

Informal Sector in Indian Economy

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Introduction: The informal sector in recent years has been an important sector for generating growth and employment in India as well as other developing countries. The contribution of informal sector has assumed considerable significance after the policies of LPG in India. Keith Hart was the first person to introduce the term 'informal sector'. Hart distinguished between formal and informal (legitimate and illegitimate) income opportunities on the basis of whether the activity entailed wage or self-employment (Hart, 1973). The informal sector is a pervasive and persistent economic feature of most developing economies, contributing significantly to employment creation, production, and income generation. The informal sector constitutes largest portion of the economy in terms of value addition, savings, investments etc.

The informal forms of organizations are major players in such activities as manufacturing, construction, transport, trade, hotels and restaurants, and business and personal services. The informal sector plays a significant role in the economy in terms of employment opportunities and poverty alleviation. This sector generates income-earning opportunities for a large number of people. In India, a large section of the total workforce is still in the informal sector, which contributes a sizeable portion of the country's net domestic product. The share of unorganised sector is highest in agriculture as the holdings are small and fragmented. This is followed by trade, construction, real estate, professional services etc and other services (Murthy, S V R, 2018).

Nature and Meaning of Informal Sector: The terms 'unorganized' and 'informal' sectors are often used interchangeably. The informal sector may be broadly characterized as consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned (15 ICLS, ILO, 1993). These units typically operate at a low level of organization, with little or no division between labour and capital as factors of production and on a small scale. In majority of cases, the units is small

scale in size with informality of labour relations, often drawn from relations, friends or acquaintances. Hence, informality exists not only in its relation to the rules and regulations concerned with business, but also to relations of production with no guarantee of job security and social security benefits.

In Indian context, the latest version and the most acceptable definition of 'unorganized sector' and 'unorganized employment' has been given by the National Commission for Enterprises in the Unorganized Sector (NCEUS) as, "The unorganized sector consists of all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten total workers". So basically, the production of goods and services which is taking place is according to law, but bereft of the facilities and securities that organized sector derives. So, the unregulated or less regulated enterprises consisting of own account workers or hired workers tending to major portion of requirement of economy is what makes informal sector/unorganized sector. Similarly, according to NCEUS "Unorganized workers consists of those working in the unorganized enterprises or households, excluding regular workers with social security benefits, and the workers in the formal sector without any employment/social security benefits provided by the employers. Hence, informal workers are workers with no written contract, health benefits, paid leave or any kind of social contract. The nature of employment provides no assistance to the worker to meet any unforeseen contingencies in life, or provide good education to his children and better living conditions for his family. The worker in informal sector is a deprived lot, though contributing immensely to GDP growth but missing from the statistical data of government agencies.

In Indian context, the informal sector contributes about more than 90 per cent of work force and almost 50 per cent of income evolves from this sector.

Distribution of Total Employment

Worker	2011-12			2017-18		
	Unorganized	Organized	Total	Unorganized	Organized	Total
Informal	82.6	9.8	92.4	85.5	5.2	90.7
Formal	0.4	7.2	7.6	1.3	7.9	9.3
Total	83.0	17.0	100.0	86.8	13.2	100.0

Source: NSS 68th unit level data on employment unemployment, 2011-12 and Periodic Labour Force Survey, 2017-18

The composition of employment in organized sector vis-à-vis unorganized sector was 17:83 in the year 2011-12. In fact, informal employment in organized sector was more as compared to formal employment. Whereas, in unorganized sector formal employment (0.4%) was negligible as compared to informal employment (99.6%). The Indian employment scenario is dominated by informal employment (91.9%) than by formal employment (8.1%). However, in 2017-18, the percentage of organized employment among informal workers decreased to 5.2 % as compare to 9.8 %. Similar trend is seen in the total workforce employed in unorganized sector which increased to 86.8 % from 83 %. A majority of workforce is engaged in informal employment

across the different sectors of economy contributing a major share to country's earning in terms of GDP. The agriculture sector which is the main source of employment is engaging more than 97 per cent of labour in informal sector. With agriculture becoming non-remunerative, informal workers have shifted to manufacturing and services sector. Manufacturing, construction and trade, hotel and restaurants are the main employment generating sectors both in organised and unorganised sectors (Srija & Shirke, 2014). With dominance of service sector in GDP growth, high use of technology in the sector and move towards 'gig' economy might give more push to informality of employment.

Share of Formal/Informal Sector			
Industry	2017-18		
	Organized/ Formal	Unorganized/ Informal	Total
Agriculture, forestry and fishing	2.9	97.1	100.0
Mining and quarrying	77.5	22.5	100.0
Manufacturing	77.3	22.7	100.0
Electricity, gas, water supply & other utility services	94.7	5.3	100.0
Construction	25.5	74.5	100.0
Trade, repair, Accommodation and food services	13.4	86.6	100.0
Transport, storage, communication & services related to broadcasting	52.3	47.7	100.0
Financial services	88.1	11.9	100.0
Real estate, ownership of dwelling & professional services	47.2	52.8	100.0
Public administration and defence	100	0.0	100.0
Other services	52.1	47.9	100.0

Source: Computed from National Accounts Statistics, 2019

The share of workers across gender and place of work shows glaring differences indicating the stereotypes for women in Indian society. It may be seen that almost 98-99 per cent of the rural and urban males and females working in the sectors of crop and animal production, construction and retail trade were informal workers (Srija & Shirke, 2014). The male, in both rural and urban areas, tend to be concentrated in manufacturing, retail trade, construction, transport, hotels, furniture, other services etc. while females are engaged in food products, textiles, tobacco products, jewelry items, activities of household enterprises, domestic servants etc. It is important to note that as compared to males, the employment of females is characterized by low wages, more working hours, low bargaining power, and easy firing from jobs. Illiteracy and low level of education is responsible for less skill development leading to self-employment and casual work. The irregularity of employment and income in many ways is responsible for deprivation, exploitation, and marginalization of workers in informal sector. The employment growth in formal sector has always been less than available workforce in the country, resulting in faster growth of employment in the informal sector (NCEUS, 2007). Hence, there is an urgent need to develop policies and programs to address the issues in informal sector to provide dignity to workers and achieve contribution to GDP.

The growth of informal sector is combination of several factors which must be addressed to ensure better working and living conditions for those employed in it. Some of the factors mentioned below needs to be worked upon both at societal and governmental level to bring more of semblance in conditions in informal sector. There is an urgent need to upgrade the skills of those who are already in the informal sector with government support through easier access to credit, technology, and availability of markets. The social security net will not only help to provide better health facilities and food security, but it will help in better learning outcomes and improved standard of living among workers. Such a proposal was part of the recommendations of the National Commission for Enterprises in the Unorganized Sector (NCEUS). However, there has not been any progress in implementing these. What the informal sector needs is less of regulation and more of support as against the

government policy of more regulation and no support. It is time to use the opportunity that the informal sector provides to strengthen and support it. This is not only essential for economic growth but the only way for growth with jobs.

Conclusion: It is estimated that more than 90% of India's workers do not have the privileges—like social security and workplace benefits—enjoyed by their counterparts who are formally employed. In the Indian economy the leading contributors of informal employment are agriculture, manufacturing, construction, and trade. The informal economy makes a considerable contribution to the economy and caters to the requirements of the formal economy. Informal workers also work under worse working conditions with little job security, no perks, or protections and with low wages. The protections guaranteed to workers under different legislations are not complied with by the informal sector, and they also escape the purview of the authorities. With India at the cusp of a demographic transition and adding a million workers to its workforce every month, there is a dire need to create formal sector jobs. Government initiatives like Make in India, Skill India, labour reforms, Insolvency code etc all have to work in tandem to ensure that this workforce is formalized and the fruits of development accrue equitable to all workers within the country.

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