

## NATURE AND DIMENSIONS OF UNORGANIZED SECTOR IN INDIA

---

CS Pallavi Biyani\*

### ABSTRACT

*Unorganized or informal sector constitutes a pivotal part of the Indian economy. More than 90% of workforce and about 50% of the national product are accounted for by the informal economy. A high proportion of socially and economically underprivileged sections of society are concentrated in the informal economic activities. The sub-sectors that account for a dominant share of informal sector employment are manufacturing, construction and trade (wholesale and retail). They accounted for 76 % and 68 % respectively of all workers in the non-agriculture informal sector, in the rural and urban areas, as compared with 71 % and 56 % respectively of all workers in the non-agriculture sector. The fact that sectors like trade and construction are important contributors to the unorganized sector and to informal employment is of significance, given the argument that it is regulation that is responsible the proliferation of unorganized units and informal employment. It is considered to understand the unorganized sector in a holistic perspective, in terms of their characteristics, their linkages and inter-relationship with organized sector as well as linkages with institutions and processes such as credit, marketing, trade and risk management. It will lead to identify major data gaps relating to unorganized enterprises and unorganized workers and suggest appropriate modifications with specific objective of their amenability towards better measurement.*

**KEYWORDS:** *Unorganized Sector, Informal Economy, Informal Sector Employment, Organized Sector.*

### Introduction

In a developing and most populous country like India which suffers from lack of capital resources, unorganized sector consisting of units engaged in trading services is a main stay of employment and income generation. The nature of employment is predominantly self employment, unpaid family labour and occasionally casual paid labour. Unorganized sector is not covered by the Indian statistical system like Organized. There is a growing link between invisible economy and formal economy in terms of credit, skills, technology, market and infrastructure. These are to be addressed for sustaining high levels of economic growth. The objectives of this article are:

- To highlight the need for unorganized sector in the backdrop of its Indian socio economic conditions;
  - To enumerate the characteristics of unorganized sector vis-à-vis those of organized sector;
  - To cull out the operational definitions of unorganized sector widely used in the Indian statistical system;
  - To identify the factors contributing to the growth of unorganized sector in India;
  - To enumerate structural features of employment operational characteristics and product and service features;
  - To focus on the government – unorganized sector relationships;
  - To study the varied impacts of unorganized sector on Indian Economy.
- The following are the hypotheses of the study:
- With the Indian unorganized sector own account enterprises outnumber the establishments;

---

\* Assistant Professor, Department of Management Studies, Swami Keshvanand Institute of Technology, Management & Gramothan, Jaipur, Rajasthan, India.

- There are no significant different differences between Own Account Enterprises and Establishments in terms of structural features and operational characteristics;
- There is close nexus between the unorganized sector and organized sector for inputs and outputs;
- There are no significant differences between the growth rates of organized and unorganized sectors.

#### **Meaning of Unorganized Sector**

Organized sector and unorganized sector do exist side by side. In India the formal (or organized) sector is unable to generate employment to absorb enormous supply of labour forcing the later to get residually absorbed in the unorganized sector. Unorganized sector operates independently or in some synoptic relations with the organized sector. (1) As per the "NATIONAL COMMISSION ON ENTERPRISES IN UNORGANIZED SECTOR" (NCEUS) the informal sector 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. In India quite often researchers and users have used the terms 'unorganized' and 'informal' interchangeably. The unorganized sector is neither taxed, nor monitored by any form of government. Unlike the formal economy, activities in the informal economy are not included in the gross national product (GNP) and gross domestic product (GDP) of a country. Recently, the Minister of Commerce and Industry said India is among the few countries for which IMF has upgraded its growth outlook. IMF in October has projected India's GDP expansion at 5.6 % in 2014-15. The mid-year economic review of the government has projected that the economy has potential to grow at a much faster pace, added.

According to the latest data released by IMF, India is the third largest economy in the world, just behind China and the US and ahead of Japan and Germany, in terms of the GDP size. However, not many realize that an overwhelming chunk of products and services that contribute to the Indian economy is produced by the 'informal' or 'unorganized' sector. It is a tough challenge to exactly define the informal sector. Though different arms of the government's statistical apparatus have examined features of the informal sector since independence, clarity has always eluded as to which class of workers constitute the informal sector. Also, clear variations in definitions of the informal sector have occurred depending upon how parameters such as such as technology, employment size and legal status have been applied while assessing the size of the sector.

#### **Unorganized Worker**

Unorganized worker means a home-based worker, self-employed worker or a wage worker in the unorganized sector and includes a worker in the organized sector who is not covered by any Acts mentioned in Schedule II of the Unorganized Workers Social Act 2008.(2)

#### **Unorganized / Informal Unemployment**

- Own-account workers employed in their own informal sector enterprises;
- Employers employed in their own informal sector enterprises;
- Contributing family workers, irrespective of whether they work in formal or informal sector Enterprises
- Members of informal producers "cooperatives "
- Employees holding informal jobs in formal sector enterprises, informal sector. Enterprises, or as paid domestic workers employed by households;
- Own account workers engaged in the production of goods exclusively for own final use.
- Shopping in traditional India is very informal. Street vendors are an integral component of economy. Vendors may be stationary or mobile.

#### **Varied Names of Unorganized Sector**

Foot path selling, Petty commodity production , Shadow Economy ,Trade-Service Sector ,Grey Economy, Casual Work, Black Market, Clandestine activities, Transient sector, Unreported Economy, Grey Market, Under the Table ,Community of the Poor, Family-enterprise Sector, Hidden Sector, Informal Economy/sector, Intermediate Sector, Invisible Sector, Irregular Sector, Lower-circuit of the Urban Economy, Non-Plan Activities, Non-Westernized Sector, One-Person Enterprise, Parallel economy, People's Economy, Underground Economy, Unobserved Economy, Unofficial Economy, Unorganized Sector, Unrecorded Economic Activities, Unremunerated Sector, Unstructured Sector and Urban Rural Subsistence Sector (3).

#### **Major Characteristics of the Unorganized Sector**

The unorganized is overwhelming in terms of its number range and, therefore, it is omnipresent throughout India. As the unorganized sector suffers from cycles of excessive seasonality of employment,

majority of the unorganized workers do not have stable employment. Even those who appear to be visibly employed are not gainfully and substantially employed, indicating the existence of disguised unemployment. The workplace is expanded in nook and corner. There is no formal employer employee relationship thus unorganized workers are subject to exploitation significantly by the rest of the society and also poor working conditions and low wages for all jobs. Primitive technologies are rampant in the unorganized sector. Illiteracy and limited exposure to the outside world not encourage higher technologies and resulting in poor absorption of new technology. The unorganized workers do not receive sufficient attention from the trade union due to inadequate and ineffective labour laws and standards relating to the unorganized sector. There is low productivity compared to formal sector may be because of excessive seasonality of employment. Poor human capital base (in terms of education, skill and training) any effective legal action against it is seen as a step of impairing this sector.

**Table 1: Examples of Unorganized Sector (4)**

Manufacturing of small traditional items, dolls, idols etc.,	Transport, storage and facilities	Real estate, renting and business activities	Footwear manufacturers and repairers
Trading and repair service	Mechanics for various works	Mobile street vendors	Fancy goods
Hotels & restaurants	Watchman Services	Heterogeneous activities	Catering for food items
Readymade garment	Internet providers	Sport goods	Cooking utensils. etc.,
Financial intermediation	Laundry for washing	Furniture items	Servant / Housemaid Services
Health and social work	Temple guides	Trading activities	Utility corners
Fancy items	Vendors goods	Selling branded or unbranded goods	Clothing

#### **Factors Influencing the Growth of Unorganized Sector and It's Continued Sustainability**

The growth of unorganized sector is there as the unskilled labour's concentration is on self employment as there is no other avenue available with them due to skill deficiency as they know such kind of job only. Ease of job as they survive on hereditary activities so they get easy job and access to entry in the sector because there are no barriers in it. They also get autonomy to work in the desired way. The capital required to initiate steps in his sector is very minimal which is sufficient from the family savings. The requirement of labour is also fulfilled by own labour members (self and family-unpaid). Simple technology is needed thus Less resources are required. (Capital, Labour and inputs) A mentality for independent profession/work .There will be a strong ambition to start own business activity as their self aims. Concentration is on local demographic attributes also like to get settle down in the native place, arrangement of own dependable resources. It could be a permanent solution (tenure of business) until better employment or other is available as they have survival motive.

In the present employment there is a problem of facing closure or closed (Losing employment) and they have necessity to contribute additional income to the family, so they take planned use of spare time or part time while working elsewhere. Even they migrate to other cities for employment for earning lively hood. They become ready to do a different job due to monotony as well. Less government regulations, no exit barriers, not depending on other or independent behavior, no severe competition and business secrets can be preserved. It is a perennial activity (Livelihood) and they have strong desire to join family business as capital may be supplemented by formal and informal sources. Such employment's are with poor working conditions, remuneration and lack of basic labour standards. The absence of brand name serves unbranded products which are generic and regional products. Unorganized sector is offering their services from dawn to dusk without social security. They are self styled entrepreneurs.(6,7)

**Table 2: Difference between Organized and Unorganized Sector**

S. No.	Characteristics	Organized Sector	Unorganized Sector
1	License	Required	Not Needed
2	Registration	Required	Not Needed
3	Taxpayer	Liable and Identified	Not Identified
4	Stability	Maintained	May not be Foot-Loose
5.	Area	Own or rental	Pavement or own
6.	Employment	Organized manner	Unorganized
7.	Size of Employment	May be 10 or more	May ne 9 or less
8.	Industry	Factory	Trading or Non factory
9.	Foreign exchange	Dependent	No relevance

10.	FDI	Can be considered	Indigenous
11.	Export	Can be done	Remote possibility
12.	Advertisement	Can be given	Not practical
13.	Government Control	Existent	Non Existent
14.	Convenient Location	In limited Cases	In most cases
15.	Timings	Fixed	Flexible
16.	Labour	Outside Labour	Family Labour
17.	Choice of Product	Wide	Narrow
18.	Employment Security	As per Labour Laws	No job security
19.	Retirement benefits	Existent	Non existent
20.	Closure	With prior Approvals	No constraints

### Dimensions of Unorganized Sector

- **Areas:** Following table the areas of unorganized sector:

**Table 3: Areas of Unorganized Sector**

Included areas (Grouped Activities)	Excluded areas
Manufacturing activities	Plantation and Crop production
Trading & Other services	Construction related
Non agricultural activities	Agricultural activities

- **Size of Employment:** One person and above but not more than nine, as ten implies organized sector. According to Section 2(m) in The Factories Act, 1948 says (m) "Factory" means any premises including the precincts there of:
    - Whereon ten or more workers are working or were working on any day of the preceding twelve months, and in any part of which a manufacturing process is being carried on with the aid of power or is so ordinarily carried on or
    - Whereon twenty or more workers are working, or were working on any day of the preceding twelve months, and in any part of which a manufacturing process is being carried on without the aid of power, or is ordinarily so carried on, subject to exclusions.

Therefore, the number of people in a single unorganized activity cannot exceed nine. Now-a-days, it is far from truth, that electricity is not used. Therefore, taking 20 persons may not be there. (8)
  - **Who does the Work :** If we talk about the gender ratio both male and female including aged 15-18 years are part of such employment. Among which who get paid are the known persons who work full time or part time. But also consist those who get no payment or remain unpaid like Family members, Children after school/college hours, After office hours and holidays by husband/wife. The background of the employees working in such sector is unskilled people who are illiterate people or school dropouts. The quality of the employment provided comes in the definitions of Under employment, Informal methods, Underprivileged.
  - **Terms of Employment:** Employment is based on unwritten or tacit agreement. No statutory benefits like leave, bonus, over time, provident fund, ESI, medical facilities, maternity leave, gratuity and superannuation. Because of lower levels of income and there is no assurance of job security, people take up more than one employment. (Called Moon Lighting)
  - **Status**

The informal sector consists of all unincorporated private enterprises owned by individuals or households or partnership basis. Since unorganized sector operate at small or marginal levels, carrying more than one activity is quite prevalent i) Religious and entertainment goods ii) Household goods and beautification items etc. The Location of workplace are work place located in own dwelling unit, structure attached to own dwelling unit, open area adjacent to own dwelling unit, detached structure adjacent to own dwelling unit, own enterprise/unit/office/shop but away from own dwelling, employer's dwelling unit enterprise/unit/office/shop, Street with fixed location, Temple complex or no fixed work place.(9,10).
- ### Unorganized Sector Reflections on the Economy
- **High Demand for Currency:** It is a practice in unorganized economy to transact in cash. Rising activity in this economy is pushing up the demand for currency as there is a continuous demand for it in the market.

- **Impact on Organized sector:** It is creating declining impact in organized sector due to :
  - Wages and working hours will be increasing in the unorganized sector
  - Consequently people work more hours in the hidden sector to earn extra income.
 As the unorganized economy grows, factors of production displacement may depress the organized economy growth rate. It may lead to shortage of labour especially.
- **Effects on Economic Growth:** Unorganized economy will not increase tax revenues but stimulating a rise in public spending. This leads to a rise in the overall economic growth rate. Some may view that the unorganized sector is more competitive and efficient than the formal sector and an increase in the unorganized economy will stimulate overall economic growth.
- **Effects on Public Services:** State revenues lower than they otherwise would be in general. Reduce governments' ability to provide goods and services. Governments may respond by raising individual and corporate tax rates. There will be deterioration in the quality of public goods and administration. Under investment in public infrastructure motivates firms and workers even more strongly to move into the invisible economy, perpetuating the cycle.
- **Social Transfers:** People receiving generous unemployment benefits have a major disincentive to work in the official economy. These transfers may significantly raise their overall income and do not prevent them from working in unorganized activities, instead made them more oriented towards this sector.
- **Contribution of Unorganized Sector (11,12):** Certainly empirical studies have shown that at least two thirds of the income earned in the unorganized economy is quickly spent in the official economy. In Germany and Austria, two thirds of the value added produced in the shadow economy would not be produced at all if the unorganized economy did not exist. In the United Kingdom during 1960–84, earnings in the hidden economy significantly raised consumer spending, especially on durable goods and services. The positive effects of such expenditures on economic growth and on revenues from indirect taxes certainly bear keeping in mind.

#### Findings

- Unorganized sector is a permanent feature of Indian economy.
- It operates both in manufacturing and trading sectors of Indian economy.
- The participation of local entrepreneurs in unorganized sector is of higher magnitude.
- This sector suits the socio-economic features of Indian economy.
- It operates without active support of the government and its agencies.
- It is quite independent of and complementary sector to the organized sector.
- Organized sector in India part takes most of the characteristics of unorganized sector.

#### Conclusion

The vibrant growth of Indian future economy depends on identifying the needs of unorganized sector and forging complementary relationship between organized and unorganized sectors. Since the sector is seed bed of local entrepreneurship, it needs to be supported by the government to ensure input supplies and market outlets for its goods and services. The paramount importance of unorganized sector in the economy from the point of view of not only its contribution and share but also for sustaining the livelihood and well being of a large section of population is well recognized. Consequently the necessity of well structured and well defined framework of statistics and its development perspective is also recognized. The development of unorganized sector has a potent role in the „inclusive growth“ in the current paradigm of planning, and such a framework of statistics for formulation of policies and decision support is the need of the hour. The conceptualization and development of an ideal system of statistics for unorganized sector is, therefore, to be aimed at bringing clarity in concepts, definitions, appropriate classification and coverage to meet the diverse requirements of the users. The refinement in the framework of unorganized sector statistics conceived on the lines of concepts, definitions and the capability to meet the objectives of development planning seeks to address pertinent institutional issues relating to their quality and reliability. The mechanism of data collection and the resources used for this purpose at present are not adequate. There are serious institutional issues, including issues of staffing, supervision, coordination, accountability and credibility of statistics generated and this need to be addressed with at most priority. The sector has more positive impact on employment and use of local resources as compared to the organized sector which can be transformed into organized one through a formal chain of regulations and sources.

### Suggestions

- **Role of Regulators:** In depth studies of trading establishments which comprise own account enterprises and establishments, is the need of the hour for following reasons. Since these establishments are informal, basic data regarding them are missing in compilation of national accounts. Hence, this segment is referred to as non observed economy. Non observance causes imbalance and consistency in national accounts. Good quality national accounts are vital for national economic policy and research. There is a lack of coverage for users both in terms of levels and trends. For example, when poverty is measured in terms of per capita, GDP, omission of this sector introduces downward bias.
- **Role of Associations:** The employers' associations exist and operate at three levels in India:
  - National associations
  - Regional cum Industry specific associations and
  - Chambers of Commerce at local level of which employers of manufacturing, trading, and service enterprises are members. Employers of unorganized trading enterprises are most often than not are left out. Hence, this sector is deprived of representation in local chambers of commerce. These trading units, though small on individual count, are critical mass in aggregation.

The problems of those operating in this sector need to be purposely represented to the concerned institutions through chambers of commerce. Since this sector is invisible, its levels and trends of operations are neither noticed nor appreciated by chambers of commerce.

- **Role of Academicians:** Most of the research in Indian is either theoretical or empirical. Research studies continuing sound theory and empiricism are few and far between empirical studies which use data generated as a part of administrative reports lack innovation. For this reason the findings of these studies are nothing but replica of facts already reported in administrative reports. There is utmost need to conduct local studies with innovative research design imparting comprehensiveness in the coverage of national economy and its operations.
- **Role of Professionals:** High economic development can be ensured through "inclusive growth policy". Professionals, who mingle with society more than academicians, are best suited to study them like the present one, unorganized marketing in pilgrim centers. They are well equipped with professional tools to measure and report the true dimensions of this sector. They will facilitate the growth of this sector and bring to light its true potential for growth.

### References

- ✖ From India facts on March 17, 2015 in India Census 2015.
- ✖ Govt of India Press Information Bureau - Poverty Estimates for 2014-15, New Delhi: 22 July, 2014
- ✖ As Per the 2010 FAO world agriculture statistics
- ✖ [https://en.m.wikipedia.org/wiki/Unemployment\\_rate](https://en.m.wikipedia.org/wiki/Unemployment_rate). Unemployment-Wikipedia, the free encyclopedia.
- ✖ <https://www.lmis.gov.in/sites/default/files/NSC-report-unorg-sector-statistics.pdf>
- ✖ India Year Book-2017, Chapter 17 and 18, : Labour, Skill Development and Employment
- ✖ Hiding in the Shadows-The Growth of the Underground Economy=Friedrich Schneider with Dominik Enste.© 2002 International Monetary Fund. March 2002
- ✖ Report No. 433(51/2.2/1) Unorganized Manufacturing Sector in India Its Size, Employment and Some Key Estimates, Informal Sector and Conditions of Employment in India" NSS July 2011 to June 2012 National Sample Survey Organization Department of Statistics Government of India.
- ✖ <https://economictimes.indiatimes.com/topic/unorganised-sector>
- ✖ Social Security For Unorganized Workers In India: Issues And Concerns – 2012 by Bagchi K (Author)
- ✖ [www.ilo.org/wcmsp5/groups/public/asia/ro./wcms\\_496510.pdf](http://www.ilo.org/wcmsp5/groups/public/asia/ro./wcms_496510.pdf)
- ✖ [https://books.google.co.in/books/about/Urban\\_Unorganised\\_Sector\\_in\\_India.html?id=K7fDs9fV3TsC&redir\\_esc=y](https://books.google.co.in/books/about/Urban_Unorganised_Sector_in_India.html?id=K7fDs9fV3TsC&redir_esc=y)