



## THE INFORMAL SECTOR OF INDIAN ECONOMY: REDRESSING THE IR AND HR ISSUES

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### **Abstract**

*Informal sector is the backbone of the organized manufacturing sector, but has never been given the due credit for the growth of the organized sector. Informal Sector contributes significantly towards the employment generation and national income of developing economies like India. The periodic employment and unemployment surveys (EUS) conducted by the National Sample Survey Organization concluded that in 2011-12 the estimated employment in the informal component was about 75 per cent of total usual status employment (principal and subsidiary) in the rural areas and 69 per cent in urban areas. This is, indeed, a substantial share and highlights towards the indispensable contribution of informal sector to the Indian economy. But, in spite of its significant contribution on such a large scale, this sector faces several industrial relation and human resource issues. The present paper attempts to introduce the readers to the definitions, scope, and nature of informal sector in India, challenges it faces on IR and HR front, and how we can develop certain mechanism to cope with the emergent IR and HR challenges in the sector.*

**Key Words:** *Informal sector, Unorganized Sector, Industrial Relations, Human Resources.*

The term informal sector came in a broader sense in the academic literature only after the visit of an International Labour Organization employment mission to Kenya in 1972. The ILO then evolved a conceptual framework and guidelines for the collection of statistics on informal sector and presented the same in the 15<sup>th</sup> ICLS. In 1993, the 15<sup>th</sup> International Labour Conference of Labour Statistics (ICLS) adopted a resolution setting out the statistical definition of the informal sector to refer to employment and production that takes place in unincorporated small or unregistered enterprises. The resolution was then endorsed by the United Nations Statistical Commission (UNSC) and made a part of the “System of National Account (SNA) 1993” by the United Nations Economic and Social Council. As per SNA (1993), the informal sector consists of units engaged in the production of goods or and services with the primary objective of generating employment and income to the persons concerned. 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. Labour Relations- where they exist- are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees. The informal sector forms as part of the household sector as household enterprises or, equivalently, unincorporated enterprises owned by households. However, the formal informal dichotomy was first used by **Keith Hart** in a study of urban Ghana. The study identified a number of unions and employment generating activities in the ‘unenumerated’ sector of urban settlements. The terms, informal means income generating activities, unorganized sector, unenumerated sector, self employed individuals, and urban proletariat, are used by Hart in his study more or less alternatively and interchangeably. Various labels have been used by scholars to refer to the “informal economy”: it has been called the regular economy (Ferman & Ferman, 1973), the subterranean economy (Guttmann, 1977), the underground economy (Simon & Write, 1982; Houston, 1987), the black economy (Dilnot & Morris, 1981), the shadow economy (Frey, Weck, & Pommerehne, 1982; Cassel & Cichy, 1986), and the informal economy (McCrohan & Smith, 1986). The popular media uses terms such as invisible, hidden, submerged, irregular, non-official, unrecorded, or clandestine (U.S. Department of Labour, 1992). W. Arthur Lewis also described the ‘informal’ sector as employment or livelihood generation primarily within the developing world. In India, the unorganized sector has been defined as “that part of the workforce who has not been able to organize in pursuit of a common objective because of constraints such as (a) casual nature of employment, (b) ignorance and illiteracy, (c) scattered nature of establishments, (d) supervision strength of the employer operating singly or in combination (NCL, 2002:537). In its application to issues of equity, economic opportunity, and social development, the term



“informal economy” first came into widespread use as a means of describing a dualistic economic structure found in developing countries. Such an economy involves both the mainstream formal economy and an unofficial economy within which economic transactions occur outside traditional channels and deliver explicit and social benefits.

Though the term ‘informal sector’ gained importance after ILO evolved a conceptual framework and guidelines for the collection of statistics on informal sector, there has not been any single definition of informal/unorganized sector in India(Naik, 2009). The First Indian National Commission on Labor (1966-69) has used the definition to define informal sector workforce as those workers who have not been able to organize themselves in pursuit of their common interest due to certain constraints like casual nature of employment, ignorance and illiteracy, small and scattered size of establishments. The Indian context uses the term ‘informal’ and ‘unorganized’ interchangeably. For the sake of convenience of purpose, the present paper also uses the terms interchangeably.

### INFORMAL SECTOR & THE INDIAN ECONOMY

The informal sector plays a vital role in economic development of all the countries. Particularly, in developing countries one third of national income comes from this informal sector only. The New Economic Policy introduced in 1991 served as the major cause for the increase in the informal sector. It promoted industrialization resulting in the collapse of the rural agriculture and economy and forcing rural folks to migrate towards the centers of industrializations. Also, fragmentation of land, increase in the number of landless laborers, decline in cottage industries and agricultural productivity, and heavy debts upon the rural masses paved the way for the people in rural areas to migrate towards other cities in search of alternative employment. The informal sector is the main source of alternative employment. The concept of the informal sector is relatively new in labour statistics, developed better to ensure employment in unincorporated small or unregistered enterprises(Informal sector) and employment that is not covered by legal and social protection (informal employment).

The importance of the informal sector is even starker with regards to employment. In 2004-05, the informal sector was a source of livelihood to approximately 86.3% of the country’s workforce. The Economic Survey of India held in 2007-08 concluded that the informal workers constitute 93 per cent of the total workforce in India. Of this, 52% constituted of agricultural workers. The periodic employment and unemployment surveys (EUS) conducted by the National Sample Survey Organization concluded that in 2011-12 the estimated employment in the informal component was about 75 per cent of total usual status employment (principal and subsidiary) in the rural areas and 69 per cent in urban areas. Although a large section of the informal sector works within agricultural activities, it is pertinent to note that 71.6% of the total employment in the non-farm sector was also informal or unorganized. In other words, although the informal sector contributes just over half of the country’s NDP, it employs almost 90% of its workforce.

**Table-1, Formal-Informal Employment across Organized-Unorganized Sector(in million)**

2004-05			
	Organized	Unorganized	Total
Formal	32.06(52)	1.35(0.3)	33.41(7.3)
Informal	29.54(48)	396.66(99.7)	426.20(92.7)
Total	61.61(13)	398.01(87)	459.61(100)
2011-12			
	Organized	Unorganized	Total
Formal	37.18(45.4)	1.39(0.4)	38.56(8.1)
Informal	44.74(54.6)	390.92(99.6)	435.66(91.9)
<b>Total</b>	<b>81.92(17.3)</b>	<b>392.31(82.7)</b>	<b>474.23(100)</b>

Source: Confederation of Indian Industries, <http://www.ies.gov.in/pdfs/CII%20EM-october-2014.pdf>



The informal sector is economic activity that is neither taxed nor monitored by a government. Other factors that facilitate the growth of informal sector are: easy entry for new enterprises, reliance on indigenous resources, family ownership of enterprises, small scale operations and low productivity, labor-intensive and adapted technology, reliance of workers on informal sources of education and skills, unregulated and competitive markets and lack of governmental support. The entrepreneurs are in this sector for their livelihood, not for making more profit. Some informal entrepreneurs are earning more than the formal employees in our country, like vegetable vendors, agents, brokers, foot-path traders etc. Majority of the entrepreneurs are community based in this sector. In India, each community has their own business. Rural, urban and city side also community based entrepreneurs are more. For example, foot wears and beauty parlor etc. The informal sector develops the Indian economy invisibly. Most of the rural and urban people are continuing their family business, because of lack of employment opportunity, In India most of the family businesses are in the informal sector. The earned income from this sector has utilized for the purpose of their children education, family commitments, personal savings, etc. So the government should take necessary steps to convert this sector into formal.

### **THE HR AND IR CHALLENGES IN THE INFORMAL SECTOR: REVIEWING THE LITERATURE**

Papola(1980) says that the labor market for the informal sector is unregulated and highly competitive on the supply side, with absolute freedom to entry, while that in the formal sector is regulated and has restricted on the basis of standard hiring norms and formalized hiring procedures. The supply of labor in the informal sector consists of mostly new entrants in the labor markets- in migrants or young person entering the labor force, who aspire for the jobs in the formal sector, but finding the opportunities for it limited and entry restricted, start doing something or the other in the informal sector either as self-employed, part time workers, apprentices or full time workers in small establishments. Consequently, the informal sector bears the brunt of excessive labor supply which tends to lead a situation of significant underemployment and depressed wages in that sector. Earnings in the informal sector are relatively very low compared to in the formal sector- almost half or even less; yet they are found to be higher than what the migrants from rural areas could have earned at the place of their origin. Informal sector enterprises obviously do not have a formally structured organization; there is limited functional division of labour and specialization; and most of the functions - management, supervisory, and sometimes some of productions are performed by the proprietor. There could also be extensive use of family labour. All these characteristics, however, are not always found to go together. Small size itself makes if necessary and possible to run an organization without a structured division of labour and management hierarchy. Even organizations with wider owner-ship and using hired labour may re-veal these characteristics if their size of operation is not large.

Singh (1988) gave a brief review of the various informal industries in India:

- a) Most of the unorganized industries are at the 'lower forms' of development with respect to their nature of capital, level of control over the labor processes and the nature of instruments of production engaged into it
- b) Most of the production processes go unrecorded owing to the small and scattered nature of production.
- c) In spite of the decentralization production, in most of the industries, the control over the produce is centralized
- d) Under automatised conditions of work, and the work being labor intensive, a large number of intermediaries are inducted between the workers and the ultimate controller of the produce
- e) Mercantilist tendencies of capital tend to throw the burden of the means of production over to the workers
- f) A large number of women and child laborers, alongside with male laborers, are engaged as a cheap source of labor power
- g) Most common mode of wage payment is piece rate wage, under which the workers self supervise their exploitation
- h) Generally trade unions are either nonexistent or could grow only in weak form
- i) The poor implementation of the labor legislations and work regulation Acts



Ernesto Noronho (1996) observed that if at all there is an increase in employment, it will be in the informal sector. More and more formal jobs are being shifted to the informal sector. There is feminization of production process which ensures supply of labor at cheap cost. Another way of gaining control over labor is by sub contracting part of the production process. The trend of privatization has weakened the trade union movement. The new units are characterized by 'non- unionized', 'contract', 'and casual ', 'temporary or trainee labor'. Minimum wages and statutory wages are seldom paid in the informal sector. There has been a growing demand for reducing government interventions and for the dilution of labour laws.

Sen(2003) observed that union avoidance as main strategy adopted by the management in this sector. The study also revealed that the patterns of exploitations was evident in informal sector like jute, tea etc. And there are there are threats of closure, an atmosphere of crisis, denial of statutory dues etc. to keep the unions and labor under tight control and manipulate labor cost to extract profits. Such Industrial Relations are characterized by dissent and skirmishes between labor and management. There is increase in unionization in the informal sector. There are greater efforts at union unity. Unions are also attempting education of members, creating of awareness, establishment of joint forums in crisis situations etc.

Kabra (2003) after his studies in the informal sector opines that unorganized sector enterprises and workers must be permitted and enabled to undertake, singly-jointly, collectively (as by means of cooperation) activities which improve their productivity, product mix and quality levels of living and, socio-economic and cultural prospects.

This will help in the improvement of healthy employer employee relations.Sen (2007) in her studies found the following trends of the informal sector in West Bengal:

- a) change in worker preferences for independent or non-affiliated unions
- b) pressure from management to improve productivity and competitiveness
- c) inability to escape from the government logic of privatization and development of support for industrialists and acceptance of government pressure to forge militant movements and be reasonable in order to attract industries to the state
- d) Acceptance of contractual and casual employment.
- e) being defensive about protecting existing rights and strengthening job security in the current context
- f) inability to take militant action against employers who rampantly flout agreements or legislation

She also found that small and medium size enterprises do not ensure legislative compliance. Unionization is resisted and collective bargaining is also not promoted in this sector.

Kenneth King (2007) in his study on training in the Indian informal sector employers in India (both formal and informal) have paid scant attention to in-service training, perhaps partly because the Indian policy of industrial protection and the large internal market meant that firms were not exposed to international competition. The World Bank suggests that in India no more than 7% of employees get access to any kind of formal in-service training in a given year. Many workers in the unorganized economy have never been to school let alone to vocational training institutions. The formal training system, because of its entry requirements and geographical mapping, is not designed to offer skills to low-educated people and particularly not to those in the rural non-farm sector. But neither are there other providers to fill the gap. Most workers continue to learn trades on the job through informal apprenticeships at their place of work from other low-skilled craft people. (World Bank, 2006a: 48).

Based on the above field survey observations conducted by some of the noted industrial relations expert, it can be rightly inferred that the vagaries of informal sector in India are numerous. So is the case with the industrial relations and human relation issue in this sector. Compiling the above studies we can point out some of the serious IR and HR issues looming ahead in the informal sector. These include:



- Absence of HR department
- Little or no trade unions
- No training and development avenues for the workers
- Collective bargaining inclined towards the employers
- Employment of contractual workers
- Little or no compliance towards labour laws
- Low wages
- Unsafe working conditions
- No social security benefits

### **REDRESSING IR AND HR ISSUES IN THE INFORMAL SECTOR**

The quality of the production system in the informal sector plays a vital role in the growth of the Indian economy since formal and informal sector are invariably linked to each other as the formal sector provides ancillary or the 'outsourced' services to the formal sector. Informal sector forms the backbone of the manufacturing sector in the country. Based on the suggestions and recommendations made by the Director-General's Report to the International Labour Conference in 1991, following actions can be taken to redress the IR and HR issues in the informal sector:

- By defining and disaggregating the informal sector more precisely by activity, productivity level and employment status.
- By enhancing the productive potential, its employment and income generating capacity of the informal sector, this sector can be brought under the mainstream of the Indian economy. As a result, better labour policies can be drafted out for this sector resulting in bettering the industrial relation scenario in this sector.
- By improving the welfare of the poorest groups, IR issues can be mitigated to a great extent.
- By establishing an appropriate regulatory framework, including the adoption of adequate forms of social protection and regulations.
- By setting up proper IR and HR department to redress the grievances of the workers and look into the development activities of the workers.
- By improving the organization of informal sector producers and workers.
- By improving the understanding of the temporary nature of employment relations;
- By making the necessary revisions of labour legislation in line with conditions in the informal sector.

### **CONCLUSION**

The NSO defines informal sector as enterprises typically operating on a small scale with a low level of organization, low and uncertain wages, and no social welfare and security. If this definition is taken in its true spirit, then obviously there are reasons for serious concerns in terms of IR perspective. This sector is facing grave and unnoticed threats and challenges in IR and HR terms. Presently, the major characteristics Industrial Relation of the informal sector in India are:

- The informal labour is overwhelming in terms of its number range and therefore they are omnipresent throughout India.
- This sector suffers from cycles of excessive seasonality of employment; majority of the unorganized workers does not have stable durable avenues of employment. Even those who appear to be visibly employed are not gainfully and substantially employed, indicating the existence of disguised unemployment.
- The workplace is scattered and fragmented.
- There is no formal employer – employee relationship





- In rural areas, the informal labour force is highly stratified on caste and community considerations. In urban areas while such considerations are much less, it cannot be said that it is altogether absent as the bulk of the informal workers in urban areas are basically migrant workers from rural areas.
- Workers in the informal sector are usually subject to indebtedness and bondage as their meager income cannot meet with their livelihood needs.
- The informal/unorganized workers are subject to exploitation significantly by the rest of the society. They receive poor working conditions especially wages much below that in the formal sector, even for closely comparable jobs, ie, where labour productivity are no different. The work status is of inferior quality of work and inferior terms of employment, both remuneration and employment.
- The informal workers do not receive sufficient attention from the trade unions.
- Inadequate and ineffective labour laws and standards relating to the informal sector.

The contributions of informal sector in the growth of Indian economy are multifarious and multidimensional in nature. As it is mostly manufacturing sector centric, it helps in better employment and income generation. As a result, not only it helps the nurture the nation, but also the individuals who are mostly marginalized in the society. Informal sector or the unorganized sector remains as the world's largest producer of livelihood sources to the people who come under the category of marginalized section of the society. But it is also true that IR and HR problems also pose a threat to this sector. Since most of the industrial units operating in the informal sector are small in nature, they cannot afford to set up any IR or HR department. As such, they are unable to mitigate the IR disturbances in this sector. Frequent work stoppages, skirmishes, industrial conflicts have become the common features of the informal sector. Informal sector has untapped potential to make the dream of "Make in India" come true. Without the support of the informal sector, the dream of Indian economy to become "Asian Tiger" will remain a distant dream. Therefore, it has now become imperative to address the IR and HR issues in this sector so that proper functioning of the sector is not hindered. Formal mechanisms to address the workplace issues need to be addressed at the earliest to reap and capitalize the demographic dividends of the country.

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