



Informal Sector In India

Dr. Sharad Tiwari,

Mr. Showkat Ahmad Sheikh.

Gov't Hamidia Arts and Commerce College Bhopal, M.P.

Abstract

Is the informal sector in India a means of exploitation or a means of accumulation? One view takes the informal sector to be a site for primitive capital accumulation, with under paid workers working in abysmal conditions. Another view takes the informal sector to be the venue for economic dynamism and entrepreneurial creativity. In this article, we evaluate these two views in relation to theories of the informal sector in India and empirical studies on India. We argue that both views have merit in the Indian context and accounts of the informal sector in India need to take into account the complexity and heterogeneity of production and labour relations that characterises the sector. The spectrum ranges from self-employment or unpaid family labor to street vendors, shoe shiners, and junk collectors. On the higher end of the spectrum are upper-tier informal activities such as small-scale service or manufacturing businesses, which have more limited entry.

Key words: formal sector, Informal sector, employment, production, Income inequality labour.

Introduction

The informal sector is largely characterized by several qualities: [easy entry](#), meaning anyone who wishes to join the sector can find some sort of work which will result in cash earnings, a lack of stable employer-employee relationships, a small scale of operations, and skills gained outside of a formal education. Workers who participate in the informal economy are typically classified as employed. The type of work that makes up the informal economy is diverse, particularly in terms of capital invested, technology used, and income generated. The spectrum ranges from self-employment or unpaid family labor to street vendors, shoe shiners, and junk collectors. On the higher end of the spectrum are upper-tier informal activities such as small-scale service or manufacturing businesses, which have more limited entry. The upper-tier informal activities have higher set-up costs, which might include complicated licensing regulations, and irregular hours of operation. However, most workers in the informal sector, even those who are self-employed or wage workers, do not have access to secure work, benefits, welfare protection, or representation. These features differ from businesses and employees in the formal sector which have regular hours of operation, a regular location and other structured benefits.

The most prevalent types of work in the informal economy are home-based workers and [street vendors](#). Home-based workers are more numerous while street vendors are more visible. Combined, the two fields make up about 10-15% of the non-agricultural workforce in developing countries and over 5% of the workforce in developed countries.

While participation in the informal sector can be stigmatized, many workers engage in informal ventures by choice, for either economic or non-economic reasons. Economic motivations include the ability to evade taxes, the freedom to circumvent regulations and licensing requirements, and the capacity to maintain certain government benefits. A study of informal workers in Costa Rica illustrated other economic reasons for staying in the informal sector, as well as non-economic factors. First, they felt they would earn more money through their informal sector work than at a job in the formal economy. Second, even if workers made less money, working in the informal sector offered them more independence, the chance to select their own hours, the opportunity to work outside and near friends, etc. While jobs in the formal economy might bring more security and regularity, or even pay better, the combination of monetary and psychic rewards from working in the informal sector proves appealing for many workers

The informal sector was historically recognized as an opposition to formal economy, meaning it included all income earning activities beyond legally regulated enterprises. However, this understanding is too inclusive and vague, and certain activities that could be included by that definition are not considered part of the informal economy. As the [International Labor Organization](#) defined the informal sector in 2002, the informal sector does not include the criminal economy. While production or employment arrangements in the informal economy may not be strictly legal, the sector produces and distributes legal goods and services. The criminal economy produces illegal goods and services. The informal economy also does not include the reproductive or care economy, which is made up of unpaid domestic work and care activities. The informal economy is part of the market economy, meaning it produces goods and services for sale and profit. Unpaid domestic work and care activities do not contribute to that, and as a result, are not a part of the informal economy.

Measurements of the informal sector are of intrinsic interest in their own right as well as providing a contribution towards exhaustive measures of GDP. The informal sector represents an important part of the economy, and particularly of the labour market, in many countries, especially developing countries, and plays a major role in employment creation, production and income generation. In countries with high rates of population growth or urbanisation, the informal sector tends to absorb most of the growing labour force in the urban areas. Informal sector employment is a necessary survival strategy in countries that lack social safety nets such as unemployment insurance, or where wages and pensions are too low to cover the cost of living. In other countries, the process of industrial restructuring in the formal sector is seen as leading to a greater decentralisation of production through subcontracting to small enterprises, many of which are in the informal sector. As previously noted, the 1993 SNA makes provision for the informal sector, and a sectorial account can be compiled using the same principles and procedures as for the household sector account elaborated in United Nations (2000).

The vast majority of informal sector activities provide goods and services whose production and distribution are perfectly legal. This is in contrast to illegal production. There is also a clear distinction between the informal sector and underground production. Informal sector activities are not necessarily performed with the deliberate intention of evading the payment of taxes or social security contributions, or infringing labour legislation or other regulations. Certainly, some informal sector enterprises prefer to remain unregistered or unlicensed in order to avoid compliance with some or all regulations and thereby reduce production costs. One should, however, make a distinction between those whose business revenue is high enough to bear the costs of regulations and those who cannot afford to comply with existing regulations because their income is too low and irregular, because certain laws and regulations are quite irrelevant to their needs and conditions, or because the State is virtually non-existent in their lives and lacks the means to enforce the regulations which it has enacted. In some countries at least, a sizeable proportion of informal sector enterprises are actually registered in some way, or pay taxes, even though they may not be in a position to comply with the full range of legal and administrative requirements. It should also be noted that substantial segments of underground production originate from enterprises belonging to the formal sector. Examples include the production of goods and services “off-the-books”, undeclared financial transactions or property income, overstatement of tax-deductible expenses, employment of clandestine workers, and unreported wages and overtime work of declared employees. In summary, although informal sector and underground activities may overlap, the concept of the informal sector needs to be clearly separated from the concept of underground production.

Social and Political implications and Issues

According to development and transition theories, workers in the informal sector typically earn less income, have unstable income, and do not have access to basic protections and services. The informal economy is also much larger than most people realize, with women playing a huge role. The working poor, particularly women, are concentrated in the informal economy, and most low-income households rely on the sector to provide for them. However, informal businesses can also lack the potential for growth, trapping employees in menial jobs indefinitely. On the other hand the informal sector can allow a large proportion of the population to escape extreme [poverty](#) and earn an income that is satisfactory for survival. Also, in developed countries, some people who are formally employed may choose to perform part of their work outside of the formal economy, exactly because it delivers them more advantages. This is called 'moonlighting'. They derive social protection, pension and child benefits and the like, from their formal employment, and at the same time have tax and other advantages from working on the side.

From the viewpoint of governments, the informal sector can create a vicious cycle. Being unable to collect taxes from the informal sector, the government may be hindered in financing [public services](#), which in turn makes the sector more attractive. Conversely, some governments view informality as a benefit, enabling excess labor to be absorbed, and mitigating [unemployment](#) issues. Recognizing that the informal economy can produce significant goods and services, create necessary jobs, and contribute to imports and exports is critical for governments.

Background

Since its first appearance in the early 1970s, the term *informal sector* has become so popular that nowadays it is used with different meanings for different purposes. Originally, it referred to a concept for data analysis and policy-making. Now it is sometimes used in a much broader sense to refer to a concept for the collection of data on activities not covered by the existing, conventional sources of statistics. In line with the original notion behind the concept, the starting point of the 15th ICLS in defining the informal sector was an understanding of the informal sector as an *analytical/political* concept rather than a *statistical* one. Paragraph 5 (1) of the Resolution states:

“The informal sector may be broadly characterised as consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. These units typically operate at a low level of organisation, with little or no division between labour and capital as factors of production and on a small scale. Labour relations – where they exist – are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees.”

Care was taken by the 15th ICLS to make the activities included in the informal sector definition as homogeneous as possible with respect to their economic objectives and behaviour, and the requirements for data analysis. From the practical viewpoint of survey operations, a related consideration regarding the inclusion of enterprises was the need for, and usefulness of, their coverage in informal sector surveys. The 15th ICLS also tried to accommodate as far as possible the notion of the informal sector as a statistical concept in extending its scope to as large a universe of non-observed activities as seemed practically feasible and conceptually justifiable, but rejected its interpretation as “catch-all” concept.

Thus, as noted in Chapter 3, the definition adopted does not lead to a segmentation of the economy or the employed population according to a formal/informal sector dichotomy. The 15th ICLS recognised that activities excluded from the scope of the informal sector were not necessarily formal. Examples are the household non-market production of goods, small-scale agriculture, paid domestic services, and activities presently falling outside the 1993 SNA production boundary, such as domestic or personal services provided by unpaid household members and volunteer services rendered to the community. It was recommended that such activities should be identified as belonging to a separate category outside the formal/informal sector distinction.

The definition had to be acceptable to a wide range of countries from different parts of the world. Thus, the definition had to be broad enough to encompass the variety of ways in which the informal sector manifests itself in different countries. It had to provide flexibility for the adoption of more specific definitions at the country level, reflecting national circumstances, even though such flexibility may adversely affect the international comparability of the statistics. Finally, the 15th ICLS was requested to develop a definition of the informal sector in such a way that it could also be used for national accounting purposes. This requirement had certain implications for the nature of the definition.

It is well known that a major part of the workforce in India and other developing countries work in informal sector. Informal sector has become an increasingly popular subject of study, not just in

economics, but also in sociology and anthropology. Keith Hart was the first person to introduce the term „Informal Sector“. He introduced it while making a presentation on “Informal income opportunities and urban employment in Ghana” in Institute of Development Studies (IDS) in September 1971 at a conference co-organized by Rita Cruise O’Brien and Richard Jolly on urban employment in Africa months before International Labour Organisation (ILO) employment mission to Kenya came with its report “*Employment Incomes and Equality*” (Jolly, 2006). Hart distinguished formal and informal (both legitimate and illegitimate) income opportunities on the basis of whether the activity entailed wage or self-employment (Hart, 1973). Therefore the concept of informal sector used by Hart was limited to small self-employed individual workers. Although Hart’s concept of informal sector had some limitations, the introduction of this concept made it possible to incorporate activities that were previously ignored in theoretical models of development and in national economic accounts (Swaminathan, 1991).

The term informal sector came in a broader sense in the academic literature only after the visit of an International Labour Organization (ILO) employment mission to Kenya in 1972. The ILO then evolved a conceptual framework and guidelines for the collection of statistics on informal sector and presented the same in the Fifteenth International Conference of Labour Statisticians (ICLS) held in February, 1993 in the form of a resolution. The resolution was then endorsed by the United Nations Statistical Commission (UNSC) and made a part of the “System of National Account (SNA) 1993” by the United Nations Economic and Social Council.

Though the term „informal sector“ gained currency after ILO evolved a conceptual framework and guidelines for the collection of statistics on informal sector, there has not been any single definition of informal/unorganised sector in India. Informal sector is a matter of discussion among the academics, policy makers etc. from the beginning as a large chunk of workforce employed in this sector. Different criteria are used to identify the informal sector but no of them was universally applicable in different empirical situations (Papola, 1981). A study by Mitra (2001) based on fourth economic census of India took the criteria of own account enterprises and employment establishments employing one to nine workers to identify the informal sector. The different organizations of India like National Sample Survey Organisation (NSSO), Directorate General of Employment and Training (DGET) etc used varying definitions of informal/unorganised sector depending on the specific requirements of each organisation. Keeping in view the absence of a uniform definition of informal/unorganised sector in India the National Commission for Enterprises in the Unorganised Sector (NCEUS) set-up a Task Force to review the existing definitions and formulated harmonized definitions of informal/unorganised sector employment and informal/unorganised employment.

Scope and Objective

The objective of the paper is to study the informal sector employment and Informal employment scenario across sectors, states, industry group etc in India using the new definition of informal sector and informal worker proposed by National Commission for Enterprises in the Unorganised Sector (NCEUS) and to show that the new definition is more suitable to study the informal sector.

Existing Definitions of Informal Sector

International Definition

As per SNA (1993), the informal sector consists of units engaged in the production of goods or services with the primary objective of generating employment and income to the persons concerned. These units typically operate at a low level of organization, with little or no division between labour and capital as factors of production and on a small scale. Labour relations - where they exist - are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees. The informal sector forms part of the household sector as household enterprises or equivalently, unincorporated enterprises owned by households.

Definitions used in India

The First Indian National Commission on Labour (1966-69) defined „unorganised sector workforce“ as – “those workers who have not been able to organize themselves in pursuit of their common interest due to certain constraints like casual nature of employment, ignorance and illiteracy, small and scattered size of establishments”.

The National Sample Survey Organization (NSSO), which has been conducting surveys of un-organized enterprises at periodical intervals, generally adopted the following criteria for the identification un-organized sector:

- i. In the case of manufacturing industries, the enterprises not covered under the Annual Survey of Industries (ASI) are taken to constitute the un-organized sector.
- ii. In the case of service industries, all enterprises, except those run by the Government (Central, State and Local Body) and in the corporate sector were regarded as un-organized.

The NSSO also conducted a separate informal sector survey in 1999-2000 and „all non-agricultural enterprises, excluding those covered under the ASI, with type of ownership as either proprietary or partnership“ were treated as informal non-agricultural enterprises for the purpose of the survey.

In the compilation of National Accounts, the term un-organized sector is used to represent the residual enterprises, which are not included in the „organized sector“.

The coverage under „organizational sector“, however, differed across different segments of the economy depending on regular data availability from various administrative sources.

The Directorate General of Employment and Training (DGET) considers all establishments employing ten workers or more as organized sector, though Employment Exchange (Compulsory Notification of Vacancies) Act, 1959“, makes it mandatory to submit employment returns only for those units ordinarily employing twenty five or more persons.

Definition proposed by NCEUS

Informal Sector Worker

As per international definitions, informal sector enterprises are owned by individuals or households that are not constituted as separate legal entities independent of their owners. In the Indian context, the enterprises can be of ownership categories of (i) proprietary (ii) partnership (iii) registered under Companies Act as Companies (iv) Co-operative societies registered under Societies Registration Act and (v) Government or Public Sector Undertakings. Out of these ownership categories, the enterprises operated on proprietary and partnership basis do not constitute as separate legal entities independent of their owners ie the liabilities of the enterprise fall entirely on the owners.

Another important characteristic in the international definition is that the employment size has to be below a specific threshold to be determined according to national circumstances. It has been seen by the Task Force that the appropriate employment size in the context of India is nine workers.

Non-registration under specific forms of national legislation is another characteristic which can be used for identifying informal enterprises as per international guidelines. However, in the case of India, there is no unique form of registration which can be used for such identification though there are several voluntary and mandatory registration systems for specific segments of industrial units.

The non-maintenance of complete accounts that would permit a financial separation of production activities of the enterprise is generally satisfied in the case of proprietary and partnership enterprises employing less than ten workers as those enterprises are not under any legal obligation to maintain separate accounts. In view of the above, the following definition of unorganized/informal sector has been recommended:

“The informal 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”.

The word enterprise in the above definition has the same meaning as defined in the SNA 93 and refers to an institutional unit in its capacity as a producer of goods and services. An enterprise is classified as proprietary if an individual is its sole owner and as partnership if there are two or more owners on a partnership basis with or without formal registration. It excludes all corporate entities, registered co-operatives, trusts and other legal entities.

Though the above definition does not make any distinction between agricultural and non-agricultural enterprises, the concept of enterprise is so far being used in India only in the context of non-agricultural sector. The use of such a restrictive meaning of enterprise would lead to the exclusion of a large number of workers in the agricultural sector, unless a corresponding unit of enterprise in agriculture is specified and used. It is, therefore, recommended that each operational holding in the crop production, plantation, forestry, animal husbandry and fishing activities may be considered as an enterprise for the purpose of applying the definition of unorganized/informal sector.

In the absence of identification of operational holdings in agriculture as enterprises and collection of the relevant details in the labour force surveys in India, it has not been possible to apply the above definition of informal sector in the field of agriculture so far. Nevertheless, the size of employment in the un-organized

informal sector and its distribution need to be estimated and as such all workers in the agricultural sector except those in plantations have been regarded as informal sector workers in agriculture. This approximation has been made on the basis of the following assumptions:

- i) Plantations are generally large in size and the workers in the sector are protected under Plantations Labour Act, 1951;
- ii) Organized farming is very rare in India and crop cultivation and other agricultural activities are primarily carried out by private households possessing small pieces of land or holdings.

Informal Worker

To estimate the contribution of Informal sector to gross domestic product the definition of informal sector was included in the System of National Accounts (SNA), 1993. The definition is, therefore, in terms of characteristics of the enterprise rather than in terms of the characteristics of the worker. Thus a large number of workers with informal job status were excluded. Some of the reasons for the exclusion are.

- (i) The persons engaged in very small-scale or casual self-employment activities may not report in statistical surveys that they are self-employed, or employed at all, although their activity falls within the enterprise-based definition.
- (ii) Certain groups of persons such as out-workers, sub-contractors, free-lancers or other workers whose activity is at the borderline between self-employment and wage employment are likely to be missed or wrongly classified.
- (iii) An enterprise based definition of the informal sector will not be able to capture all aspects of the increasing “in formalisation” of employment, leading to various forms of informal employment even in the formal sector.
- (iv) Persons employed in private households as domestic servants, gardeners, etc. are likely to be left out in an enterprise based definition.

The Employment relationship even in the so called organized sector is not formal in a good percentage of cases and many workers working in the formal sector without any protection and social security. At the same time, there are atleast a few employees in the unorganised/ informal sector that enjoys formal employment relationship. The National Commission for Enterprises in the Unorganized Sector (NCEUS) took note of these aspects and decided to complement the definitions of unorganized/ informal sector with a definition of informal employment.

“Informal workers consist of those working in the informal sector or households, excluding regular workers with social security benefits provided by the employers and the workers in the formal sector without any employment and social security benefits provided by the employers”.

Magnitude of workforce engaged in the unorganised/informal sector

India is an emerging economy with 457.46 million workers in 20011-12. The size of workforce was 396.76 million in 1999-2000. A large chunk of the workforce was engaged in the informal sector. The estimated number of informal sector workers in 2011-12 was 394.90 million in India contributing 86 percent of total workers. Table 1 shows the distribution of informal and formal sector workers by sector and sex between 1999-2000 and 2011-12. In rural areas the share of informal sector workers in each population segment recorded more than 90 percent and the share of female workers (94.50 percent) is more than male workers (90.34 percent) in 2011-12. In 1999-00 the situation was same for rural area but over the years the percentage share declined in rural areas. Contrast to rural areas, in urban areas around 70 percent of workers worked in the informal sector but between the study period the share of informal workers in urban areas increased.

Table-1: Distribution of informal and formal sector workers by sector and sex between 1999-2000 and 2011-12 (in million)

Sector	Sex	Informal sector		Formal sector		Total	
		1999-00	2011-12	199-00	2011-12	1999-00	2011-12
Rural	Male	186.17	209.01	10.57	10.03	196.74	219.04
	Female	101.71	121.60	2.31	2.43	104.02	124.03
	Persons	287.87	330.62	12.88	12.45	300.75	343.07
Urban	Male	58.33	71.60	18.72	18.80	77.05	90.40
	Female	15.53	20.40	3.43	3.60	18.96	24.00
	Persons	73.87	91.99	22.14	22.40	96.01	114.40
Total	Male	244.50	280.61	29.28	28.83	273.78	309.44
	Female	117.24	142.00	5.74	6.03	122.98	148.03
	Persons	361.71	422.61	35.02	34.85	396.76	457.46

Table 2 shows the average annual growth rate of workers in informal and formal workers category. It is observed here that the growth rate of female workers both in rural as well as in urban areas is greater than male workers growth rate and within the female workers growth rate of urban female informal workers (5.60 percent) is more than rural female (3.64 percent) between 1999-00 and 2011-12. In case of formal workers the growth rate of male informal workers is negative. The absolute number of male formal workers came down from 29.28 million in 1999-00 to 28.83 million in 2011-12. This negative growth is due to fall in formal employment in rural male segment. Female workers in formal workers category increase by around 1 percent of growth rate both in rural as well as urban areas.

Table 2: Average Annual Growth Rate of workers by sector and sex between 1999-2000 and 2011-12 (in percent)

Sector	Sex	Informal workers	Formal workers	Total
Rural	Male	2.34	-1.05	2.17
	Female	3.64	0.99	3.58
	Persons	2.81	-0.67	2.67
Urban	Male	4.18	0.09	3.25
	Female	5.60	0.97	4.82
	Persons	4.49	0.23	3.57
Total	Male	2.79	-0.31	2.48
	Female	3.91	0.98	3.78
	Persons	3.16	-0.10	2.89

State level analysis of informal workers depict in Table 3. In the poor states as stated earlier in the discussion of informal sector workers the share of informal workers is more than national average. Along with the poor state in the share of informal workers in Andhra Pradesh (93.95 percent) is more than nation. Bihar has the highest percentage of informal workers (96.46 percent) followed by Uttar Pradesh (95.53 percent), Rajasthan (95.17 percent), Madhya Pradesh (95.17 percent) and Orissa (94.53) in 2004-05. The share of informal workers is low in Other states and UTs (75.18 percent) followed by Kerala (81.27 percent). The growth rate of informal workers between 1999-00 and 2004-05 is highest in Haryana (7.21 percent) followed by Assam (6.30 percent) and other north eastern states (6.25 percent). Estimated number of informal workers per thousand population in Himachal Pradesh was 451 and 472 in 1999-00 and 2004-05 respectively which is highest among all the states followed by Andhra Pradesh with 438 and 471 informal workers per thousand population for the same period.

Table 3: Estimated Number of Informal Workers per Thousand Population, Percentage share of Informal Workers to Total Workers and Average Annual growth rate by between 1999-2000 and 2011-12.

State	Estimated number of informal workers per thousand population		Share of informal workers to total (in percent)		Growth rate(%)
	1999-00	2011-12	1999-00	2011-12	
Andhra pradesh	438	471	92.23	93.95	1.42
Assam	297	349	58.36	90.19	6.30
Behar	319	324	96.45	96.46	1.77
Gujarat	408	326	91.44	93.56	2.90
Haryana	296	426	90.20	91.59	7.21
Himachal Pradesh	451	361	90.20	90.20	3.77

J&K	374	472	88.49	90.20	-1.62
Karnataka	410	349	91.90	88.49	2.47
Kerala	305	450	81.27	91.90	3.60
Madhya pradesh	401	321	94.93	81.27	2.92
Maharashtra	368	423	90.88	94.93	3.47
Orissa	378	415	95.17	89.61	3.38
Punjab	349	412	89.89	94.93	3.91
Rajasthan	385	378	95.53	90.54	5.77
Tamil Nadu	416	411	87.97	95.17	0.80
Uttar Pradesh	318	435	71.31	91.19	3.90
West Bengal	326	351	91.17	88.26	4.08
Other North Eastern States	325	349	87.17	75.18	6.25
Other states & UTs	233	365	90.14	92.38	2.38
Total	360	388	91.17	92.40	3.16

Note: Bihar include Jharkhand, Madhya Pradesh include Chhattisgarh and Uttar Pradesh include Uttarakhand.

Policy suggestions

As it has been historically stigmatized, policy perspectives viewed the informal sector as disruptive to the national economy and a hindrance to development. The justifications for such criticisms include viewing the informal economy as a fraudulent activity that results in a loss of revenue from taxes, weakens unions, creates unfair competition, leads to a loss of regulatory control on the government's part, reduces observance of health and safety standards, and reduces the availability of employment benefits and rights. These characteristics have led to many nations pursuing a policy of deterrence with strict regulation and punitive procedures.

In a 2011 report, the Department for Infrastructure and Economic Cooperation explained three perspectives on the role of government and policy in relation to the informal economy.

1. Markets function efficiently on their own; government interference would only lead to inefficiency and dysfunction.
2. The informal economy functions outside of government control, largely because those who participate wish to avoid regulation and taxation.
3. The informal economy is enduring; suitable regulation and policies are required.

As informal economy has significant job creation and income generation potential, as well as the capacity to meet the needs of poor consumers by providing cheaper and more accessible goods and services, many stakeholders subscribe to the third perspective and support government intervention and

accommodation. Embedded in the third perspective is the significant expectation that governments will revise policies that have favored the formal sphere at the expense of informal sector.

Theories of how to accommodate the informal economy argue for government policies that, recognizing the value and importance of the informal sector, regulate and restrict when necessary but generally work to improve working conditions and increase efficiency and production.

The challenge for policy interventions is that so many different types of informal work exist; a solution would have to provide for a diverse range of circumstances. A possible strategy would be to provide better protections and benefits to informal sector players. However, such programs could lead to a disconnect between the labor market and protections, which would not actually improve informal employment conditions. In a 2014 report monitoring street vending, [WIEGO](#) suggested urban planners and local economic development strategists study the carrying capacity of areas regularly used by informal workers and deliver the urban infrastructure necessary to support the informal economy, including running water and toilets, street lights and regular electricity, and adequate shelter and storage facilities. That study also called for basic legal rights and protections for informal workers, such as appropriate licensing and permit practices.

An ongoing policy debate considers the value of government tax breaks for household services such cleaning, babysitting and home maintenance, with an aim to reduce the shadow economy's impact. There are currently systems in place in Sweden and France which offer 50 percent tax breaks for home cleaning services. There has also been debate in the UK about introducing a similar scheme, with potentially large savings for middle-class families and greater incentive for women to return to work after having children. The [European Union](#) has used political measures to try and curb the shadow economy. Although no definitive solution has been established to date, the EU council has led dialogue on a platform that would combat undeclared work. There has also been media coverage surrounding new [e-commerce](#) models. The debate has also discussed whether new on-demand home service businesses like Instacart and Helping could attract workers who had previously earned 'cash-in-hand' within the shadow economy.

Conclusions

Informal sector accounts for a sizeable number of workers in India across different industry groups and states. The concept of informal sector and informal workers proposed by NCEUS is more appropriate in the context of Indian statistical system and it better compatible with international definition of informal sector. The estimated number of informal sector workers in 2004-05 was 394.90 million in India contributing 86 percent of total workers. Over the year the proportion of rural informal sector workers decreased and the opposite happened in urban areas. It is observed between the study period of 1999-00 to 2004-05 that the growth rate of formal sector workers in rural areas in all categories is higher than growth rate in informal sector workers but the reverse happened in urban area. The growth rate of urban informal sector is higher than formal sector workers. The proportion of informal sector workers in the agriculture sector declined over the years but in industry and services sector the proportion of informal sector workers increased between 1999-2000 and 2004-05. There is positive and significant correlation between inform

sector employment and the incidence of poverty in the states. The percentage share of informal sector workers in the poor states is more than developed states.

The definition of informal sector workers is more about the characteristics of the enterprise rather than the characteristics of the worker. The concept of Informal Worker is based on the personal characteristic of the worker rather than enterprise. Informal workers consist of 92.38 percent of total workers in India in 2004-05. Around half of the formal sector workers are informal workers. This indicates that casualisation or the amount of contractual labour increases in the formal sector which is a matter of great concern for policy makers. Since the formal sector unable absorbs the vast labour force of India the policy makers should think to bring the workers in the informal segment to the mainstream.

Reference:

- Bhalla Sheila (2007), "*Policy Paper On Definitional and Statistical Issues Relating to Unorganised and Workers in Informal Employment*", NCEUS.
- Gerxhani, K. (2004), "The informal sector in developed and less developed countries: A literature survey", *Public Choice* 120: 267-300.
- Hart K. (1973), "Informal income opportunities and urban employment in Ghana", *Journal of Modern African Studies* 11: 61-89.
- Jolly R. (2006), "*Hans Singer: The gentle giant*", Presented as a lecture in Geneva in the ILO on May 18th, 2006.
- Kundu, A. and Sharma, A.N. (eds) (2001), "*Informal Sector in India: Perspectives and Policies*", Institute of Human Development, Delhi.
- Mitra, A. (2001), "Employment in the informal sector", in A. Kundu and A.N. Sharma (eds) "*Informal sector in India: perspectives and policies*", Institute of Human Development, Delhi.
- NSSO 2001a. "*Employment-Unemployment Situation in India 1999-2000*", Round 55th, Report No. 458 – I and II (55/10/2), Ministry of Statistics and Program Implementation. Government of India. New Delhi.
- NSSO 2006a. "*Employment-Unemployment Situation in India 2004 – 2005*", Round 61st, Report No. 515 – I and II (61/10/1&2), Ministry of Statistics and Program Implementation. Government of India. New Delhi.
- Papola, T.S. (1981), "*Urban informal sector in a developing economy*", Vikas Publishing House, New Delhi.
- Raveendran, G. (2005), "*Estimating Employment in the Informal Economy through Labour Force Surveys: An Indian Attempt*", Report of the Eighth Meeting of the Expert Group on Informal Sector Statistics.
- Raveendran, G., Murthy, SVR. and Naik, A.K. (2006), "*Redefining of Unorganized Sector in India*", Paper No-2, Paper presented at Delhi Group meeting, New Delhi.
- Sastry, N.S. (2004), *Estimating Informal Employment & Poverty in India*, Discussion paper series 7, Human Development Resource Centre, UNDP, India.
- Swaminathan, M. (1991), "Understanding the informal sector: A survey", WIDER WP 95. Finland
- UN (1993), "*System of National Accounts*", United Nations.

Unni, Jeemol and Murthy, S.V.R. (2005), “*Review of Current Definitions of the Unorganised and Informal Sector in India: Suggestions for Consistent Definition*”, NCEUS.