



## Unorganised sector in India

**Dr. Ravindra Tripathi**

Assistant Professor, Department of Humanities and Social Sciences, Motilal Nehru National Institute of Technology Allahabad, Allahabad, Uttar Pradesh, India

### Abstract

India's socio-economic condition is overwhelmingly informal covering various aspects of life. It is multi-dimensional and perennial in nature. It has age old tradition and experience. For most of the Indians it is way of life, just like agriculture and animal husbandry. Unorganised sector is distinctively pervasive. Product and services of unorganised sector contribute to the life and living of the society all the twenty four hours. The sector also encompasses the treasure of traditional indigenous knowledge. Unorganised economic activities in India are highly diversified. They provide easily accessible variety of goods and services at affordable prices as compared to that of organised sector products. It is source of livelihood and employment for a large number of workforces. More than 90 percent of the workforce and about 50 percent of the national product are accounted for by the informal economy.<sup>10</sup> A large proportion of socially and economically under-privileged section of the society are concentrated in informal activities. Thus faster and inclusive growth of the economy needs special attention to informal economy. This paper is an attempt to identify the role of unorganised sector in the Indian economy with special reference to economic contribution and employment. In the last the paper discusses the weakness of this sector followed by the measures to strengthen unorganised sector in India.

**Keywords:** informal sector, gross value addition, employment, skill development

### Introduction

The unorganized sector, consisting of units engaged in production and sale of goods or services, is a vast area for generating employment and income to majority of workforce. The units of the sector are mostly small and unregistered and operate at low level of organization. Labour relations in such units are based mostly on casual employment, kinship and social relations rather than contractual arrangements with formal guarantees. The term unorganized sector and informal sector are often used interchangeably. The concept of informal sector owes its origin to the British anthropologist Keith Hart's study in Ghana<sup>[1]</sup>. The term informal sector was first used in 1972 by International Labour Organization to denote the wide range of small, marginal and unregistered economic activities<sup>[2]</sup>. Since then the term has been much debated. Fifteenth International Conference of Labour Statisticians (ICLS) held at Geneva in January, 1993 discussed various issues relating to concept of informal sector. The 15<sup>th</sup> ICLS mentioned that informal sector is regarded as a group of production units which form part of the household sector as a household enterprises or equivalently, unincorporated enterprises owned by households<sup>[3]</sup>. It included only household enterprises engaged in non-agricultural activities under informal sector. The National Commission for Enterprises in the Unorganized Sector (NCEUS, 2008) has mentioned that 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<sup>[4]</sup>. Thus establishments hiring less than 10 workers without any social security measures and

employment guarantee by contractual arrangement are called unorganized units. As per Unorganized Workers' Social Security Act, 2008, the unorganized sector includes an enterprise owned by individuals or self employed workers and engaged in the production or sale of goods or providing service of any kind whatsoever, and where the enterprise employs workers and the number of such workers is less than ten<sup>[5]</sup>.

These activities are ostensibly characterised by easy entry and exit; low skill, technology and capital requirement; decentralised establishments segmented by location of work; small production per unit and per labour and the associated labour is not generally covered by proper social security measures provided by the employer. In brief this is the peripheral, non-formal economy where individuals are engaged in a series of survival activities providing useful services and goods at low prices. A wide range of activities of manufacturing, vendors, repairers, embroiders, stalls, head loaders, horse-cart drivers, rickshaw and auto-rickshaw drivers, etc. are covered under the unorganised activities. Most countries exclude agriculture from the composition of unorganised sector and some other include the agriculture also.

Persons employed in unorganized sector are called unorganized workers. It comprises the total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises or household during a given reference period<sup>[6]</sup>. As per recommendations of NCEUS, unorganized workers consists of those working in the unorganized sector or households, excluding regular workers with social security benefits provided by the employers and

the workers in the formal sector without any employment and social security benefits provided by the employers [7]. The Unorganized Workers' Social Security Act, 2008 has defined unorganized workers as a home based worker, self-employed worker or a wage worker in the organized sector who is not covered by any employment and social security benefits provided by the employer. Broadly the following can be treated as having informal employment [8].

1. Own account workers employed in their own informal sector enterprises.
2. Employers employed in their own informal sector enterprises.
3. Contributing family workers, irrespective of whether they work in formal or informal sector enterprises.
4. Members of informal producers' cooperatives.
5. Employees holding informal jobs in formal sector enterprises, informal sector enterprises or as paid domestic workers employed by household.
6. Own account workers engaged in the production of goods exclusively for own final use by their households.

India's socio-economic condition is overwhelmingly informal covering various aspects of life. It is multi-dimensional and perennial in nature. It has age old tradition and experience. For most of the Indians it is way of life, just like agriculture and animal husbandry. Unorganised sector is distinctively pervasive. Product and services of unorganised sector contribute to the life and living of the society all the twenty four hours [9]. News-paper distributor, rikshaw-puller, watchman, auto driver, cleaner, computer operation, manufacturer of the articles of daily use, agricultural activities at farm and threshing ground level, animal husbandry, fisheries and many supporting services belong to unorganised sector. Some of the activities are paid and some are unpaid, but very important for the life of family and society. The sector also encompasses the treasure of traditional indigenous knowledge.

Unorganised economic activities in India are highly diversified. They provide easily accessible variety of goods and services at affordable prices as compared to that of organised sector products. It is source of livelihood and employment for a large number of workforce. More than 90 percent of the workforce and about 50 percent of the national product are accounted for by the informal economy [10]. A large proportion of socially and economically under-privileged section of the society are concentrated in informal activities. Thus faster and inclusive growth of the economy needs special attention to informal economy. The high growth rate of Indian economy during the last two decades is accompanied by increasing informalisation. There is element of informality into the large scale economic entities including state owned entities. There are indications of growing inter linkage between formal and informal units. A number of formal enterprises are seeking assistance from unorganised or household sector of the economy.

Most of the unorganized economic entities are small in size. It has been estimated that 95 percent of all unorganized firms employ fewer than 5 wage workers, the average having fallen from about 2.9 wage workers in 1990 to 2.4 in 2005. This shows that since the economic reforms, the size of firms on

the basis of wage workers has become smaller. Owners of such firms are taking more work from the remaining wage workers.<sup>10</sup> Most of the unorganized entities are in the wholesale trade, retail trade and self-employed petty commodity producing group. These are the most common form of livelihood in Indian economy.

### Economic contribution of unorganized sector

The unorganized sector contributes substantially to the economy of India [11]. It caters to the wide ranging economic requirements of the society. The economic contribution of unorganized sector can be discussed in terms of employment in unorganized sector, contribution to GDP and Gross Value Added and supplying various goods and services for the society.

Unorganized sector is the dominant sector in India on account of its contribution to total employment. Recently organized sector has lagged behind on the other hand the unorganized sector has shown improvement in productivity, real wages and employment generation. The Task Force of NCEUS (2007) estimated the unorganized/informal sector workers as comprising about 86 percent of the work force in the Indian economy in 2004-05 and informal employment both in the organized and unorganized sector as 92 percent. NCEUS while addressing the issue of employment in informal sector noted that employment in India can be meaningfully grouped into four categories. These are (a) formal employment in the formal or organized sector (b) informal employment in formal sector, (c) formal employment in the informal sector and (d) informal employment in the informal sector. Employment scenario of the Indian economy is dominated by unorganized employment. Informal employment is increasing in organized sector also. Informal employment in total employment of organized sector was 42 percent which increased to 48 percent in 2004-05 and 54.6 percent in 2011-12. Total informal employment is gradually increasing. Total informal employment in organized and unorganized sector was 362.8 million in 2000-01 which increased to 420.7 million in 2004-05. It has further increased to 435.7 million by 2011-12. It is significant that informal unorganized sector employment declined by 5.8 million to 390.9 million leading to an increase in informal organized sector employment by 15.2 million during 2004-05 and 2011-12. Consequently the share of unorganized labour declined from 87 percent to 82.7 percent during 2004-05 to 2011-12. (Table 1)

**Table 1:** Share of Formal-Informal Employment across Organized – Unorganized Sector in 2011-12 and 2004-05 (Percent)

	Organized		Unorganized		Total	
	2011-12	2004-05	2011-12	2004-05	2011-12	2004-05
Formal	45.4	52.0	0.4	0.3	8.1	7.3
Informal	54.6	48.0	99.6	99.7	91.9	92.7
Total	17.3	13.0	82.7	87.0	100.0	100.0

*Source:* Niti Aayog. Quoted by Economic Survey, 2014-15

Almost all the workers in agriculture and forestry are from the unorganized sector. About 98.7 percent of the workers in fisheries sector are also from unorganized sector. Most of the workers in construction, hotel and restaurants, transport, storage, real estate and business activities and private

households are from unorganized sector. (Table 2) The incidence of informal sector employment, i.e., proportion of informal sector employment to total employment is high both

in the rural and urban areas. In rural areas apart from agriculture in non-agriculture also a larger proportion of workers are engaged in the informal sector.

**Table 2:** Share of Labour Input in Unorganized Sector (Percent)

	Category	Share of Unorganized Sector
1.	Agriculture and Forestry	99.9
2.	Fishing	98.7
3.	Mining	64.4
4.	Manufacturing	87.7
5.	Electricity Gas and Water Supply	12.4
6.	Construction	92.4
7.	Wholesale and Retail Trade	98.3
8.	Hotel and Restaurants	96.7
9.	Transport, Storage and Communication	82.2
10.	Financial intermediation	32.4
11.	Real estate, renting and business activities	81.4
12.	Public administration and Defence, etc.	2.6
13.	Education	37.9
14.	Health and Social work	55.1
15.	Other Community Social and Personal Services	92.5
15.	Private households with employed persons	100
17.	Extra Territorial Organization and Bodies	87.8
18.	Grand Total	93

**Source:** Report of the Committee on Unorganized Sector Statistics, 2012.

Employment elasticities of organized and unorganized sector in different industry groups was estimated by NCEUS. The employment elasticity of unorganized sector was as high as 0.71 percent as compared to 0.36 percent in organized sector and 0.48 for the whole economy. Among different industries, informal sector agriculture had an employment elasticity of 1.50 as against 0.19 in the formal sector. Real estate, renting and business services activities in the informal sector had an abnormally high employment elasticity of 3.09. In case of manufacturing industries the employment elasticity in informal sector was 1.04 as against 0.58 in the formal sector.

Elasticity was also considerably high in case of private households with paid employees which is entirely in the informal sector.<sup>12</sup> Thus agriculture and manufacturing sector in unorganized sector have very strong potential for employment growth and inclusive development. The relevant growth rates and employment elasticities are given in table 3. The vast majority of the informal work force is unskilled because of low level of formal education and training. Low wage rate as well as low productivity is prevailing in the sector.

**Table 3:** Employment elasticities between 1999-00 and 2004-05

Sector	Gross Value added growth rate (%)	Employment growth rate (%)	Elasticity
Unorganised	4.08	2.88	0.71
Organised	8.18	2.94	0.36
Total	5.99	2.89	0.48

**Source:** Report of the Committee of a NCEUS Task Force on Contribution of Unorganized Sector to GDP.

Unorganized sector has important role in contribution to Gross Domestic Product of the country. The Central Statistical Organization compiles the estimate of GDP for organised and unorganised sectors separately. By and large all Government and Public sector enterprises are in the organised sector. The private corporate sector is also included in the organised sector. The residual activities for which no regular statistical reporting system are available are categorised as unorganised sector for the purpose of national accounts. The GDP estimates of unorganised sector in each industry group is initially prepared for a bench mark year by using labour input method. For the subsequent years, the benchmark year estimates are extrapolated with appropriate physical indicators and relevant prices indices. Accordingly Central Statistical Organisation has estimated that share of unorganised sector in

Net Domestic Product (NDP) of India varied between 57 to 60 percent since 1993-94. While the Sub Committee of a NCEUS Task Force estimated that contribution of unorganised sector towards Net Domestic Product in India was 55.42 percent in 1999-00 and 49.9 percent in 2004-05. Kollu and Hazra<sup>13</sup> estimated the contribution of informal sector to Net Domestic Product as 47.7 percent for the year 2001-02.

In case of agriculture almost all the output comes from unorganised sector. In 2000-01 total contribution of agricultural sector to Net Domestic Product of India was 26.4 percent, out of which only 0.9 percent was from organised agricultural sector comprising of all government and Public sector undertakings related to agriculture and allied activities and plantation crops of tea, coffee and rubber. Though contribution of agricultural sector has declined to 18.0 percent

by 2013-14. But in this scenario also almost all the agricultural output comes from unorganised sector. Agriculture, forestry, fishing, manufacturing, construction, trade, hotels and restaurants, real estate, financial services and ownership of dwellings, transport and communication are very important economic activities of the unorganised sector.

Gross Value Added (GVA) is an indicator of viability of an industry calculated broadly as difference between output and intermediate consumption for any industry and usually given in terms of total GVA, GVA per enterprise and GVA per worker. Total GVA in GDP of India by unorganised sector was 55.42 percent in 1999-00 which declined to 49.94 percent in 2004-05. Share of unorganised sector in GDP of India declined by about 5.48 percentage points in aggregate between 1999-00 to 2004-05 (Table 4). Increase in labour productivity of organised sector establishments and decline in contribution of some industry groups of unorganised sector towards GDP seems to be reasons for such reduction. Contribution of unorganised sector industry groups such as mining, transport and storage, real estate, renting and business service declined sharply during 1999-00 to 2004-05.

**Table 4:** Estimated GVA by Industry Group (percent)

	Industry group	1999-00	2004-05
1.	Agriculture	96.55	94.48
2.	Mining	30	18
3.	Manufacturing	28.85	26.84
4.	Electricity Gas and Water	4	3
5.	Construction	44.66	46.33
6.	Trade	77.35	75.08
7.	Hotels and restaurants	56.19	50.8
8.	Transport and storage	57.27	44.45
9.	Banking Finance and Insurance	7.43	9.29
10.	Real estate, renting and business services	77.24	63.44
11.	Public administration and defence	3.65	0.4
12.	Education	13.81	12.33
13.	Health and social work	21.8	23.19
14.	Other community, social and personal services	61.04	23.19
15.	Private household and extra territorial organization	80.11	69.44
16.	Total	55.42	49.94

**Source:** Report of the Committee of a NCEUS Task Force on Contribution of Unorganized Sector to GDP.

Manufacturing is a major economic activity of unorganised sector, practiced throughout the country. It has long tradition and glorious past. The skill of manufacturing had been transferred from generation to generation. Unorganised manufacturing has earned prestige and resource for the country. It is highly diversified activity and has area specific nature. Some unorganised manufacturing units in various parts of the country have grown organically. These get organic raw material from local area. But in several areas these units have become less remunerative. Their productivity has declined. Some of the traditional products of the sector are disappearing from the market. But the nature of unorganized sector tends to change as the city size and the economic activities change. As a result of the phenomenon, presently these units are proceeding well to manufacture the new and modern products. National Manufacturing Policy, 2011 aims at enhancing share

of manufacturing sector in Gross Domestic Product to 25 percent and creating an additional 100 million jobs by 2025. To attain the aims of the National Manufacturing Policy the unorganized manufacturing sector requires re-engineering and new dimension.

### Weaknesses of Unorganised Sector

Unorganised sector caters various economic and social requirements of the greater society. Socio-economic life of the nation is overwhelmingly unorganised or informal whether it is related to economic environment or other aspects of life. But unorganised sector enterprises and activities face various types of problems.

1. Unorganised enterprises are very small in size and operate at very low scale. As a result these are suffering from low level equilibrium, repeating the same routine. Low wages as well as low productivity is prevailing in the sector. There are predominantly own account enterprises operated in self employment mode, more particularly in urban areas. Individuals with poor human and physical endowments get residually absorbed in own account enterprises and other tiny enterprises. There are some cases where firms decide to remain small as they do not find any hope of improvement as also to take advantage of labour market flexibility.
2. Income of the workers of unorganised sector is very low. Most of them are very poor. Earnings of the persons in unorganised sector is so low that persons engaged in unorganised sector often undertake multiple jobs. A single job or even two may generate income barely enough for subsistence. Pursuing multiple job by a worker may be taken as sign of insecurity of job. People working in this sector suffer from fluctuating income and absence of basic right as worker. Fluctuating income of workers from season to season makes life and living of workers more difficult.<sup>14</sup> It is matter of serious concern that informal sector workers has largely remained outside the realm of social security measures provided by employer.
3. The unorganised sector units generally face problems related to scarcity of capital, availability of raw material, assured electricity supply and electric connection also. Lack of research and extension and training facilities create obstacle in making the product market oriented and competitive. Because of low level of operation and circumstances created by it, the owners face the problem of marketing of their produce. There is distress sale of the products of the sector.
4. The vast majority of unorganized sector workforce is unskilled because of low level of formal education and training. Most of the unorganized sector workforce learns the skill of their occupation from their family or the informal trainers from the unorganized sector. Apart from the unorganized sector, the percentage of skilled workforce is very low in the country. As per Labour Bureau Report 2014, the current size of India's formally skilled workforce is small approximately 2 percent<sup>[15]</sup>. It has been estimated that skilled people among the total workforce in UK is 70 percent. It is 75 percent in Germany, 80 percent in Japan and 96 percent in South

Korea. Finance Minister in his Budget speech (28 Feb, 2015) mentioned that today less than 5 percent of the potential workforce gets formal training to be employable and stay employable. As per studies conducted by National Skill Development Corporation for the period between 2013 and 2022, there is an incremental requirement of 120 million skilled people in the non-farm sector. The current capacity for skilling is grossly inadequate to meet the skill needs of the country.

### Measures to Strengthen Unorganised Sector

Non agricultural unorganised sector requires big push as have been given to agricultural sector to enhance production and productivity of foodgrain and non foodgrain crops. The effort has helped to diversify the farming activity. National research institutions established for fundamental and adoptive researches for specific crops have performed well in modernising the agricultural sector. As a result of continuous efforts foodgrain production increased from 55 million tonnes in 1950-51 to 264.0 million tonnes in 2013-14. Wages of agricultural labour has also increased substantially and booming. But non-agricultural unorganised sector is waiting for such type of big push. In this regard following shall be helpful to strengthen the non- farm unorganized sector of the nation.

1. 'Make in India' programme launched in Sept., 2014 as part of wider set of nation building is aimed to facilitate investment, foster innovation, enhance skill development, protect intellectual property and build best-in-class manufacturing infrastructure. It is designed to transform India into a global manufacturing hub. Make in India programme is closely associated with skill development programme. Presently thirty one industry/employers led sector skill councils are now operational and these have been aligned with the twenty five industry sectors of 'Make in India'. Make in India campaign, like the slogan Jai Jawan Jai Kisan can change the attitude of the persons engaged in unorganized manufacturing activities.
2. Skill development is the most important requirement for strengthening the unorganized sector <sup>[16]</sup>. Accordingly programmes and policies have been framed for developing skill on the one hand and using skills on the other. A dedicated department of skill development and entrepreneurship has been created under the Ministry of Skill Development, Entrepreneurship, Youth Affairs and Sports to accord focused attention in the area. The Deen Dayal Upadhyaya Grameen Koushalya Yojana is a placement linked skill development scheme for poor rural youth. Other New programmes that aim at skill development are Nai Manzil for education and skill development of dropouts, Upgrading Skills and Training in Traditional Arts/Crafts for Development (USTTAD) for traditional artisans and craftsmen belonging to minority communities; Nai Roshani, a leader training programme for women and MANAS for upgrading entrepreneurial skills of minority youths. These programmes shall be helpful to bridge the gap of skill requirement. Now broader aim is to skill one in every four Indians by 2020.
3. Cluster approach shall be helpful for the promotion of

unorganized manufacturing enterprises. Clusters of enterprises make the same, similar or complimentary products. Cluster approach have many advantages. It promotes collective efficiency, market demand led production and technology upgradation. In the identified areas or regions clusters of village or town level enterprises can be promoted. Ownership and management of these village and town clusters can be in private hands or self-help groups.

4. Government may establish some advance centres for different types of non-agricultural unorganised activities. A large domestic market is essential for unorganised sector products to grow and attain economies of scale. In this endeavour export promotion from unorganised sector should be in policy framework. Needs of the informal sector related to skills, technology, marketing and infrastructure are to be addressed at priority to strengthen the sector.

### Acknowledgement

The Author is also the Project Director of ICSSR Sponsored Research Project titled "New Horizons for Unorganised Manufacturing Sector in India: An Empirical Study in Uttar Pradesh and Maharashtra" and used some information/data of the project for writing this paper, therefore, author is highly thankful to ICSSR Delhi for the same.

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