



Informal Sector in India: Economical Perspectives

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Abstract:

Informal Sector refers to economic activities i.e. production and distribution of goods and services by the operating units of the households which essentially differ from the formal sector in terms of technology, economies of scale, use of labour intensive processes, and virtual absence of the well maintained accounts. It embraces a widely dispersed multitude of operating units with high rates of birth and death and considerable mobility. It is informal in the sense that they are not regulated by government under any statute. Because of its contribution to the economy, which is quite visible and its strength in absorbing a huge chunk of unemployed persons to whom the State is unable to provide adequate employment. It becomes the duty of the policy makers to devise such policies which can take care of the problems faced by the informal sector workforce. Hence, there is need to monitor the size and structure of this sector and its performance over time for framing appropriate policies. In this paper an attempt to know Industry wise distribution of NDP in organized and unorganized sector and also try to attempt status of registered and unregistered enterprise in the country.

Keywords: Goods, Economy, Informal Sector NDP

1. Introduction

The informal sector plays role in economic development of all the countries. Particularly, developing countries one third of national Income comes from this informal sector only. The informal sector reduces the unemployment. 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, 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.

2. Informal Economy

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. While analyzing the composition of the Indian Economy, it is of two major sectors namely, organized and unorganized. The organized sector contributes two third to the GDP. Whereas the remaining 1/3 is by unorganized sector.

3. Informal sector in the Indian context

In India formally the term 'informal' has neither been used in the official statistics nor in the National Accounts Statistics (NAS). The terms used in the Indian NAS are 'organized' and 'unorganized' sectors. In fact informal sector and unorganized sector are quite close though not exactly the same. The organized sector comprises of enterprises for which the statistics are available regularly from the budget documents or reports, annual reports in the case of Public Sector and through Annual Survey of Industries in case of registered manufacturing. On the other hand, the unorganized sector refers to those enterprises whose activities or collection of data is not regulated under any legal provision and / or which do not maintain any regular accounts. Non-availability of regular information has been the main criteria for treating the sector as unorganized. This definition helps to demarcate organized from the unorganized

4. Definition of Informal Sector by NSO

Enterprises typically operating on a small scale with a low level of organization, low and uncertain wages, and no social welfare and security.

5. Features of Informal sector

- Low level of organization; small in scale usually employing fewer than ten workers and often from the immediate family;
- Heterogeneity in activities;
- Easier entry and exit than in the formal sector;
- Usually minimal capital investment; little or no division between labour and capital;
- Mostly labour intensive work, requiring low-level skills; there is usually no formal training as workers learn on the job;
- Labour relations based on casual employment and or social relationships as opposed to formal contracts; employer and employee relationship is often unwritten and informal with little or no rights;
- Due to their isolation and invisibility, workers in the informal sector are often largely unaware of their rights, cannot organize them and have little negotiating power with their employers and intermediaries (ILO 2000).

6. Main Industries of Informal Activities

Informal sector provides the means of livelihood to millions of people around the world, particularly in the developing countries. To quote from the statistics compiled by ILO, about 48 per cent of non-agricultural employment in North Africa, 51 per cent in Latin America, 65 per cent in Asia and 72 percent in Sub-Saharan Africa are of informal nature. In the case of India, informal employment (including the agricultural sector) contribution is more than 90 percent. It is evident that there are significant linkages between employment, economic growth and poverty. While increasing poverty is one of the underlying reasons for the growth of the informal economy, the fact remains that the informal sector or informal

Table 1. Status of non-agricultural informal enterprises

Status of registration with any act / authority	Percentage of enterprises location		
	Rural	Urban	Combined
1. Registered	11.6	31.3	20.2
2. Unregistered	88.4	68.7	79.8
Total	100.0	100.0	100.0

Source: NSS 55th round report on non agricultural enterprises in informal sector in India, 1999-2000

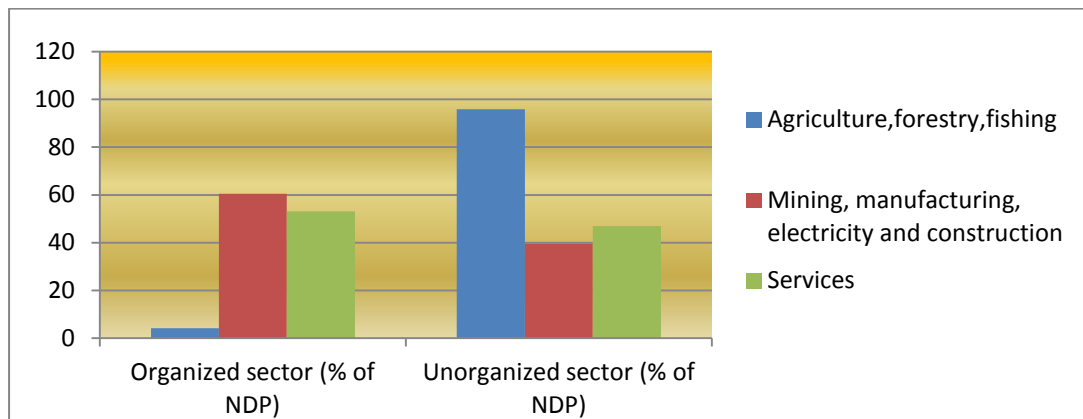
Above table shows that only 11.6% of the enterprises in the rural areas are registered with any registration agency whereas in urban areas this percentage is a higher at 31.3%. This table also

shows that 88.4 % of the enterprises in the rural areas are unregistered with any registration agency whereas in urban areas this percentage is a higher at 68.7%.

Table 2. Sector wise distribution of different industries (2002-03)

Industry	Organized sector (% of NDP)	Unorganized sector (% of NDP)	Total
Agriculture, Forestry, Fishing	4.1	95.9	100.0
Mining, manufacturing, electricity and construction	60.5	39.5	100.0
Services	53.1	46.9	100.0
Total	43.3	56.7	100.0

Source: Sharma Rajiv and Chtkara Sunita, Informal Sector in the Indian System of National Accounts paper-06 , CSO, India



Industry wise distribution of NDP in organized and unorganized sectors shows that in agriculture sector, the share of organized sector is only 4.1% whereas 95.9% share is contributed by the unorganized sector. Due to this reason, the informal activities are studied in the non agricultural sectors only. In mining, manufacturing sector 60.5% share in NDP is of organized sector while 39.5% share is contributed by the unorganized sector. In service sector contribution of organized sector is 53.1% while 46.9% of the share is contributed by unorganized sector.

7. Conclusion

The informal sector provides opportunity to both educated and uneducated people in all the areas in developing countries. This is not solution for economic crisis or recession. All the people need some basic income to run their family and to manage their children's education. The government should take much care about this sector, because contribution of this sector is more than formal sector.

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