

## An analysis of informal sector in India

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### Abstract

The informal sector is the major source of livelihood in India as it provides employment to approximately 90% of the population. According to the latest reports by the International Labour Organisation, around 69% of workers in the non-agricultural workforce are still working in informal sector, yet the role of unorganised/informal sector in the economic development has always been controversial.

This paper attempts to examine some of the major aspects of informal sector, its impact on the India's burgeoning economy and some of the challenges faced by the sector and the people working in it.

**Keywords:** informal sector, development, poverty

### 1. Introduction

NCEUS defines informal sector as “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” (GoI, 2004)

As the name suggests, the sector is informal and unorganised and therefore there is no mutual consensus on the definition of informal sector across countries. It is growing and evolving with the advent of technology and changes in the mode of production, therefore adding difficulty in defining and measuring the scope of the sector.

Some economists like Hernando De Soto (1989, 2000), see informal firms as an untapped reservoir of entrepreneurial energy, held back by government regulations. Others like Levy (2008) are sceptical and argue that it is just a measure to avoid taxes and exploit the rights of the workers. Here, it is important to understand that the black economy and informal economy are not always mutually exclusive. It is a well-known fact that unorganised sector suffers from a low productivity syndrome and offers low wages and poor working condition to workers. But, we cannot ignore the fact that the sector absorbs a huge number of workers to whom the state is unable to employ in adequate capacity. Therefore, there is a need to identify and measure the output, size, and capital utilisation of the sector and also to study its linkages with the formal sector, if any. This will enable the policymakers to determine its comparable contributions to economic growth and development and will help also help them to device policies in order to tackle the problems faced by the informal sector workforce.

### 2. Informal Sector in India: An Overview

Informal sector in India has been the backbone of the economy since the independence. It is a well known fact that a majority of workforce in the country is working in informal sectors of the economy. According to NSSO's report “Informal Sector and Conditions of Employment in India” that is based on the Employment and Unemployment survey

conducted in the 68th round of the NSS during July 2011 to June 2012, 72 per cent of the population is engaged in the informal sector. That number climbs up to 75 per cent in the rural areas and falls down to 69 per cent in the urban centres. These figures are, for what NSSO calls ‘non-agricultural and agriculture sector [excluding] growing of [c]rops, plant propagation, combined production of crops and animals without a specialized production of crops or animals (referred to as AGEGC sectors).’

According to NSSO; between 2004-05 to 2011-12, total employment in the country rose from 457.9 million to 472.4 million, at a CAGR of 0.446%. During the same period, employment in non-agricultural organised sector, defined to include all units with 10 or more workers if using power and 20 or more workers if not using power, increased from 28.8 million to 47.7 million. Organised sector accounted for a miniscule 6.289% and 10.097% in 2004-05 and 2011-12 respectively. It can be inferred from the data that unorganised sector accounts for an overwhelmingly large share of non-agricultural employment in India. Numbers tell a narrative that favours informal sector by a huge margin.

It can be argued that relying only on the employment size metric alone could exaggerate the size of informal sector relative to a measure that is based on the nature of employment contract. While labour reform implementation often uses employment size criteria to define the population to which the regulations must apply, the substance of reforms aligns much closely with the nature of employment. According the same NSSO survey, among the employees in the AGEGC and non-agricultural sectors, about 79 per cent had no written job contract - the proportion was about 85 per cent in rural areas (86 per cent for males and 81 per cent for females) and about 73 per cent in the urban areas (73 per cent for males and 72 per cent for females).

There are a number of reasons that can be attributed to such a high share of unorganised sector in the economy. Rigidities in the labour market, relatively poor skill levels, and increasing threat from imports are some of the chief contributors to the trend. Labour market rigidities can be attributed, for the most

part, to a labyrinth of myriad labour laws, both at the state and the central level. Poor skill levels are also a major factor that affects the people's employment choices and opportunities. As per the NSSO survey, education level of a sizeable majority of the workers employed in the informal sector is school education or below; with almost a quarter of them being illiterate.

India's unorganised sector accounts for a lion's share of the jobs in the economy and yet most of its workers don't have access to any benefits that are usually associated with a job, such as insurance, retirement benefits, and most importantly job security. Many of them don't even have an avenue to seek redress for their complaints and any unfair treatment. Successive governments have all tried to make the sector more accountable and a significant step in that direction is setting up of the National Commission for Enterprises in the Unorganised Sector (NCEUS), in 2004. It has, in an effort to extend decent work conditions to workers in the informal sector, proposed a couple of legislations that cover almost every aspect of employment. Another major step towards regulating the informal sector was the enactment of the Unorganised Workers Social Security Act, 2008. The Act possesses the scope to encompass every worker in the unorganised sector for ensuring access to basic social security but many aspects, like safety and working hours are still unregulated for them.

### **3. Problems pertaining to the Informal Sector**

#### **Poor working conditions and low wages**

The labourers working in the informal sector are exploited at every aspect of their life. The wages are much lower than the formal sector wages. The working conditions are generally poor. Most of the informal firms do not ensure hygiene and safety for the employees. There is no provision for social security and since these firms are not registered, there are no labour laws to protect the interests of the labourers.

#### **Low Productivity**

The productivity of the informal firms is generally low mainly because of the use of obsolete production methods. Therefore, these firms are unable to compete with the formal sector firms which use updated technology for production and keep innovating to attain maximum productivity.

#### **Financing problems**

The small firms in both formal and informal sector face the problem of lack of access to finance but the problem is much more pronounced in the informal sector. They do not have capital to expand their scale of operation or to use new and efficient machinery. The banks do not provide loans to the unregistered firms and therefore the firms continue to suffer. The small scale sector has the potential to transform the socio-economic fabric of the Indian society. The firms can expand and provide employment opportunities for a number of individual if given some guidance and credit facilities. Unfortunately, despite many schemes launched by the government, the lack of credit still remains the primary problem of small informal firms.

#### **Child labour**

Child labour is another major problem plaguing the informal sector in India. Children are the future of our country and they

need nurturing. Education is the only tool which can help to uplift of the poor sections of the society. Tragically, many unprivileged children are working as informal labourers in homes and factories instead of going to the school. A child working in an informal/ unorganized sector is not a matter of choice, it is a sum total of helplessness and impecuniousness of a family <sup>[1]</sup>.

### **4. The Way Forward**

A holistic approach is what is required to address the issue of informalization in the economy which, to a significant part, can be ascribed to the socio-economic fabric of the society consisting mainly of a large proportion of labour force with inadequate skills and education levels, traditional occupations, and below average financial inclusion.

Creating an environment that might encourage even small enterprises to register and subsequently, making them realise that this cost will be mostly offset by the benefits of access to formal channels of finance, various government incentives, access to legal recourse, and social safety nets for them and their workers would go a long way to help tackle the problems of informalization not only in unorganised sector but might also help stem the growth of informal employment in organised sector as well.

Increased instances of registration will eventually inculcate the habit of regulatory compliance in terms of taxes and labour laws. This will lead to an increase in the tax base and therefore increased tax revenues over time which in turn will help the government in financing some form of social security cover for workers who are still outside the ambit of regulations that apply to organised sector and providing them with the opportunities for formal employment.

Another way to deal with this problem might lie in giving the informal sector an investment push which may, in due course, lead to an increase in formal sector employment as investments helps these small enterprises grow, which in turn will lead to more of them being registered and coming under the ambit of formal sector regulations. MNREGA can be strengthened and getting rid of the regulations and bans on agricultural and cattle markets may also help.

Lastly, the ongoing trend of increase in the informal sector could be expected to reverse with the improvement in skill and education level of the workforce that converges with the requirements of the job market. At the same time, bargaining power of the workers will improve, ultimately helping them settle for decent wages, social security and job security.

### **5. References**

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