

Role of Informal Sector in Employment Generation in India

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Abstract: Informal Sector is playing an important role in the development of a country. The sector is contributing to Gross Domestic Product, employment generation, export in the developed countries of the World. The informal employment is more in developing countries than the developed countries. The report shows that 93 per cent of the informal jobs are created more in developing countries including India. In India, Niti Ayoga is also known as National Institution for Transforming India. It has published a report on Strategy for New India @75. According to the report, the informal sector provided 85 per cent employment opportunity to all workers. Though contribution is significant, there are no empirical studies on role of informal sector in employment generation in India. Hence, the present study is undertaken.

Keywords: Informal sector, Employment, Niti Ayoga, Economic Development.

1. INTRODUCTION:

Informal Sector is playing an important role in the development of a country. The sector is contributing to Gross Domestic Product, employment generation, export in the developed countries of the World. According to International Labour Organisation 2018, more than 61 per cent of population in the World is working in the informal sector. In Africa, 85.8 per cent of the employment is informal in nature. In Arab states, 68.6 per cent of the population is working in the informal sector. The proportion of the informal employment is 40 and 25.1 per cent in America, Europe and Central Asian countries. South Asia and Pacific regions are not excluded from the informal employment. Around 68.6 per cent of people have depended on the informal sector. But the informal employment is more in developing countries than the developed countries. The report shows that 93 per cent of the informal jobs are created more in developing countries including India.¹

In India, Niti Ayoga is also known as National Institution for Transforming India. It has published a report on Strategy for New India @75. According to the report, the informal sector provided 85 per cent employment opportunity to all workers. Moreover, the report also stated that 70 lakh jobs will need in the further years. But these jobs are not formal jobs. They are the informal jobs. Micro and Small enterprises are generating informal employments in India.² According to NSSO 73rd round report, these informal enterprises provided 11.10 crore employment to workers. Moreover, enterprises in informal sector are low productive in nature.³ Workers in the sector earn low level remuneration. But an important point is individuals in the sector are not socially protected.⁴ According to Economic Survey 2018, 87 per cent enterprises are outside both the tax and social security scope.⁵ It is an indication that there is no social security for the informal workers. According to Periodic Labour Force Survey 2017-2018, 71.1 per cent of workers had not written job contract; 54.2 per cent were not eligible for paid leave and 49.6 per cent were not eligible for any social security benefits.⁶ Though the contribution of the sector to the economy is significant, the sector is neglected from the government. Moreover, the data relating to the informal sector is not clear. Even, there are no studies relating to the contribution of the informal sector to employment generation. The empirical studies have neglected to conduct studies on the sector in India. Hence, the present study is undertaken to study the role of informal sector in employment generation in India.

2. Objectives of the Study:

Objectives of the study are as follows:

- To study the role of informal sector in employment generation in India.
- To compare the role of informal sector in employment generation among countries in the World.
- To offer suggestions based on findings of the study.

3. Methodology:

The present study is based on secondary data. Reports of World Bank, International Labour Organisation and National Sample Survey Organisation, Economic Survey of India are the sources of secondary data of the study.

4. DISCUSSION and ANALYSIS:

Analysis and Discussion:

A comparison of role of informal Sector among some South Asian countries is presented below:

Table-1

Distribution of Formal and Informal Employment by Sector in the World (in per cent)

Sector	World		Developed		Emerging		Developing Countries	
	Formal	Informal	Formal	Informal	Formal	Informal	Formal	Informal
Agriculture	6	38	13	69	5	35	2	10
Industry	23	18	17	10	24	19	23	19
Service	71	44	70	21	71	46	75	71
Total	100	100	100	100	100	100	100	100

Source: ILO.(2019).Report on Women and Men in the Informal Economy: A Statistical Brief P.9

The information relating to sector wise distribution of formal and informal sector employment in the World is presented in table-1. In the World, the share of informal sector employment is more in agriculture sector. Industry and service sectors have provided more formal jobs than informal jobs. It is also evidenced among the developed, emerging and developing countries of the World. Formal employment generated in services sector from the emerging and developing countries are informal in nature. The main reason is a majority of workforce in emerging and developing countries is earning their livelihood from informal sector enterprises. The share of industry in informal employment is less in all countries in the World. Usually, informal workers are less educated. They prefer to start enterprises which are less investment and informal skills. Moreover, micro and small industries which allied to large scale industries require moderate skills. The share of services sector in informal employment is more or less equal to formal sector employment generation in developing countries in the World.

Table-2

Distribution of Informal Employment by Age group in the World (in per cent)

Age Group	World	Developed Countries	Emerging Countries	Developing Countries
15-24	77	19	83	97
25-64	58	17	66	90
65 and over	77	38	88	96
Total	61	18	69	90

Source: ILO.(2019). Report on Women and Men in the Informal Economy: A Statistical Brief.P.18.

Information about what is the age group of people working in informal sector in the World is presented in table-2. 61 per cent of the workforce is working in informal sector in the World. 90 per cent of workers are working in informal sector in developing countries in the World. It is found those informal workers are more in the developing and emerging countries than the developed countries.

Out of 61 per cent of informal workers in the World, 77 per cent of the workers are youths and old age workers. Usually the informal sector provides employment to youth who are not highly educated. The workers who are senior in terms of age are also working in the sector. The main reason is when workers become old age, their income also reduces. It impacts on their livelihood. Moreover, this is one of the socio-economic problems. To overcome this problem the old age workers start informal enterprises.

But in developed countries, the situation is different. The sector provides employment to old age workers than youth. There are no socio-economic problems to people in the developed countries to provide education to their children. Financial and family problems are the main reasons for children in emerging and developing countries to educate up to matriculation. Hence, they become informal entrepreneur in the early age. This is the reason for share of developing and emerging countries in informal employment. The sector also provides employment to old age group in the countries.

Table-3

Distribution of informal employment Based on Level of Education in the World (in Per cent)

Level of Education	World	Developed Countries	Emerging Countries	Developing Countries
No education	94	53	93	96
Primary	85	41	85	95
Secondary	52	19	58	83
Tertiary	24	16	32	41

Source: ILO Report on Women and Men in the Informal Economy: A Statistical Brief P.18.

The relation between level of education and informal employment of World is presented in table-3. The informal sector provides employment opportunity to less educate. It is also evident from the table. Uneducated workers are employing more in informal sector in the World. Here, territory education refers more than secondary education. It includes matriculation, college, degree and post-graduation. It is also evident that the sector provides employment to those who complete territory education. This situation is in developing countries compared to other countries of the World. It is interpreted that informal sector provides employment to less educated people.

Table-4
Share of Informal Employment in Total Employment in South Asian Countries
(in per cent)

Employment in Sector	Bangladesh	India	Nepal	Pakistan	Srilanka
Informal sector	48.9	80.9	90.7	77.6	60.6
Formal sector	13.5	6.5	3.4	4	7.9
In households	26.7	0.8	4	0.08	2
Total	89	88.2	94.3	82.4	70.4

Source: ILO Report 2018 on Formal and Informal Sector Statistical Picture

Table-4 gives information about share of informal employment in total employment in South Asian countries of the World. The share of informal sector employment is more in Nepal. 90.7 per cent of the employment is created in Informal sector. Formal sector employment accounts 3.4 per cent which is very less compared to the other countries in the region. 80.9 per cent of employment contributed by the informal sector in India. The share of formal employment accounts 6.5 per cent. The share of informal employment of Pakistan is higher than Srilanka and Bangladesh. The contribution of informal sector employment of Bangladesh is relatively less compared other countries of the World. In households are more in Bangladesh. It is found that informal sector is contributing major role in employment to the developing countries of South Asian countries of the World.

Table-5
Share of Men and Women in Informal Sector in South Asian Countries
(in per cent)

Countries	Informal Sector		Formal Sector		In households	
	Men	Women	Men	Women	Men	Women
Bangladesh	51.6	42.4	13	14.5	22.6	36.7
India	80.7	81.6	6.7	5.9	0.4	2.5
Nepal	85.2	95.6	5.3	1.7	0.2	0.3
Pakistan	74.6	88.2	4.7	1.8	0.4	2.1
Srilanka	63.5	55	7.2	9.2	1.8	2.4

Source: ILO Report 2018 on Formal and Informal Sector Statistical Picture

Table-5 gives information about gender-wise contribution to informal sector in South Asian countries of the World. In Informal sector, 85.2 per cent of the workers are men and 95.6 per cent of workers are women in Nepal. But workers in formal sector are less in the country than other countries. The share of informal sector in India is more. Women are more than men in the sector. It is also evidenced in Pakistan excluding Bangladesh and Srilanka. It is also seen in the table that, the share of gender in informal sector is less compared with informal sector. The gender composition in informal sector is very low. It is interpreted that informal sector attracts more workers than formal sector in developing countries. Women participation in informal sector is more than formal sector. In developing countries, lack of education, problems of family, number of dependents, free of entry into business influence workers to enter into informal sector. It is also true in India.

Table-6
Share of Informal Sector Employment by Urban and Rural Location in South Asian Countries (in per cent)

Countries	Informal Sector		Formal Sector		In households	
	Urban	Rural	Urban	Rural	Urban	Rural
Bangladesh	39.5	52.5	23.2	9.7	15.2	31.1
India	58.6	89.5	15.2	3.1	2.2	0.3

Nepal	74.5	93.3	9.4	2.4	1.1	0.1
Pakistan	57.8	89.4	7.3	2.1	1.4	0.4
Srilanka	44.7	63.4	10	7.5	3.9	1.6

Source: ILO Report 2018 on Formal and Informal Sector Statistical Picture

Table-6 gives information about location –wise distribution of informal employment in South Asian countries of the World. Share of informal workers is more in rural area than the urban area. But in formal sector, the share is more in urban area than rural area. There is much difference in informal workers in households expect Bangladesh.

Table-7
The Share of Informal Sector Employment in Major Sectors (In per cent)

Country	The share of Informal Sector Employment in Major Sector (In per cent)		
	Agriculture	Industry	Services
Bangladesh	97.7	90.5	76.7
India	99.7	81.4	77.6
Nepal	99.5	90.8	73.7
Pakistan	99.2	78.7	65.3
Srilanka	89.9	72.5	56.1

Source: ILO Report 2018 on Formal and Informal Sector Statistical Picture

Table-7 gives information about share of informal sector employment in major sectors of the Asian Countries of the World. Informal workers are depended on agriculture in all countries than services and industry. 99.7 per cent of the employment generated in agricultural sector in India. The contribution of agriculture sector is 15 per cent to Gross Domestic Product. This indicates there is no relationship between contribution agriculture to GDP and generation of employment.

Table-8
Employment in the Informal Sector in the World

Country	In thousands	per cent of Non-agricultural Employment
Brazil	32,493	42.2
Mexico	20,258	53.7
Peru	7458	69.9
China	36,030	32.6
India	1,85,876	83.6
Pakistan	21,913	78.4
Indonesia	3,157	72.5
Srilanka	3,184	62.1

Source: ILO Report 2018.

Table-8 gives information about employment generation in informal sector in some parts of the World. Employment generated in informal sector is more in India which accounts 83.6 per cent followed by Pakistan. The least per cent accounts to Brazil. It is indicated that informal sector has created more employment opportunity in India than other countries in the World.

5. FINDINGS and RESULTS :

- The role of informal sector in generating employment opportunity is more significant in emerging and developing countries in the World. The sector provides income generation opportunity to a large group of people who are less educated. Moreover, this sector does not attract youth. It attracts more old age people. There is no correlation between level of education and carry out informal enterprises. It is true that educated carry out white collar jobs. The share of informal sector employment in total employment is significant in India. The sector provides employment opportunity to both men and women. More or less their per centage in total employment is same. Informal sector employment is more in rural area rather urban area. The sector has been generating employment opportunity in all sectors.
- Statistics relating to informal sector is not known in India. Moreover, there is no updated information relating to size of informal sector in India. Economic Survey of India July 2019, 93 per cent of workforce is in informal

sector. According to the report of Niti Ayoga released on 2018, informal sector employs 85 per cent of total employment in India. “What is the source of such information? The Economic Survey of 2018-19 does not mention it. The Niti Aayog does and cites a 2014 report, 'OECD India Policy Brief: Education and Skills', which, in turn is silent on its source of information.”

- The contribution of informal sector is not considered for the Gross Domestic Product of India. Estimation of size of informal sector is not conducted in India. Their contribution in economic development of some developed countries is significant. But contribution of informal sector is ignored in some emerging and developing countries in the World including India.
- Formalisation of informal enterprises. It is not possible to convert all informal enterprises to formal sector. But the priority sectors should come under this category.

6. CONCLUSION:

The role of informal sector is significant in providing employment generation. It provides a large number of employment generations without support of government. Because people with less education work in one or other informal enterprises. The role of government in creating employment opportunity is less. Moreover, these jobs are not formal jobs. Still the sector is able to contribute to national income. The contribution of the sector is considered when these enterprises are formalised. But in India, it is not considered. If government considers the role and its importance in generation of employment opportunity, we could see growth of national income and economy.

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