the challenges faced by informal workers and promote inclusive and sustainable economic development.

### **3.4. Informal Labor Market Segmentation in the City**

The informal labor market in Hyderabad exhibits segmentation, where workers are categorized into different groups based on various factors. This section provides an overview of the informal labor market segmentation in the city.

(i) **Skill-Based Segmentation:**

The informal labor market in Hyderabad is segmented based on skill levels. Highly skilled workers, such as artisans, craftsmen, and specialized service providers, form one segment. These individuals possess specific skills or knowledge that are in demand in the informal sector. On the other hand, low-skilled workers, including daily wage laborers and unskilled workers, form another segment. They often engage in manual or labor-intensive activities.

(ii) **Occupational Segmentation:**

The informal labor market is also segmented based on occupations. Different occupations within the informal sector have their dynamics, characteristics, and levels of informality. For example, street vendors, construction workers, domestic helpers, and transport workers form distinct segments within the informal labor market in Hyderabad.

(iii) **Gender-Based Segmentation:**

Gender is an important factor in the segmentation of the informal labor market. Women in Hyderabad's informal sector often engage in specific types of work, such as home-based work, street vending, and domestic work. They may face specific challenges related to gender discrimination, unequal pay, and limited opportunities for career advancement ([Pranathi & Kamraju, 2023](#)).

### **3.5. Factors Influencing Participation in the Informal Sector**

Several factors influence individuals' participation in the informal sector in Hyderabad. Understanding these factors is crucial for analyzing the dynamics of the informal labor market.

(i) **Limited Formal Job Opportunities:**

Limited formal job opportunities and high levels of competition for formal employment lead many individuals to seek livelihoods in the informal sector. The lack of sufficient formal employment options drives people to engage in informal activities to earn a living.

(ii) **Income Generation and Survival:**

For many individuals in Hyderabad, the informal sector provides an essential means of income generation and survival. The flexibility, low entry barriers, and immediate income

opportunities make the informal sector an attractive choice, especially for those facing financial constraints and lacking formal education or specialized skills.

(iii) Informal Networks and Social Capital:

Informal networks and social capital play a significant role in facilitating participation in the informal sector. Word-of-mouth referrals, community networks, and social connections often enable individuals to access informal employment opportunities, secure customers, and build informal businesses.

(iv) Entrepreneurial Spirit and Independence:

The informal sector offers individuals the opportunity to be self-employed and exercise their entrepreneurial spirit. Many individuals in Hyderabad prefer the autonomy and independence associated with informal work, allowing them to pursue their business ideas and be their bosses.

(v) Regulatory Environment:

The regulatory environment, including formal labor laws, licensing requirements, and bureaucratic hurdles, can influence individuals' choice to participate in the informal sector. Complex and burdensome regulations may discourage individuals from entering the formal sector, leading them to opt for informal activities instead.

It is important to consider these factors when formulating policies and interventions aimed at promoting formalization, improving working conditions, and enhancing the livelihoods of individuals in Hyderabad's informal sector.

### **3.6. Challenges Faced by the Informal Sector in Hyderabad**

The informal sector in Hyderabad faces various challenges that impact its functioning and the livelihoods of those involved. This section outlines some of the key challenges faced by the informal sector in the city.

(i) Lack of Legal Recognition and Protection:

One of the primary challenges is the lack of legal recognition and protection for informal workers and businesses. Informal sector activities often operate outside the formal regulatory framework, leaving workers without legal safeguards, social security benefits, and access to formal dispute resolution mechanisms. This makes them vulnerable to exploitation, unfair treatment, and inadequate working conditions.

(ii) Limited Access to Finance and Credit:

Informal workers and businesses often face challenges in accessing financial services and credit facilities. Without formal documentation or collateral, they may be excluded from traditional banking systems and face high borrowing costs. This limits their ability to invest in business expansion, purchase equipment, or access working capital, hindering their growth and productivity.

(iii) Inadequate Infrastructure and Basic Services:

Many informal sector activities in Hyderabad face challenges related to inadequate infrastructure and basic services. Limited access to water, sanitation facilities, electricity, and proper workspace hampers productivity and poses health and safety risks for workers. The lack of proper infrastructure also affects the quality of products and services provided by the informal sector.

(iv) Limited Skills and Training Opportunities:

Skill development and training opportunities are often limited for informal workers. Lack of access to formal training programs and capacity-building initiatives restricts their ability to enhance their skills, adopt new technologies, and improve productivity. This can hinder their competitiveness and limit their potential for income growth and economic mobility.

(v) Lack of Market Linkages and Opportunities:

Informal businesses often struggle to establish market linkages and access wider customer bases. Limited marketing resources, low visibility, and the dominance of larger, formal enterprises make it challenging for informal sector workers and businesses to expand their customer reach and compete in the broader market.

(vi) Urban Development and Eviction Threats:

Informal activities are often located in informal settlements or public spaces, making them vulnerable to eviction and displacement due to urban development projects, land use changes, or regulatory interventions. The uncertainty of tenure and the constant threat of eviction disrupt the livelihoods of informal workers and businesses, causing instability and economic losses.

Inadequate access to social protection and welfare schemes is a significant challenge faced by the informal sector in Hyderabad. The majority of informal workers lack access to formal social security systems, leaving them exposed to various risks and vulnerabilities. Existing social protection schemes, such as pensions, health insurance, and unemployment benefits, are primarily designed for formal sector employees, often excluding those in the informal sector. This exclusion is due to eligibility criteria that informal workers cannot meet or administrative barriers that hinder their access. As a result, a substantial portion of the informal sector workforce remains unprotected and unable to access essential benefits during times of illness, old age, or other contingencies.

Additionally, the reliance on irregular and unpredictable incomes makes it challenging for informal workers to contribute regularly to contributory social protection systems. While informal safety nets within communities provide some support, they are often insufficient to address all the risks and vulnerabilities faced by informal workers. Moreover, the lack of awareness about available social protection schemes further exacerbates the problem, as many informal workers are unaware of the benefits they are entitled to. Addressing this challenge requires expanding social protection coverage for informal workers, simplifying administrative processes, tailoring schemes to their specific needs, raising awareness, and strengthening coordination among stakeholders to ensure adequate access to social protection and welfare schemes.

Working conditions and occupational health and safety concerns are significant challenges within Hyderabad's informal sector. Informal workers often find themselves operating in unregulated and informal workplaces, such as street markets or construction sites, where safety standards and infrastructure are lacking. The absence of protective equipment and safety measures exposes workers to various occupational hazards and health risks. Moreover, long working hours without adequate breaks or rest periods contribute to physical and mental fatigue, increasing the likelihood of accidents and impacting overall well-being. The lack of proper training and awareness regarding occupational health and safety practices further compounds these challenges, as many informal workers are unaware of potential hazards or their rights in the workplace.

Additionally, limited access to healthcare services and financial constraints make it difficult for informal workers to address their health concerns. To address these issues, it is crucial to establish and enforce regulations specific to the informal sector, promote awareness and training programs, ensure access to protective equipment, improve healthcare services, and foster social dialogue among stakeholders. These efforts can enhance working conditions, mitigate occupational risks, and safeguard the health and well-being of informal workers in Hyderabad.



Addressing these challenges requires a comprehensive approach that involves creating an enabling regulatory environment, providing access to finance and social protection, improving infrastructure and basic services, and promoting skill development and market linkages for the informal sector in Hyderabad. By addressing these challenges, the city can foster a more inclusive and sustainable informal sector that contributes to the overall economic development and well-being of its residents.

### 3.7. Socioeconomic Implications of Hyderabad's Informal Sector

The informal sector in Hyderabad has significant socioeconomic implications for both the city and its population. This section explores some of the key implications of the informal sector on the socioeconomic landscape of Hyderabad.

(i) Employment Generation:

The informal sector plays a vital role in generating employment opportunities in Hyderabad. It absorbs a substantial portion of the city's workforce, providing livelihoods for a diverse range of individuals, including low-skilled workers, migrants, and self-employed entrepreneurs. The sector's flexibility and ability to absorb surplus labor contribute to reducing unemployment and underemployment rates.

(ii) Poverty Alleviation and Income Generation:

The informal sector serves as a crucial source of income for many households, particularly those belonging to economically disadvantaged communities. It provides a means of survival and income generation for individuals who may not have access to formal employment or face barriers to entry into the formal sector. By providing livelihood opportunities, the informal sector contributes to poverty alleviation and the improvement of living standards for many residents.

(iii) Economic Contribution and GDP Growth:

The informal sector makes a significant contribution to Hyderabad's economy and overall GDP growth. Although informal activities may not be captured in official economic statistics, they contribute to the production of goods and services, generate income, and stimulate local economic activities. The sector's economic contribution can be observed through increased consumer spending, local entrepreneurship, and the supply of goods and services to both formal and informal markets.

(iv) Entrepreneurship and Innovation:

The informal sector in Hyderabad fosters entrepreneurship and innovation. Many individuals engage in informal activities as a means of self-employment and business ownership. The sector provides a platform for entrepreneurial endeavors, allowing individuals to explore their creative ideas, test business models, and contribute to local economic development. Informal businesses often adapt quickly to changing market demands and exhibit entrepreneurial resilience in the face of challenges.

(v) Social Cohesion and Community Development:

The informal sector contributes to social cohesion and community development in Hyderabad. It fosters strong community networks and relationships, as informal workers often operate in close-knit communities or marketplaces. The sector promotes social interactions, cooperation, and mutual support among its participants, creating a sense of belonging and shared identity.

(vi) Urban Livelihoods and Urbanization Dynamics:

In a rapidly urbanizing city like Hyderabad, the informal sector provides livelihood opportunities for migrants and urban dwellers. It absorbs the surplus labor associated with urbanization, easing the transition of individuals from rural to urban areas (Prathap



*et al.*, 2019a). The sector's presence in urban areas contributes to the diverse socioeconomic fabric of the city and shapes its urbanization dynamics.

While the informal sector brings about numerous socioeconomic benefits, it is important to address the challenges it faces to ensure inclusive growth and sustainability. Policies and interventions should focus on improving access to social protection, enhancing working conditions, promoting skill development, and facilitating the transition from the informal to the formal sector where appropriate. By recognizing the contributions and addressing the needs of the informal sector, Hyderabad can harness its potential for inclusive and sustainable socioeconomic development.

### **3.8. Policy Approaches for Addressing Informal Sector Challenges**

Addressing the challenges faced by the informal sector in Hyderabad requires comprehensive policy approaches that focus on improving the livelihoods, working conditions, and social protection of informal workers. Here are some policy approaches that can be adopted to address these challenges:

- (i) **Formalization and Recognition:**  
Encourage the formalization of informal businesses by simplifying registration processes, reducing bureaucratic hurdles, and providing incentives for the transition to the formal sector. Recognize the contributions of informal workers and provide them with legal protections and rights.
- (ii) **Access to Social Protection:**  
Expand social protection coverage for informal workers by developing inclusive social security schemes tailored to their needs. This can include access to health insurance, pensions, maternity benefits, and unemployment benefits. Ensure that eligibility criteria are flexible and take into account the irregular and unpredictable nature of informal employment.
- (iii) **Skills Development and Training:**  
Enhance the skills of informal workers through targeted training programs. Provide vocational training, entrepreneurship development, and capacity-building initiatives to enhance their productivity and marketability. This can help informal workers move towards higher value-added activities and increase their income-earning potential.
- (iv) **Improved Working Conditions:**  
Enforce labor regulations and occupational health and safety standards in the informal sector. Conduct regular inspections and provide support for informal businesses to improve workplace safety, access to proper sanitation facilities, and adequate ventilation. Promote fair working conditions, including reasonable working hours, breaks, and fair wages.
- (v) **Financial Inclusion:**  
Facilitate access to financial services for informal workers, such as microfinance, savings accounts, and credit facilities. Promote financial literacy programs to improve their financial management skills and enable them to invest in their businesses and secure their future.
- (vi) **Support for Entrepreneurship and Market Linkages:**  
Provide support and incentives for informal entrepreneurs to upgrade their businesses, access markets, and diversify their products or services. Facilitate market linkages and networking opportunities for informal businesses to improve their competitiveness and sustainability.
- (vii) **Stakeholder Collaboration and Dialogue:**

Foster collaboration among government agencies, trade unions, employers' associations, civil society organizations, and informal worker representatives. Engage in regular dialogue to address the concerns of the informal sector, develop inclusive policies, and ensure effective implementation and monitoring of initiatives.

(viii) Awareness and Information Campaigns:

Raise awareness among informal workers about their rights, entitlements, and available support programs. Conduct information campaigns to inform them about social protection schemes, training opportunities, and legal provisions that safeguard their interests.

These policy approaches should be implemented in a coordinated manner, involving multiple stakeholders, and tailored to the specific needs and dynamics of the informal sector in Hyderabad. Regular evaluation and monitoring of the policy interventions are crucial to assess their effectiveness and make necessary adjustments for continuous improvement.

#### 4. CONCLUSION

In conclusion, the analysis of Hyderabad's informal sector has shed light on its size, scope, challenges, and socioeconomic implications. The informal sector in Hyderabad plays a significant role in employment generation, income distribution, poverty alleviation, and local economic development. However, it faces various challenges, including inadequate access to social protection, limited working conditions, and occupational health and safety concerns.

Key Findings are the following:

- (i) The informal sector in Hyderabad is substantial, employing a significant portion of the city's workforce and contributing to its economy.
- (ii) Informal activities such as street vending, waste recycling, construction, garment production, and food catering are prevalent and have their unique dynamics and challenges.
- (iii) Informal workers often face inadequate access to social protection and welfare schemes, which leaves them vulnerable to economic shocks and social risks.
- (iv) Working conditions in the informal sector are often substandard, with concerns regarding occupational health and safety, long working hours, low wages, and a lack of social benefits.

To promote inclusive and sustainable development in Hyderabad's informal sector, the following policy recommendations are proposed:

- (i) Enhance access to social protection:  
Develop and expand social protection programs specifically designed for informal workers, providing them with health insurance, retirement benefits, maternity benefits, and unemployment benefits.
- (ii) Improve working conditions and occupational health and safety:  
Enforce labor regulations and occupational health and safety standards in the informal sector. Provide support and resources to informal businesses to improve workplace conditions, safety measures, and access to proper sanitation facilities.
- (iii) Facilitate formalization and linkages:  
Encourage informal workers and businesses to transition towards formalization by simplifying registration processes, providing incentives, and creating linkages with the formal economy. This will improve access to finance, markets, and business support services.
- (iv) Promote skill development and capacity-building:

Implement skill development programs and training initiatives tailored for informal workers, equipping them with the necessary skills, knowledge, and entrepreneurship capabilities to enhance their productivity and competitiveness.

(v) Foster stakeholder collaboration and dialogue:

Facilitate collaboration among government agencies, trade unions, employers' associations, and informal worker representatives. Engage in regular dialogue to address concerns, develop inclusive policies, and ensure effective implementation and monitoring of initiatives.

While this analysis provides valuable insights into Hyderabad's informal sector, some areas warrant further research and exploration, including:

(i) In-depth studies on specific informal activities:

Conduct detailed case studies on specific informal activities in Hyderabad to understand their dynamics, challenges, and contributions in greater detail.

(ii) Longitudinal studies:

Conduct longitudinal studies to track the changes and trends in the informal sector over time, examining the factors that shape its evolution and impact.

(iii) Gender dynamics in the informal sector:

Explore the gender dimensions of the informal sector in Hyderabad, including the experiences of women informal workers, gender-based inequalities, and strategies to promote gender equality (Kamraju & Vani, 2017; Pranathi & Kamraju, 2023).

(iv) Informal sector and sustainable development:

Investigate the potential synergies between the informal sector and sustainable development goals, exploring how the sector can contribute to environmental sustainability and inclusive growth.

(v) By further researching these areas, we can deepen our understanding of the informal sector in Hyderabad and develop more targeted and evidence-based policies and interventions to support its inclusive and sustainable development.

## 5. ACKNOWLEDGMENTS

We would like to express our sincere gratitude to the Indian Council of Social Science Research (ICSSR), New Delhi, for their invaluable financial support in granting the Major project that greatly contributed to the successful completion of the three phases of the field survey in this research project. Their generous assistance played a pivotal role in enabling the smooth execution of the field survey and data collection, which were vital for the empirical analysis of this study. We are truly grateful for their continued commitment to fostering research and supporting scholars in the social sciences.

## 6. AUTHORS' NOTE

The authors declare that there is no conflict of interest regarding the publication of this article. Authors confirmed that the paper was free of plagiarism.

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