Estimating the size of the Indian informal sector

3.1. Introduction: The informal sector represents an important part of the economy in many countries, especially less developed countries (LDCs), and thus plays a major role in employment creation, production and income generation. The widespread agreement that the sector represents a growing proportion of economic activity, particularly in LDCs, places it at the centre of debate about its role with respect to economic development.

The early development economists visualized the growth of organized economic activities through rapid industrialization via capital formation and the expansion of domestic and export demand. The reality that a large section of the population was earning a daily living by participating "in activities that fell outside the orbit of the organized sector" was summarily ignored as it was considered to be a temporary phenomenon. It was expected that those activities would disappear with the growth of the economy (World Development Report, 1998). In other words, the idea was that once the take-off in economic growth was accomplished, the demand for, and returns to labour would increase in the organized sector. Consequently, the need to participate in activities outside the organized economy was expected to gradually disappear.

That optimistic vision of economic transition did not match what was actually happening in the world. In the late 1960s and 1970s, a large section of the population in the developing countries was still suffering from poverty and still working outside the organized sector in activities that were later broadly termed as "informal". Economic growth was not percolating down to the masses fast enough. Due to population growth and urban migration, the active labour force was growing at a much faster rate than the availability of jobs in the organized sector (Osvaldo, 1999). Interest was thus generated in sectors outside the organized economy that was providing a livelihood to a large section of the poor.

The International Labour Organisation (ILO) and PREALC turned to the informal sector as a potential solution to unemployment in less developed countries. Seeing it as a collection of survival strategies held back by undercapitalization, lack of skills, and the small size of the enterprises, they argued that the informal sector was a healthy
phenomenon, capable of converting the open, rampant unemployment into a hidden
disguised employment (Sethuraman, 1981).

3.2. The problem in defining informal sector: The heterogeneity of the
informal sector, as well as close linkages in some cases with formal businesses on the one
hand and illegal services on the other, makes it difficult to define and measure. Right
from the inception of the concept a series of discussions were taking place regarding the
definition, empirical estimation and theoretical understanding of this sector, but no
concrete answers were reached. In fact, there were researchers (Peattie 1989; Bromley
1990) who criticized the term for lack of clarity.

There were efforts to provide multi-dimensional definitions of the informal sector by
different research groups at different points of time. Papola (1981) defined informal
sector as a composition of units that were not registered as per the institutional rules of
the country. As the unregistered character of informal firms overlapped with the rules of
illegal or black markets (Bevan, Collier and Gunning, 1989), informal sector was defined
as the “hidden, gray, shadow, clandestine, illegal, unobserved, unreported, unrecorded,
second, parallel and black” (Feige 1990) sector of the economy.

3.3. The formal definition: In a bid to statistically estimate the size of the informal
sector and generate evidence-based policy prescriptions, the Fifteenth International
Conference of Labour Statisticians held in January, 1993 at Geneva adopted an
international statistical definition of the informal sector. The definition was subsequently
included in the revised System of National Accounts (SNA), recommended by the United
Nations, that conceived the informal sector as consisting of production units that
"typically operate at a low level of organization, with little or no division between labour
and capital... and on a small scale.... Labour relations - where they exist - are based
mostly on casual employment, kinship or personal and social relations rather than
contractual arrangements with formal guarantees."

This definition was therefore based on the characteristics of enterprises (production units)
in which the activities took place, rather than in terms of the characteristics of the persons
involved or of their jobs.
These units possessed the characteristics of "household enterprises" enumerated as: (i) fixed and other assets do not belong to the unit but to the owner; (ii) units cannot engage in transactions or enter into contracts nor incur liabilities on their own behalf; (iii) expenditure for production and capital goods are often indistinguishable from household purposes (World Labour Report, 1998-99).

The use of the term "household enterprises" is quite contextual from the point of view of the ICLS definition as production units of the informal sector were defined as a subset of unincorporated household enterprises, i.e. as a subset of production units which were not constituted as separate legal entities independently of the households or household members who own them, and for which no complete sets of accounts (including balance sheets of assets and liabilities) were available which would permit a clear distinction of the production activities of the enterprises from the other activities of their owners and the identification of any flows of income and capital between enterprises and the owners. Accordingly, persons employed in the informal sector were defined as comprising all persons who, during a given reference period, were employed in at least one production unit of the informal sector, irrespective of their status in employment and whether it was their main or a secondary job.

Thus, according to the definition, the informal sector comprised (i) "informal own-account enterprise" owned and operated by own-account workers, either alone or in partnership with members of the same or other households, which might employ contributing family workers and employees on an occasional basis, but did not employ employees on a continuing basis; and (ii) "enterprises of informal employers" that were owned and operated by employers, alone or in partnership with members of the same or other households, which employ one or more employees on a continuous basis.

In order to distinguish informal sector enterprises from other unincorporated enterprises owned by households, the 15th ICLS recommended to use one or more of the following three criteria: (i) non-registration of the enterprise; (ii) small size in terms of employment; and (iii) non-registration of the employees of the enterprise. The first criterion referred to non-registration under specific forms of national legislation, such as factories or commercial acts, tax or social security laws, professional groups’ regulatory acts, or similar acts, laws or regulations established by national legislative bodies, as
distinct from non-registration under regulations enacted by local authorities for the
purpose of obtaining a trade licence or a permit to operate a business.

The second criterion was formulated in terms of the number of employees employed by
the enterprise on a continuous basis, the number of all employees (including those
employed on an occasional basis), or the total number of persons engaged during a
specific reference period (including the entrepreneur, business partners and contributing
family workers in addition to the employees). Recognizing that the size limit for informal
sector enterprises might have to vary between countries and between branches of
economic activity, the 15th ICLS did not specify any precise cut-off point for labour
usage.

The third criterion refers to the conditions of employment in the informal sector
regarding the employees' legal and social protection; it was defined in terms of the
absence of employment or apprenticeship contracts which commit the employer to pay
relevant taxes and social security contributions on behalf of the employees or which
make the employment relationships subject to standard labour legislation. According to
this criterion, an enterprise would be considered informal if none of its employees is
registered.

3.4. Operational notes, International: The definition of the informal sector as
provided by the 15th ICLS used an enterprise (production unit) in which the activities take
place as a definitional unit, rather than the characteristics of the persons involved or of
their jobs.

But informality characterizes not only the management structure of an enterprise, but also
the contractual status and conditions of employment (Hussmanns, 1998). For example, a
“worker can be hired without an employment contract, or unregistered and undeclared, by
an enterprise belonging in the formal sector, thus the worker belongs to the informal
sector”. The widespread strategy of outsourcing and subcontracting services and
production to ever-smaller enterprises, family undertakings and home workers has
contributed to what is generally referred to as "informalization" of employment.

Thus in order to complement its definition of the informal sector, the 15th ICLS adopted
a number of recommendations regarding the scope of informal sector surveys and the
statistical treatment of particular situations lying at the borderline between the informal
and other sectors. These include: (i) the exclusion of units exclusively engaged in the production of goods or services for own final consumption or own fixed capital formation (e.g. construction of own houses) from the informal sector; (ii) the exclusion of agricultural activities from the scope of the informal sector, for practical reasons; (iii) the inclusion or exclusion of enterprises engaged in the production of professional or technical services rendered by self-employed persons (doctors, lawyers, accountants, architects, engineers, etc.) on the same basis as other enterprises; and (iv) the option to include/exclude paid domestic workers engaged by households in/from the informal sector, depending upon national circumstances and the intended uses of the statistics.

In a subsequent move to incorporate the concept of labour in the operational definition of the informal sector, the ILO international symposium on the informal sector in 1999 proposed that the informal sector workforce be categorized into three broad groups: (a) owner-employers of micro enterprises, which employ a few paid workers, with or without apprentices; (b) own-account workers, who own and operate one-person business, who work alone or with the help of unpaid workers, generally family members and apprentices; and (c) dependent workers, paid or unpaid, including wage workers in micro enterprises, unpaid family workers, apprentices, contract labour, home workers and paid domestic workers and thus be included in the definition of the informal sector.

However, the international comparability of data on the informal sector is affected by national differences in data sources, in the geographical coverage of surveys, in the branches of economic activity covered, in the choice of criteria used to define the informal sector, in the way that these criteria are specified, and in the treatment of specific groups of enterprises or workers. Some (but not all) of these differences are in line with the international recommendations, which concede some flexibility to countries in defining and measuring the informal sector.

It should also be recognized that not all countries utilize the concept of informal sector in their statistics. Some countries apply alternative concepts that are closely related, such as micro and small enterprises, household economic activities, household industry, unorganized sector, hidden activities, or unregistered employment (Allal, 1999). Data sources for the number of persons employed and other characteristics of the informal sector vary among countries. The most common sources are labour force surveys and special informal sector surveys based on a mixed household and enterprise survey.
approach or an economic/establishment census and survey approach. Other sources include multi-purpose household surveys, household income and expenditure surveys, surveys of household economic activities or household industries, micro and small enterprise surveys, and official estimates (Ghersi, 1998).

In many countries, especially in the Latin American and African regions, data on the informal sector are available for urban areas only. In some countries, the geographical coverage of informal sector surveys is limited to the major metropolitan areas or the capital cities. Of equal significance is the fact that some countries, especially in the Asian region, Eastern Europe and the Commonwealth of Independent States, include small-scale or unregistered agricultural activities in their definition of the informal sector, while others restrict the definition to non-agricultural activities (Hussmanns, 1998).

National practices concerning the treatment of paid domestic workers vary widely across countries and data sources. Among the countries using labour force or other household surveys for the measurement of employment in the informal sector, the number of countries including paid domestic workers in the informal sector is almost equal to the number of countries that exclude these workers.

By contrast, countries conducting surveys of the production units of the informal or similar sectors tend to either exclude all paid domestic workers or include only those who consider themselves as self-employed.

Since the majority of paid domestic workers are women, the international comparability of data for women is more affected by differences in the treatment of paid domestic workers than is the international comparability of data for men (de Soto, 1999).

Apart from the most widely accepted definition of informal sector as provided by the ICLS-93, researchers have tried to conceptualize the size of the informal sector through other qualitative indicators as the proportion of migrant labour, level of education, number of hours worked by respondents, the percentage of female and child labour in the total workforce. A survey of ESCAP, 1996 carried out in selected Asian countries reveals that 93 per cent of migrant labourers in Dhaka, 63 per cent in New Delhi, 97 per cent in Jakarta and 80 per cent in Bangkok work for the informal sector. In Jakarta seven per cent of the informal sector workforce are without formal schooling and only 50 per cent are with primary education. In New Delhi 86 per cent of informal sector workers work...
more than eight hours a day and 15 per cent work 12 hours or more. In Dhaka the average worktime hovers around 10 hours.

Other studies tried to capture the size of the informal sector through the amount of capital employed, use of electricity and registration with certain public agency. The ILO study titled The Urban Informal Sector in Asia: Policies and Strategies (1995) indicates that the informal sector has access to only 32 per cent of the aggregate national capital, 85 per cent use residential premises for business, only five per cent have access to physical infrastructure and electricity.

However, studies based on qualitative indicators are conducted at certain distinct points of time. Non-availability of data from secondary sources and problems of temporal comparability have not permitted them to proceed further in these lines.

3.5. Operational notes, National: The term informal sector was first used in the Indian statistics as late as 1999-2000. The National Sample Survey, carried out by the Central Statistical Organisation of the Government of India conducted an integrated survey of households on employment-unemployment and consumer expenditure and non-agricultural enterprises in the informal sector (56th round), the first of its kind in Indian statistics. The survey on non-agricultural units in the informal sector covered enterprises carrying out activities of manufacturing, construction, trading, hotels and restaurants, renting and business services, education, health and social work and other community, social and personal services.

An expert group was constituted by the Department of Statistics, Government of India, to formalize the definition of the Indian informal sector. In its meeting held in November 5, 1998, the expert group decided to abide by the definition adopted in the resolution of the Fifteenth ICLS-1993. All unincorporated proprietary and partnership non-agricultural enterprises were defined as informal sector enterprises.

As the ICLS-93 definition was enterprise-based, an enterprise survey approach was adopted. To supplement the coverage of the notion, as was done actually in the ICLS-93 definition, a household survey was also undertaken. Information on characteristics of enterprises, fixed assets, value-added etc was collected on the basis of the enterprises surveyed. Alternatively, information on labour in the non-agricultural sector was also
collected from households surveyed, by taking into account the principal and subsidiary activities of each member of the household.

In the enterprise survey approach, an enterprise was defined as “an undertaking engaged in the production and/or distribution of some goods and/or services meant mainly for the purpose of sale, whether partly or fully.” The number of enterprises and the number of workers employed thereof were enumerated.

In the household survey approach household was defined to be a group of persons who normally lived together and shared food from a common kitchen. The word “normally” meant that temporary visitors were excluded (guests, for example), but temporary stay-aways were included.

The number of workers was enumerated using the usual economic activity status, which we define below. As per NSS 55th round report, any activity resulting in the production of goods and services that add value to national product in considered as an economic activity. A person could be in one or a combination of the following three broad activity statuses during a reference period: (i) working or being engaged in economic activity as defined above.

(ii) Being not engaged in economic activity but making tangible efforts to seek work.

(iii) Being not engaged in any economic activity and also neither seeking nor being available for work.

Broad activity statuses mentioned in (i) and (ii) above are associated with “being in labour force” and the last with “not being in labour force”. Within the labour force, broad activity status (i) and (ii) are associated with “employment” and “unemployment” respectively. The employed workers under the usual activity status formed the total employment in the informal sector under the household survey approach.

In a bid to further categorize the information collected by the enterprise-survey method, enterprises were classified into “Own-Account Enterprises” and “Establishments,” that matched conceptually with the ICLS-93 classification of “Informal Own Account Enterprises” and “Enterprises of the Informal Employers.” It defined “Own-Account Enterprise” as an undertaking run by household labour, usually without any hired labour for the major part of the period of operation of the enterprise during the last 365 days from the date of the survey. Enterprises were units that hired at least one hired worker for the major part of the period of operation of the enterprise during the last 365 days.
As we had seen in the international literature earlier (Allal, 1999) that not all countries have defined and worked on the mostly widely used definition of the informal sector as provided by the ICLS-93. Some countries have applied alternative concepts that are closely related, such as micro and small enterprises, household economic activities, household industry, unorganized sector, hidden activities, or unregistered employment as a dummy to the informal sector.

Though information on the informal sector of the Indian economy was not available before 1999-2000, the Central Statistical Organisation (CSO) did conduct integrated surveys on the Indian unorganised sector. Since the international literature accepts the notion of unorganised sector as a close dummy to the informal sector, we would take a look at how the sector is defined.

In a bid to collect, collate and publish data on the sector which was outside the purview of the well-defined organized framework of the economy, the CSO conducted Economic Surveys to generate a sound and reliable data base for the unorganised non-agricultural sector. Reports for four Economic Censuses have been available so far, for 1977, 1980, 1990 and 1998.

Economic Census, conducted by Central Statistical Organisation (CSO), India, covered units whose “activity was not regulated under statutory act or legal provision and/or which did not maintain any regular accounts.” It defined enterprises as “undertaking engaged in production and/or distribution of goods and/or services not for the sole purpose of own consumption.”

In a bid to classify enterprises further on the basis of its employment status, Economic Census defined the first category as own-account enterprises: units owned and operated exclusively with the help of household labour and the second category as establishments: units that use at least one hired worker on a regular basis.

3.6. Definitional difference between the informal and unorganised systems: This listing of own-account enterprises and establishments, provided by different rounds of Economic Censuses, was taken up as a frame for follow-up surveys conducted by the National Sample Survey to estimate the basic indicators of the unorganised manufacturing and repair enterprises. The 33rd NSS round (1978-79) used the 1970 Economic Census, the 40th round (1984-85) used the 1980 Economic Census,
the 45th round (1989-90) and 51st (1994-95) rounds used the 1990 Economic Census and the 56th round (2000-01) used the 1998 Economic Census as its background frame. All four rounds of Economic Censuses and the different rounds of NSS data generated thereof, defined the organized sector as a composition of enterprises for which the statistics were readily available from the budget documents or reports, annual reports in the case of public sector and through the Annual Survey of Industries (ASI) in case of registered manufacturing. Unorganised sector was defined as a composition of units not registered under the Factories Act 1948 and/or those enterprises that did not maintain any regular accounts. While units involved in production of goods constituted the unorganised component of manufacturing, all non-public sector units in sectors like transport, warehousing and services constituted the rest of the unorganised sector. Thus unorganised sector covered unincorporated proprietary and partnership enterprises, enterprises run by cooperative societies, trusts, private and public limited companies not covered by the Annual Survey of Industries (ASI) (NSS, Report 459). However, only unincorporated proprietary and partnership enterprises comprised the informal sector. The informal sector was thus made a sub-set of the bigger unorganised sector set.

3.7. Some international trends on informal sector size: The ILO key indicators of the Labour Market, 1999 identified Africa, Asia and Latin America as continents housing a bulky informal sector. Before getting into details of individual countries, we would like to take a look at the overall scenario in continents.

In Africa, urban informal employment was estimated to absorb 61 per cent of the urban labour force. This sector was expected to generate more than 93 per cent of all additional jobs in the region in the 1990s.

In Asia it was estimated that the informal sector typically absorbed between 40 and 50 per cent of the urban labour force, with countries such as Bangladesh having an estimated 65 per cent of employment in the informal sector.

In Latin America, the urban informal sector was the primary job generator in the 1990s. On an average, micro-enterprises, own-account workers and domestic services created six out of every 10 new jobs. Informal sector employment grew by 3.9 per cent per annum while formal sector employment grew by only 2.1 per cent in that region. (Source: ILO
In nine countries in Africa (Cameroon, Côte d'Ivoire, Zambia, Ghana, Kenya, Madagascar, Mali, the United Republic of Tanzania and Uganda), seven in Latin America (Brazil, Bolivia, Colombia, Ecuador, Honduras, Paraguay and Peru) and one in Asia (Pakistan) employment in the informal, or related sectors accounted for more than 50 per cent of total employment in the corresponding branches of economic activity. The highest shares (more than 70 per cent) were recorded in Zambia, Ghana, Mali and Uganda. Among the regions covered, economies in sub-Saharan Africa had the highest share of informal sector employment to total employment, and the transition economies of Central and Eastern Europe and the Commonwealth of Independent States had the lowest shares (ILO Key indicators of the labour market, KILM, 1999).

In virtually all countries where comparable time-series data were available, it was observed that the share of informal sector employment to total employment in the corresponding branches of economic activity increased during the 1990s; the largest increases for the indicator were observed in Bolivia, Kenya and Venezuela. For Latin American economies, the typical pattern was an increase of the indicator during the first half of the 1990s, followed by a stagnation or decrease during the latter years. Brazil, Chile, Honduras, Paraguay, Peru, and Venezuela were exceptions to this pattern. For Chile, the indicator remained almost constant, while for Brazil, Honduras, Paraguay, Peru and Venezuela it continued to increase during the whole decade.

Results on the basis of national level household surveys undertaken in certain African countries to measure the labour force involved in the informal sector indicated that informal trade had the highest observed rates of employment and contribution to the gross domestic product of the economy. The contribution of informal sector to employment and GDP in industries were also been high, especially in Benin and in Burkina Faso, while the contribution in services were much lower because of the importance of non-market services (such as administration).

The results are presented in Table 1.
Table 1
Contribution of informal sector workers to total workforce, gross domestic product for some African countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Category</th>
<th>Benin 1992</th>
<th>Mali '89</th>
<th>Chad '93</th>
<th>Burkina Faso '92</th>
<th>Tunisia '94-'96</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% to total Workforce</td>
<td>% to total GDP</td>
<td>% to total Workforce</td>
<td>% to total GDP</td>
<td>% to total Workforce</td>
<td>% to total GDP</td>
</tr>
<tr>
<td>Industries</td>
<td>97</td>
<td>61.9</td>
<td>91.7</td>
<td>35.5</td>
<td>72.6</td>
<td>33.4</td>
</tr>
<tr>
<td>Trade</td>
<td>99.1</td>
<td>69.8</td>
<td>98.1</td>
<td>56.7</td>
<td>99.2</td>
<td>66.7</td>
</tr>
<tr>
<td>Services</td>
<td>70.7</td>
<td>9.5</td>
<td>66.1</td>
<td>25.5</td>
<td>49.7</td>
<td>34</td>
</tr>
<tr>
<td>Non-agri</td>
<td>92.8</td>
<td>42.7</td>
<td>78.6</td>
<td>41.7</td>
<td>74.2</td>
<td>44.7</td>
</tr>
<tr>
<td>Total</td>
<td>41</td>
<td>27.3</td>
<td>13.3</td>
<td>23</td>
<td>11.5</td>
<td>31</td>
</tr>
</tbody>
</table>

Primary Source: National Accounts Statistics, Benin, Mali, Chad, Burkina Faso and Tunisia

As the International Labour Organisation identified Indonesia, the Republic of Korea and Thailand as Asian countries with a substantial informal sector, a discussion on the size and nature of the informal sector of these three countries is in order. A summary of the studies by Allal, 1999 provided a very comprehensive picture of the informal sector activities in Thailand.

In 1994, the National Statistical Office (NSO) of Thailand carried out a national survey of the informal sector in all economic spheres, including agriculture, manufacturing, trade and service.

Definitions used by NSO were: (a) The formal sector: Organizations that have defined management and administrative systems, including government and private agencies that employ at least 10 persons; (b) The informal sector: Enterprises typically operating on a small scale with a low level of organization, low and uncertain wages, and no social welfare and security. The definition implied that enterprises in the informal sector employed one to nine workers.

According to the survey of Thailand undertaken in 1994 by NSO, which was a boom year for the economy with a GDP growth rate of more than 8 per cent, over 75 per cent of the total employed workforce was in the informal sector. The latter figure reached 97 per cent in the agricultural sector. The informal sector accounted for 51 per cent of all
enterprises in the manufacturing, trade and service sectors. It also accounted for 22.7 per cent of all employed labour in the non-agricultural sectors compared with 20.7 per cent for the formal sector. NSO statistics for 1997 on industrial and business establishments showed that employment generated by the informal sector in the manufacturing, trade and service sectors was approximately 3.5 times that in the same for the formal sector. The contributions of informal sector enterprises involved in trading to employment were much more important than those of enterprises in the manufacturing and service sectors.

In the Republic of Korea, the term “informal sector” was not used. By defining the informal sector to include the self-employed with or without family labour and micro-enterprises with less than five workers, it was estimated that in 1985 there were 13.37 million employed (about 42 per cent) in this sector in urban areas as compared with 5.57 million in the mid-1970s (Wiebe, 1998).

In Indonesia, the informal sector accounted for a large share of the total workforce. However, recent data are difficult to come by. According to the World Bank Report, 1993, the formal sector accounted for less than 32 per cent of the working population, the remaining 68 per cent were working in the informal sector. Sethuraman also provided a comprehensive study of the informal sector in Indonesia. According to the study, in the early 1980s the informal sector’s share of employment in manufacturing was 48 per cent and 90 per cent in trade and restaurants. Overall employment in the informal sector was found to be 53.8 per cent of total employment. According to an ILO study on urban Indonesia, employment in the informal sector was estimated to have risen from 6.1 million in 1985 to 8.1 million in 1990, which was about 42 per cent of total urban employment.

In Latin America 44 percent of the employed males in Argentina worked in the informal sector. In the case of Venezuela, this number was 49 percent, for Mexico 62 percent, and for Peru 56 percent (Banco Interamericano de Desarrollo, or the Inter American Development Bank, 1998).

3.8. National trends on informal sector size: The 55th round of National Survey conducted an integrated survey of enterprises and households to estimate the key indicators of non-agricultural enterprises in the informal sector during July 1999 to June 2000. The survey covered the whole of the Indian Union except (i) Ladakh and Kargil
districts of Jammu and Kashmir (ii) villages situated beyond five kms of bus route in the
states of Nagaland and (iii) inaccessible villages of Andaman and Nicobar Islands. A total
of 1,97,637 enterprises were surveyed all over India (First Stage Units). Of them, 56 per
cent were from rural areas and the rest were urban units. Out of the total number of
sample enterprises, 82 per cent were own-account enterprises and the rest were
establishments.

At an all India level, the number of non-agricultural enterprises has been estimated as
444.1 lakh. Of these 56 per cent enterprises are located in rural areas and the rest in urban
areas. The highest number of enterprises is located in Uttar Pradesh (18 per cent),
followed by West Bengal (11 per cent) and Maharashtra (nine per cent). Manufacturing
(32 per cent) and trading and repair services (39 per cent) constitute over 71 per cent of
the enterprises.

The survey estimated the number of non-agricultural workers to be 797.8 lakh, of these
50 per cent worked in enterprises located in urban areas. The highest number of workers
is in Uttar Pradesh (17 per cent), followed by Maharashtra (10 per cent) and West Bengal
(10 per cent).

As we might recall at this point that the 55th NSS round adopted the internationally
accepted definition of the informal sector provided by ICLS-93. Though initially an
enterprise-based definition was provided, labour was later included in the operational
definition of the informal sector. This suggested that an ideal count of informal sector
workers should come from a mix of enterprise-survey and household-survey approaches.
As per the results of the 55th NSS round, the number of workers in the informal sector
estimated from the household survey approach was greater than the corresponding figure
arrived at through the enterprise-survey approach. While in the enterprise survey method
a worker was defined as one who participated in the activities of the enterprise on a fairly
regular basis during the reference month either on full time or on part time basis, it did
not cover the casual labourers. As the household survey method covered individuals
serving as housemaids, cooks, gardeners, governess, baby-sitters, chowkidars, night
watchmen etc, it gave a twelve per cent higher estimation of the total number of workers
in the informal sector.

Since the 55th round NSS survey on the informal sector was the only one of its kind, no
inter-temporally comparable figures could be generated.
We had seen earlier that the international literature accepts the unorganised sector of the economy as a close dummy to the informal sector. We had also noted the definitional differences between the two. We would now proceed to present and analyse the data of the Indian unorganised sector as generated by the four rounds of Economic Censuses. Follow-up surveys in the unorganized segments of the non-agricultural sector were conducted since 1977 for developing a sound and reliable data base for the unorganised sector. Reports for four rounds of Economic Censuses have been available so far, for 1977, 1980, 1990 and 1998.

Economic Census, conducted by CSO, India, covered units whose “activity was not regulated under statutory act or legal provision and/or which did not maintain any regular accounts.” It defines enterprises as “undertaking engaged in production and/or distribution of goods and/or services not for the sole purpose of own consumption.”

The scope and coverage of the first Economic Census (1977) was narrow as it estimated only the number of non-agricultural establishments, units employing at least one hired worker on a regular basis. The own-account category, not engaged in crop production and plantation, had been introduced in the Second Economic Census of 1980. The computational procedure of the Third (1990) and Fourth (1998) was similar to the Second and thus comparable.

Apart from the fact that the First Economic Census of 1977 did not cover those units which operated solely on the basis of family labour and did not use any hired labour (own-account manufacturing), it defined establishment as an unit having an annual output, turnover, receipt of less than Rupees 1 lakh, irrespective of its employment size. As the additional criteria of annual turnover was absent in the definition of establishment provided in the Second Economic Census, the establishments enumerated in the First Economic Census were, by definition, non-comparable to the establishments estimated in the Second. As the data generated on the basis of the First Economic Census is not comparable with the data generated in the second, third and the fourth, it has not been taken up for presentation.

Table 2 represents the Economic Census data.
Table 2

<table>
<thead>
<tr>
<th>Non-agricultural enterprises</th>
<th>Total employment (in lakh)</th>
<th>Rates of growth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1980</td>
<td>1990</td>
</tr>
<tr>
<td></td>
<td>506.9</td>
<td>573.1</td>
</tr>
</tbody>
</table>


Table 2 indicates that there has been an increase in the absolute number of workers, which has registered a growth of 0.338%, while the rate of growth of employment in the non-agricultural category was 13.05 per cent during the decade. However, there has been a substantial dip in the rate of growth of employment in the non-agricultural category during the 1990-98 period.

There has been a strong criticism against the Economic Census data (Kulshreshtha, 1998, Suryanarayanan, 1998). It has been argued that 10 years is too broad a time span to capture the very dynamics of the unorganised sector. It has been stated that the Economic Census data turns outdated quite fast as the own-account enterprises and small and tiny establishments have very high death and birth rates. Thus the broad 10 years’ comparison period may present just the basic head-counts of the number of enterprises and employment, but fails to capture the internal dynamics complicated by the presence of heterogeneity within the sector itself.

It has also been argued that the Economic Census did not enumerate hired household helps, casual labour like coolies and general purpose labour selling their unskilled labour time to different households at different points of time, thus implying a possible under-estimation of the unorganised size class as a whole.

As we propose to study the productivity of urban unorganised manufacturing units we would like to concentrate now on the size of the urban unorganised manufacturing sector generated from various NSS rounds.

The National Sample Survey, carried out by the Central Statistical Organisation of the Government of India, conducted various rounds of enquiry to estimate the basic indicators of the unorganised manufacturing and repair enterprises. The listing of enterprises and establishments, essentially in the unorganised sector of economic activities, provided by the different rounds of Economic Censuses, was taken as a frame for the follow-up surveys conducted by the NSS.
The first round of data on the key indicators of small establishments engaged in manufacturing and repair services were provided in the 33rd round of the NSS during 1978-79. As it was based on the definition of the unorganised sector enterprise provided in the First Economic Census of 1977, it was rendered inter-temporally non-comparable. Subsequent data for the unorganised manufacturing category was generated quisquennially by the 40th (1984-85), 45th (1989-90), 51st (1994-95) and 56th (2000-01) NSS rounds. The 40th and 45th NSS rounds used the Second Economic Census (1980), the 51st used the Third Economic Census (1990) and the 56th round used the Fourth Economic Census (1998) as its background frame.

The 40th round covered the whole of the Indian union except two districts of Jammu and Kashmir (Ladakh and Kargil) and some interior villages in Nagaland. The number of first stage units in the central sample was 15,156 in 1984-85 and 17,472 in the state sample. The 45th round had a similar geographical coverage. The number of first stage unit was 14,984 in the central sample and 17,080 in the state sample.

The 51st round covered the whole of Indian union excepting Ladakh, Kargil, Anantnag, Pulwama, Srinagar, Badgam, Baramula and Kupwara districts of Jammu and Kashmir, some interior villages of Nagaland and some inaccessible villages of Andaman and Nicobar Islands (the areas left out from the survey coverage had a share of about 0.62 per cent in the total population of the country). The number of first stage units was 13472 (8214 rural and 5258 urban units).

The 56th round covered the whole of Indian union except Leh and Kargil districts of Jammu and Kashmir, remote villages of Nagaland, inaccessible villages of Andaman and Nicobar Islands and some first stage unit where Economic Census, 1998 could not be conducted. A total of 14788 first stage units (5696 villages and 9092 urban blocks) were selected for the survey.

Ultimate stage units were selected by the method of circular systematic sampling from the corresponding frame in the first stage unit and the actual number of enterprises was estimated on the basis of these.

As per ICLS 93, the data on establishments was classified into (i) own-account manufacturing category: units operating only on the basis of family labour (ii) directory establishments, using “more than six workers including household workers”, and (iii)
non-directory establishments employing “less than six workers including household workers.”

The data generated from various NSS rounds is presented in Table 3 below.

Table 3

<table>
<thead>
<tr>
<th>Year</th>
<th>OAME</th>
<th>NDME</th>
<th>DME</th>
<th>EST(NDME+DME)</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Employment</td>
<td>Employment</td>
<td>Employment</td>
<td>Employment</td>
<td>Employment</td>
</tr>
<tr>
<td>1984-85</td>
<td>36.4</td>
<td>53.1</td>
<td>11.3</td>
<td>25.3</td>
<td>NA</td>
</tr>
<tr>
<td>1989-90</td>
<td>28.2</td>
<td>49.8</td>
<td>88.9</td>
<td>29.3</td>
<td>34.3</td>
</tr>
<tr>
<td>1994-95</td>
<td>27.2</td>
<td>48.1</td>
<td>93.0</td>
<td>30.5</td>
<td>36.0</td>
</tr>
<tr>
<td>2000-01</td>
<td>36.0</td>
<td>59.1</td>
<td>108.2</td>
<td>36.2</td>
<td>40.0</td>
</tr>
</tbody>
</table>

Source: 40th, 45th, 51st and 55th NSS rounds

A more focused look at the panel data reveals that there was a declining trend in the number of units in the own-account category during the 1984-85—1994-95 period. The trend was, however, arrested during the 1994-95—2000-01 period. The falling trend in the number of enterprises and employment in the OAE category in the 1984-85—1994-95 period was reverted in the subsequent 1994-95 — 2000-01 period. The number of workers and number of enterprises in the establishment category was, however, always rising.

Comparing the simple rates of growth in the number of enterprises for the last period, 1994-95 — 2000-01 period we see that the OAME category has registered the highest rate of growth of 32.35 per cent followed by the rate of growth in the NDME category of 16.34 per cent and an 11.10 per cent rate of growth for the DME category. We could thus infer at this point that not only the de-growth trend in the OAME category was reverted in the last period, its rate of growth surpassed the rates of growth in other two categories treated separately. A similar trend emerges for the number of labour employed in each category for the last period (22.86 for OAME, 18.68 for NDME and 10.68 for DME categories). As the literature treats the OAME category as the smallest size class in the informal sector, by the highest rates of growth in both the number of labour employed and the number of enterprises we could infer that the extent of fragmentation in the Indian urban unorganised manufacturing system has increased in this period.

Though the ICLS-93 definition was enterprise-based, i.e. it identified informal sector or unorganised manufacturing so to speak on the basis of enterprises and enumerated the labours employed therein, it subsequently widened the net of the definition to identify...
informal sector on the basis of labour participation directly. Adhering to this norm, we might try to read the percentage of main and marginal workers by type of work done from the household-manufacturing category of the Indian Population Census. Population Census, conducted by the Planning Commission of the Government of India once in every ten year, provides demographic and population information for the country. The data for workers, main workers and marginal workers are available for different industry category. The Planning Commission, Gol, defines the household industry category as "an industry conducted by the family at home or within the village in rural areas and within the precincts of house where the household lives in the urban area and is not run on the scale of the registered factory." Since the household manufacturing category covers unincorporated units run on the scale of a family, we could treat the household manufacturing industry category as a dummy for the informal sector. Moreover, those who worked (definition of work: participation in any economically productive activity including supervision) for the major part of the year (six months or 183 days, whichever is more) were treated as main workers and those who did not were treated as marginal workers. We present the relevant information from the Population Census in Table 5.

<table>
<thead>
<tr>
<th>Year\Categories</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main</td>
<td>4.2</td>
<td>2.5</td>
</tr>
<tr>
<td>Marginal</td>
<td>1.67</td>
<td>1.17</td>
</tr>
</tbody>
</table>


There has been a slight decline in the number of workers and units in unorganized manufacturing during the 1981-1991 decade. The absolute number of household manufacturing workers has declined from 2.4 million (4.2% of the total workforce for males, 10% of the total workforce for females) in 1981 to 2 million in 1991 (2.5% of the total workforce for males, 7.5% of the total workforce for females) in urban areas.
However, there was a reversal in the trend during the next decade and the percentage distribution of main workers in urban areas for the household industry category shoot up to 2.90% for males and 7.86% for females (calculation is based on 2001 Census provisional figures). However, number of workers in the marginal workers category registered in fall for the entire period under consideration.

3.9. **Conclusions:** Based on the information of the trends in the Indian informal sector a few conclusions can be drawn about its size:

(i) The number of workers and enterprises in the non-agricultural unorganised sector has increased over the 1980-98 period. Though there was a decrease in the number of urban workers in the own-account category, it was always increasing in the establishment category, as per the Economic Census.

(ii) The number of workers in unorganised manufacturing has increased over the 1984-85 —1999-00 period. There was a slight dip in the number of own-account enterprises in the 1984-85 —1994-95 period. The trend was reverted subsequently in the 1994-95 — 2000-01 time-span.

(iii) As the rates of growth for both the number of enterprises and the number of labour employed in the 1994-95 —2000-01 time period were the highest in the OAME category over the NDME and DME classes, we could infer that there has been fragmentation within the Indian unorganised manufacturing class in favour of the smallest size category, the own-account manufacturing class.

(iv) The number of workers in the urban household-manufacturing category has increased over the last decade, as per the Population Census. Though there was a dip in this category in the 1980-90 decade, the trend was subsequently reverted.

On the basis of the above overview, it can be concluded here that there has been an expansion in the size of the Indian informal sector in general. The size of the urban unorganised manufacturing sector, which is our chosen area of interest, has also increased during the 1984-85 — 1999-00 period. Though there was a significant decline in the number of workers and units in unorganised manufacturing during the 1981-1991 period, the trend was arrested later.