



NATURE AND EXTENT OF INFORMAL SECTOR IN INDIA

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Abstract

The study examines the size and magnitude of informal/unorganized sector in India by utilizing National Sample Survey Organisation reports and Economic Census Data for the years 1993-94 to 2004-05. The results of the study highlighted that the number of informal enterprises has increased more in rural areas compared to urban areas. Among the various categories of informal activities, agricultural activities followed by services recorded significant share in terms of employment generation in informal sector in India. Looking at the significant contribution of informal economy in the national economy, there is need to strengthened farm- non-farm linkages particularly at the disaggregated level to increase the efficiency and productivity of informal sector in the rural eras of the country. Skill development and vocational training activities must be promoted to increase the working of informal workers in the desired directions.

Key Words: Informal Sector, Own-Account Manufacturing Enterprises.

I

The expansion of employment that ensures adequate livelihood security and decent standard of living ought to be the bottom line in the pursuit of economic development in a country like India dominated by what is called the informal economy. The issue of the informal sector came into the forefront of development economics in the early 1970's. Keith Hart's seminal paper provided a new term "informal" by which a form of urban employment-underemployment in the developing countries could be easily visualized (Hart, 1973). The ILO-UNDP employment mission to Kenya also adopted the term 'Informal Sector' in Kenya (ILO, 1972).

The Employment Mission Report of Kenya gave emphasis to denote tiny units, engaged in the production of goods and services but whose activities were not recognized, recorded, protected or regulated by the public authorities. Since the advent of the term 'Informal Sector' number of studies have been done on the issues related with nature, extent and characteristics of informal sector in the developed and developing countries of the world. The definition of informal sector has remained a matter of debate both at national and international levels. At the international level System of National Accounts defined informal sector consists of units engaged in the production of goods or services with the primary objective of generating employment and income to the persons concerned.

Since the commencement of economic reforms, there has been stupendous growth in the informal sector's employment in India. In India, the informal sector contributes 93 per cent of the total employment including agricultural and non-agricultural activities in 2011. Besides, this sector has also accounted 50 per cent of India's Gross Domestic Product (GDP) in the current fiscal. The present study has been conducted to achieve following objectives: i) To study the nature and extent of informal/unorganised sector in India; ii) To provide policy implications for the better working of informal activities in India. The study is organised as follow. Section I gives the conceptual issues related with the informal sector at the national and international level. Database and materials has been presented in Section II. Section III deals with the findings of the present study. On the basis of the findings, Section IV concludes the study and gives policy options..

III

The present study utilises secondary data collected from National Sample Survey Reports and Economic Census reports pertaining to different time periods. In addition, data from the other relevant sources viz., concerned books, journal etc., too has been collected to fulfill the objectives of the study.

IV

Nature and Extent of Informal Sector in India

This section depicts the nature and extent of informal/unorganised sector in India. The contribution of informal sector in terms of employment generation, sector-wise contribution and gross value added in national GDP has been analysed. Table 1 highlights percentage distribution of workers in formal or organised and informal or organised sectors in India during 1999-00 to 2009-10.



Table 1: Percentage Distribution of Workers in Formal/Informal/Employment in India (1999-2000 to 2009-10)

Year	Informal Workers			Total
	Informal Sector	Formal Sector		
1	2	3	4	
1999-00	93.6	6.4	100	(362.75)
2004-05	93.1	6.9	100	(422.61)
2009-10	91.2	8.8	100	(423.17)
Formal Workers				
1999-00	5.3	94.7	100	(33.64)
2004-05	4.1	95.9	100	(34.85)
2009-10	4.5	95.5	100	(37.25)
Total Workers				
1999-00	86.2	13.8	100	(396.39)
2004-05	86.3	13.7	100	(457.47)
2009-10	84.2	15.8	100	(460.42)

Note: Figure in parentheses are the absolute number in millions.

Source: T.S. Papola Partha Pratim Sahu, March 2012

As per the data given in Table 1, out of the total workforce informal sector accounts for 91.2 per cent of the workforce, whereas formal sector is found absorbing only 8.8 per cent of the total workforce. The absolute number of the workers has too seen increasing trend during 1999-00 to 2009-10. In the informal sector, the absolute number of workers has increased from 362.75 in 1999-2000 to 423.17 in 2009-10. Whereas, in the formal sector, the respective share increased from 33.64 million to 37.25 million during the same period. However, it can also be seen from table that nearly, 84 per cent of workers are in informal or unorganised sector, with no job security or social security. Even in the formal sector, over half the workers are in 'informal' nature, which provide that neither any secured tenure of employment, nor any protection against the contingent risks during or after employment.

Table 2: Number of Enterprises and Employment in Unorganised Manufacturing Sector in India by Type of Enterprise (Fig. in '000)

Year	Type of Enterprise	No. of Enterprises			Employment		
		Rural	Urban	Combined	Rural	Urban	Combined
1994-95	OAMEs	9535	2715	12250	17845	4817	22662
	NDMEs	668	932	1600	1829	3057	4886
	DMEs	294	360	654	2452	3203	5655
	All Enterprises	10497	4007	14504	22126	11077	33203
2000-01	OAMEs	11058	3607	14665	19147	5914	25061
	NDMEs	630	1082	1712	1933	3629	5562
	DMEs	247	400	647	2906	3552	6458
	All Enterprises	11935	5089	17024	23986	13095	37081
2005-06	OAMEs	11109	3504	1413	18021	5666	23687
	NDMEs	745	1025	1770	2384	3395	5779
	DMEs	274	414	688	3053	3924	6977
	All Enterprises	12128	4943	17071	23458	12985	36443

Source: Calculated from NSSO 1998 (Report No 433), NSSO 2002 (Report No. 478, 479) & NSSO 2008 (Report No 525), Economic Census Report, 1998 and 2005.

Note: OAMEs: Own Account Manufacturing Enterprises, NDMEs, Non-Directory Manufacturing Enterprises, DMEs: Directory Manufacturing Enterprises.



The results of the table 2 shows that during the year 1994-1995, there were 14.5 million units in the unorganised manufacturing sector of India. The contribution of these enterprises was 33.2 million during the same year. During the year 2000-01, the number of manufacturing enterprises in the informal sector stands at 17.02 million with employment contribution of 37.08 million. The absolute number of manufacturing enterprises has marginally increased and stood at 17.07 million during 2005-06. However, the employment contribution of these enterprises has slightly decreased and stood at 36.44 million during 2005-06. Among the various types of manufacturing enterprises own account manufacturing enterprises constitute the largest share both in terms of number of enterprises and employment contribution throughout the studied period.

Table 3: Growth Rate of Number of Enterprises and Employment in Unorganised Manufacturing Sector in India by Type of Enterprise

Year	Type of Enterprise	No. of Enterprises			Employment		
		Rural	Urban	Combined	Rural	Urban	Combined
1994-95 to 2000-01	OAMEs	2.50	4.84	3.04	1.18	3.48	1.69
	NDMEs	-0.97	2.51	1.13	0.93	2.90	2.18
	DMEs	-2.86	1.77	-0.17	2.87	1.74	2.24
	All Enterprises	2.16	4.06	2.71	1.35	2.82	1.86
2000-01 to 2005-06	OAMEs	0.09	-0.58	-0.07	-1.20	-0.85	-1.12
	NDMEs	3.41	-1.08	0.67	4.28	-1.32	0.77
	DMEs	2.10	0.64	1.24	0.99	2.01	1.55
	All Enterprises	0.32	-0.58	0.06	-0.44	-0.16	-0.35

Source: Calculated from NSSO 1998 (Report No 433), NSSO 2002 (Report No. 478, 479) & NSSO 2008 (Report No 525)
Note: OAMEs: Own account Manufacturing Enterprises, NDMEs, Non-directory Manufacturing Enterprises, DMEs: Directory Manufacturing Enterprises.

Table 3 elucidates the overall growth of enterprises and employment in different types of enterprises for the two pints of time viz., 1994-95 to 2000-01 and 2000-01 to 2005-06. It is revealed from table 3 that during the period 1994-95 to 2000-01 average annual growth rate turns out to be 2.71 per cent with employment increases at the rate of 1.86 per cent during same period. This fact shows that the rate of growth of employment lags behind the rate of growth of enterprises in India. Among the different types of unorganized manufacturing enterprises, own account manufacturing enterprises have registered a maximum growth of 3.04 per cent per annum followed by non-directory manufacturing enterprises (1.13 per cent per annum) and directory manufacturing enterprises registering negative growth of -0.17 per cent during 1994-95 to 2000-01.

Table 4: Estimates of Workers by Economic Activity and Sector (in Million)

Economic Activity	1999-2000			2004-05		
	Informal	Formal	Total	Informal	Formal	Total
Agriculture	232.21 (97.7)	5.47 (2.3)	237.67 (100)	252.83 (97.65)	6.09 (2.35)	258.93 (100)
Industry	44.81 (69.05)	20.08 (30.95)	64.89 (100)	60.35 (70.40)	25.38 (29.60)	85.73 (100)
Services	65.62 (69.67)	28.57 (30.33)	94.20 (100)	81.72 (72.44)	31.09 (27.56)	112.81 (100)
Total	342.64 (86.36)	54.12 (13.64)	396.76 (100)	394.90 (86.32)	62.57 (13.68)	457.46 (100)

Source: NCEUS (2008), Report on Definition and Statistical Issues Relating to Informal Economy.
Note: Figures in parentheses are percentages

It is seen from Table 4 that out of the total workforce of 457.46 millions, 258.93 million workers are found engaged in the agricultural activities, followed by services sector (112.81 million) and industry sector (85.73 million). Within agricultural



sector, almost 98 per cent of the workforce is found informal in nature. On the other hand, around 70 per cent is found informal in industrial sector and 72 per cent in the services sector. For the industrial sector, this percentage is around 70 per cent for the industrial sector and 72 per cent in case of service sector. Compared to the period 1999-2000, the proportions of the labour in the formal and informal sector have remained similar.

Table 5: Status Wise distribution of Informal sector in India 2004-05 (in million)

Usual Activity Status	Rural			Urban			Rural+Urban		
	Male	Female	Person	Male	Female	Person	Male	Female	Person
Own account worker	86.97	18.9	105.87	29.2	5.58	34.79	116.2	24.48	140.66
Employer	2.42	0.47	2.88	2.18	0.11	2.29	4.59	0.58	5.17
Unpaid family worker	35.76	58.67	94.43	7.34	5.47	12.81	43.09	64.14	107.24
Regular wage employee	8.06	1.37	9.43	13.4	3.53	16.95	21.48	4.89	26.37
Casual labour in public	0.06	0.01	0.07	0.01	0	0.01	0.07	0.01	0.08
Casual labour in others	64.62	37.79	102.4	9.78	3.19	12.97	74.4	40.98	115.38
Total	197.9	117.214	315.08	61.9	17.88	78.82	259.8	135.09	394.9

*Figures in parenthesis are percentages

Source: NCEUS (2008), Report on definition and statistical issues relating to informal economy.

Table 5 gives the status wise distribution of workers in the informal sector in India. From the Table, the large part of the labour force is found either own account labour or casual labour during the studied period. Together, 256.04 million workers are found under these both categories. Among the other important category, 107.24 million workers are noticed as unpaid family workers. The male-female decomposition of workers shows that share of female workers in unpaid family workers have turned out to be higher compared to their male counterparts. It is due to the non-availability of other gainful activities for the female workers in the labour force in India. However, the share of regular employed or salaried employed has remained low throughout the studied period.

It can be maintained from the above discussion that the share of non-agricultural activities have increased during the period under evaluation. The activities like finance, real estate, construction have emerged as key activities of non-agricultural sector in India. Hence, efforts are required to provide basic infrastructure to enhance the working of these enterprise particularly in the rural parts of the country.

Concluding Remarks

Since the commencement of economic reforms, there has been stupendous growth in the informal sector's employment in India. In India, the informal sector contributes 93 per cent of the total employment including agricultural and non-agricultural activities. The very sector also contributes 50 per cent of India's Gross Domestic Product (GDP). In the against of this backdrop of national significance of informal sector, the present paper seeks to examine the nature and magnitude of informal/unorganised sector in India by utilizing various secondary data sources. The results of the collected data revealed that out of the total workforce informal sector accounted for 91.2 per cent of the workforce, whereas formal sector accounted for only 8.8 per cent of the total workforce. The study also revealed that nearly, 84 per cent of workers are in informal or unorganised sector, with no job security or social security. Even in the formal sector, over half the workers are found informal in nature. Thus of all the workers in the formal and informal sectors together, 92 per cent were in 'informal' employment. Only 8 per cent were in employment with secured job tenure and with social security against contingent risks of work and life. Among the different categories of unorganise manufacturing activities, the study noted the dominant share of own account manufacturing activities in terms of number of enterprises and employment during the all census periods. The rural-urban comparison of different types of enterprises showed that in the case of OAMEs the number of enterprises and employment is more in the rural areas whereas the same is more in the urban areas in the case of NDMEs and DMEs. Thus looking at the significant contribution of informal economy in the national economy, there is need for appropriate measures to enhance the working of the enterprises under the informal economy of India.



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