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Indian Informal Sector Labour Market: The Formalizing Problems

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# INDIAN INFORMAL SECTOR LABOUR MARKET: THE FORMALIZING PROBLEMS

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## SECTION I: INTRODUCTION

Globalization of a country generates new employment opportunities and markets, which largely contribute to the informalisation of the workforce in the economy (Standing 1999). However, evidence indicates that it has neither created quality employment, nor have they helped the most disadvantaged entrepreneurs to exploit the new market opportunities. This is due to the fact that global competition erodes employment relations that encourage organized sector employers to either hire workers at lower wages with few social security benefits or to sub-contract (or out-source) production processes of goods and services (Rodrik 1997). Economic reforms policy in developing and transitional economies is hypothesized to improve prospects for salaried employment, while displacing and widening the gender gap in earnings in the informal sector (Rama 2002, 167). Global integration also tends to weaken the competitiveness of the informal or self-employed producers as against the formal firms, comprising export and import based domestic markets.

Employment experiences in Asian countries exhibit substantial variations, with East Asian countries recording sustained high growth in formal sector employment (originating from increased real manufacturing employment), and South Asian countries experiencing expansion in informal sector employment (ILO 1996). While increased returns to skill have been recorded during economic reforms and liberalization (Rama 2003), the informal sector workers are one of the most severely affected owing to no labor law protection cover. The sector tends to enlarge during economic reforms and crisis due to down-sizing or closing of public or private enterprises (Martha 2003, p. 13). Characterized by low labour productivity and income per worker, around 86 percent of the informal sector workers are women, of whom a large segment is self-employed. They work under highly exploitative, low paid and low social security conditions, owing to their low human capital capabilities, and hence are more exposed to economic upheavals. Their economic contribution largely remains invisible, under-

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valued, unpaid and unrecognized (UNIFEM 2000). As a result, gender inequity continues to persist, sustained by the socio-cultural system prevailing in the country.

Generation of productive and gainful employment with decent working conditions that absorbs the growing labour force is important for achievement of inclusive growth. However, the high rate of growth in India over the past decade does not appear to have generated sufficient quality employment in the country. India's Eleventh Plan (2007-2012) attempted to examine its reasons and revert some of the adverse employment outcomes that emerged during the period (GOI 2008, p. 63). The 61<sup>st</sup> National Sample Survey (NSS) round reported the generation of 47 million additional employment opportunities during 1999-2000 to 2004-05, implying an annual average of 9.4 million jobs against its 4.0 million annual average during 1993-94 to 1999-2000. Employment growth rate registered a 2.6 per cent per annum rise over the period, with labour force growing at 2.8 per cent per annum (i.e., 0.2 per cent more than the work force), which resulted in increased unemployment rate of 8.3 per cent in 2004-05. In terms of usual principal and subsidiary status (UPSS) number of persons, unemployment rate was 2.5 per cent in 2004-05. These reflected high rate of intermittent unemployment during the period (Ministry of Finance 2009). The first country-wide survey of informal sector was conducted by the National Sample Survey Organization (NSSO) during the 55<sup>th</sup> round (July 1999 – June 2000), which included all unincorporated, partnership and proprietary enterprises (NSS 2001).

Given the large size of unorganised sector in India, a National Commission for Enterprises in the Unorganised Sector (NCEUS) was set up by the Indian government in September 2004 to review “social security system available for labour in the informal sector and make recommendations for expanding their converge”. Its estimate revealed that only six per cent of the total unorganised workers are covered by any form of statutory social security, leaving out the remaining 86 per cent out of its purview (NCEUS 2007). Earlier, the Directorate General of Employment and Training (DGET) defined employment in the unorganized sector as a residual of total workers minus workers in the organized sector. Treating unorganized and informal sector as synonymous, the Task Force appointed by the commission formulated a set of harmonized definitions of the sector and informal employment. It reported that unorganized/informal sector workers constituted 86 per cent of the workforce,

and informal employment in both unorganized and organized sector comprised 92 per cent in 2004-05. It also developed a new direct method of computing the sector's contribution to the national Gross Domestic Product (GDP), which estimated its contribution to be nearly 50 per cent in 2004-05 as against 55.42 per cent in 1999-2000 (NCEUS 2008, p. 6).

The Unorganised Sector Workers Bill 2004 requires a worker to work only for eight hours a day with a half hour break, at the wages fixed under the Minimum Wages Act, 1948, at the time. The broad legislation covers workers across the country, particularly focusing on workers employed under an employer in the sector. As a result, it tends to ignore the majority of self-employed workers, like vendors, rickshaw pullers and similar others, who come under it. It does not guarantee or stipulate sufficient income, decent work conditions or working hours for these self-employed. Accounting or bringing them under the Bill is also a difficult task, as some of them are invisible or home-based workers. Therefore, the central and state governments find it cumbersome to formulate social security schemes for the unorganized workers, as a large majority of them are also illiterate, poor, isolated, and lack fixed employer-employee relationship due to their seasonal, changing and temporary nature of work. Besides, the minimum access they have to risk-management mechanism, like micro-credit, are also insufficient, most often compelling them to resort to informal strategies, like asset sales or borrowing, which increases their vulnerability. Thus, a large majority of its workers still remain socially excluded, depriving them of access to any statutory social security benefits, like old age pension or health care (GOI 2001).

Several researchers have examined the dynamics of Indian labour market, largely using the NSSO data. Rangarajan (2006) reported the period 1993-94 to 1999-2000 to be characterized by improved real earnings in majority of the rural and urban sectors, reflecting improved quantity rather than quality of employment during the years. Jeemol and Raveendran (2007) found employment growth to have slowed down slightly during 1993-94 to 2004-05 as compared to 1983-1993, which was quite marked in rural India. Urban areas had grown, but there was a substantial rise in self employment and decline in real wage rates of regular salaried and urban casual workers. For economic growth to be inclusive, the authors recommended the need to be integrate the major chunk of workforce not reaping its benefits into the growth process. Rangarajan, Padma and Seema (2007) observed a favorable change in

employment growth rate during 1999-2000 to 2004-2005, as compared to 1993-94 to 1999-2000. Informal sector accounted for a major increase in it, with agriculture still comprising a dominant percentage of the workforce. The authors found this trend to be of considerable concern, due to low wages and poor social security, contributing to increased working poor. They recommended the need to improve total factor productivity to improve the quality of employment in these sectors.

Based on 32<sup>nd</sup> – 61<sup>st</sup> NSS rounds data, Kundu and Sarangi (2007) found increasing trend in the percentage of casual workers under globalization, the rise in regular workers and self employed along with higher employment rate with unemployment, indicated formalization of the informal activities. Wage data revealed that even regular workers had not benefited from the globalization policy, but growth had led to poverty reductions only in rural areas. According to the authors, urban poverty, lack of growth, and partly growth itself were responsible for the emergence of new kinds of labour relations and accentuation of inequality. The study by Chandrashekhar and Jayati (2007) arrived at similar conclusions. Bhalla (2008) reported non-diversification of employment in the post reforms period, widened inequalities (both personal and regional), and poor quality employment for a major proportion of workers, besides deteriorating social security cover and other facilities across 50<sup>th</sup> to 61<sup>st</sup> NSS rounds. Whereas, Remesh (2007) observed an unprecedented revival in the social security scenario of India in recent years, due to an increased recognition of the adverse labour market implications of the growing informal sector by the Government, in the era of globalisation of economies and production systems.

In sum, an assessment of quality of employment in economy is based on comparison of growth of employment opportunities in organized and unorganized sectors. While increase in employment in the former is viewed as better quality employment generation, expansion of the latter is considered deterioration in it due to lack of social security cover. Given the huge concentration of the poor and disadvantaged in the Indian informal sector, its size, significance, occupational structure, gender composition, and the recent increased government consciousness about it, its inter-linkage with growth and poverty needs to be studied in detail to understand the dynamic changes occurring in the labour market in the country. In this context, the present paper proposes:-

- 1) to over-view the structural trends and composition of informal sector employment in India by gender and region;
- 2) to analyze the factors governing growing informalization of labour force by gender and region in the country, and
- 3) to examine the impact of economic growth and poverty on the growth of informal sector in the country, against the dynamic changes taking place in the world economy.

The remaining paper is organized as follows. Section – I gives the introduction and objectives of the study. Data base and methodology used are outlined in section – II, while the empirical results are discussed in section – III. The last section gives its concluding remarks.

## **SECTION II: DATA SOURCE AND METHODOLOGY**

The study is based on secondary data drawn from various issues of National Sample Survey, Reserve Bank of India (RBI) Bulletins, Economic Survey, National Sample Survey (NSS) Rounds, National Commission for Enterprises in the Unorganised Sector (NCEUS 2007 and 2008) and *Eleventh Five Year Plan* (2008), spanning over the years 1977-78 to 2004-05. The objectives of the study have been analysed using simple averages, percentages, ratios, and Ordinary Least Squares (OLS) multiple regressions. The estimated dynamic informal sector employment model is of the following form:-

$$\Delta\text{INFRM} = b_0 + b_1\Delta\text{HDIGD} + b_2\Delta\text{PVRTY} + b_3\Delta\text{UNEMP} + b_4\text{MIGRN} + b_5\Delta\text{URBNR} + b_6\Delta\text{PRSDP} + b_7\Delta\text{SDPGR} + U$$

where,

$\Delta\text{INFRM}$  = change in percentage of informal sector employment to total employment between 1993-94 to 2004-05;

$\Delta\text{HDIGD}$  = change in human development index by gender;

$\Delta\text{PVRTY}$  = change in poverty ratio (head count ratio);

$\Delta\text{UNEMP}$  = change in unemployment rate;

$\Delta\text{MIGRN}$  = net migration between 1995–2005;

$\Delta\text{URBNR}$  = change in urbanization rate;

$\Delta\text{PRGDP}$  = change in percentage share of primary sector to GDP;

$\Delta\text{SDPGR}$  = change in state domestic product in Rupees (Rs.);

U = error term.

Step-wise procedure has been adopted to over-come the emergence of multicollinearity problem, if any, in the estimation of the model. The employment function has been run separately for rural and urban areas by gender. The changes in the included dependent and explanatory variables between the 50<sup>th</sup> and 61<sup>st</sup> NSS rounds have been analysed, rendering the model dynamic. This study period not only corresponds to economic reforms and South East Asian crisis, all of which are hypothesized to contribute to the expansion of informal sector in an economy, but they also represent comparable data rounds in terms of conceptual and methodological changes introduced in data collection by the NSSO from the 50<sup>th</sup> round (Himanshu 2007, p. 14). State-wise data for 27 major Indian states and union-territories have been used from 50<sup>th</sup> (1993-94) and 61<sup>st</sup> (2004-05) NSS rounds for the analysis of factors contributing to informalisation of employment over more than a decade in the country. In the study, usual status principal and subsidiary (UPSS) casual labour, self-employed and agricultural workers under regular employees are taken to represent informal sector employment for the purpose. The NSSO (2006: pp. 11-13) defines usual status employment as all persons who are working throughout the reference year per 100 persons. The self-employed are defined as those independently operating farm/non-farm household enterprises as employer or on their own, with or without few partners and hired labor, or as those engaged as helper in family enterprise as full-time or part-time even without regular salary/wage. Regular employees include both full-time and part-time regular salaried/wage earners engaged in others' farm/non-farm household/non-household enterprises on a regular basis. Whereas, casual workers include those who are engaged as wage labor in others' farm/non-farm household/non-household enterprises in public/private works, and those who did not work due to illness or for other reasons though they had work in household enterprises or had regular salaried/wage employment and receive wages in terms of daily/periodic contract.

The *a priori* theoretically expected association between the dependent and independent variables may be outlined here. *Ceteris paribus*, higher change in human development index, a

composite indicator of education, health and living standard, is expected to improve human capabilities, and thus raise their chances of moving into formal employment. Therefore, its expected association is negative.

Changes in poverty and unemployment rate are hypothesized to positively contribute to informalisation of employment.

The impacts of changes in migration and urbanization rate on the expansion of informal sector employment are largely governed by level of development and availability of employment opportunities at the destination. Therefore, their effects are expected to be indeterminate.

Increase in the percentage share of primary sector to GDP is indicative of growth of the sector. Larger the positive change in the sector, greater would be the informalisation of employment, due to lack of social security benefits coverage in it.

Change in state domestic product (SDP), a proxy for economic growth of the state, is hypothesized to reduce informalisation of employment.

### **SECTION – III: RESULTS AND DISCUSSIONS**

This section discusses the results of the study. Table – 1 furnishes information on gender-wise distribution of workers by industrial category and region from 1983 to 2004-05. It shows a larger proportion of females than males to be engaged in agricultural activities in both rural and urban areas during the study period, reflecting their greater concentration in unorganized sector owing to low human capital capabilities. However, their percentage share recorded a steady decline over the years, due to shrinking cultivable land area in the country. While the percentage of rural males engaged in the sector fell substantially from more than three-fourth (77.5) in 1983 to about two-third (66.5) in 2004-05, the comparative percentage decline in female employment has been slower (from 87.5 to 83.3 respectively). The corresponding decline in urban male employment in agriculture has been from 10.3 per cent to 6.1 per cent, and for females from 31 per cent to 18.1 per cent.

The percentage of rural males engaged in trade, hotel and restaurant (from 4.4 to 8.3), construction (from 2.2 to 6.8), and transport, storage and communication (from 1.7 to 3.8) respectively improved between 1983 and 2004-05, but remained almost stable for rest of the activities. Urban male employment demonstrated a similar pattern, with trade, hotel and

restaurant comprising the largest activity (28 % in 2004-05). Manufacturing (23.5 %) and service (20.8 %) sectors constituted the next largest source of employment, followed by transport, storage and communication (10.7 %), and construction (9.2 %) during 2004-05. Employment in the remaining sectors remained more or less stable.

In the case of rural females, manufacturing constitutes the second largest source of employment. Their percentage share in the sector rose from 6.4 in 1983 to 8.4 in 2004-05. It is followed by other services (3.9 %), and trade, hotel and restaurant (2.5 %) during 2004-05. Meanwhile, their employment in construction decreased in post reforms period. On the other hand, service sector comprised the largest employment activity for urban females, which remarkably increased in post liberalization period from 26.6 per cent in 1983 to 35.9 per cent in 2004-05, replacing agricultural activities. It is followed by the prominence of manufacturing sector (28.2 %), and trade, hotel and restaurant (12.2 %) during 2004-05 after the initiation of reforms. Their employment in rest of the sectors remained almost stable over the study period.

Thus, while female employment remains largely stagnant in agricultural sector, male employment has been declining in agriculture in both rural and urban areas, but has been rising in trade, hotel and restaurant; construction; and trade, hotel and restaurant; transport, storage and communication in rural areas, and in transport, storage and communication; and construction in urban areas over the post reforms period.

Table - 2 records absolute change in the category-wise principal status workers, viz., self-employment, regular workers and casual labour, across region and gender during 1983 to 2004-05. It shows a decline in the self-employed (-2.8%) and regular workers (-1.9%), and a substantial rise in casual labour (4.7%) among males in rural India during 1983-1993-94. The decline in self-employed continued over in 1993-94 to 1999-2000, while there was a positive growth in regular workers (0.3%), but a slowdown in casual labour (2.0%). In 1999-2000 to 2004-05, there was a growth in the self employed to 3.2 per cent, slowdown in change in regular workers to 0.1 per cent and a decline in their casual labour (-3.3%). Meanwhile, casual labour (3.1%) registered a greater growth than self-employment (2.8%) among rural females, whereas regular employment declined (-0.3%) during 1983-1993-94. In 1993-94 to 1999-2000, self-employment declined (-1.3%) among them, while regular employment was positive

(0.5%), and casual labour slowed down (0.8%). During 1999-2000 to 2004-05, self-employment grew substantially (6.4%), while regular employment dropped to a low of 0.9 per cent and casual labour by as much as 7.2 per cent. The remarkable rise in female self-employment and fall in casual labour is particularly attributable to the launching of self-help groups scheme in India, which took care of the fall in agricultural labour and diverted females to take up non-farm employment, through less productive and remunerative in nature.

In urban India, growth of female employment in regular work witnessed continuous fall during the three sub-periods, whereas their participation in self-employment grew gradually, diversifying to non-farm employment. Male casual labour had a positive growth over the first two sub-periods, which declined (-2.3%) during 1999-2000 to 2004-05. In the case of urban females, self-employment which was negative (-0.1%) during 1983-1993-94, recorded a positive growth in the subsequent sub-periods (1.2% and 2.0% respectively). Their casual labour employment declined successively over the three sub-periods, whereas regular employment grew consistently at around three per cent. This indicates an improvement in labour market conditions for females (Kundu and Sarangi 2007, and Bhalla 2008).

Rural employment shows a decline in 1983 to 1993-94 period, which was marked by severe drought agricultural year in 1987-88 and decline in public expenditure following the initiation of economic reforms in 1991, which in turn affected employment generation. Growth in female self-employment was positive during the period, mainly due to the female-targeted employment schemes launched by the Integrated Rural Development Programme (IRDP) in the early 1980s. The 1999-2000 to 2004-05 period was characterized by agrarian crisis, besides distress diversification into non-farm employment activities.

Table - 3 shows the distribution of workers across organized and unorganized sectors across formal and informal sectors during 1999-2000 and 2004-05. A vast majority (99.6%) of the 342.64 million unorganized sector workers in 1999-2000 were engaged in the informal sector without any social security benefit. Their composition worsened in 2004-05, with only 0.36 per cent workers engaged in formal sector and the rest concentrated in informal sector.

In the case of organized sector, 37.80 per cent of the 54.12 million workers belonged to the informal sector, which increased to 46.58 per cent during 1999-2000 to 2004-05. This indicated deterioration in the conditions of total workers in formal employment from 7.46 per cent in 1999-2000 to 8.83 per cent in 2004-05. Thus, although employment increased in

absolute terms in organized sector from 54.12 million to 62.57 million in 2004-05, the rise largely occurred in its informal sector, where the workers are not covered by any social security benefits.

Percentage distribution of organized and unorganized workers across industrial categories by region in 1999-2000 is given in table - 4. It reveals a huge concentration of agriculture (97.66%), construction (97.58%), trade, hotels and restaurants (95.38), manufacturing (85.62%), transport, commerce and storage (76.57%), and mining and quarrying (73.50%) workers in unorganized sector in 1999-2000, which was relatively greater in rural areas. In urban areas also, majority of the workers engaged in construction (96.47%), agriculture (96.44%), trade, hotels and restaurants (93.60%), manufacturing (78.25%), and transport, commerce and storage (70.78%) sectors were employed in the unorganized sector. Meanwhile, public utilities, like electricity, water and gas supply (80.94%) belonged to the organized sector, with 86.81 per cent of the urban and 73.95 per cent of the rural workers engaged in it. More than half the employees in finance, insurance, real estates and business services (58.33), and social, personal and community services (51.03%) belonged to the unorganized sector, and rural areas. Organized sector employees are observed to be more concentrated in urban areas, including in mining and quarrying (59.85%).

Thus, a large majority of the workers by various industrial categories and in rural areas are employed in unorganized sector, reflecting huge informalization of employment with poor social security coverage.

Table - 5 presents growth rates in sector-wise GDP share and employment, and employment elasticities of industrial groups between 1999-2000 and 2004-05. While GDP growth rate was 5.99 per cent over the study period, growth rate of organized sector's share (8.18%) in GDP was double that of the unorganized sector (4.08%). It reveals a substantial percentage decrease in the unorganized sector shares to GDP, with respect to mining (-5.5), electricity, gas and water supply (-1.69), and public administration and defence (-33.43) during the study period. This is due to the fact that there was a fall in their shares in total employment. In mining, the decline was mainly due to the ban restrictions imposed by various states on different types of quarrying (NCEUS 2008, p. 6). There was considerable growth in GDP shares of rest of the industrial groups, with growth rates being the largest for health and social work (12%), private household and extra territorial organization (11%), banking, finance and

insurance (10.61%), construction (9.59%), trade (7.46%), other community, social and personal services (7.31%), and transport and storage (7.06%).

As regards the organized sector industrial groups, private household and extra territorial organization (-20.14%), and other community, social and personal services (-0.38%) registered a decline during the study period. The latter category had experienced employment fall in both the sectors (NCEUS 2008, p.6), despite a positive growth rate in the unorganized sector. The remaining industrial groups recorded high growth rates in transport and storage (18.7%), real estate, renting and business services (18.14%), agriculture (11.64%), health and social work (10.23%), trade (10.18%), hotels and restaurants (10.06%), construction (8.12%), mining (8.03%), and manufacturing (7.04%), respectively.

Growth rate in employment was almost three per cent for the organized (2.94%), unorganized (2.88%) and combined (2.89%) sectors. Public administration and defence in unorganised sector (-37.01%) experienced the largest fall across its industrial groups, and as compared to the organized sector (-1.97%). Other community, social and personal services across the two sectors also recorded a decline in employment growth rate, with the fall being greater for the organized (-5.10%) than unorganized (-2.67%) sector. Under the organized sector, private household and extra territorial organization (-29.13%) experienced the largest decline, followed by trade (-3.68%). Under unorganized sector, electricity, gas and water (-1.99%) recorded a decline. Across the remaining industrial groups, organized sector experienced relatively greater growth in employment in real estate, renting and business services (15.94%), hotel and restaurants (8.44%), mining (6.25%), education (6.22%), electricity (3.16%), and agriculture (2.20%), compared to the growth in unorganized sector industrial groups. In the latter sector, growth rates were higher for private household and extra territorial organization (25.42%), banking finance and insurance (10%), construction (8.77%), transport and storage (6.09%), health and social work (6.03%), manufacturing (5.13%), and trade (3.85%), respectively.

As regards employment elasticity to GDP growth rate, the total employment elasticity over the study period was 0.48. Across sectors, unorganized sector (0.71) recorded a greater elasticity than the organized sector (0.36). Under unorganized sector, mining (-0.04) and other community, social and personal services (-0.36) had negative employment elasticity, while in the organized sector it emerged negative for trade (-0.36) and public administration and

defense (-0.46). Employment elasticity revealed greater responsiveness of all industrial groups to their respective GDP shares in organized sector compared to the unorganized sector, except in the case of banking, finance and insurance (0.94).

In the table indicates faster growths of the organized sector to total GDP and employment, but greater responsiveness of unorganized sector employment to its share of GDP growth. This implies greater employment potentialities of unorganized sector in response to GDP share growth rate during 1999-2000 to 2004-05.

Table – 6 shows average wage earnings received per day by casual labour by gender and region during 1999-2000 and 2004-05. It reveals a very slow rise in average rural wages from Rs. 47.2 to Rs. 48.9 during 1999-2000 and 2004-05, whereas urban wages registered a fall from Rs. 70.4 to Rs. 68.7 respectively.

Gender-wise wage earnings indicate a very slow improvement in rural wages over 1999-2000 to 2004-05. Rural gender gap in average wages further widened from Rs. 17.8 to Rs. 20.1 between the two years. Urban female wages registered a faster decline, compared to that of their male counterpart. Gender gap is also observed to be wider in urban areas, rising to Rs. 31.2 in 2004-05.

Growth rates in average wage earnings during 1999-2000 and 2004-05 reveal a less than one per cent growth in rural areas (0.72%). While male wage grew at 0.96 per cent, for females it grew much slower at 0.16 per cent. On the other hand, urban wages (-0.51%) witnessed deceleration, which was greater for females (-1.13%) than for the males (-0.46%). In sum, the casual labour does not appear to have gained much from the impressive economic growth rate of the country during the period.

Table - 7 presents poverty ratios of workers by sector and across region during 2004-05. It reveals the incidence of poverty to be higher among agriculture (20.4%) than non-agriculture (17.8%) sector total workers. Across sectors, it was greater among unorganized (20.5%) than organized sector (11.3%) total workers. The intensity of poverty among the unorganized workers in organized sector engaged in agriculture and non-agriculture activities was nearly 19 per cent for both.

Among all agriculture sector workers, poverty ratio was higher among unorganized sector workers and in urban areas. A similar trend was observed among non-agriculture sector workers. However among organized sector workers, the poverty ratio was higher in urban areas. Thus, the incidence of poverty is relatively greater among the unorganized sector workers and more among non-agriculture sector workers.

Poverty ratios by employment category and region for the sub-periods 1993-94, 1999-2000 and 2004-05 are shown in table - 8. It reveals urban poverty ratios to be greater than the rural ratios, due to relatively higher cost of living in the region. The table also indicates consistent decline in poverty over the study period, from 34.72 per cent in 1993-94 to 20.83 in 2004-05 for all workers in rural areas and from 29.66 per cent to 22.21 per cent respectively in urban areas.

Regardless of region, the incidence of poverty has been the highest among casual labourers in both rural and urban areas. It was as high as 55.63 per cent in 1993-94 urban areas, which declined to 45.31 per cent in 2004-05. Correspondingly, the decline was from 49.44 per cent to 31.52 in rural areas.

The self-employed followed the casual labourers, with a poverty ratio of 27.76 per cent and 31.52 per cent respectively in rural and urban areas during 1993-94, which declined to 16.41 per cent and 24.17 per cent respectively in 2004-05. The regular employees in both regions had the lowest poverty intensity, which registered a fall from 16.87 in 1993-94 to 9.58 per cent in 2004-05 in rural areas, and from 16.03 per cent to 11.65 per cent respectively in urban areas.

Thus, the incidence of poverty has been the highest among casual labourers who are largely engaged in the unorganized sector. Regular wage employees experienced the lowest poverty intensities.

Table - 9 presents poverty ratios among unorganized sector workers by social groups in 2004-05. It reveals the incidence of poverty to be more acute among all urban unorganized workers (25.5%) than their rural counterpart (19.3%), due to higher cost of living in the area. This is true of all social groups, excepting for the other religions category.

The intensity of poverty is the least among upper Hindus (8.4% rural and 10.2% urban), followed by other religions (15.4% and 14%), and other backward caste (OBC) Hindus (15.8% and 27.5%), respectively. Whereas, the incidence of poverty was the highest among the

socially backward Hindus (ST and SC) and OBC, besides OBC and other Muslims, respectively. This clearly shows that the socially backward Hindus and minority groups employed in unorganized sector are also the most economically backward (Bhalla 2008, p. 17).

Table - 10.1 presents the OLS regression results of the estimated informal sector employment function by gender for rural areas. It shows improved gender-wise human development index to be having a reducing effect on the expansion of informal sector employment in rural India. However, its impact emerges significant only for the combined model.

Rise in poverty level is found to significantly increase gender-wise employment in informal sector, arising out of economic necessity.

Regardless of gender, increase in unemployment rate has a positive impact on informal sector employment, attributable to its residual sector nature. However, its effect emerges insignificant in all three cases.

Increased migration is observed to negatively affect on rural female and combined informal sector employment, whereas for the males it has an increasing effect. This could be because male mobility is greater. But, the relationship emerges insignificant in all the three models.

Increased urbanization, associated with increased industrialization, is found to decrease male and combined informal employment, whereas it has a positive effect for the females. Its effect is however insignificant in all cases.

Meanwhile, growth in the proportion of primary sector in GDP raises male and combined informal sector employment, whereas it reduces female employment. The latter could be because females are already concentrated in the agricultural sector. However, the association emerges insignificant across gender.

Gender-wise informal sector employment is observed to decline significantly with increased in economic growth. This is attributable to the fact that higher economic growth would also contribute to improved labour market quality.

Table - 10.2 shows the results of urban informal sector employment function. Other things remaining constant, improved gender-wise human development index is found to significantly reduce informal sector employment, due to better job opportunities in urban areas.

Rise in poverty increases gender-wise employment in the sector, but not significantly. Like-wise higher unemployment rate also has a positive effect, which emerges significant only for combined employment. This is attributable to the residual sector effect.

Net migration is found to decrease informal sector employment across gender, which emerges significant in all cases, except for males. This could partially be due to the growth in service sector employment in the region, which has created more job opportunities for females in professions like health, education and IT sector, all of which constitute better quality employment.

Increased urbanization rate has a negative impact on female and combined informal sector employment, but positive effect for the males. However, the association is insignificant in all cases.

Rise in the share of agriculture to GDP significantly contribute to increased informalisation of employment in all cases, which emerges significant in all case, except females.

Economic growth is reduces on informal employment for males and combined population, whereas it increases it for the females. However, it is found to exercise an insignificant effect in all cases.

#### **SECTION IV: CONCLUDING REMARKS**

The present paper examined the trends and pattern of growth of the informal sector in India, and its linkage with poverty and economic growth by region and gender during 1977-78 to 2004-05. It also analysed the dynamic factors that contributed to its growth during the period 1993-94 to 2004-05 using state-wise data. Secondary data from various issues of National Sample Survey, Reserve Bank of India (RBI) Bulletins, Economic Survey, National Sample Survey (NSS) Rounds, National Commission for Enterprises in the Unorganised Sector (NCEUS 2007 and 2008) and *Eleventh Five Year Plan* (2008) were used for the study. Simple averages, percentages, ratios, and Ordinary Least Squares (OLS) multiple regressions were adopted to analyse the objectives of the study.

The study revealed huge informalisation of labour market in the country, raising question on the quality of employment vis-à-vis the impressive economic growth achieved by the country. Females are largely concentrated in the sector, and predominately engaged in

agriculture. There is increased casualisation of employment, particularly among the males and in rural areas. Self employment among females is on the rise, mainly due to the various female-targeted poverty alleviation and employment generating programmes launched by the Indian government since the early 1980s. However, the quality of self employment also needs to be examined, as studies reveal their economic activities to be mainly less productive and remunerative.

The incidence of poverty is higher among the unorganized sector workers, which is greater among the socially backward worker groups. Growth rate in average wage earnings do not reflect transmission of growth benefits to the workers in the unorganized sector either. In fact, a negative growth in average wages has been recorded in urban areas. Significant gender gap in wages is found to exist within and across regions among the casual labourers, which perpetuates gender inequity. This again raises doubts about the inclusiveness of the country's recent growth.

The analyses of informalisation of Indian labour market by gender and across region revealed that while poverty significantly increased informalisation in rural areas, migration and economic growth significantly reduced it. Whereas in urban areas, migration significantly contributed to informalisation of employment, urbanization reduced it. In both cases, human development indicated signs of reduction in informalisation of labour market, and significantly so for the combined workers.

In view of the large majority of workers in the country being predominantly engaged in the sector which lacks social security cover, the Indian government set up the National Commission for Enterprises in the Unorganised Sector (NCEUS) to examine the problem. In its August 2007 report, the NCEUS (2007) recommended a 13-point Action Plan for improvement of the quality of employment in the unorganized/informal sector, which include a) protective measures for workers, in the form of minimum work hours and wages, and social security benefits 'covering life, health, disability, maternity and old age pension'; and b) package of measures targeting small and medium farmers; land and water management programmes; credit facility with outreach and accessibility; and debt relief commissions to handle natural or market-related agrarian distress; c) measures to improve growth of the non-

agricultural sector through improved credit flow; encouraging microfinance institutions (MFIs) and self help groups (SHGs) for livelihood promotion and creation of a National Fund to cater to both agriculture and non-agriculture sectors not covered by National bank for Agriculture and Rural Development (NABARD) and Small Industries Development Bank of India (SIDBI); and d) measures for expansion of employment and improved employability by strengthening self-employment programmes; National Rural Employment Guarantee Act (NREGA) programme and its universalisation to all districts, and to increase employability through skill development through on-job-training cum employment assurance programme by providing Rupees (Rs.) 5000/- per person as incentive to any employer willing to provide on-job skill enhancement and training for a year.

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**TABLE - 1**  
**DISTRIBUTION OF USUALLY EMPLOYED PERSONS BY INDUSTRY (%)**

Sl. No.	Industry Group	Rural					Urban				
		1983	1987-88	1993-94	1999-2000	2004-05	1983	1987-88	1993-94	1999-2000	2004-2005
Males											
1.	Agriculture	77.5	74.5	74.1	71.4	66.5	10.3	9.1	9.0	6.6	6.1
2.	Mining and Quarrying	0.6	0.7	0.7	0.6	0.6	1.2	1.3	1.3	0.9	0.9
3.	Manufacturing	7.1	7.6	7.0	7.3	7.9	26.8	25.7	23.5	22.4	23.5
4.	Electricity, Water, etc.	0.2	0.3	0.3	0.2	0.2	1.1	1.2	1.2	0.8	0.8
5.	Construction	2.2	3.7	3.2	4.5	6.8	5.1	5.8	6.9	8.7	9.2
6.	Trade, Hotel and Restaurant	4.4	5.1	5.5	6.8	8.3	20.3	21.5	21.9	29.4	28.0
7.	Transport, Storage and Communication	1.7	2.0	2.2	3.2	3.8	9.9	9.7	9.7	10.4	10.7
8.	Other Services	6.1	6.2	7.0	6.1	5.9	24.8	25.2	26.4	21.0	20.8
Female											
1.	Agriculture	87.5	84.7	86.2	85.4	83.3	31.0	29.4	24.7	17.7	18.1
2.	Mining and Quarrying	0.3	0.4	0.4	0.3	0.3	0.6	0.8	0.6	0.4	0.2
3.	Manufacturing	6.4	6.9	7.0	7.6	8.4	26.7	27.0	24.1	24.0	28.2
4.	Electricity, Water, etc.	-	-	-	-	-	0.2	0.2	0.3	0.2	0.2
5.	Construction	0.7	2.7	0.9	1.1	1.5	3.1	3.7	4.1	4.8	3.8
6.	Trade, Hotel, Restaurant	1.9	2.1	2.1	2.0	2.5	9.5	9.8	10.0	16.9	12.2
7.	Transport, Storage and Communication	0.1	0.1	0.1	0.1	0.2	1.5	0.9	1.3	1.8	1.4
8.	Other Services	2.8	3.0	3.4	3.7	3.9	26.6	27.8	35.0	34.2	35.9

Source: NSS 61<sup>st</sup> Round July 2004 - June 2005 (2006), Report No. 515, September, p. 90.

**TABLE - 2**  
**ABSOLUTE CHANGE IN THE SHARE OF PRINCIPAL STATUS WORKERS BY**  
**CATEGORY**

SI. No.	Details	<u>Rural</u>			<u>Urban</u>		
		Male	Female	Total	Male	Female	Total
A.	Self-Employed:						
	i. 1983-1993-94	-2.8	2.8	-2.7	0.9	-0.1	0.7
	ii. 1993-94 to 1999-2000	-2.3	-1.3	-2.0	0.1	1.2	0.3
	iii. 1999-2000 to 2004-05	3.2	6.4	4.1	3.4	2.0	3.1
B.	Regular Workers:						
	i. 1983-1993-94	-1.9	-0.3	-1.3	-1.8	3.7	-0.8
	ii. 1993-94 to 1999-2000	0.3	0.5	0.3	-0.8	3.0	-0.1
	iii. 1999-2000 to 2004-05	0.1	0.9	0.3	-1.1	3.7	-0.3
C.	Casual Labour:						
	i. 1983-1993-94	4.7	3.1	4.0	0.9	-3.6	0.1
	ii. 1993-94 to 1999-2000	2.0	0.8	1.7	0.7	-4.2	-0.2
	iii. 1999-2000 to 2004-05	-3.3	-7.2	-4.4	-2.3	-5.7	-2.8

Source: NSS Report No. 515, 2007.

**TABLE - 3**  
**DISTRIBUTION OF WORKERS BY TYPE OF EMPLOYMENT AND SECTOR**

(in Millions)

Sl. No.	Sector	<u>1999-2000</u>			<u>2004-2005</u>		
		Informal	Formal	Total	Informal	Formal	Total
A.	Unorganized Sector:						
		341.28 (99.60)	1.36 (0.40)	342.64 (100)	393.47 (99.64)	1.43 (0.36)	394.90 (100)
B.	Organized Sector:						
		20.46 (37.80)	33.67 (62.20)	54.12 (100)	29.14 (46.58)	33.42 (53.42)	62.57 (100)
	Total	361.74 (91.17)	35.02 (8.83)	396.76 (100)	422.61 (92.38)	34.85 (7.46)	457.46 (100)

Notes: Usual Principal and Subsidiary Status basis; and figures in brackets indicate row percentages.

Source: Estimates by NCEUS (2007).

**TABLE - 4**  
**DISTRIBUTION OF ORGANISED/UNORGANISED WORKERS: 1999-2000 (%)**

Sl. No.	Industry Group	<u>Organised</u>			<u>Unorganised</u>		
		Rural	Urban	Total	Rural	Urban	Total
1.	Agriculture, forestry and fishing	2.30	3.56	2.34	97.73	96.44	97.66
2.	Mining and quarrying	12.58	59.85	26.50	87.42	40.15	73.50
3.	Manufacturing	8.18	21.75	14.38	91.82	78.25	85.62
4.	Electricity, gas and water supply	73.95	86.81	80.94	26.05	13.19	19.06
5.	Construction	1.67	3.53	2.42	98.33	96.47	97.58
6.	Trade, hotel, and restaurant	2.04	6.40	4.62	97.96	93.60	95.38
7.	Transport, storage, and communication	16.77	29.22	23.43	83.23	70.78	76.57
8.	Financial, insurance, real estate, and business service	38.72	42.64	41.67	61.28	57.36	58.33
9.	Community, social, and personal services	42.01	55.36	48.97	57.99	44.64	51.03
	<b>Total employment</b>	<b>5.23</b>	<b>23.30</b>	<b>9.10</b>	<b>94.77</b>	<b>76.70</b>	<b>90.90</b>

Source: Sakthivel and Joddar (2006), p. 2111.

TABLE – 5

## GROWTH IN VALUE ADDED AND EMPLOYMENT: 1999-2000 TO 2004-05

Sl. No.	Industry Group	V.A. Growth Rate (%)			Employment Growth Rate (%)			Elasticity		
		Un-Organized	Organised	Total	Un-Organized	Organised	Total	Un-organised	Organised	Total
1.	Agriculture	1.15	11.64	1.59	1.72	2.20	1.73	1.50	0.19	1.09
2.	Mining	-5.50	8.03	4.67	0.22	6.25	3.97	-0.04	0.78	0.85
3.	Manufacturing	4.91	7.04	6.44	5.13	4.11	4.83	1.04	0.58	0.75
4.	Electricity, gas and water	-1.69	4.35	4.14	-1.99	3.16	2.77	1.18	0.73	0.67
5.	Construction	9.59	8.12	8.79	8.77	6.58	8.21	0.91	0.81	0.93
6.	Trade	7.46	10.18	8.10	3.85	-3.68	3.43	0.52	-0.36	0.42
7.	Hotels and restaurants	5.39	10.06	7.53	5.34	8.44	5.72	0.99	0.84	0.76
8.	Transport and storage	7.06	18.70	12.63	6.09	1.26	4.80	0.86	0.07	0.38
9.	Banking, finance and insurance	10.61	5.35	5.78	10.00	5.49	6.54	0.94	1.03	1.13
10.	Real estate, renting and business services	3.31	18.14	7.46	10.25	15.94	11.74	3.09	0.88	1.57
11.	Public Administration and defense	-33.43	4.29	3.60	-37.01	-1.97	-3.35	1.11	-0.46	-0.93
12.	Education	3.35	6.07	5.71	6.04	6.22	6.17	1.81	1.02	1.08
13.	Health and Social work	12.00	10.23	10.62	6.03	4.89	5.38	0.50	0.48	0.51
14.	Other community, social and personal services	7.31	-0.38	4.58	-2.67	-5.10	-2.97	-0.36	13.49	-0.65
15.	Private household and extra territorial organisation	11.00	-20.14	7.22	25.42	-29.13	20.73	2.31	1.45	2.87
	Total	4.08	8.18	5.99	2.88	2.94	2.89	0.71	0.36	0.48

Note: V.A. – Value added.

Source: NCEUS (2008), p. 9.

**TABLE - 6**  
**AVERAGE WAGE PER DAY OF CASUAL WORKERS**

Sl. Category No.	55 <sup>th</sup> round (1999-2000)	61 <sup>st</sup> round (2004-2005)	Growth rate
<b>A. Rural:</b>			
i) Male	52.5	55.0	0.96
ii) Female	34.7	34.9	0.16
iii) Combined	47.2	48.9	0.72
Male-Female Difference	17.8	20.1	0.80
<b>B. Urban:</b>			
i) Male	76.8	75.1	-0.46
ii) Female	46.4	43.9	-1.13
iii) Combined	70.4	68.7	-0.51
Male-Female Difference	30.4	31.2	0.67

Note: Casual workers aged 15-59; wages at 2004-05 prices, and one US \$ = Rs. 42 during the period.  
Source: NSS Report Number 515, 2007, Employment; XI Plan, 2008.

**TABLE - 7**  
**POVERTY RATIOS OF WORKERS BY REGION AND SECTOR, 2004-2005**

Sl. No.	Sector	All Workers in		Unorganised Workers in Organised Sector	All Workers
		Unorganised Sector	Organised Sector		
<b>A. Agriculture:</b>					
i.	Rural	17.2	11.2	17.0	15.7
ii.	Urban	24.1	10.4	20.4	9.6
	Total	20.5	16.5	18.9	20.4
<b>B. Non-Agriculture:</b>					
i.	Rural	19.3	12.0	17.0	18.7
ii.	Urban	25.5	10.7	20.7	21.0
	Total	20.6	10.7	18.7	17.8
	All Total	20.5	11.3	18.7	19.3

Source: NCEUS (2007).

**TABLE - 8**  
**POVERTY RATIO BY EMPLOYMENT**

Sl. No.	Details	1993-94	1999-2000	2004-05
<b>A.</b>	<b>Rural:</b>			
	a) Self employed	27.76	20.20	16.41
	b) Regular employees	16.87	11.64	9.58
	c) Casual labour	49.44	38.58	31.52
	All Workers	34.72	26.42	20.83
<b>B.</b>	<b>Urban:</b>			
	a) Self employed	31.52	27.81	24.17
	b) Regular employees	16.03	13.14	11.65
	c) Casual labour	55.63	50.81	45.31
	All Workers	29.66	25.98	22.21

Source: Bhalla (2008), p. 16.

**TABLE - 9**  
**POVERTY RATIOS AMONG UNORGANISED SECTOR WORKERS**  
**BY SOCIAL GROUPS: 2004-2005**

Sl. No.	Social Group	Rural	Urban
1.	Hindu ST	35.7	48.6
2.	Hindu SC	26.2	38.9
3.	Hindu OBC	5.8	27.5
4.	Hindu: Upper	8.4	10.2
5.	Muslim OBC	21.5	39.7
6.	Muslim Other	21.5	33.6
7.	Other Religions	15.4	14.0
	All Unorganised Workers	19.3	25.5

Source: NSS 61<sup>st</sup> Round July 2004 - June 05 (2007), *Employment and Unemployment Situation among Social Groups in India 2004-05*, Part – I, Report No. 516, and NCEUS (2007).

**TABLE – 10.1**  
**INFORMAL SECTOR EMPLOYMENT FUNCTION: RURAL**

Sl. No.	Variable	Male		Female		Combined	
		Model - I	Model - II	Model - I	Model - II	Model - I	Model - II
1.	Constant	-906.778 (26.29)*	908.223 (30.85)*	26.981 (1.73)***	27.040 (1.81)***	920.753 (30.68)*	926.953 (38.18)*
2.	ΔHDIGN	-9.437 (0.09)	-	-23.875 (0.27)	-23.750 (0.27)	-25.679 (1.69)***	-22.353 (1.77)***
3.	ΔPVRTY	0.851 (1.72)***	0.835 (1.76)***	1.396 (2.11)**	1.398 (2.18)**	0.612 (1.68)***	0.465 (1.74)***
4.	ΔUNEMP	4.157 (0.61)	3.962 (0.69)	2.808 (0.87)	2.784 (0.94)	1.259 (0.20)	-
5.	ΔMIGRN	141.387 (1.84)***	140.34 (2.06)***	-61.322 (1.81)***	-60.985 (2.04)**	-91.768 (1.41)	-96.401 (1.90)***
6.	ΔURBNR	-0.445 (0.50)	-0.464 (0.56)	0.009 (0.02)	-	-0.754 (0.99)	-0.723 (1.06)
7.	ΔPRGDP	0.000 (0.07)	-	-0.000 (0.26)	-0.000 (0.28)	0.000 (0.26)	-
8.	ΔSDPGR	-0.004 (1.67)***	-0.004 (1.70)***	-0.004 (3.41)*	-0.004 (3.52)*	-0.003 (1.26)	-0.003 (1.66)***
	R <sup>2</sup>	0.42	0.42	0.60	0.60	0.46	0.46
	F-Value	2.73*	2.71*	3.61*	4.46*	3.07*	3.17*

Note: Figures in parentheses show t-value; and \*, \*\* and \*\*\* indicate significance at 1, 5 and 10 per cent levels respectively.

**TABLE – 10.2**  
**INFORMAL SECTOR EMPLOYMENT FUNCTION: URBAN**

Sl. No.	Variable	Male		Female		Combined	
		Model - I	Model - II	Model - I	Model - II	Model - I	Model - II
1.	Constant	524.607 (12.84)*	521.009 (23.56)*	544.511 (19.19)*	540.976 (20.35)*	559.430 (13.11)*	548.837 (21.21)*
2.	ΔHDIGN	-162.003 (2.30)**	-167.77 (2.53)**	-1.150 (4.53)*	-1.182 (5.17)*	-375.848 (1.53)	-362.321 (1.68)***
3.	ΔPVRTY	0.286 (0.21)	-	0.951 (0.97)	1.032 (1.11)	0.996 (0.55)	0.706 (0.48)
4.	ΔUNEMP	11.902 (1.47)	10.453 (1.62)	2.489 (0.41)	-	18.872 (2.13)**	18.306 (2.54)**
5.	ΔMIGRN	-97.098 (1.07)	-84.979 (1.12)	-186.293 (2.81)*	-183.076 (3.28)*	-152.844 (1.65)***	-162.703 (2.05)**
6.	ΔURBNR	0.333 (0.32)	-	-0.286 (0.38)	-	-0.184 (0.17)	-
7.	ΔPRGDP	0.000 (1.83)***	0.000 (1.96)**	0.000 (0.68)	0.000 (0.60)	0.000 (1.75)***	0.000 (1.91)***
8.	ΔSDPGR	-0.000 (0.09)	-	0.002 (0.85)	0.002 (1.28)	-0.000 (0.30)	-
	R <sup>2</sup>	0.25	0.24	0.63	0.62	0.35	0.35
	F-Value	2.82*	2.61*	4.08*	6.11*	3.31*	3.01*

Note: Figures in parentheses show t-value; and \*, \*\* and \*\*\* indicate significance at 1, 5 and 10 per cent levels respectively.