

ECONOMIC GROWTH AND INFORMAL SECTOR

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ABSTRACT

The informal sector or grey economy is the part of an economy that is neither taxed, nor monitored by any form of government. The activities of the informal economy are not included in the gross national product (GNP) and gross domestic product of a country. The other concepts which can be characterized as informal sector can be include the black market (Shadow economy, underground economy), agorism and associated idioms include “ under the table”, “off the books” and ‘working for cash”

The informal sector plays a significant role in the upliftment of the country's growth trajectory. The informal sector provides critical economic opportunities to the poor in various circumstances and contributes hand in hand with formal sector in the rapid growth of the economy since 1950. In this case integrating the informal economy into the formal sector is a challenge for the government. By the way of demonetization the present government tries to bring the informal sector into formal sector. In this paper it is tried to analyse the contribution of informal sector in the growth story of India.

Keywords: Informal sector, formal sector,

Introduction:

The informal sector plays a vital role in the economic development of all countries. Mostly the one third of national income comes from this informal sector in case of developing countries. The informal sector helps in reducing the unemployment. In this sector most of the entrepreneurs are worked for their livelihood, not for more profit making. In India the entrepreneurs in informal sector are vegetable vendors, agents, brokers, foot-path traders etc.

In India majority of the entrepreneurs are community based in informal sector, like beauty parlor, clothing business, foot wear business etc. The informal sector develops the Indian

economy invisibly. Most of the rural and urban people are continuing their family business, because of lack of employment opportunity. In India most of the family business are in the informal sector. The earned income from this sector has utilized for the purpose of their children's education, family commitments, personal savings etc. So the government should take necessary steps to promote and upgrade this sector and covert into formal sector.

Informal Economy:

The informal economy constitutes the largest portion of the economy in terms of value addition, savings, investments etc. The share of formal sector is around 12-14 percent of our national income whereas informal sector contributes more than 30%.

The informal sector consists majorly are the players of activities such as manufacturing, construction, transport, trade, hotels and resturents and personal services. The informal sector plays a vital role in employment opportunities and poverty alleviation. This sector generates income –earning opportunities for a large number of people. In India a large section of the total workforce is still in informal sector, which contributes a sizeable portion of the country's net domestic product. While analysing the composition of the Indian economy, it is two sectors namely, organized and unorganized. The organized sector contributes two third of the GDP whereas the unorganized sector contributes remaining one third of the GDP.

Definition by NSO

"Enterprises typically operating on a small scale with a low level of organization, low and uncertain wages, and no social welfare and security."

Importance of Informal Sector in Indian Economy

About 370 million workers constituting 92% of the total workforce in a country were employed in the unorganized sector as per NSS Survey 1999-2000. It plays a vital role in terms of providing employment opportunity to large segment of the working force in the country and contributes to the national product significantly. The contribution of the unorganised sector to the net domestic product and its share in the total NDP at current prices has been over 60%. In the matter of savings the share of household sector in the total gross domestic saving mainly unorganised sector is about three fourth.

Features of Informal sector

- Low level of organization; small in scale usually employing fewer than ten workers and often from the immediate family;
- Heterogeneity in activities;

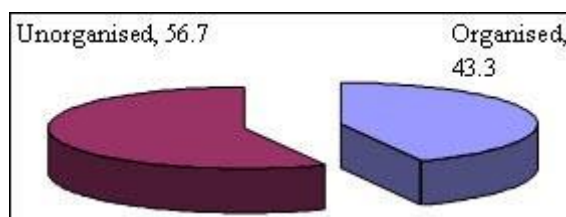
- Easier entry and exit than in the formal sector;
- Usually minimal capital investment; little or no division between labour and capital;
- Mostly labour intensive work, requiring low-level skills; there is usually no formal training as workers learn on the job;
- Labour relations based on casual employment and or social relationships as opposed to formal contracts; employer and employee relationship is often unwritten and informal with little or no rights;
- Due to their isolation and invisibility, workers in the informal sector are often largely unaware of their rights, cannot organise them and have little negotiating power with their employers and intermediaries (ILO 2000).

Informal or unorganized sector workers dominate the Indian labour market and represent some 90% of the total Indian workforce. India's unorganized sector is one of the largest, if not the largest, in the post-industrial world. Informal employment that characterizes the unorganized sector comprises both self-employment in informal enterprises (small or unregistered) and wage-based employment undertaken without a transparent employment contract in both informal and formal sector enterprises.

The informal sector contribution

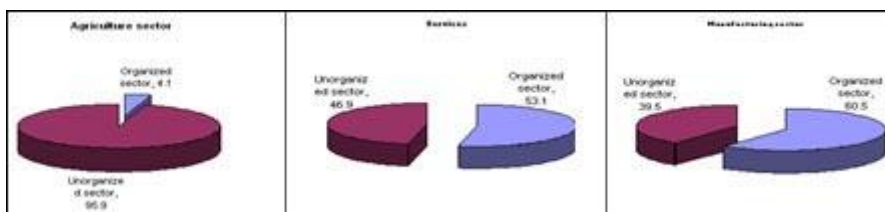
The contribution of unorganized sector in net Domestic Product is 56.7% in 2002-03. Thus, the major chunk of NDP is provided by the unorganized sector.

Sector Share in Net Domestic Product (2002-03)



Source: NAS 2005

Further, the sectorial composition in the NDP can be appreciated by the appended figures.



Industry wise distribution of NDP in organized and unorganized sectors shows that in

agriculture sector, the share of organized sector is only 4% whereas 96% share is contributed by the unorganized sector. Due to this reason, the informal activities are studied in the non-agricultural sectors only. In mining, manufacturing sector 60% share in NDP is of organized sector while 40% share is contributed by the unorganized sector. In service sector contribution of organized sector is 53% while 47% of the share is contributed by unorganized sector.

Main Industries of Informal Activities

Sector wise distribution of different industries (2002-03)

Industry	Organized sector (% of NDP)	Unorganized sector (% of NDP)	Total
Agriculture, forestry, fishing	4.1	95.9	100.0
Mining, manufacturing, electricity and construction	60.5	39.5	100.0
Services	53.1	46.9	100.0
Total	43.3	56.7	100.0

Source: NAS 2005

Status of non-agricultural informal enterprises

Only 12% of the enterprises in the rural areas are registered with any registration agency whereas in urban areas this percentage is a little higher at 31%.

Status of registration with any act/authority	Percentage of enterprises by location		
	Rural	Urban	Combined
1. Registered	11.6	31.3	20.2
2. Unregistered	88.4	68.7	79.8
Total	100.0	100.0	100.0

Source: NSS 55th round report on non-agricultural enterprises in informal sector in India, 1999-2000.

Analysis of recent change in work force:

It has tried below to analyse the pattern of change in work force in recent years.

This has done using information gathered from unit level data relating to the employment and unemployment surveys for 2004-05, 2009-10 and 2011-12. This period more or less covers

the years of high growth, when GDP was increasing at a compound rate of 8-9 per cent per annum in most of the years. This should have had some impact on the nature of employment with an increase in the share of 'organised sector' employment. Between 2004-05 and 2011-12, total employment in the country rose from 457.9 million to 472.4 million. Over the same period employment in the organised, non-agricultural sector, defined to include all units with 10 or more workers if using power and 20 or more workers if not using power, rose from 28.8 million to 47.7 million, whereas employment in the unorganised sector rose from 185.4 million to 209.6 million. That is organised sector employment stood at 6.3 % and 10.1% respectively of total employment in 2004-05 and 2011-12. In absolute terms there were more who joined the unorganised sector's work force than the number that entered the organized sector between the two years. Even in 2011-12, as much as 86% of workers in the private sector and 50% in the public sector were in units that could be designated as unorganised based on employment size.

Conclusion

The informal sector provides opportunity to both educated and uneducated people in all the areas in developing countries. This is not solution for economic crisis or recession. All the people need some basic income to run their family and to manage their children's education. The government should take much care about this sector, because contribution of this sector is more than formal sector.

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