CHAPTER – 3

CONCEPT AND DIMENSIONS OF THE INFORMAL SECTOR
3.1 Introduction

The recent phenomenon in many of the developing countries in the world is the rapid growth of informal sector. It is a global phenomenon. Its importance is more in developing countries as compared to developed countries. The informal sector grew out of labour market studies in the fifties and sixties. It emphasized the dualistic nature of developing economies as felt by Lewis\textsuperscript{82}, Fei and Rani\textsuperscript{83}; Harris and Todaro\textsuperscript{84}.

These studies emphasized the interaction between the two sectors, more frequently seen as a shift from the traditional to the modern sector. However, an underlying theme was the diminishing importance of the traditional sector, which was expected to whither away finally. Social orders, which are based on agricultural systems, are generally known in the social sciences as peasant systems. This signifies not only a particular type of society but also the nature of the development problem. Much of the literature on the subject is rightly devoted to the rural setting and to agrarian production.

Urban sector is growing faster than the rural sector. The demographic feature of the urbanization process, namely, natural increment of population and rural-to-urban migration has resulted in a substantial increase in urban labour force. A large part of the rapidly growing urban labour force remains unemployed and under-employed due to the excessive growth rate of urbanization, lack industrial production, and urban employment. Under the capitalist mode of production, the absolute increase of capital is not usually accompanied by corresponding rise in general demand for labour. Generally


\textsuperscript{84} Harris, J.R. and M.P.Todaro,(1970), "Migration, Unemployment and Development: A Two Sector Analysis", Americal Economic Review, 60(1)
economic development based on large-scale, capital-intensive and highly formalised management structure, fails to generate adequate and equitable employment and income opportunities, in the modern formal sector. As a result, the surplus labour including most of the rural-pushed migrants, unable to get absorbed in the formal sector. They are forced to find their own source of employment and livelihood in a variety of productive activities in urban centers which constitutes, what is now designated as informal, murky, grey, marginal sector, and so on.

A Comprehensive Central Legislation specifically designed to meet the working condition of the domestic workers including registration, who are an important segment of service sector of Indian economy and who have a multiplier impact on the economy by enabling the women in particular to work by sharing the family burden, can ensure the end of the exploitation of these domestic workers.

The term informal Sector was first launched by Keith Hart (1971) as that part of the urban labour force, which falls outside the organized labour market. The informal sector has since been treated as a promising concept and has been refined by a mission of the International Labour Organization (ILO), which studied the employment situation in Kenya within the framework of the world employment programmes.

There is a dichotomy in urban economies in developing countries, with regard to functioning of women in urban informal sector. Whatever may be the reasons, economic development failed to generate adequate employment and income opportunities particularly in the modern formal sector. Under the circumstances, the surplus labour force has been compelled to find its own source of employment, and hence of its survival. Thus, a new class engaged in a variety of productive activities has emerged which constitutes what is now called the informal sector.
Economic activities, which do not meet these criteria are then bundled under the term informal sector, a catchword covering a considerable range of economic activities which are frequently marshaled under the all inclusive term of self-employment. This is employment of a sort that is very little organised if at all, which is difficult to enumerate, and is therefore, often ignored by official censuses, and finally, employment in which working conditions are rarely covered by legal statutes. As this description of the informal sector is rather inadequate, the lack of a proper definition is very often, although not satisfactorily, compensated by a somewhat arbitrary listing of those activities which meet the eye of anyone who strolls through the streets of a city as vendors, newspaper sellers, shoeshine boys, stall keepers, porters, beggars, hawkers, rickshaw drivers, etc. In other words, the extensive collection of small tradesmen, the loose and unskilled workers, and other categories with low and irregular income who lead a laborious, semi-criminal existence on the margins of the urban economy.

The 'informal sector' is a convenient way of designating a segment of the economy having certain changed characteristics which lead to unfavourable conditions for the growth of enterprises and activities operating in this segment. The term has no specific analytical meaning. It is used “for lack of better alternative”. It has some advantage over the terms derived from earlier dichotomous classification of activities, such as 'unorganised' 'traditional' etc., because it's greater vagueness makes it more inclusive and flexible to suit different empirical situations. Let us, therefore, examine the various reported characteristics of the informal sector in terms of their suitability.

Employment insecurity is a pressing problem for millions in India, but the most severely affected are the unorganised sector workers. This sector is characterised by the temporary, seasonal and changing nature of employment often resulting in long periods of unemployment, absence of a fixed employer-employee relationship, failure of wages to meet minimal requirements, poor
work environment, long working hours, irregular incomes, etc. which contribute to poor employment security of the workers. The central and state governments have taken many steps to address the problem of employment insecurity. Employment-generation programmes have always been given high priority.

3.2. Definition of the Informal Sector

On the issue of a uniform definition of the unorganised sector, the National Commission on Enterprises in the Unorganised Sector (NCEUS), after deliberating on a number of alternatives, adopted the following definition:

All unincorporated private enterprises owned by individuals or households engaged in the production and sale of goods and services and operated on a proprietary or partnership basis, and employing less than 10 persons.

However, the unorganised sector is an enterprise-based concept, and it does not have the characteristics of the jobs or employment relationships. It is possible that some workers in the unorganised sector do not enjoy any job security, work security or social security. In order to identify such categories of workers, it has been considered necessary to complement the definition of unorganised sector with a definition of unorganised / informal employment in line with the existing international definitions. The Commission thus adopted the following unorganised or informal employment. Unorganised Workers are all those who are working in the Unorganised Sector defined, and the workers in the formal sector without any employment security and social security provided by the employer.

Worker participation in the labour market varies from country to country and from region to region. It also varies by sex and age, and by residence, and also, workers work in different sectors and employments. In India, most
workers work in the unorganised sector, who are distinguished from those in the organized sector in the following way: while in the organized sector, activities are regulated by legislation in the unorganised sector, activities are not well regulated. Workers in the organized sector are covered under social security legislations, while they do not cover the unorganised sector. Unionization is also a characteristic of the organized sector. The term 'informal sector' is now being more popularly and interchangeably used in place of the term 'unorganised sector'. The concept first used to describe the part of urban labour force which falls outside the organized laborer force. The concept has been further refined to include workers in rural areas. The distinction between the formal and informal sectors is based on state recognition and regulation.

The informal sector, on the other hand, is the residual sector derived after deducting the registered labour force from the total labour force. The distinction is based on the size of the employer and security of job in unionization. The above description of the informal sector as a residual sector does not include - the casual, contract and irregular workers in the formal sector establishments, who have similar characteristics. All formal sector organizations today engage contract labour, and the current trend indicates that more and more jobs are now being off - loaded to contractors and small suppliers.

The scholars working on the subject hold different views on the concept of informal sector with a view to helping the member countries in providing comparable statistics of employment in the informal sector. The Fifteenth International Conference of Labour Statisticians (ICLS) held in January, 1993

at Geneva adopted a Resolution on informal sector statistics which was subsequently endorsed by the UN Statistical Commission in February, 1993.

1) The informal sector is regarded as a group of production units household enterprises or, equivalently, unincorporated enterprises owned by households.

2) Within the household sector, the informal sector comprises (i) "informal own account enterprises" and (ii) The additional components consisting" of "enterprises of informal employers".

3) The informal sector is defined irrespective of the kind of workplace where the productive activates are carried out, the extent of fixed capital assets used, the duration of the operation of the enterprise (perennial, seasonal or casual), and its operation as a main or secondary activity of the owner.

3.3 Importance of Informal Sector

A large number of women folk are engaged in activities coming under informal sector, and hence, the present study assumes greater importance.

The newly developing countries are experiencing a substantial increase in urban labour force both because of the natural increase of population as well as migration from rural to urban centres. A large part of this rapidly growing urban labour force remains unemployed or under-employed due to the failure of the modern industrial sector to generate employment at the required rate. As a result, a large proportion of urban population gets engaged in a variety of activities in the non-formal sector for their livelihood.

The urban informal sector assumes great significance in the context of the ongoing economic reforms relating to the industrial sector. This will result in reduction of the public sector, and further expansion of the informal sector. One estimate indicates that employment opportunities provided by the informal sector account for over 60 per cent in Kolkata, Mumbai, and Ahmadabad. It is also estimated that 32 per cent to 70 per cent of the total labour force, and a significant share of the GDP is contributed by this sector in the third world.
countries. World Employment Report of ILO 1989 – 1990 stated that in India, over the last two decades, the share of the informal sector in the total non-farm employment has remained as high as 92 per cent. Sethuraman (1981) estimated that 25 per cent to 30 per cent of urban incomes in India and Latin America originated from the informal sector.

Despite rapid industrial development, the urban economy in most developing countries continues to have a large part of its activities in informal sector. The informal sector also contributes substantially to urban income. Besides generating employment, income and efficient allocation of resources, informal sector has importance in the economy because of other reasons. It uses low amount of capital, it mostly uses local resources, and recycling of waste, and it provides goods and services, which would otherwise be available only at a higher cost and in some cases, it would not be available at all.

Recently, in the nineties, the informal sector has again come into focus for two reasons. The employment effects of the structural adjustment programmes, which began in a number of developing countries in the seventies and eighties, are now being felt. The need for a safety net, which includes employment security, is being reflected in the emphasis on micro enterprises and credit programmes for them.

The international organizations such as the United Nations are now putting pressure on its member countries, particularly the developing countries, to improve their statistics on the informal sector activities. This has brought a new focus in the informal sector literature. The earlier literature emphasized the poor working conditions in this sector, including types of contracts, wages and incomes.

The new emphasis on the national accounts has led to a need to review the data collection procedures followed so far in the national surveys. The

---

literature always indicated a consciousness of the need for a clear definition of this sector. Now, the definition of the informal sector becomes even more important.

Less controversial is the assumption of a certain socio-economic duality which originates in a different phasing of development, a process that evokes, or at any rate strengthens, the contrast between modern and traditional, capitalistic versus no capitalistic, industrial-urban as against agrarian-rural, modes of production. Arthur Lewis and later Fei-Ranis have used the concept of dualism in this sense to investigate how surplus labour can be transferred from the rural subsistence sector in order to help increase non-agriculture production. These economists see the cities with their modern industries as dynamic centers from which the static character of the rural order, characterized by staggering agriculture with very low labour productivity, can gradually be overcome.

The assumption that the surplus labour that they become available will be absorbed in the modern sector is not proven during the last few decades. We have seen that expansion of industrial employment opportunities lags far behind the growth of the urban labour force. The urban dualism that is now a days apparent in many developing countries is not due to any gradually disappearing contrast between a modern-dynamic growth pole and a traditional-static sector which has tenaciously survived in an urban environment, but rather to structural disturbances within the entire economy and society. The low rate of industrialization and the presence of surplus labour are listed as principal reasons, why a dualistic system has sprung up in the cities of the third world. The informal sector contains the mass of the working poor whose productivity is much lower than in the modern urban sector, from which most of them are excluded.

In cities and towns across the developing world, the informal sector is playing an important part in the move towards industrialization. Small informal
enterprises help drive this process according to a typical pattern of growth. Household (cottage) activities, such as handicraft production, specialty food preparation, clothing and shoe manufacture, crop, processing and smithing are the first level of industrialization. These small enterprises, which are often linked to the agricultural sector, offer livelihood to many workers whose numbers are expected to grow in future. At the second level of industrialization, larger workshops and factories predominate. They, in turn, are served by a network of informal businesses that are engaged in such activities as forging, machine-shop processing, and foundry work. Employment within this informal network may grow even faster than within the factories and workshops to which they are linked.

In short, as large urban industrial firms expand the number of employees they hire, small and medium-sized enterprises will evolve to support these industries as suppliers, contractors, or service providers to their workers. Many of the start-up businesses will initially be informal sector ventures that, over time, mature into larger firms. Current labor forecasts suggest that these fledgling operations are likely to grow and expand more rapidly than the large firms that, directly or indirectly, gave rise to them.

In the past, the urban informal sector was badly hurt by general policies that inhibited new enterprise. Policies that favored import substitution were particularly injurious. Lately, however, this policy measure has been rejected by increasing numbers of developing countries or at least offset by other strategies that reflect an understanding of the vitality and productivity of the informal sector.

From this discussion, it should be clear that the urban informal sector is far from homogeneous. At one extreme are the very large numbers of people who eke out subsistence living. For them, work in the informal sector represents a survival strategy. At the other end of the spectrum are micro-
entrepreneurs and artisans who have demonstrated a capacity to accumulate capital, take advantage of market conditions (even in the midst of adverse economic circumstances), and expand employment.

It has often been suggested that any comprehensive approach to the problems of urban informal sector livelihood must begin with an attempt to address some of the underlying causes of rural-to-urban migration. Expansion and diversification of rural non-farm activities and employment linkages to the agricultural sector are thought to be critical components of any strategy to improve the lives and livelihoods of both the rural and urban viewpoint serves to emphasize the high level of interdependence that exists within the informal sector.

There is women-specific issues—gender-based discrimination in the family, at work and in society. Secondly, there is the aspect of social reality and social dynamics, in which the processes are not gender-specifically related and do not on the face of it have a gender-based discrimination, but the social context in which such processes (modernization, technological change, etc.) take place and does impinge on the status of women-status with respect to work, income, consumption, health, nutrition, etc.

3.4 Nature and Magnitude of Informal Sector

According to the 1981 census, there were 45 million women workers in the country who worked for a greater part of the year, and 18.5 million women workers who worked for less than 183 days in that year out of a total female population of 321 million in the country. About 20 per cent of women workers, that is 12.7 million workers, are engaged in non-agricultural tasks such as mining and quarrying, construction, household and non-household manufacturing, trade and commerce and in services such as educational and domestic.
Out of the 286 million main workers in India only 27 million or 9.4 per cent work in the formal sector and 259 millions or 90.6 per cent work in the informal labour market. Of the total workforce, 54 per cent are in self employment, 15 per cent in regular wage employment, and 31 per cent in casual wage employment. The workers in the informal sector work in different employments, and their share in the total workforce also varies from employment to employment.

Informal sector refers to economic activities, i.e., production and distribution of goods and services by the operating units of the households which essentially differs from the formal sector in terms of technology, economies of scale, use of labour intensive process for producing goods and services, virtual absence of well maintained accounts and dependence on government subsidy. It is informal in the sense that government under any scale does not regulate it.

Notwithstanding many attempts to clarify the concept of “informal sector,” it has remained elusive. Since “informal” implies the existence of something “formal”, it is evident that the concept is related to what one considers as formal. The distinction between the two sectors must lay in the nature of economic units engaged in the activities, and the manner and milieu in which they function. Much of the efforts to collect data on the informal sector in India have tended to identify the “universe” based on certain enterprise characteristics.

3.5 Features and Characteristics of Informal Sector

The characteristics of informal sector are different from formal sector. The informal sector is mainly operated with small size of the units, mostly without electricity, with family ownership with primitive are non-modern technology lack of access to Government facilities, competitive and
unprotected product market unprotect labour market with out State Intervention and so on.

3.5.1 Small Size of Operations

All observers agree that the informal sector consists of small establishments. The demarcation is generally made on the basis of size of employment. It is sometimes suggested that single-worker establishments, and those with only self-employed and own-account workers, form the core of the informal sector. From the empirical viewpoint, 'enumeration' or 'registration' has been considered a good base for the distinction between the formal and informal sectors; and it is well-known that the regular official enumeration and registration is applied to the units above a given employment size only. It is on this basis that a general cut-off point of size employment is suggested as 10 workers. Small size of operations is considered a necessary condition for including an enterprise in the informal sector, because 'smallness is usually accompanied by several other attributes which make such enterprises disadvantaged'. To the extent this association is not observed, a policy of production and support to the informal sector defined as 'small enterprises have a high capital intensity, a high rate of return on capital due to low wages, and an assured market among the higher-income groups and foreigners, the size as a basis of assistance would not serve the employment or distribution objectives on which the entire concern of informal sector is based'.

3.5.2 Informal Structure and Family Ownership

Informal sector enterprises obviously do not have a formally structured organization, and use of family labour. Even organizations with wider

89 V. Sethuraman, (1976), op. cit July-Aug.
ownership and using hired labour may reveal these characteristics, if their size of operations is not large. Structure of organization is thus mainly a function of size and is not necessarily related to the pattern of ownership.

3.5.3 Non-Modern Technology

Distinction between formal and informal sectors on the basis of the of imported foreign technology, and adopted and indigenous technology appears to represent a rather extreme viewpoint. The intent of using technology as a variable in distinguishing informal from formal sector is to highlight that the informal sector units use labour intensive, pre-dominantly manual, low productivity techniques of production, as compared to capital-intensive, and highly mechanized and high productivity ones used by the formal sector units. The question of imported versus indigenous technology is incidental to the issue, and is perhaps used deliberately to exaggerate the helplessness and disadvantages of the former situation but not in the latter.

3.5.4 Lack of Access to Government Facilities

The Informal sector has rough treatment in the hands of the government. First, only formal sector enterprises are reported to have access to resources controlled and distributed by the government: Thus, the advantages of organised capital market, bank finance, foreign technology, imported raw material, protection from foreign competition, etc., are not available to the informal sector enterprises. Even when the governments have tried to mitigate some of their disadvantages by giving them preferential treatment, the benefits have not gone to the smallest of the informal sector establishments,

---

because of their inability to cope with the official procedures for obtaining them.\textsuperscript{91}

The informal sector units have also been found to enter certain activities requiring legal permission without obtaining it or to acquire certain inputs requiring licence from the illegal market. The bureaucratic procedures which have to be followed to obtain scarce inputs, such as foreign exchange, are complicated enough to put them at a serious disadvantage or force them into riskier black market transactions. Similarly, many of the informal sector establishments operate on pavements, crowded streets, and odd places for lack of suitable space which can be in possession within the means of government quite often forces these enterprises to move on account of overcrowding, health considerations, traffic congestion, environmental or aesthetic factors, or because the land they occupy which does not belong to them. The government's attempts to enforce certain regulations or naturally considered by these enterprises as "hostile" conditions making their operations difficult.\textsuperscript{92}

3.5.5 Competitive and Unprotected Product Market

The formal sector products, of course, have an advantage of brand names and better marketing networks, which render the market of each firm in this sector somewhat non-competitive; but a degree of competition does exist among the producers within the formal sector.

3.5.6 Unprotect Labour Market

The labour market for the informal sector is unregulated and highly competitive on the supply side, with absolute freedom to entry, while that in


\textsuperscript{92} S.V Sethuraman, (1977), "The Informal Sector in Developing Countries" . Some Policy Implications, Social Action, Jul-Sep.
the formal sector is regulated and has entry restricted on the basis of standard hiring norms and formalized hiring procedures. Consequently, the informal sector bears the brunt of excess labour supply which tends to lead to a situation of significant under employment and depressed wages in that sector, while the formal sector workers do not feel the pressure of excess supply, as their wages and conditions of work are regulated. Their jobs are secure and a level of wages assured, while those in the informal sector suffer from low wages.

Earnings in the informal sector are relatively very low compared to the formal sector. Basically, it is the formal sector wages and conditions of work that attract migrants to the city; but it is the informal sector, which holds them there. The slow pace of growth of the formal sector result into lack of opportunities for the informal sector workers to move up to the formal sector, and thus, the dichotomous segmentation of the urban labour markets persists. A faster growth of the formal sector would however, tend to reduce the differentiation between the two labour markets, to that of degree rather than of substance.

3.6. Livelihood in the Informal Sector

The informal sector encompasses the self-employed, those involved in small-scale production, personal service providers, and small farmers. It is characterized by low-skilled, labor-intensive work. Often such work falls beyond the reach of government regulation taxation, and recognition

Most workers in developing countries find work not in the formal sector but in the informal sector. While some of this informal activity is in urban areas, the bulk of it is rural. Current projections confirm that this pattern is likely to persist in the foreseeable future, specifically, the agricultural sector is expected to continue providing a livelihood for many citizens of the developing
world, 60 per cent of whom now live in rural areas. For women, agriculture constitutes the main economic activity.

One factor that will determine the level of livelihood for many is the ability of individuals to create opportunities for themselves within the informal sector. As governments' attitudes towards this "shadow economy" become less hostile, as is evidenced by increasing investments in training, marketing assistance, special credit facilities, and lax enforcement of certain rules, the pace of growth in the informal sector is expected to accelerate.

It has been observed that employment, unemployment, job, workplace and workforce are all concepts and categories derived from the urban industrial experience of developed countries. As such, their relevance to the lives of the impoverished is limited. Thus, as noted earlier, the term livelihood has been suggested as a better reflection than employment of the complex and diverse reality of what has come to be known as the informal sector.

Chambers has proposed the concept of sustainable livelihood where sustainable refers to the longer-term aspects involved in pursuing activities that enable one to make a living. These distinctions seem useful for they suggest a broader range of approaches to human capacity development than the more narrow focus implicit in employment. This new emphasis allows those concerned with human capacity development to build on the ingenuity and pragmatism of the poor, landless and traditionally bypassed as well as their complex, diverse and risk-prone strategies for survival. The ability to recognize the abundance of strategic acumen that exists among the poor and to harness it as a building block for the development of new skills and knowledge is also a critical element of partagogy.

The importance of the informal sector to the question of human capability development can readily be summarized. Any strategy designed to
expand the opportunities for livelihood must give central importance to the self-employment and entrepreneurship that characterize the sector. An emphasis on agriculture, agro-industry and small firms—understanding the opportunities they present and the skills required by those who would avail themselves of these opportunities must be a central underpinning of any comprehensive human capacity development approach.

Livelihoods have five basic capital assets. These are natural, social, human, physical, and financial capital.

A livelihood comprises the capabilities, assets (including both material and social resources) and activities required for a means of living. A livelihood is sustainable when it can cope with and recover from stresses and shocks, maintain or enhance its capabilities and assets, and provide net benefits to both now and in the future, while not undermining natural resource base.

There are three main dimensions of sustainable livelihoods namely productivity, equity, and sustainability. Trade-offs between these dimensions are central. This analysis of the dynamics of the natural resource base, strategies for poverty reduction and the promotion of well-being; the reduction of risk and the avoidance of the need to initiate coping behaviour; and the promotion of positive adaptation to change are all core elements in the exploration of sustainable livelihoods. Indicators of sustainable livelihoods, therefore, will encompass elements such as: consumption levels; access to assets; embeddedness in social networks; levels of human capital; and the absence of inequality, as well as processes such as: resilience, coping and adaptation. This research will explore such indicators through a cross-site and country comparative research design.

59
3.7. State Intervention in the Informal Labour Market

The most important of the many arguments put forward for government intervention in the labour markets is that the outcome of the labour market operations is unattractive, unjust, and unsatisfactory from the distribution point of view, and that redistribution mechanism needs to be introduced to achieve social goals.

In the public interest that the domestic workers, employing, as it does, a very large number of women and whose conditions of work and living need amelioration, and to whom regularity of employment must be assured, Placement agencies must be regulated so that the Directive Principles of the Constitution more particularly the relevant provisions of Articles 39, 41, 42, 43, and 43-A of the Constitution are given effect to by a law made by the Parliament with reference to entries 22, 23 and 24 of List III in the 7th Schedule in the Constitution.

The extent of government intervention and their nature varies from country to country. In India, it also varies from state to state. "Labour" is an item included in the 'concurrent list' of the Constitution, which provides for labour legislation both by the central and the state governments. The work of the central ministry and state labour departments include maintenance of industrial relations, promotions of labour welfare, and enforcement of labour laws. However, the labour laws for most workers in the informal sector are enforced by the state governments, with the only exception of contractors and casual workers in establishments for which the central government is the appropriate regulatory authority. In the informal sector, the task of Union Labour Ministry thus mainly consists of policy formulation, enactment of uniform legislation and coordination of activities of the state labour departments. All labour laws enacted by the central government, directly or indirectly, influence a wage level and structure of wages in the formal sector.
Most of the labour laws in India apply to workers in the formal sector, and only a few cover those in the informal labour markets. However, most legislations relating to the formal sector also have indirect influence in the informal sector, as they raise expectations of the workers about their entitlements, and induce them to demand benefits similar to those in the formal sector.

3.7.1. Labour policy in India

Labour policy is enshrined in various labour laws targeting a particular section of the workers for uniform adoption in the country. Labour in India is in the Concurrent List as per the Constitution of India and, therefore, both central as well as state governments can enact the Act to suit the situation prevalent in the area under coverage of the state/union territory. The basic premise of the policy objectives is to create a work environment conducive to achieving a high rate of economic growth, and social well being with due regard to protecting and safeguarding the interests of workers.

At present labour laws can be categorized under four broad categories namely. (a) labour laws enacted by the central government, and also enforced by the central government, (numbering 12) (b) labour laws enacted by the central government and enforced both by the central as well as state governments; (numbering 16) (c) labour laws enacted by the central government and enforced by the state governments (numbering 15), and (d) labour laws enacted and enforced by state governments.

There are 43 enactments made by the central government. These 43 enactments deal with different aspects of workers welfare, such as wages, accidental benefits, maternity benefits, conditions of employment, formation of trade unions, industrial relations, provident-fund, insurance, industrial safety,
etc. Besides this, various state governments have enacted labour laws to be enforced by the state government within the geographical area of the state. The labour laws enacted by the state governments may be an extension of the laws enacted by any other state/states or specific to the state.

3.7.2. Employment Policy

(i) India has no separate employment policy. Employment generation is being attempted through economic development as a planned initiative.

(ii) Organised / formal and unorganized/informal sectors coexist both in the economy.

(iii) Labour intensive sectors are being encouraged for additional employment generation in the country.

(iv) Greater emphasis is given to the private sector both in the organised and unorganized sector component.

(v) Special employment generation and poverty alleviation programmes are being operated to address the poor and needy. National Rural Employment Guarantee Scheme guarantees the right of work for 100 days in a year to the rural households.

(vi) Social security in the governmental sector is covered under the schemes that are framed by the rules issued under-Article 309 of the Constitution in accordance with the recommendations of various Pay Commissions, Pay Committees, etc.

Employees in the organised private sector are generally covered under the benefits provided under employer's liability schemes which include the Employer's Liability Act, Fatal Accident Act (1855), Workmen's Compensation Act 1923, Industrial Disputes Act 1947, The Maternity Benefit Act, 1961 and the Payment of Gratuity Act. 1972. In addition, the Employees State Insurance Act 1948 provides for medical care and income security benefits for health-related contingencies on a contributory basis. The Employees Provident Funds and Miscellaneous Provisions Act 1952 is a saving
scheme in which benefits are in the nature of old age, invalidity and survival benefits.

3.7.3. Legislation Covering the Unorganised Sector

Some of these social security legislations, labour welfare schemes and funds that provide social security to workers in the organized sector are applicable to certain categories of workers in the unorganised sector too such as mines - mica, iron ore, manganese ore, chrome ore, limestone and dolomite. Welfare funds also exist for beedi workers, cine workers, and building and construction workers. These funds provide mainly medical care, assistance for the education of children, housing, water supply, and recreational facilities. In addition to the legislation and the funds being operated by the Central Government, various State Governments, depending upon their financial capability and policy initiatives, are operating various funds targeted for various groups of workers engaged in the unorganised sector. Efforts made so far for the unorganised sector workers are not systematic and cover only a small fraction of the workers.

The basic premise of the policy objectives is to create a work environment conducive to achieving a high rate of economic growth with due regard to protecting and safeguarding the interests of workers. The country has been able to achieve significant economic growth but consequential employment growth was not that significant. As a result, the problems of unemployment and underemployment continue, and get aggravated with every plan period.

Labour laws (as shown in the appendix) are primarily applicable to the organized sector (with few exceptions like minimum wages) and the number of workers covered is not significant. Therefore, labour laws do not play a significant role in the overall employment scenario in the country.
In India special employment generation and poverty alleviation programmes are being operated to address the poor and needy. National Rural Employment Guarantee Scheme guarantees the right to work for 100 days in a year to the rural households.

3.7.4. Social Security for Unorganised Workers

The National Commission on Enterprises in the Unorganised Sector (NCEUS) has been set up to recommend measures considered necessary for enhancing the competitiveness of the unorganised sector in the emerging global environment and for facilitating the generation of large-scale employment opportunities on a sustainable basis. An important term of reference of the Commission has been to review the social security system available for labour in the informal sector and to make recommendations for expanding their coverage.

The report of the National Commission on Enterprises in Unorganised sector focused on the need for protective social security for workers in the informal economy through the complementarities of promotional social security that should form a part of an overall and integrated social policy.

Presently, the social security framework in the country is operating at three levels. At the first level are the universal programmes and schemes for basic social human development such as the mission for literacy, schooling, healthcare services, drinking water and sanitation, technical training, etc. that should be viewed as being foundational to any sound social and economic development policy. These programmes address the issue of the creation and enhancement of human capabilities through the provision of entitlements to all citizens funded by the public exchequer.
At the second level are the social/human development schemes that are intended to provide a measure of socio-economic security to the poorer citizens, irrespective of their status as working or non-working poor. The underlying idea here is to meet both the promotional and protective needs of some sections of the population in their basic social security needs.

The third level should, according to the Commission, constitute a social security system for the unorganised/informal workers. This should address both deficiency and adversity. The social security concerns arising out of deficiency relate to access to credit/finance (especially for the self-employed), loans for upgrading skills, loans for housing, children’s education, etc. The adversity arises out of various contingencies such as absence of social security cover for ill health, accidents/death, and old age. These fall under the category of protective social security, which is the focus of the report.

Formal workers in India have recourse to social security measures. Informal workers who, as mentioned earlier, constitute more than 91 per cent of the workforce. They have limited or no formal social security cover which increases their vulnerability during times of illness, old age, unemployment, and untimely death. The absence of social security mechanisms constitutes a critical factor in the worsening of the condition of these households.

A number of social security programmes are being implemented by both the Central and State governments for the benefit of unorganised workers. In general, the model that has been adopted in most of these programmes has been that of Welfare Funds. A few schemes have been implemented by the central government either directly or through insurance companies. Separate legislations have been enacted by the Parliament to set up five Welfare Funds to be administered by the Ministry of Labour for providing housing, medical care, social security, education and recreational facilities to workers in selected locations.
mining operations, *beedi-making* and the production of feature films (called cine workers).

The National Social Assistance Programme (NSAP) is a programme of a cash-transfer nature in the country, which was launched with the objective of protecting the poor and destitute persons in the event of insecurities during old age, death of the breadwinner, and maternity. The scheme is 100 per cent centrally-funded to ensure that a measure of social protection, albeit limited, is available to the poor and old persons throughout the country.

Apart from the NSAP discussed above, a number of central government schemes for social security have been in operation over a period of time. These have been targeted at the poorer sections of the society and selected occupational groups, and are mostly contributory in nature.

At the state level, there are a number of social security initiatives. However, those are found to be uneven, in terms of coverage of both states as well as workers. With the exception of a few, most social security initiatives do not cover sickness. They mostly cover such requirements as accidental death and injury, maternity and some financial assistance for the education of children. One of the major insecurities of workers stems from frequent incidences of illness and need for medical care and hospitalization of the workers and their family members.

The historical experience suggests that there is hardly any effective alternative to the role of the state in providing a modicum of social security, especially to the poorer sections of the population.

The National Social Security Scheme now proposed by the Commission is based on defined contributions. These contributions are meant to be utilized as premiums for insurance to cover. (a) hospitalization, (b) maternity and life
insurance, and (c) old age security. As per the defined contribution of Rs. 3 per worker per day (contributed equally by the worker, employer and the Government), a sum of Rs. 1095 will be available per worker per year. This may be split into three premiums, viz. hospitalization, maternity and sickness allowance; life insurance; and old age security. In the scheme of things suggested by the Commission, it will be the responsibility of the State Social Security Boards to negotiate with the concerned insurance agencies, with the help of the National Social Security Board, and decide on how best to apportion the contribution and secure the best possible deal. The Commission has suggested a division of the annual premium of Rs. 1095 into a premium of Rs. 380 for health benefits and maternity cover. Rs. 150 for life insurance, and Rs. 565 for old age security.

The social security identity cards issued to the worker / family shall allow him / her to avail of the prescribed facilities on the basis of either a cashless system or the reimbursement of expenses. The Commission is of the opinion that a cashless system is the more appropriate one for the informal workers.

As regards old age security, the Commission has recommended the following two alternative benefits: (a) Monthly old age pension of Rs. 200 to all poor (BPL) old-aged (60+ years) workers, and (b) Provident Fund to all other workers (who are required to contribute to the national social security scheme). A premium of Rs. 565 is available per worker per year to all Above the Poverty Line (APL) workers for old age security, and towards Provident Fund which the worker can also use to purchase an annuity available from the age of 60 years.

The implementation of the social security scheme entails various responsibilities for diverse stakeholders in the context of the legislation on social security.
The State Board shall be responsible for devising an appropriate criterion for the identification of the Workers' Facilitation Centres (WFC), which may be designated *gram panchayats* or other organizations like NGOs and trade unions, keeping in view their institutional credibility as well as experience in managing social security schemes.

In order to provide legislative backing for the national minimum social security scheme proposed here, the Commission has drawn up a comprehensive draft Bill for the consideration of the Government of India. Such a legislative back-up will make the scheme a right-based one for the unorganised workers in the country. It will thus initiate a much-needed process of inclusion of the unprotected labour in the country in so far as a modicum of protective social security is concerned.

3.7.5. Policy Issues in the Informal Sector

Wage policy should have economic and social goals and its objectives have to be drawn from the broad social and economic objectives.

(i) Fixation of Minimum Wages

On the fixation of wages, the policy has been (a) to fix the statutory minimum wages in sweated employments.

Wages can be fixed between the two limits – the "basic minimum wage" and "living wage", where the basic minimum wage is the "cost of living relating to minimum subsistence level for workers and his family of three consumption units". The Minimum Wages Act, 1948 may be amended

to include the provision for "basic minimum wage" with the provision that statutory minimum wages should not be fixed below the basic minimum wage.

(ii) Coverage of Minimum Wage Legislation

The Minimum Wages Act, 1948 provides for fixation and enforcement of minimum wages in scheduled employments. The coverage of minimum wage legislation should be increased, by fixing minimum wages for more and more employments.

(iii) Enforcement of Minimum Wage Laws

The tendency to fix minimum wages at unrealistically high levels should be checked. Enforcement of rates once fixed must be ensured that this will require the involvement of tripartite machinery, during minimum wage fixation. Instead of a single rate, it is preferable to have different rates for different employments or different groups of employments.

(iv) Collective Bargaining

Though collective bargaining is mainly observed for workers in the formal sector, it is also not uncommon in the informal sector, where unions enter into wage agreements with the association, of employers. Collective bargaining is preferable to the fixation of minimum wages, and thus should be encouraged in the informal sector.

(v) Productivity of workers

Wherever possible minimum wages are fixed it should ensure a reasonable productivity of workers.
(vi) Social Security Contribution

In the informal sector, occupation-linked social security is a neglected area. Thus, suitable institutional arrangements need to be developed to provide a minimum measure of social security for workers in the unorganised sector.

(vii) Promoting Awareness of Workers Rights

Creation of awareness amongst the workers about their rights and obligation in the unorganised sector is an important issue. This is difficult as many of the workers live in remote areas and a large number are illiterate. Adequate arrangements should be made to make the workers aware of the legal provisions of the minimum wage rates and the benefits to which they are entitled.

(viii) Role of Trade Unions

Implementation of government policies and legislations is the main problem in the unorganised sector. Trade unions can play an important role in the fixation and enforcement of minimum wages and by participating in collective bargaining for wages and efforts to improve conditions of work in general.

(ix) Removal of Irrational Wage Disparities

Steps should be taken to remove irrational and iniquitous wage disparities, particularly for those groups of workers, who are weak and neglected and cannot effectively express their feelings and needs – the women, children and sometimes those belonging to lower caste. The principle of equal wage for equal work should be observed in fixing wages. Wages of child
workers in the minimum wage notifications and wage agreements should be fixed at par with that of the adult workers.

(x) Issues Relating to Casual Workers in Formal Sector

The informal workers in the formal sector – the contract workers and casual workers represent a distinct group within the informal labour market. The issues of concern to these workers merit special attention by policy makers. The objective here should be to improve the wages of these workers and to provide sustainable industrial relations in the organizations.

(xi) Fixation of Uniform Wage through Collective Bargaining

The wage policy in the informal sector should encourage the development of small firms and improvement of wages of the workers. The policy should encourage the development along the path of high wage / high technology / high quality in place of low wage / low technology / low quality.

(xii) Amendment of Existing Legislation to Cover Informal Workers

It is not possible to find a clear dividing line, which separates the informal sector from the formal sector and organized from the unorganized workers – on the basis of the different types of benefits and protection they receive under different legislations. The regional level and employment specific policies need to be derived from the goals and objectives set out in national or state level policies, and in doing so the priorities of workers should be taken into consideration. There is a difference between what we perceive as their needs, and what they think about their needs. The priorities of different types of poor workers are different, and they vary by occupation and also by the degree of their deprivation. The programmes and policies, which meet their daily consumption, needs fit the priorities of the workers who are desperately
poor like the workers in tiny units. The relatively less poor will welcome policies and programmes which reduce their vulnerability. Regional and local policies in order to be effective should take into consideration the ground realities. Now the women workers employed in organized sector are entitled for 4 months full pay maternity leave, and this is counted for pension benefit as regular service.

However, the large segment of women workers employed in the unorganised sector do not have any maternity protection. They face the problems of wage loss, threats to their jobs and ill-health and under-nutrition.

Since the MPC of ILO cannot be applied in the short run in the unorganised sector, the government may evolve a policy aimed at (a) ‘sharing’ the costs of maternity benefits with the employers in the industry and the tertiary sector which is unorganised; and (b) providing for more fund allocation for raising the maternity allowances for women working as agricultural labourers and domestic maid servants and home workers.

The chapter presents the concept of informal sector and various dimensions of informal sector. The nature and magnitude of informal sector, features and characteristics of informal sector, state intervention in informal sector were presented in a systematic manner. The chapter indicates the need for policy measures to improve the situation of workers in the informal sector.