

Role, Challenges and Opportunities in the Informal Sector of the Indian Economy

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Abstract

The manufacturing sector plays a very crucial role in employment generation and development of an economy. It has been seen in the past that people are shifting from farming (agriculture) to non-farming activities such as services and manufacturing. This renders manufacturing as a crucial activity for India's employment and development objectives. The manufacturing sectors the Indian economy can be divided in two parts : Formal and Informal. Both formal and informal sectors differ significantly with regard to sales, employment generation, technology used, and scope of market, business volume and most importantly their contribution to GDP. The current paper attempts to emphasize the importance to the informal sector, the major challenges faced by it along with the opportunities available to it.

Keywords : Informal sector, Manufacturing, Gross National Product, Gross Domestic Product

Introduction

The informal sector/grey economy or informal economy is that part of an economy which is not monitored by any form of government and also avoid paying taxes, directly the activities of the informal economy have no role to play in the country's GNP (Gross National Product) or GDP (Gross Domestic Product). India is expected to witness a high demographic growth and a relatively uneven trend in the working age population. Manufacturing sector is thus expected to play a crucial role in order to absorb much of this labour force. This sector employs around 12 percent of the total workforce currently (India Brand Equity Foundation). According to the estimates worked out by the sub-committee (Shri Ramesh Kolli and Suvendu Hazara, 2000 – 2005) around 50 percent of the GDP in the year 2000 – 2005 was contributed by the informal sector.

As per the ILO(Labour Market Organisation, 2016 update) and NSSO (National Sample Survey Office, 2011 – 12 data) more than 90 percent of the total people employed in agricultural sector fall under the category of informal sector. Thus, unlike the general notion that this sector has no influential role to play in the economy, the grey economy (informal sector) in reality has a dominant role in the Indian economy. Even when the formal sector was witnessing a hard time, the informal or the unorganized sector was continuously showing improvement in its various activities like real wages, productivity, employment, and capital accumulation (Suprita Palit, 2018). The Swadeshi Movement, Make in India has proved to be a major boon to this sector. It covers 25 sectors of the economy including Automobiles, Automobile components, Aviation, Biotechnology, Chemicals, Construction, Defense manufacturing, Defense exports, Electronic systems, Electrical machinery, Food processing, Exports, Information technology and Business Process Management, Leather, Media and Entertainment, Mining, Oil and Gas, Pharmaceuticals, Ports and Shipping, Railways, Road transit, Renewable energy, Roads and Highways, Space and Astronomy, Thermal power, Textiles and Garments, Tourism and Hospitality and Wellness and Health care. The major objective of this initiative was job creation and skill enhancement in all the above mentioned sectors and to transform

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India into a global design and manufacturing hub by filling the gap in the economy and its development.

Objectives of the Study

The fundamental objective of this study is to highlight the importance of the informal manufacturing sector in India.

Further, this study seeks to understand the challenges faced by this sector.

Lastly, this paper aims to study the opportunities available to the informal sector of the economy.

Informal Sector : A Study :

The general notion of the people regarding the informal sector in that it comprises of low-skilled or unskilled work. The First National Commission on Labour (1966-69) defined unorganised/informal sector workforce as those workers who have not been able to organize themselves in pursuit of their common interest due to certain constraints like establishments.

The criteria adopted by NSSO (The National Sample Survey Organisation) to identify the unorganised sector is as follows :

- (a) In case of manufacturing industries all enterprises not covered under the ASI (Annual Survey of Industries).
- (b) In the service industries all enterprises, except those run by the Government (Central, State and Local body) and in the corporate sector were regarded as unorganized.

A task force was set up in 2004 by the NCEUS (National Commission for Enterprises in the Unorganized Sector) to harmonise the national definition of the unorganized sector with the international informal sector the reconstructed the definition of the unorganized sector as, "All unincorporated private enterprises owned by individual or households engaged in the sale or production of goods and services, operated on a proprietary or partnership basis and with less than ten total workers." All agricultural activities other than crop production and plantation are included in the unorganized sector.

The major points of distinction between the formal and the informal sector are as follows:

- (a) In a formal sector the terms of employment are regular and fixed, the employees have job security whereas there are no regular and fixed terms of employment. Also, the organizations/industries/enterprises are not generally registered with the government.
- (b) There are a number of acts like The Minimum Wages Act, The Provident Fund Act, The Factories Act, The Bonus Act, etc. that apply to the formal sector. On the contrary, no such act applies to the informal sector.
- (c) The formal sector has to strictly abide by the rules and regulations laid down by the government, which the informal sector does not have to do.
- (d) The employees in the formal sector generally receive salaries for their services whereas wages are given to the workers working in the informal sector.
- (e) The extent of getting assured work is higher in the formal sector as compared to informal sector.
- (f) The benefits like medical facilities, leave travel compensation, paid leaves, pension, etc. are received by the employees working in the formal sector, the employees of the informal sector do not get any such benefits.

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- (g) Additional remuneration is given to an employee of the formal sector for overtime, but there is no such provision in the informal sector.
- (h) The salaries of the employees working in the formal sector all normally as per the government norms. Whereas, the employees under the informal sector all usually under paid.
- (i) Annual increments in the salaries are generally given to the organized sector employees but the salaries of the employees of the unorganized sector are barely hiked.

Thus, in a formal economy, a worker :

- has a formal contract with the employer.
- has job responsibilities and work conditions that are already fixed by the employer.
- has a fixed income with timely promotions and incentives.
- has fixed working hours and fixed leaves
- is a member of some social groups of people working in the same field and is generally a part of trade unions also.
- receives benefits of social security for health and life risks.

In an informal economy a worker :

- has no formal contract with his employer.
- has improper and unsystematic work house and working conditions.
- has no fixed pay pattern and fixed salary.
- is not a part of any social or legal group.
- does not have fixed working hours.
- is not aware about any kind of social security benefits.

What Causes Informalisation?

According to the NCEUS (National Commission for Enterprises in the Unorganized Sector), unorganized workers consists of those working in the unorganized enterprises or households excluding regular workers with social security benefits provided by the employers.

There are two major factors that affect the process of informalisation:

(a) Labour Factors

Labour includes the quality of labour in terms of two parameters — training and education. In a developing country like India, it is generally observed that the educational facilities are lacking and no vocational skills are imparted to the labour to enhance the level of their skill.

Also, the dominate role played by the labour legislations generally act as obstacles in the private industries on capital which leads to hiring of hiring of contractual labour.

(b) Non-Labour Factors

The legal formalities to be fulfilled in setting up of new enterprises like obtaining various licenses and clearances are a major hurdle. Another major problem faced by the enterprises are inadequate infrastructural facilities like no proper buildings, roads, inadequate power supply, water, etc. which affects the development of manufacturing sector. It is an unalterable situation as the MSMEs (Micro, Small and Medium Enterprises) are the largest source of employment and they don't have the ability to access funding and credit from various institutes. Land acquisition is one more constraint. Also, MSMEs enjoy low tax benefits and regulations due to which they are generally unwilling to expand.

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Challenges faced by the Informal Sector

On one hand, the informal or the unorganized sector of India witnesses the problem of lack of statistical data regarding the size, distribution, market, its contribution, working conditions, effectiveness of various schemes and policies, etc., on the other hand, increasing landlessness, child labour, lack of awareness about policies and schemes, etc. can be easily witnessed in today's world. To add to it, the insufficient and improper labour laws and legislations increase the problems of people working in the informal sector which includes no social security, no guaranteed minimum wages, and bonded labour.

In spite of growing concerns of various government and non-government organizations about the informal sector, there are several serious issues like increased migration, child labour, working women and social protection which demand an immediate attention of the government to be addressed.

Lack of Awareness

The major problem faced by the people working in the informal sector is lack of awareness. No proper knowledge regarding the various policies, schemes of the government and the benefits makes the condition even worse.

Lack of Technological Knowledge

Due to the lack of awareness about the various resources through which they can upgrade their technology and pattern of working it becomes difficult for the informal sector to find greater market by upgrading their plant and machinery and thus, expand their horizon.

Lack of Infrastructural Facilities

Lack of infrastructural facilities in the informal sector leads to various problems.

There is an acute shortage of machinery in the farmlands, funds with small entrepreneurs, marketing skills with small vendors and even lack of buyers of locally produced goods. They face problems like improper transportation, no or less power in many rural areas, improper communication mediums, etc. Amongst others, power supply is considered to be a crucial one. All this have a direct impact on the labour and production schedule, quality and quantity of produce of the units operating in these areas.

Lack of Social Security Schemes

Social Security can be defined as "the provision of benefits to households and individuals through public or collective arrangements to protect against low or declining standard of living arising from a number of basic risks and needs. Social security includes medical care, Provident fund, Gratuity, schemes like old age pension or maternity benefit, Bima Yojana, etc. It does not only include the security of the worker or the employee alone but it includes the overall security for a person in the family, work place, and society. But due to the exploitation by the employer in this sector, social security is not provided up to the mark, especially and adversely women workers in the informal sector have the least access to social security. Further, the insecurity dimensions of the people working as unorganized workers are gender inequalities, child and bonded labour, lack of employment opportunities, improper labour laws and high poverty levels.

Lack of Fixed Minimum Wages

The income level of the workers working in the informal sector is generally very low and is not fixed. Even the small vendors, manufacturers or entrepreneurs do not earn a handsome amount and generally they borrow money for their start-ups from the money lenders and they have to pay huge interests to them in return. This reduces their profit to a great extent. If they work under an

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employer, they are generally found to be exploited by them. Due to the availability of abundant labour, they are tend to be under-paid.

Difficulty in Marketing

Even if the goods are manufactured in the informal sector and the quality of the products produced is good, still the problem of adequate market for them and the accessibility to the markets is a major concern. The workers/ manufacturers/ producers in this sector face a lot of difficulties to find a proper market of their product as they do not get first hand information regarding the prevailing trend, the likes and dislikes and the spending capacities of their customers. Also, they are sometimes unaware about the techniques to upgrade their products keeping in mind the requirements of the customers.

Lack of Skilled Manpower

Unavailability of skilled personnels in all the spheres results in high costs and low benefits. A lot of amount is spent on their training and skill up gradation. If a worker lacks such skills, high absenteeism, increased labour costs, indiscipline, more wastages, strikes and lock-outs and high overhead costs can be witnessed. In order to enhance their skill level, government has launched various schemes but the effectiveness and accessibility of such schemes is still a question.

Lack of Managerial Skills

For an enterprise to be successful, it is an utmost important requirement that the manager possess all the skills required, broad vision, proper and adequate knowledge of the market and various schemes. There is a shortage of access to the vocational institutes wherein all this can be gained.

Opportunities for the Unorganised Manufacturing Sector

Despite the aforementioned challenges there are various opportunities which the unorganized manufacturing sector can utilize.

Better Employment Prospects

Informal sector in India provides employment to a large number of people.

Government is playing an active role in the protection of the workers working in this sector by launching various schemes and fixing minimum wages for them. Schemes like Make in India are aiming at developing the unorganized sector by covering 25 sectors of the economy and increasing the employment and investment levels in the country.

Export Promotion:

The government of India is continuously aiming at import substitution and export promotion. This will be beneficial to the entire economy and will also exploit the locally available resources. Schemes like Make in India aims at producing goods with the indigenous technologies and with the locally available talent. This would help in manufacturing the products at cheaper cost, thereby benefitting the exporters to sell their products in the international market at competitive prices.

Raw Material Provider for the Formal Sector

The goods manufactured by the informal sector can also be used as raw material for various industries. This can provide them with the scope for regular production and no stress for finding market for their produce every time. This in turn provides employment to the vulnerable group and generates regular income.

Caters Low Income Group

The products manufactured in an informal sector are generally not technologically advanced products. The use of locally available mechanism for production not only provides employment but

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also helps in manufacturing goods at a low cost. They generally do not have a brand name attached to their products and thus, sell their products at a cheaper price as compared to the internationally manufactured goods. As a result, the people in low income groups can also be the buyers of these products which enhance the scope for these small enterprises.

Conclusion

A major proportion of the people working in our country are the part of the informal sector. NCEUS provided for the concept of the informal sector and the informal workers which has proved to be apt with reference to Indian statistical system. It is a known fact that the growth rate of the formal sector is quite high than that of the informal sector and the number of people engaged in agricultural activities is much higher than any other sector. It has also been observed that the formal sector is still unable to provide employment opportunities to the huge unemployed mass and thus it becomes important for the economy to work on the betterment of the informal sector which is the major source of employment to the youth and semi-skilled workers. The income earned through various activities in the informal sector accounts for major earnings of a lot of people. One of the important aspects here is, the government of almost all the developed nations have also recognized the importance of the informal sector and considered it as not only a survival sector but also a potential supplier of income and growth. Thus, a lot of major initiatives have been taken at national and international level to nurture and polish this sector.

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