

**Context**

**The Dichotomy of Informal v/s Unorganized Sector**

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**Abstract**

*The present paper attempts to evaluate the persisting dichotomy between the terms informal and unorganized sector/workers. The usage and definition of the said terms differs significantly both within and outside the country. Since a huge amount of labor force is employed in these sectors the problem of its recognition and coverage endows a great challenge towards development of human resource in India. Further, the vagueness in terms create worthless impediment in social security policy framing in India. The paper throws light on the present bewilderment over the issue.*

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**Introduction**

Providing adequate safeguard against socio-economic uncertainty is a constitutional guarantee of state to its citizens.

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Article 41-43 of Directive Principles of State Policy (Part IV) stands for fundamental right of livelihood. The constitution clearly asks the state to secure right to work, education, decent living, and assistance towards unemployment, old age, sickness, disability and maternity. Albeit, the situation of social security policy and its execution is highly ambiguous both at the centre and state level. A wide range of schemes framed by several departments under various ministries of union government at different points of time in the past reveal directionless and halfhearted efforts towards a comprehensive policy on social security. The prominent ministries are Food & Public Distribution, Health & Family Welfare, Housing & Urban Poverty Alleviation, Social Justice & Empowerment and finally Ministry of Labor & Employment which has the core responsibility of framing and implementing the labor laws. However, Labor laws have always remained too 'voluminous' and mostly ineffective, resulting in high corruption and costly compliance (Mahendra Dev, 2009). Every scheme is designed with specific purpose of targeting a group of beneficiaries but most of the time they overlap each other in terms of the coverage and benefits. The same group gets covered in multiple schemes and those with dire need of support end up being excluded from the planning process either due to practical or political reasons (11<sup>th</sup> Five Year Plan).

*'There are wide gaps in coverage (a large population is still uncovered under any scheme) and overlapping of benefits (a section of the population is covered under two or more schemes). In the existing system, coverage varies from scheme to scheme, with different groups of people receiving different types of benefits. In other words, no one is insured against all risks of life' (11<sup>th</sup> Five Year Plan).*

The social security laws in India are not part of labor laws due to absence of any concerned statute or Act. There is no separate ministry of social security both at center and state level, the related matter are taken care by the ministry of labor in central government. Except 9<sup>th</sup> Five Year Plan the rest of Indian planning has mostly remained overlooked the term social security (Report of IInd National Commission of Labour, 2002). The existing social security system in India covers only the elite group of organized sector workers mainly civil servants (Debi Saini, 2005). Over 90% of India's workforce remains deprived of any substantial wage security, this is further threatening with the fact that the proportion of workforce in organized sector has reduced from 10 to 7 percent in recent years. This is contrary to the objectives of Indian constitution to build a non discriminatory egalitarian social order.

### **The Labor Market**

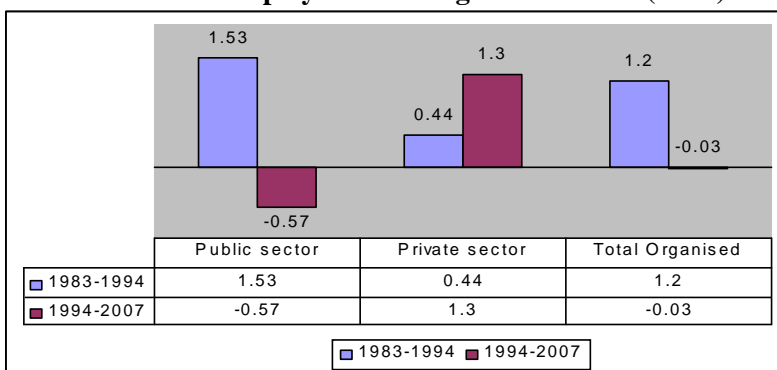
The existence of a disproportionately large unorganized sector side by side a small organized sector in all major segments is a typical characteristic feature of Indian economy. The labour market in India is no exception to this. The total workers in India may be conveniently classified into organized workers and unorganized workers. The dichotomy between the two classes of workers is visibly clear in terms of job and social security that the former grabs and the later struggles for, throughout his life (Kumar Jayant & Hitesh Bhatia, 2008). Not surprisingly therefore, the 'National Commission for Enterprises in the Unorganized Sector' does not hesitate to mention a 'shining India' smiling in the face of a lackluster and stagnant class of society struggling with 'miserable

working and living conditions’ (NCEUS, 2007). The statement hints towards a social dualism which Boeke mentioned five decades ago, characterizing unorganized sector as ‘passive silent, casual, unskilled and virtually immobile’ (Boeke, 1953).

Throughout the post liberalization period the growth of employment has been solely in the unorganized sector<sup>1</sup>.

**Figure I**

**Growth Rates of Employment in Organized Sector (in %)**



**Source: - Economic Survey, 2009-10**

The employment in organized sector comprising both public and private sector has shown a negative growth rate during the period of 1994 to 2007. This has been mainly due to the fall in employment opportunities in the organized public sector in India.

<sup>1</sup> “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”. (NCEUS, 2006)

However the overall employment scenario in the last decade showed a positive growth rate. According to 61<sup>st</sup> round of NSSO data the CDS employment opportunities increased for 47 million people during the period of 1999-2000 to 2004-05 with an increase of 2.62 % per annum. The growth was fairly higher compare to the previous period 1993-94 to 1999-2000 during which only 24 million employment was created in CDS with a per annum growth of 1.25% (Economic Survey, 2009-10). Hence it is not surprising that the additional employment is been created only in the unorganized sector.

**Table – 1****Sector wise Employment of Workers (in % & million)**

<b>Sector</b>	<b>1999-2000</b>	<b>2004-05</b>
<b>Unorganized Sector</b>	91.5 (362.8)	92.3 (420.7)
<b>Organized Sector</b>	8.5 (33.6)	7.7 (35)
<b>Total</b>	100 (396.4)	100 (455.7)

*Source: - NCEUS, 2009( Figures in brackets are millions)*

The overall employment has increased by 60 million during the period of 1999-2000 to 2004-05 with a significant bent towards unorganized sector. The organized sector employment has reduced by 0.8% and the rise in unorganized sector employment has been nearly by 1% during the same period. The employment trends clearly indicate that significantly high proportion of employment opportunities are created only in the unorganized sector. Also, the jobs created in the organized sector are mostly informal in nature,

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characterized by low and uncertain earnings, poor working conditions and negligible social security (National Employment Labor Policy, 2010). This means that the organized sector is finding it increasingly lucrative to employ unorganized workers on contract or even casual basis. This is a phenomena often referred to as informalisation of workers (NCEUS, 2006)

**Table - I**

### **Employment Classification of Population in India 2005-06**

*(In Percentage)*

Items	Rural		Urban	
	Male	Female	Male	Female
Total Employment	56	31	57	15
Self Employed	57	62	42	44
Regular Wage/Salaried Earners	10	4	42	40
Employed in Primary Sector	65	81	-	
Employed in Secondary Sector	17	12	34	33
Employed in Tertiary Sector	18	7	59	52
Average Wage Rate for Regular Employees *	138.74	87.71	205.81	158.23
Average Wage for Casual Employment*	89.29	37.97	80.7	44.5

Source: - NSSO 62<sup>nd</sup> Round, Employment-Unemployment Situation in India, 2008\*in Rupees

The employment classification of India's population throws a challenge to the policy makers. Nearly 50% of people are self-employed a huge proportion works in primary sector, mainly agriculture where the employees themselves have to provide

for their income and social security. The government and policy makers contribute to focus only on two aspects that are organized and unorganized sector workers. Even within them, there exists no clarity as far as the identification of unorganized sector and workers is concerned. Internationally too the concept is mixed up with other similar terms like informal and formal sectors.

### **The Dichotomy Of Informal V/S Unorganized Sector**

Keith Hart first introduced the term 'Informal Sector' in 1971. Keith referred informal employment to self employment as distinguished from regular wage employment (Hart Keith, 1973). Though the concept was used in a limited sense, it attracted a debate over the issue. Informal sector was then divided in two broad groups based on the employment structures, non-wage and wage employment. The former includes self-employment and family business while the later includes contractual employment in any form (Kabra, 1985). Later, International Labor Organization (ILO) introduced the term 'Informal Sector' to the World in its Kenya Mission Report, 1975. It defined informality as a way of doing things easily using indigenous and labour intensive techniques (mostly family resources) in an unregulated environment (ILO, 1972). Since then many definitions and concepts of informal sector have been developed mostly pointing towards the absence of characteristics of formal sector like lack of job and earning security (Papola, 1980; Banerjee, 1985). The first internationally accepted definition of informal sector and informal employment was also presented by ILO in 15th International Conference on Labour Statistics (ICLS) 1993, according to them the term informal sector '*include all private*

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*unincorporated enterprises owned by individuals or households engaged in the production and sale of goods or services, and with employment size below a predetermined threshold<sup>1</sup>*. The definition was incorporated in Systematic National Accounts (SNA, 1993) by United Nations Economic and Social Council for adding the contribution of informal sector into GDP.

On the other hand the term ‘Informal workers’ was defined to include ‘those people whose employment relationship is, in law or practice, not subject to labour legislation, social protection and employment benefits’ (SNA, 1993). ILO in 2002 attempted to redefine the informal employment as one ‘*without secure contract, worker benefits, or social protection, both inside and outside informal enterprises*’ it includes both self employment and wage employment – that is not recognized, nor regulated nor protected by legal or regulatory framework (ILO, 2002).

In Indian context the concepts of unorganized and informal sector continued to face a dichotomy. Government, institutions and intellectuals went on to define the concepts as per their objectives, scope of study and data collection, others simply stated that unorganized labors are ‘those who have not been able to organize themselves...’ (1<sup>st</sup> National Commission on Labor, 1969). The commission also identified the ignorance, illiteracy and casualty of employment as major causes for being unorganized. The National Accounts Statistics (NAS) refers unorganized sector to those enterprises that are not regulated and collection of data remains

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<sup>1</sup> A minimum 10 to 20 employees depending upon the nature of industry.

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challenging. While NSSO defines the same as ‘enterprises which are not covered under Annual Survey of Industries (ASI) and all service industries other than those run by centre, state, local bodies and private corporate sector’. Unlike NAS which remains ambiguous about the sources of data collection and registration agency, the NSSO is clear in defining the unorganized sector. The inclusion of term ‘enterprise’ in both the definitions is vague by itself. However, the scope of NAS is wide, other than unincorporated proprietary or partnership ‘enterprises’ also covers the non ASI enterprises run by cooperative societies, trusts, private and public limited companies (Expert Group on Informal Sector Statistics, Delhi Group, 2006).

Both the national and international definitions of unorganized sector or informal sector have no unanimity over the threshold size of labor, registration of the units, maintenance of account books, filing of returns and paying taxes etc which are critical characteristics while defining these terms. The 15<sup>th</sup> International Conference of Labour Statisticians (ICLS) conducted by ILO, recommends the use of (one or both) small size of employees and non-registration of enterprise as a criteria to define informal sector. While due to lack of information regarding the registration and other details of enterprises the NAS and NSSO considers those as unorganized whose activities or collection of data is not regulated under any legal provision (Expert Group on Informal Sector Statistics, Delhi Group, 2006). Lately Hussmanns (2001) has given a more exhaustive definition of informal employment ‘as jobs for which employment contract are not subject to standard labour legislation, taxation, social protection or entitlement of certain employment benefits. Such jobs are mostly undeclared, casual or of short duration,

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either without employment contracts or with short-term contracts'

Moreover the term enterprise in Indian sense excludes agriculture from its scope. The 55<sup>th</sup> round NSSO survey (1999-2000) recognized unorganized sector as a non-agricultural enterprise. With over 60% of country's population engaged in agriculture and majority in the rural areas, the unorganized sector definition should include landless agricultural laborers, small and marginal farmers, share croppers, those engaged in animal husbandry, poultry and fishing activities, rural artisans, forest workers, etc. To have an exhaustive definition of unorganized sector a similar term to enterprise needs to be defined for agriculture too.

The enterprise based definition of informal or unorganized sector does not consider the characteristics of employment (based on characteristics of enterprise) and excludes those with casual and self employment. Even within the scope of organized sector there are many who are informally employed and similarly in unorganized sector many are formally employed (NCEUS). The NCEUS has used the terms 'organized' and 'unorganized' interchangeably with 'formal' and 'informal' respectively and attempted to give a more acceptable definition for the unorganized sector as well the worker.

According to NCEUS Report, 2007

*"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".*

*"Unorganized workers consist of those working in the unorganized enterprises or households, excluding regular*

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*workers with social security benefits, and the workers in the formal sector without any employment/ social security benefits provided by the employers”.*

In fact it is the characteristics of the employment that is important in identifying the unorganized workers. Even in the organized sector their may be several workers who are deprived of any social security benefit or wage and job assurance and thus must be part of unorganized workforce. Besides these some other characteristics will include fragmented and seasonal employment, lack of knowledge, training and literacy levels required to do the respective jobs.

## **Conclusion**

The term ‘unorganized sector’ is vague, if not perplexing. To say that whatever is left after the study of organized sector- is actually unorganized sector- is meaningless. If that is the case, even beggars and smugglers qualify under unorganized sector employment. The extent of difficulties in measuring unorganized sector can be best understood from the Report of 2<sup>nd</sup> National Commission on Labor (2002). The Report had to devote nearly 80 pages to understand and identify the unorganized sector; and yet it ended up with segregating numerous types of informal occupations in which workers are found engaged. The only solace is that the Commission has been able to identify at least some basic features and characteristics to give a rough sketch of a broad canvass called unorganized sector. The enormous literature on subjectivity and vagueness of measurement represent two things- there is a serious effort to identify, measure and make quantitative representation to the term. The Government appointed a

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National Commission for Enterprises in the Unorganized Sector in the year 2004. The Commission has submitted a comprehensive report only recently (August, 2007). The Commission has proposed two draft Bills regarding the conditions of work and social security. These are the Agricultural Workers' Conditions of Work and Social Security Bill, 2007 and the Unorganized Non-agricultural Workers Conditions of Work and Social Security Bill, 2007. The later also covers unorganized workers in the organized sector who are not protected by existing laws applicable to that sector. It is hoped that the Commission's report would draw the Government's attention towards the deplorable living conditions of unorganized workers.

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