



## A study on Unorganized Sector and India's Informal Economy

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### ABSTRACT

This paper reviews about Unorganized sector and India's informal economy. Unorganized workers consists of those working in the unorganized enterprises or households, excluding regular workers with social security benefits , and the workers in the formal sector without any employment/social security benefits provided by the employers. this reveals that Unorganized sector should be protected and this means that all attempts should be made to implement those policies ,which will release the basic growth constraints and ensuring a level playing field for this sector

### KEYWORDS

Unorganized Sector, DGET, NCEUS, Self Employed

### Introduction

At the outset it would be advisable to understand the concept of the unorganized sector. It may also be clarified that the terms organized and unorganized sector in India are used interchangeably with formal and informal sector at the international level as recommended by ILO.

There has been lack of clarity and uniformity in the use of the term. The central Statistical Organization defines unorganized or informal sector consisting of enterprises who producing for the market do not have more than 20 employees (without power) or 10 employees (with power) . the workers of these enterprises are not registered under any legal stipulation like the Industrial Dispute Act of 1948, etc. and can, therefore, be included in the household sector (and hence within the informal sector) as per the System of National Accounts (SNA) 1993.

Thus employment within the unorganized sector has hitherto been derived as a residual of the total workers minus the worker in the organized sector as reported by the Director General of Employment and Training (DGET). It may, however be mentioned that DGET figures do not include informal/unorganized employment in the organized sector.- a phenomenon which is increasingly significant in the Indian Economy. To the extent, there is an element of underestimation in the determination of unorganized sector employment in the economy.

The National Commission for Enterprises in the Unorganized Sector (NCEUS) set by the Government of India in September 2004 considered various aspects of the matter and defined the unorganized sector in the following manner.

"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 in a proprietary or partnership basis and with less than ten total workers"

Following this definition, in agriculture, only the plantations and other types of organized agriculture (i.e. corporate or co-operative farming) are excluded. Thus, very large part of the workers engaged in agriculture is included.

### Secondly, the NCEUS defined unorganized or informal employment as follows.

"Unorganized workers consists of those working in the unorganized enterprises or households, excluding regular workers with social security benefits, and the workers in the formal sector without any employment/social security benefits provided by the employers"

This definition excludes causal or contract workers and thus captures unorganized sector employment in a more realistic manner.

### SIZE OF THE UNORGANISED SECTOR

NCEUS prepared estimates of employment in the unorganized sector. As on January 2005, the total employment (principal and subsidiary) in the Indian economy was 458 million, of which the unorganized sector accounted for 395 million, i.e. 86 % of the total workers in 2004-05.

However a distinction has been made by the NCEUS in organized sector/ unorganized sector employment and organized and unorganized workers. The unorganized sector refers to enterprises which employ less than 10 workers. But the unorganized workers refer to workers who are employed whether in the organized or unorganized sector but are not covered for social security benefits.

From the data given in Table 1, it is evident that out of 62.6 million employed in the organized sector, 29.1 million are unorganized workers applying the criterion of the social security benefits. Similarly out of 395 million workers employed in the unorganized sector, 1.4 million workers avail of social security benefits and are, therefore, classified as organized workers. after applying the two criteria, out of a total employment of 457.5 million workers, only 34.9 million are entitled for social security benefits i.e. 7.6 percent of the total workers in 2004-05 and the remaining 422.6 million (92.4%) are treated as unorganized workers. comparing this with 1999-00, it is revealed that though during 1999-00 and 2004-05, total employment in the economy increased from 397 million to 458 million, i.e. an increase by 61 million during the 5 year period, the number of organized workers remained stagnant at 35 million and the entire increase in the employment was in the category of unorganized workers. NCEUS, therefore, sums up the situation as under:

"what this means in simple term is that the entire increase in the employment in the organized sector over this period has been informal in nature i.e. without any job or social security. This constitutes what can be termed as informalisation of the formal sector, where any employment increase consists of regular workers without social security benefits and causal or contract workers again without the benefits that should accrue to formal workers.

### Categories of workers among the unorganized workers

#### a) Wage workers:

wage workers are persons employed for remuneration among

the unorganized workers, directly by employers or through agencies or contractors. Wage workers include casual and temporary workers or those employed by households including domestic workers. Wage workers also include regular workers in the unorganized sector.

#### b) Self employed in the unorganized sector:

these are workers who operate farm or nonfarm enterprises or engage in a profession or trade, either on own account, individually or with partners, or as home-based workers. Own account workers include unpaid family workers also.

Both categories of workers face different kind of vulnerabilities or risks and thus are referred to as weaker section. They suffer from two types of vulnerabilities – job security or social insecurity or both. Regular workers in the unorganized sector are those working for others and getting in return salary or wages on a regular basis. These workers suffer from social insecurity due to sickness or injury or old age and are not entitled to any social security against these vulnerabilities. They enjoy, however, job security. As against them, temporary, casual or contract workers suffer both from job security as well as social insecurity.

**Table 1: Total Employment Sector – wise (million)**

	Informal/ Unorganized workers	Formal/organized workers	Total
1999-2000			
Informal / unorganized sector	341.3(99.6)	1.4(0.4)	342.7(100)
Formal organized sector	20.5(37.5)	33.6(62.2)	54.1(100)
Total	361.8(91.2)	35.0(8.8)	396.8(100)
2004-2005			
Informal / unorganized sector	393.5(99.6)	1.4(0.4)	394.9 (100)
Formal organized sector	29.1(46.6)	33.45(53.4)	62.6(100)
Total	422.6(92.4)	34.9(7.6)	457.5(100)

**Note: figures in brackets are percentages.**

**Source: NSS 61<sup>st</sup> Round (2004-05) and NSS 55<sup>th</sup> Round (1999-00), employment- Unemployment survey :computed by NCEUS.**

**Table 2: number and proportion of workers in the unorganized non agricultural sector (1999-00)**

No.million	Male			Percentage		
	Male	Female	Total	Male	Female	Total
Self employed						
a)Independent workers	49.5	11.2	60.7	93.6	70	88.0
b)Home workers	3.4	4.8	8.2	6.4	30	12.0
All self employed (a+b)	52.9	16.0	68.9	100.0	100.0	100.0
All unorganized non agricultural workers.	87.9	22.5	110.4			

**Sources:NCEUS report (2007)**

#### HOME WORKERS AS A DISTINCT CATEGORY

The International Labor Organization (ILO) in 1996 defined a home worker who carried out work for remuneration in the premises of his/her choice, other than the work place of the employer, resulting in a product or service as specified by the employer, irrespective of who provided equipment, materials or inputs used. These workers, therefore, work under the 'putting out system'. Mostly, home workers have to purchase, repair and maintain their own tools or machines, and bear the costs of some inputs, transportation to and from the contractor to obtain work and then hand over the finished product and also provide space within their homes to carry out the tasks of production.

**Table 3: Size and distribution of the Organized and Unorganized sector workers by industry and status 2004-05**

Agriculture			Non agriculture			All		
Organized	Unorganized	Total	Organized	Unorganized	Total	Organized	Unorganized	Total
Number of workers (million)								
SE	2.3	163.9	2.9	89.2	92.1	5.2	253.1	258.2
RW	1.3	1.5	41.9	24.8	66.7	43.2	26.4	69.5
CW	2.5	87.4	11.7	28.1	39.8	14.2	115.5	129.7
TOTAL	6.1	252.8	56.5	142.1	198.5	62.6	394.9	457.5
Percentage Distribution of workers								
SE	38.1	64.8	5.1	62.8	46.4	8.3	64.1	56.5
RW	20.1	0.6	74.3	17.4	3.6	69.0	6.7	15.2
CW	41.8	34.6	20.7	19.8	20.0	22.7	29.2	28.3
TOTAL	100	100.0	100.0	100.0	100.0	100.0	100.0	100.0

**SE=Self Employed RW=Regular Worker CW= Casual Worker**

According to NSS (1999-00), home workers constituted 8.2 million workers out of a total of 69 million self employed workers, among them 4.8million(58.5%) are women. Available studies show that the manufacturing sector in India, product outsourcing from large firms to small firms is on the increase. Home workers constituted about 12% of all self employed workers in 1999-00, but they have grown in numbers as a consequence of greater resort to outsourcing. But no later estimate is yet available.

Out of total 110 million unorganized non agricultural workers, about 69 million i.e. 62 % are self employed. Among the self employed, 88%are independent workers and 12% are home based workers.

Data given in Table 3 reveals that out of 458 million workers ,the proportion of self employed worker is 56.5 %(258million) and casual workers are 28.3% (130 million). Taken together these two categories which are most vulnerable among workers constituted about 85%. The remaining 69 million workers were regular workers (15%).

However the proportion of the self employed in the unorganized sector was 64%(253 million) out of a total of 395 million workers and that of casual workers was 29% (116 million). Taken together these two most vulnerable group accounted for 93% among the unorganized sector. Regular workers accounted for only 7%. This provides a vivid over view of the pathetic state of unorganized workers in which 93% of workers suffered from job as well social in security. Among the organized workers ,the situation was relatively better where 69 percentage were regular workers and barely 31%were self employed and casual workers.

The situation in the agriculture sector was 99% of the workers were either self employed and casual workers and only 1% were regular workers. However in the non- agricultural sector, 6% were self employed and casual workers and 34% were regular workers.

The unorganized sector in agriculture accounted for 99.4% of self employed and casual workers devoid of security whatsoever. However in the non agricultural sector ,this proportion was as high as 83%.

The overall scenario that emerges is : in the economy, the unorganized sector workers constituting 86% of the total workforce suffer from very insecure working conditions. It is this group that deserves maximum support for improving their living conditions.

### Conclusion

Based on the information above that there is no doubt that the unorganized sector in the country has great role in making Indian economy and has contribution to GDP;the sector has expanded in the past and is still expanding at a very high rate. the union government should take necessary action to uplift the people from unorganized to Organized steadily

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