

INFORMAL SECTOR AND ECONOMIC GROWTH

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ABSTRACT

The major objective of this paper is to study the importance and problems of informal sector (un-organized sector) in the growth story of Indian economy in the recent period. This study is based on primary survey work, self study and secondary information retrieved from various sources. Most of the information is retrieved collected from electronic media and print media like text books, reference books, previous researches, panel discussion, news reports, sector-wise reports from national and international organizations, government's agencies, etc. It is observed that job creation capability of Indian formal sector is much slower than the increasing work force population in India. While the major job creator and job provider (reducing unemployment ratio) are the informal sectors through the out the developing nations and India is not an exception. It is suggested that government should encourage the unorganized players by upgrading their production methods through latest technology, arrange proper trainings and skill development courses to their employees in production and management, making available funds (loans, subsidies) at affordable terms with minimum paper requirement to avoid hassle free entry and convert them into formal sector smoothly.

Keywords: *Informal sector, Formal sector, organized sector, unorganized sector, Indian Economy, Economic growth.*

INTRODUCTION:

Informal sectors are busy in economic activities which are generally not recorded in the government data. They are neither covered under the tax umbrella nor surveillance by the government agencies for compliance of rules and regulations, taxation, Labour Laws, Company Laws, Factory Laws, etc. Developing economies have large number of these informal players busy in economic activities compare to developed economies. It is observed that in developing countries informal sector per cent is as high as 50-95% and is changes from economy to economy. Developing economies depends more on informal sector while the developed countries mainly depend on formal sectors. Third world or developing nations' major share of growth comes from informal sector. This sector is very important for third world countries in terms of employment creation. In developing countries job creation and or

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job opportunities in formal sectors are very little. Job opportunities are limited to skilled, semi skilled and educated persons only. Most of the informal sector businesses are perpetual in nature, running from one generation to another generation. The businesses run by father, forefathers are continued by the next generation. Businesses like road side vendor, may be fruit seller, vegetable seller, tea stall, small retail kerana shops, small skill manufacturing units (handloom, powerloom, printing, tanneries, machinery shops, bedi making, etc.) and services.

Objectives:

- 1) To understand the importance of informal sectors in the Indian economy
- 2) Problems of informal sectors
- 3) Advantages of informal sector.

Methodology:

The paper is based on primary survey work and personal interviews and self study and secondary information retrieved from various sources. Most of the information is retrieved, collected from electronic media and print media like text books, reference books, previous researches, panel discussion, news reports, sector-wise reports from national and international organizations, government agencies, etc.

Definition:

There are economists and agencies defined the informal sector in their own words and terms. NSO defined it as “Enterprises typically operating on a small scale with a low level of organization, low and uncertain wages, and no social welfare and security.” In other words we defined informal sector as un-organized economic activities which are not registered or licensed by the government agencies.

Characteristics of Informal sector:

As per International Labour Organization (ILO) following are the main characteristics of Informal sector business;

- 1) Small businesses with less number of workers, mainly from family and near ones,
- 2) They have low level of management and organizational skill,
- 3) Diversified in nature,
- 4) The starting and winding of the business is simple and hassle free,
- 5) Low capital required, main raised from own saving or family /friends’ borrowings,

- 6) Unskilled or semi-skilled labour is accommodated, no proper labour training is required or provided,
- 7) No written relationship between employer and employee, i.e. no legal security,
- 8) Workers normally are unaware of their rights and/or are unable to negotiate with their immediate bosses

Importance of Informal Sector in India: Following are the major advantages of informal sector in Indian Economy;

Informal sector's contribution to the economic growth is huge but un-noticed as they are difficult to quantify and record. Lately, Indian economy has been coming back to the right track of growth. In a figure released by the Government of India in 2016-17 GDP growth rate would be 7.6 per cent which comfortably much above the 5.6 per cent of 2012-13. This growth can be sustained only if the Indian labour market can create and provide more and more jobs. Though India is second largest populated country in the World but has largest work force (age group 15-64year) of the world which is 35.6 crores. Without creating new jobs for these huge young population, which is increasing year by year, Indian economy cannot grow. Failing to create the new jobs will be biggest mess for the Indian economy. International Labor Organization stated in its report (July 2016), that most of recent jobs created in organized sector (formal sector) are actually informal i.e. contractual works and hence employees are unable to avail employment benefits and social security. Furthermore, formal sector of India is not in a position to create this many jobs in near future and hence the importance of informal sector has increased. It seems that job creation capability of informal sector is the only hope for Indian Economic growth in recent days.

Economic Survey of India, 2015-2016 clearly stated that informal sector keep the unemployment checked by creating enough jobs for the ever growing work force of India. Informal sector is best helping hands to educated as well uneducated jobseekers. It is estimated that most of the jobs in the developing economies come from informal sector. In India alone this percentage is as high as 93 per cent of the total employed hands in the economy. It is estimated that there 46 crore people working in the informal sector out which 14 crore are women alone. These working hands are busy and earning their meals from Construction industry (the lions shares of almost 78 %), unorganized Handloom and powerloom workers (more than 75 % in manufacturing sectors), tanneries, bedi making, contract jobs, seasons jobs orders, jobs in the small shop, stores, etc. and from agriculture works (more than 97 per cent of the workers in agriculture are engaged in informal units). Informal sector is the major job providers to women and less educated and unskilled workers and hence has maximum contribution in reducing unemployment and poverty in the country. Due to highest flexibility, home-based work, make women and unskilled people to join the informal sector.

Problems of Informal Sectors:

Informal sector several problems, following are few of them;

1) Machinery and Technology:

The biggest problem faced by the informal players is machinery and technologies used are very old and outdated giving less productivity with very low efficiency.

2) Labour Issues:

Even if they upgrade these technology and machine it is difficult for them to get staff/labour to work on it.

3) Management and Organizational Issues:

Unorganized players are weak in management and organizational skills and hence are very poor in marketing their products and services at the fair prices and terms.

4) Competition:

Due to open policies of government (non-protection) these players face cut throat competition from bigger and or foreign players.

Finding and way forward:

- ✓ Government should protect the business run under informal categories from the big fishes especially the foreign players to avoid increase in unemployment ratio. Specially retail businesses, handloom and powerloom sector by providing certain quota to their quality and magnitude of business.
- ✓ Government should implement the scheme like TUFS, MUDRA, etc. to encourage the marginal traders, services and small businesses in easier step. The schemes like TUFS, MUDRA are giving loan with subsidies to the marginal manufacturer and traders. During the survey it is observed that to avail the benefits of the scheme one has to fulfill number of conditions which requires huge documentation. It is almost not possible by all the informal players as they are less skilled, less organized and with limited funds in hand. The subsidies provided on the capital or /and on the loan is not an easy task to receive as well. Beneficiaries of these schemes often pay a good share of benefits to agents who run all the documents on their behalf. In the mean time these small manufacturers/ traders have to pay EMIs to bank along with interest which is very difficult for them.

- ✓ In interviews with several manufacturers who upgraded their old machine with the new one complained that the new machines are highly efficient which produces high quality of products in huge quantity. But we are not aware of the best market for these products. When we try to sell it in the local known market we are getting very less profits and sometime even no profits. Even if they try to find contract-works from big players of the formal sectors they cannot get it as they do not know how to access them.
- ✓ Prior to release of the subsidy (on capital and /or on interest) an inspection report by government institutions is mandatory which is conducted after installation and commencement of business. During the survey it is acknowledged that these inspection procedures take several months in most of cases and sometime it takes more than a year. Till this time these marginal manufacturer has to arrange for EMIs for the bank on the full amount (including subsidy amount) even though they are not very comfortable with the production and marketing as they are still in learning phase. Furthermore, it is also revealed during the discussion that related departments take months to release fund even after the inspection report is completed citing unavailability of funds from the government. The loans and the rebate on interest process should be minimized for the borrowers to make them come under these schemes and later become parts of formal sector.
- ✓ The people from the informal sector are reluctant to change and upgrade the machine/technology due to unavailability of trained work force in their locality who have experienced on new machine. They have to hire workers from other cities asking higher wages and benefits (housing, bonus, insurance, paid leave, etc). As these manufacturers are new to such high technologies and are unaware of its working procedures they get cheated by newly hired employees on many occasions. Government should establish the training centre where existing workers can be trained on new technology and pay stipends to encourage more workers. It is also observed that Indian labour laws are more rigid than other countries like US and China. People feel labour laws as excessive employee supportive making labour union very powerful. Indian labour act allows maximum of 200hr/year overtime to a worker while in China its 432hr/year and US has no limitation. At the same time workers have to be paid 100% premium in India while US and China allow 50 % premium. In India workers can not be layoff without government approval while this is not the case in China and US. Government should make labour laws which can remove fears regarding labour acts and encourage the employers to convert themselves in the formal sector. Conversion of informal sector into formal sector will definitely increase the national income and GDP as well as the tax revenue of the governments.

- ✓ The people involved in informal sector are not well educated and most of them are not well funded. They are doing business for survival not for making money. Imposing rules similar as to formal sector will discourage them continuing and expanding economic activities and hence will directly impact on the ratio of unemployment of the country.
- ✓ Government should assist informal sector players in contribution to their employees' welfares like insurance, provident fund, educations to their wards, etc. Taxation procedure should be made easy to be complying by anyone happily.

All these hassles discourage the informal player to become part of the organized sectors. Government needs to take wide range of survey to quantify this sector and take necessary step to slowly bring informal sector into the main stream of national economy. The government should take initiatives to convert informal sector to formal sector and take advantage of their development in the growth of the Indian economy. The early inclusion of informal sector in the main stream will bring them under tax umbrella. This will boost the economy in general and hence the working conditions and standard of life of the workers working in this sector.

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