Chapter: 2

NATURE AND COMPOSITION OF THE UNORGANISED ENTERPRISES AND THEIR ECONOMIC SIGNIFICANCE: AN EXTRACTION FROM SURVEY OF AVAILABLE LITERATURE

2.1: INTRODUCTION:

The development policy makers and researchers till 1970s mainly dealt with the issues relating to growth of output and income of a nation. It was assumed that the trickledown effect would ensure the development of each and every segment of the economy and ensure employment to all. During those days the so called informal (unorganised) sector comprising the activities outside the organised units of the urban economy, was regarded as a residual sector. Moreover, it was believed that along with economic development, those employed in the informal sector would be absorbed in the formal sector. Thus, these activities were regarded as a waiting house for the labour. Presently, it is realised that the informal sector in the developing countries is neither a residual nor a temporary one. Rather it is a common component of such economies. This has changed the viewpoint of the theoreticians and the empirical researchers regarding the informal (unorganised) sector. This chapter makes an attempt to have a critical discussion on various issues relating to unorganised sector in general and unorganised enterprises in particular based on the existing literature.

This review has been organised in six subsequent sections following the introduction. The second section discusses issues on the definition of an unorganised enterprise. The third section examines the causes behind the existence and emergence of unorganised sector. Issues related to the heterogeneity within the unorganised sector are
examined in the fourth section. The importance of the unorganised enterprises in the underdeveloped and developing countries and the problems faced by the unorganised enterprises in these countries are discussed in the fifth and sixth sections respectively. In the concluding section the gap in the literature are discussed and agenda for the present research has been outlined.

2.2: DEFINITION OF THE UNORGANISED ENTERPRISES:

The unorganised sector is a heterogeneous one. And because of this heterogeneity, the policy makers and researchers find it difficult to come up with a specific definition of unorganised sector as well as unorganised enterprises. Researchers and policy makers usually formulate definition of the unorganised enterprises based on the specific aspect of this sector, they are interested to study. For example, in some countries the enterprises not registered in the official record are identified as the informal one. In some countries provision of the contribution of the employers towards the social security of the workers is identified as the criterion to be included in the organised sector. Sometimes, maximum limit on the number of workers employed in a particular enterprise is considered as the criterion to be an unorganised enterprise. Thus, the definition of the unorganised sector is country specific. Moreover, the characteristics of this sector should be deducted from the ground realities of the country concerned.

Studies carried out by the International Labour Organisation (ILO) and other such international organisations generally use the term informal sector to indicate those activities which lie outside the purview of organised sector. In India, the National Sample Survey Organisation (NSSO) used the terms informal and unorganised sector in different senses. But in another segment of literature (NCEUS, 2009) these two terms are used in the same sense. In this section, humble trial is made to discuss different definitions of the unorganised enterprises.
Probably Karl Marx was the first person who mentioned about the informal/unorganised sector. He identified a category of potential workers waiting to fit into the grant scheme of capitalist production consisting of unemployed persons and petty commodity producers etc. These petty commodity producers were none but the self employed businessman in the unorganised sector. Thereafter the theories of dualism differentiated between the modern and the subsistence sectors in an economy (Haris and Todaro, 1970). The subsistence sector in these models was nothing but the urban informal sector.

The International Labour Organisation (ILO), in its mission Kenya report in 1972 used the term informality for the first time to identify a definite segment of the economy (cited in Bhalla, 2009). This particular segment was characterised by easy entry, reliance on indigenous resources, family ownership, small scale operation, skills acquired outside of the formal sector, labour intensive technology, unregulated, but competitive markets etc.

Keith Hart (1973) used the term formal and informal with respect to employment for the first time (cited in Bhalla, 2009). Further he categorised those activities as organised and unorganised sectors where the formal and informal job holders were employed respectively. According to him, informal entrepreneurs were those who were either self-employed or had small enterprises, specially in trade, repair and service. Illegal activities (such as drug pushing or petty theft) were identified as informal income opportunities. According to him, the urban informal sector was the result of the inadequate growth of the modern sector.

The ILO’s urbanisation and employment research programme initiated a series of studies on informal sector in selected large towns of developing countries of Asia and South America during 1970s. This programme also used the term informal sector. These studies did not take agricultural sector into consideration, because agriculture was
relatively less important in the urban areas and problems faced by the enterprises in agriculture were significantly different (Bhalla, 2009). This study categorised those segments of manufacturing enterprises as informal enterprise which were not using power operated machinery and equipments, and in case of transport, these were not using machine power.

The 15th International Conferences of Labour Statisticians (ICLS) provided a precise definition of informal sector for the first time. It defined informal enterprises¹ as all those private unincorporated non agricultural enterprises, which were owned by individual or households that did not constitute as separate legal entities independent of their owner. As a result, no complete accounts of those enterprises were available which would enable the financial separation of such enterprise from other activities of their owner. These informal enterprises included unincorporated enterprises owned and operated by one or more members of the same family as well as unincorporated partnership and cooperatives formed by members of different households, provided they lacked complete set of accounts. But these enterprises would have to sell at least some portion of their output (goods and services) in the market. Households employing paid domestic workers might be included; which was made optional for the accounting authority. Moreover, to be counted as informal enterprise, the production unit was expected to be engaged in non agricultural activities. According to 15th ICLS, employment size would have to be below a definite level, which was to be determined by the concerned national circumstances. Regarding the registration of the enterprise, it stated that these enterprises which could not be separated from their owner and sold at least some portion of their output in the market and/or were not registered under specific form of national legislation and their employees were also not registered were known as informal

¹ This definition was discussed in the 3rd working paper of National commission for Enterprises in the Unorganised Sector, prepared by Sheila Bhalla, 2009.
enterprises. The definition given by 15th ICLS was with the purpose to make data gathering convenient, not a matter of principle (Bhalla, 2009).

In India, according to National Sample Survey Organisation (NSSO) unorganised manufacturing enterprises\(^2\) are all those private enterprises which are not registered under sections 2m (i) and 2m (ii) of Factories Act, 1948 and Bidi and Cigar workers (Condition of Employment) Act, 1966. Actually, any enterprise in India, employing 10 or more workers with the use of electricity (and 20 or more workers without using electricity) has to register under the Factories Act, 1948, and these enterprises are covered by the Annual Survey of Industries (ASIs). The NSSO’s unorganised manufacturing enterprise survey covers those industries which are not included in the ASI. Thus, in principle, National Sample Survey (NSS) on unorganised manufacturing enterprises excludes those enterprises employing 10 or more workers with the use of electricity and 20 or more workers without using electricity. But in reality many bigger units (i.e. employing more workers) are not registered with the section 2m (i) and 2m (ii) of factory Act, 1948 and hence are excluded from the coverage of ASI. And such bigger units are also covered by the NSS on unorganised manufacturing enterprise. NSS on unorganised service sector enterprises\(^3\) also followed the same definition. Thus, in India the unorganised sector is a residual sector and it covers those enterprises for which data from any other regular sources is not available (Bhalla, 2009). This is the main drawback of the NSSO surveys in terms of data collection of the unorganised enterprises.

Again in case of sectors other than manufacturing, no survey corresponding to ASI is done for the organised sector. So, it becomes

\(^2\) NSS 56\(^{th}\) and 62\(^{nd}\) rounds on unorganised manufacturing enterprises were conducted in 2000-01 and 2005-06 respectively.

\(^3\) NSS 57\(^{th}\) and 63\(^{rd}\) rounds on unorganised Service Sector enterprises in India conducted during 2001-02 and 2006-07 respectively.
difficult to collect data for the unorganised enterprises in those sectors. To solve this problem, the National Statistical Commission\(^4\) (2001) suggested that any enterprise employing less than ten workers is to be included in the unorganised sector and those enterprises employing more than ten workers would be regarded as the organised one (Bhalla, 2009).

During 2010-11, the NSSO conducted its 67\(^{th}\) round of survey on unincorporated non agricultural enterprises in India. In India, those enterprises are considered as incorporated, which are registered under Companies Act, 1956. This survey included those enterprises which were not incorporated; i.e. those enterprises which are not registered under Companies Act, 1956. Additionally, it excluded

\(\text{(a) Enterprises which were registered under section 2m(i) and 2m(ii) of the Factory Act, 1948 or Bidi and Cigar Workers (Condition of Employment) Act, 1966 and (b) government/ public sector and co-operatives enterprise.}\)

However, it included SHGs, Private Non-Profit Institutions (NPIs) including Non-Profit Institutions Serving Households (NPISH) and Trusts. Thus, unincorporated enterprises constitute a subset of unorganised enterprises. But, the difference in the estimated number of enterprises based on the definitions of these two surveys is very small. For example, NSS 57\(^{th}\) round on unorganised service sector enterprises reported that only 1.8% of the unorganised service sector enterprises were registered under Companies Act, 1956; which is slightly higher (3.9) for the establishment enterprises. In Assam, 4.0% of the unorganised service sector enterprises (4.7% in case of establishment enterprises) were found to be registered under this act. The unorganised manufacturing enterprise survey, 2005-06 didn't show separately the percentage of enterprises registered under Companies Act, 1956. It reported that only 0.5% of the enterprises are registered

under acts or agencies other than those are specified. Thus, even if any enterprise is registered under this act, it would be less than that. Thus, all the unincorporated enterprises can be considered as the unorganised enterprise. NSS 67th round covered manufacturing, trading and other service sector enterprises.

NSSO pioneered the 55th round survey of the Informal Sector in India during 1999-2000. All unincorporated proprietary and partnership enterprises were considered as informal enterprises. Enterprises run by trust, co-operative societies and non-ASI private and public limited companies were excluded from the Informal Sector Enterprise Survey. Thus, this definition considered the informal sector as a subset of the unorganised sector. However, construction which was not included in the unorganised sector enterprise surveys was covered by the informal sector enterprise survey. As this survey overlaps the unorganised enterprise survey, one segment of literature questions the necessity of such a survey in favour of the unorganised enterprise survey (Bhalla, 2009).

Considering the importance of the unorganised sector in India, the UPA-I government, appointed a commission named National Commission for Enterprises in the Unorganised Sector (NCEUS) for a comprehensive study of the unorganised sector. This commission after examining all the existing definitions tried to provide a definition that would include all the enterprises which were not included in the organised sector. Moreover, the report of this commission used the terms unorganised and informal enterprise (sector) in the same sense. The definition provided by this commission with some modifications, was mainly based on the definition provided by the 15th International Conference for Labour Statisticians (ICLS). This commission suggested for the inclusion of the agricultural as well as non-agricultural enterprises in the unorganised sector. It suggested that enterprises employing less than ten workers, ignoring whether they are paid or unpaid should be considered as unorganised (informal)
enterprises. This definition also advocated for the inclusion of those enterprises which produces only for their household consumption. Accordingly, unorganised enterprises would cover all those unincorporated private enterprises owned by individual or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis with less than ten workers. Further this commission suggested that registration should be a flexible criterion. It suggested for the exclusion of units which had formal financial, technical or organisational links with and some measures of control by modern formal sector units. Professional and technical activities such as dentist, doctors, architects, accountants and profession of similar concern should also be excluded from the unorganised sector.

After discussing all the existing definitions of unorganised/ informal enterprises, it seems that the definition provided by the NCEUS is more precise and an inclusive one compared to others. That is why the present research broadly followed this definition while conducting the field survey. In other words, all those unincorporated private enterprises owned by individual or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis with less than ten workers would be regarded as the unorganised enterprise. Accordingly, no differentiation would be made between informal and unorganised sectors. Moreover, enterprises registered under sections 2m (i) and 2m (ii) of Factories act, 1948; Companies Act, 1956 and Bidi and Cigar workers (condition of Employment) act, 1966 were excluded. However, discussions based on secondary data (mainly from NSSO) would follow the definition given by those respective sources.
2.3: CAUSES BEHIND THE EXISTENCE OF UNORGANISED SECTOR:

A better understanding of the determinants behind the participation in the unorganised sector is the first step towards achieving more comprehensive policies for this sector. There is a vast discussion regarding the causes behind the existence and emergence of the unorganised (informal) sector, specially the urban one. The inability of the other sectors of the economy; i.e. agriculture and other rural activities on one hand and the modern industry and services on the other to provide adequate income and employment to the rapidly growing population makes them to be employed in the unorganised sector (Hansenne, 1991). The early literature identified the unorganised enterprises as a hub for the excess labour mainly in the urban areas. Those who were unable to get a job in the organised sector (formal sector) employed themselves in this sector.

During the mid 20th century there was a steady stream of migration from rural to urban areas. This resulted in an unprecedented rate of urbanisation, with all the problems of congestion that it entails in the developing world (Herish and Todaro, 1970). According to the theories of dualism people employed themselves in the unorganised sector mainly for the short run and in the long run they would move to the organised sector. The migrants to the urban areas during short run are engaged in the informal activities due to two reasons. First, in the initial stage the migrants do not have adequate information about the availability of jobs in the urban sector. In such a situation, they may be able to find jobs in the formal sector later. Secondly, the person may not have the ability to join a job in the formal sector or jobs may not be available in the formal sector due to the stagnation in this sector. Thus, the urban unorganised sector was regarded as a rest house for those who entered newly to the urban areas. Moreover, workers in the unorganised sector were able to have training for a better job. It is important to note that the urban unorganised sector also provides
higher level of income to the workers compared to the rural subsistence sector. These theories assumed that the traditional or informal sector would gradually shrink with the process of industrialisation, urbanisation and modernisation. In other words, the informal sector was a transient phenomenon, which would gradually disappear as the modern sector grew and would absorb more labour. According to these theories, the informal sector activities were mainly the subsistence activities and traditional in nature (such as shoe shine, hawking etc). For this reason, in the early years of identification of this sector, little attention was paid by the policy makers to large and increasing number of people engaged in the informal sector. But another segment of literature found no such evidence that informal sector play a major role as a point of entry into the urban labour market for the fresh migrants (Mazumdar, 1976).

But by the end of the 20th century, it was recognised that the unorganised sector is a common component of the developing and underdeveloped countries. Moreover, there is little mobility of labourer from informal to formal sector. Once an individual enter the informal sector he is trapped there. This is not because he does not have the quality to find out a job in the formal sector, but because of institutional barriers on the demand side (Breman, 1976; cited in Mukherjee, 2009). Again as the urban unorganised sector itself provides higher wages to the labourers than the rural sector, this sector itself is able to attract the job seekers. Thus, the urban informal sector is not a transitory sector (Mukherjee, 2009) and if appropriate policies were adopted, this sector itself would be able to generate substantial productive employment and thereby contribute substantially towards economic development.

Regarding the existence of informal sector, there is another school of thought known as the Structuralist School. Caroline Moser and Alexandro Portes and many others advocated the view that the informal sector is as an inferior economic unit (Moser, 1978).
Henado de Sotto popularised the concept of legalist school regarding the existence of the unorganised (informal) sector in the mid 1980s. According to them, the unorganised sector is composed of micro-entrepreneurs, who prefer to operate informally in order to avoid cost, time and effort needed to be included in the formal sector (Raihan, 2010). In other words, the unorganised sector exists because of lengthy government rules and regulations and costly procedure in government decision making (Schneider et al, 2010). Later, another segment of economists came with the idea that informal entrepreneurs avert regulation and taxation; this section of economists is termed as ill-legalist school (Raihan, 2010). Accordingly, the black economy or underground economy and illegal traders are also a part of the informal economy. Mukherjee et al (2015) based on NSSO data found that a larger percentage of enterprises are not registered with VAT, although according to most of the state tax laws, enterprises with more than rupees 5 million annual turnovers have to be registered with state tax laws. Further, it states that the probability of enterprises to be registered with VAT increases along with increase in annual turnover, having government aid, longer period of operation in a particular year and existence of higher forward and backward linkages.

Mazumdar and Sankar (2008) states that some type of dualism exists in the Indian manufacturing sector; as tremendous differences exist in labour productivity between organised and unorganised sector. According to them, the missing middle is due to the weak process of graduation of informal enterprises to the formal one. Kathuria et al (2012) found that weaker labour laws, larger size of a firm and access to other benefits such as credit and electricity or availability of other infrastructure encourages a firm to join the formal sector. Further, Kathuria et al (2012) stated that the process of economic reform in India is discouraging the unorganised enterprises to graduate to an organised one by increasing the efficiency level of the organised one relative to the unorganised sector.
One segment of literature states that it is easier to enter into the unorganised sector due to lesser restrictions. Literature states that those countries with burdensome regulation have a larger unorganised sector compared to others. Farazi (2014) states that many firms want to remain informal (unorganised) due to the cost of registration to be an organised (formal) one. Even after liberalising such rules, many of them prefers to remain unorganised (De Mel et al, 2012 in Srilanka and Jaramillo, 2009 in Peru; cited in Farazi, 2014). This is because although the direct cost to be organised is not very high, the indirect cost may be higher.

Moreover many a formal sector firms presently outsources their activities through sub contracting to smaller firms, which are mainly in the unorganised sector. In India during the pre reform period, many products were reserved for the small scale industries. Along with the de-reservation in the post reform period, there is an increasing sub-contracting and outsourcing of activities to the unorganised sector. During the post 1997-98 periods, output in the organised sector has grown at a slower rate than in the unorganised manufacturing; along with other causes it was due to substantial outsourcing by the organised sector (Kalirajan and Bhide, 2005; cited in Kathuria, 2010). Presently, many government departments also outsource many of their services, which also constitute one segment of the unorganised sector (Roy, 2010).

Another segment of literature states that expansion of the unorganised sector was mainly due to the demonstration effect to grow economically (Agarwal et al, 2010). Moreover, they take these activities as a survival mechanism; instead of using them as a stop gap arrangement in a developing economy wherein people wait in the informal sector till proper mechanisation of the economy takes place. This point seems to be important; as despite of the stagnation of the formal sector in the urban areas, the rural urban migration is
continuing. It seems that most of such migrants migrate in search of employment in the unorganised sector itself.

Another segment of unorganised enterprises have no intention to expand their activities and graduate to a formal one (Upadhyay, 2007). The reason behind their willingness to remain stagnant is that small enterprises have some specific benefits and larger enterprises need some more management and technical skills.

Unorganised sector exists in the developed countries also. But the nature of unorganised sector in these countries is different from those in the underdeveloped or developing countries. This is due to the fact that there is a huge army of unemployed in the developing countries, which is not the same for developed countries. A labour surplus may exist in certain depressed region, or among certain underprivileged groups in the industrialised countries, but the nature and scale of the problem is quite different. With few exceptions, the marginal groups in developed countries have much greater access to public services as education, health, transport and other amenities (Hansenne, 1991). The unorganised (informal) sector in the developed countries is found during the recession or economic downfall. Moreover, some of the enterprises remain informal to evade taxes; i.e. the informal sector in the developed countries is some type of a black economy. But this kind of informality is not similar to those in the underdeveloped countries.

2.4: HETEROGENEITY AMONG THE UNORGANISED ENTERPRISES:

The unorganised enterprises or the unorganised sector is a heterogeneous community comprising a great variety of enterprises. In the initial period, the theories of dualism (Haris & Todaro, 1970) by unorganised (informal) sector pointed to the traditional activities like shoe-shining, hawking etc. But presently a large segment of the unorganised sector existing in India as well as in other developing countries is neither traditional nor local. Indeed a large part of Indian
export of modern light engineering goods is produced by small workshops often under subcontracts put by large firms or agents (Bose, 1990). In India the unorganised enterprises consists of a larger variety of smaller and micro enterprises producing leather, electrical/electronic goods, garments, processing of food products, wood, metal, rubber, plastic goods or undertaking auto-repair works, recycling, agro-processing activities and so on. Peddlers, rickshaw puller, cart puller, barbers, cobblers, waste recyclers and vendors/ small kiosks that sell all types of goods and informal workers who produce or sell goods from their homes also come under the umbrella of this sector. Moreover, most of such workers or entrepreneurs don’t have a definite place to work, specially in case of the urban sector. In urban areas, most of the street vendors do their business on the urban street and they change their place of work frequently (Unni et al, 2003).

All the unorganised enterprises are neither of the same nature nor do they have the similar potentiality (Hansenne, 1991). Some of the enterprises have the potentiality to grow and graduate to an organised enterprise, while some other does not have such potentiality. So, the treatment to these two types of enterprises is also expected to be different. Those enterprises with growth potential should be provided facilities to expand and grow, such as training to develop skill, technical assistance or financial assistance etc. But those without such capacity should be helped with social security measures, such as health care services, old age pension, free education of children etc. Thus it is important for a researcher to differentiate between the unorganised enterprises with growth potential and those without growth potential while studying about the informal sector.

Similarly the growth of the unorganised enterprises in an economy may be due to two different reasons. First, the growth of the unorganised enterprises may be accompanied by the growth of the organised sector, which may be termed as growth led expansion of unorganised enterprises. For example, the growth of an organised manufacturing
industry in an area may be accompanied by some unorganised enterprises which have either forward or backward linkage with the organised industry. Similarly along with the expansion of an organised industry the unorganised service sector in that area may also expand. Raihan (2010) found that the growth of the unorganised sector in Bangladesh was linked with the growth of the organised sector; but the growth rate of the formal sector was higher than that of the informal sector. He further indicated that the growth of the informal sector was mainly due to increased household demand. However, the unorganised enterprises may also grow due to the stagnation of the organised sector. It would happen if those who are unable to get a job in the organised sector engaged themselves in some unorganised activities, which may be termed as the distress led growth of unorganised enterprises. According to Subramanian (2012), development induced employment diversification is supposed to encourage bigger enterprises with a higher proportion of salaried workers, while distress led diversification would lead to a higher concentration of self-employed and low salaried workers. Himanshu (2011) stated that, increasing importance of the informal sector in India during 1999-2005 was distress driven. Heintz and Pollin (2003) while analysing the evidence from twenty developing countries, suggested that sharp economic downturn were associated with a rise in informal employment in many countries.

In this context, the relationship between the growth of agricultural production and the expansion of the unorganised sector can also be discussed. It is to be noted here that a reasonable percentage of small and marginal farmers are also engaged in the rural nonfarm sector and earn a huge percentage of their income (Kundu et al, 2010). Moreover, the association between the unorganised sector and agriculture is found only in case of small and marginal farmers. One segment of literature indicates a positive relationship between the agricultural productivity and the growth of non agricultural sector. This is because
the increased production of agricultural sector increases demand for goods and services, which is mainly supplied by the rural nonfarm segment (Johnston et al, 1975). In such cases, nonfarm employment multiplier is also substantial (Krishna, 1976). In this context, it is also important to note that the increased agricultural production of small and medium farmers only have positive impact on nonfarm unorganised sector; while increased agricultural production of the large farmers have positive impact on the businesses of big cities (Harris, 1991). Moreover, the diversification of agriculture has a positive impact on the expansion of both rural and urban unorganised sector (Kundu et al, 2010). Another segment of literature based on empirical observation states that there is an inverse relationship between the agricultural production and productivity and the rural non farm sector (Vaidyanathan, 1986 and Bhaumik, 2002). Sometimes, due to crop diversification in the rural areas those who previously engage themselves in agricultural activities become unemployed and migrate to the urban areas and ultimately engage in the urban unorganised sector (Kundu et al, 2010).

According to Kolli (2011 cited in Subramanian, 2012) as a consequence of rapid economic growth and specialisation of services, outsources of labour services is increasingly being adopted; which resulted in casualisation of relationship between employers and employed. Moreover, it is also important to point out that a large segment of informal enterprises have no intension to expand their activities and graduate to a formal one (Upadhyay, 2007). The reason behind their unwillingness to remain stagnant is that small enterprises have some specific benefits. Moreover, expansion may cause problems due to stipulated market size, inadequate availability of labour, lack of storage facility, higher transportation cost etc. Another problem the informal enterprise may face after expansion is the competition from the larger business houses. In short all the informal
enterprises do not have the entrepreneurial skills to run a large scale business.

2.5: IMPORTANCE OF THE UNORGANISED ENTERPRISES IN THE DEVELOPING COUNTRIES:

The unorganised sector (informal) has been playing an important role in the developing and underdeveloped countries both in terms of its contribution to the national income and employment generation. The unorganised sector has a significant share in the GDP of the underdeveloped and developing countries. Various studies states that the unorganised sector is contributing around 40 to 50 percent to the GDP of these countries (Brigette Du Jeu, 1998; Schneider et al. 2010; Kathuria et al, 2010). In India, a large segment of rural as well as urban households' principal source of income is the unorganised sector (Pradhan et al, 2003). Kolli and Hazra (2005) estimated the share of informal sector in the Net Domestic Product (NDP). They considered informal sector as a sub group of the unorganised sector. They estimated that the share of informal and unorganised sector in the NDP of India was 47.7% and 58.5% respectively during 2001-02.

The NCEUS (2008) reported that the share of unorganised sector in the GDP of the nation decreased from 55.42% in 1999-2000 to 49.94% during 2004-05. However, the employment growth rate in the unorganised sector is higher than that in the organised sector. The employment elasticity (percentage change in GDP with respect to percentage change in employment) is higher in the unorganised sector compared to that in the organised sector.

Presently, the contribution made by the unorganised sector to the national income also takes place in the form of taxes and fees paid by this sector to the government institutions (Unni et al, 2003). Moreover the geographical disparity of the enterprises in the informal sector contributes towards the equitable distribution of income in the society. The education of the entrepreneur, level of investment and the level of
household property were the main determinant of the income of an entrepreneur (Agarwal et al, 2010).

Kulshreshtha and Singh (1999) observed that the value added per worker particularly in the unorganised service sector is grossly underestimated. According to Lalitha (2003), such an underestimation was mainly due to unavailability of data. Moreover, there could be gross underestimation of value added figures to avoid taxes and any complain with any government procedure. The principal problem of estimating the contribution of the unorganised sector to the GDP is that data relating to unorganised sector is not available annually. The NSSO conducts survey of the unorganised enterprises after some specific interval (Das, 2003).

While another segment of literature questions the productivity of this section of those economies; as it is employing a larger number workers and contributing relatively lesser percentage to the GDP of those countries. A large number of unorganised enterprises remain unorganised in order to evade taxes. These results in shortage of revenues in those countries and given a specific investment plan, the organised business has to be taxed heavily. Again, the shortage of public revenue may have an adverse impact on economic growth (Loayza et al, 2009). Moreover, as one portion of production and productivity in the unorganised sector is not reported, it may result in inaccurate estimation of national income. And any policy based on such estimation would not be beneficial for the economy. However, another segment of literature consider unorganised sector as a nursery for the future growth of organised enterprises (IMF, 2012). Moreover, it is a fact that the huge army of workers employed in this sector would become unemployed without this sector.

As mentioned earlier, presently the informal sector is neither a traditional nor a local one. Presently, it is also contributing towards export basket of those countries. In Turkey, the hand woven carpet
production is a source of foreign exchange earnings (Bose, 1990). A large part of India’s exports in modern engineering goods are produced by small workshops, often under sub contracts put by large firms or their agents (Bose, 1990). The unorganised manufacturing enterprises contributed 40 percent of manufacturing exports of India during 1994-1995 to 2005-2006 (Saikia, 2011)

2.5.1: Employment Generated in the Unorganised Sector:

A large segment of unorganised entrepreneurs establish their business as they are unable to get a job in the organised sector. There are some institutional factors those affect the entry into the organised sector restricted for the workers also (Mazundar, 1976). As a result, they are employed in the unorganised sector. Thus, the unorganised sector plays an important role in employment creation both in the urban as well as in the rural areas.

The cost of employment creation in the unorganised sector is only a fraction of that in the organised sector (Hansenne, 1991). In the developing and underdeveloped countries, the unorganised sector has been providing livelihood to a large segment of its workforce (ILO, 2012). In south Asia a significant proportion of the working population are engaged in the unorganised sector. In Bangladesh around 80% (Raihan, 2010) and in Sri Lanka 61% (Arunatilake et al, 2010) of the total workforce are engaged in the informal sector. In India, more than 86% of the total workers are employed in the unorganised enterprises and the percentage share of informal workers in total workers in India is more than 92% (NCEUS, 2009). Along with the magnitude of employment, the nature of employment is also of importance. Before discussing this point, it would be wise to have an idea of informal workers. Those workers employed in some activities without any social security are termed as informal workers. Thus, all the workers employed in the unorganised sector need not be informal workers. Data provided by the National Informatic Centre shows that in India,
during 2004, 0.5% of the total workers employed in the unorganised sector is formal workers. The point to be noted here is that, the employment of the workers in the informal sector are rarely done on the basis of level of skills or education; rather they are employed on the basis of their personal relation with the employers (Upadhyay, 2007).

The labour force employed in the unorganised sector can be classified into the following categories:

(a) **Self Employed:**
Self employed are those who undertake some activities with the motive to generate income and employment for themselves. The self employed have a degree of autonomy over the process of production and distribution. But in reality most of the self employed does not satisfy these characteristics. Many of them have free access neither to raw materials nor to markets, and operate on the basis of credit and in a rented house. They are considered to be self employed as they do not have a formal or legal relationship with any employer (Bose, 1990). Moreover, most of them run their business with limited capital and uses labour of him and unpaid family labour.

(b) **Wage Employed:**
Under this system, workers sell their power for a wage, which is usually seen in contradiction to self employed. Accordingly, there is no difference between the workers in the formal and informal sector (Bose, 1990). But in the informal sector, the workers do not have any stability of employment and they are paid the subsistence level of wages. Moreover, they do not enjoy any social security like employees provident fund, paid leave etc (Das, 2003).

(c) **Out Workers:**
Under this form of employment a worker is engaged in sub contract to carry out productive functions, mainly in manufacturing traditional handicrafts, or sometimes in electronics and engineering works. Most of the out workers prefer to work from their residence. The number of out workers is higher among the women, who have social restrictions on their mobility (Unni et al, 2003). Many a times the out workers are supplied with raw materials by the direct employer or by his intermediary, who also collects the finished goods for sale. It is very difficult to classify the out workers as the informal workers and a self employed (Unni et al, 2003).

(d) **Apprenticeship:**

It is not only a source of employment, but also a major means of acquiring skills and training. Apprenticeship is often non remunerative or very poorly paid. Sometimes even the apprentice has to pay to his master (Bose, 1990). This type of employment exists in the unorganised sector because parents of many children are not able to pay for their training or acquiring skill and agree to keep their children with the master for a specific period of time.

(e) **Unpaid Family Labour:**

This type of labour is very often found in the informal sector. The distinctive mark of this form of employment is that there is no remuneration either in the form of cash or kind. The important point is that most of the unpaid family workers are female (Unni et al, 2003). A share in the family consumption, accommodation etc are not seen as a return to labour, since they do not depend on the quantity of work realized. In reality, very little information is available regarding this type of employment; as generally it is either under reported or not reported (Gopinath, 2010).
One segment of literature (Mazumdar, 1976) states that the workers employed in the unorganised sector are secondary workers, i.e. those who are not the principal earner of the family. Accordingly, majority of the workers in the informal sector are outside the prime age group (25 to 50 years), female and short term (seasonal) migrants to the urban areas. But presently it is found that many workers of the prime age group are also employed in the unorganised sector. Again many workers migrate to the urban areas with the aim to be absorbed in the unorganised sector (Mukherjee, 2009).

There is a large segment of workers in the unorganised sector who mainly work on the street, due to absence of specific place of work. A large segment of such workers are street vendors. Most of the women who work on the street are street vendors. Majority of the male who work on the street are cycle rickshaw puller and auto- rickshaw drivers (Unni et al, 2003).

Another feature of employment in the unorganised sector in India is that this sector has a high intake of child labour. The employment of child labour was higher in the informal sector compared to the formal sector (Das, 2003). The restricted social and economic mobility is also responsible for the existence of child labour (Gopinath, 2010; Nagarajan, 2010). However, there is a declining trend in the employment of child labour (Subramanian, 2012).

One segment of the activities in the urban unorganised sector is seasonal activities. For example in the rural weaving industries, most of the weavers are engaged in such activities during the non agricultural season (Gopinath, 2010). Similarly, many a cycle rickshaw pullers in the cities and towns come to this profession during that period when they have no work in their villages (Sood, 2012).

During the post reform period due to shift of industries from labour intensive to capital intensive technology, there is a displacement of labour from organised to unorganised sector. During the same period,
there is a contracting out of labour intensive jobs to ancillary and small establishment from large manufacturing units, which increased the number of self employed workers (Bhalla, 1994; cited in Lalitha, 2003). But, there was a decline in the number of own account manufacturing enterprises during 1994-95. According to Lalitha (2003), such a decline in employment was due to underestimation of unorganised enterprises.

Along with the number of employment in the unorganised sector, the labour productivity is also of importance. Labour productivity not only indicates the productive capacity of the labour, but also indicates the consumption demand in the society via wage level (Kathuria et al 2010). Kathuria et al (2010) found a huge variation in labour productivity in the unorganised enterprises across the states in India. Moreover, there was a continuous decline in labour productivity across the states along with increasing level of output. It implies that the increased level of output was due to factor accumulation in those units (Kathuria et al, 2010).

2.6: PROBLEMS FACED BY THE UNORGANISED ENTERPRISES:

However, the unorganised enterprises in underdeveloped and developing countries are facing a large number of constraints. The problems faced by the unorganised enterprises are discussed under the following heads.

2.6.1: Small and Fluctuating Income Level:

Discussion regarding the unorganised enterprises would be incomplete without any discussion of their income. The emergence of a large segment of the unorganised enterprises is poverty driven and is induced as a strategy for survival and not pursued as a profit making business (Lalita, 2003). One segment of the existing literature states that the unorganised enterprises have a very low level of income (Nagarajan, 2010; Roy, 2010). Major percentage of the entrepreneurs in the informal sector earned income below legal minimum (Bose,
Not only the monthly income of the unorganised enterprises is very low, but it also fluctuates from time to time (The AILS, 1985; Agarwal et al, 2010). Majority of the entrepreneurs with fluctuating income level are self employed. A decline in demand for product or service of such workers left them with lower level of income instead of making them unemployed.

There is high wage difference between the formal and informal sectors. Moreover, the workers in the unorganised sector suffer from significant degree of underemployment; which makes the average wages of the workers in the unorganised sectors significantly lower than that in the organised sector. There is a great variation among the entrepreneurs (as well as workers) in the unorganised sector on the basis of income level. In the unorganised sector, age, work experience, level of education and technical training were found to be the determinants of the wage level (Upadhyay, 2007; Naagarajan, 2010). The mean wage of women in the unorganised enterprises is lower than that of male workers (Naagarajan, 2010). Trade unions do not have positive impact on the income level of workers; rather sometimes it has negative impact (Nagarajan, 2010).

2.6.2: Lack of Education and Technical Skill:

Proper education and training of the entrepreneurs are necessary for the sustainability of their business. Similarly, it affects the productive capacity and income level of the labourers. World Development Report (1998) defined skill as an acquired and practiced ability or a qualification needed to perform a job or certain task competently. Skill is a multi dimensional concept, as it requires a combination of skills for adequate performance ranging from physical ability to intellectual capacity. Any kind of capacity and quality that have the potentiality to generate employment and income is known as marketable skill (NCEUS, 2009). Skill is acquired through general education and technical and vocational training. It includes both initial skill acquisition
and also various up skilling and re skilling. It is one of the attributes that generate knowledge resources.

An unorganised enterprise needs a wide range of skills. For example, they need the basic technique of book keeping, marketing, production organisation, costing, pricing etc; without which these enterprises will remain the disadvantaged ones. Moreover, skill and training would help an enterprise to deal with different categories of its customers. While working in the unorganised sector also, the labourers acquire training and skill (Unni et al, 2003). Thus, this sector is also contributing towards human capital formation. In the long run, some of them are able to engage themselves in the organised activities.

Skill formation enhances the productivity of an individual, industry and also of a nation. This is because both physical capital and technologies are complementary to human capital. In India, negligible attention is given towards the general investment in human capital of the current and potential workforce (Jha, 2009; cited in Subramanian, 2012). In India, skill acquisition through vocational education and training is hardly successful in helping those in the informal sector to get job (NCEUS, 2009). International experience states that training needs to be a joint initiative of the employers, workers and also of the state. But in India the private sector does not play any important role in skill formation. Although there is need for skill, many small firms, specially the unorganised ones are not in a position to train their workers, because of the externalities involve in this process. Apprenticeship is another form to acquire skill. Apprenticeship may be formal or informal.

NSSO data indicates that among the workers in the unorganised sector with skill, the predominant group are tailors, weavers, motor vehicle drivers, bidi makers, carpenter, mason, mud house builders, fishermen, basket/ wick product makers, brick makers, shoe makers, cobbler, black smith, gold smith, silver smith, boat man, pottery, toy maker, tile makers and others. The age group 15 to 29 constitute a significant
percentage of the total population and work force, whereas only a small percentage have access to vocational education and training irrespective of formal or informal (NCEUS, 2009).

Those entrepreneurs who had formal education and training for skill formation earn more (Gopinath, 2010; Agarwal et al, 2010). Moreover, it is important for any labour force to acquire new skills or update their existing skills at a regular interval, to maintain their productivity. Again the existing skill among the workers in the unorganised sector is not sufficient for the requirements in key growth sector. This problem is more serious among the women compared to men (Agarwal et al, 2010). Actually many of the unorganised workers do not place any value on education i.e. they are ignorant of the necessity of education and training (Subramanian, 2012). The workers in the informal sector often dismiss the need for training and skill formation. Illiteracy, poor numeracy and cost often prevent workers from participating in the training programme. Working hours are often longer and absence of paid holiday often prevents them from attaining a training programme. Moreover, the employers also discourage the workers to participate in such programme, as the trained workers may demand higher wages. Again a large segment of workers are not attached to a specific type of activity and are always searching for a new activity. Thus, the problem is regarding what kind of training is to be given to them. Considering the present status of skill among the unorganised enterprises and workers, the NCEUS (2009) suggested different steps to be undertaken and also targeted to increase the percentage of formally trained labourers to 50% of the total labour force by 2020-21.

2.6.3: Lack of Marketing Facility:

Along with the production of a commodity marketing of the same is also of importance. A large segment of unorganised enterprises are retail traders. Here, lack of marketing facility implies the marketing problems faced by the unorganised enterprises in the production of goods and
services. Some unorganised enterprises, especially in rural areas, directly sell their products to the final consumer through local haats or markets (Ghosh, 2010). Sometimes co-operative marketing takes place among the unorganised enterprises which gives them more bargaining power. Sometimes the production units are linked to some corporate houses and producers have some agreements to sell their products to such corporate. However, the dominant form of marketing by the unorganised enterprises, especially in the rural areas is marketing through the middle man. The entrepreneurs are dependent on those middlemen as they don’t have access to information regarding demand for and supply of their products. Moreover, they don’t have access to modern technology for storage. But very often the middleman exploits the informal entrepreneurs (Ghosh, 2010). Moreover, the smaller units face competitions from the larger units.

2.6.4: Use of Low Productive Technology and Lower Capital Intensity:

Non implementation of modern technology is one of the causes of lower productivity of the unorganised enterprises. Despite of having modern technology, those enterprises uses the traditional ones (Gopinath, 2010). Again another segment of unorganised production unit applies inferior technology; as a result the quality of their product also become inferior (Das, 2003). Advance technology may not always be profitable for an entrepreneur in the unorganised sector. Advance technology would lead to higher level of production; and improved marketing strategy would be needed to sell those commodities. But many unorganised enterprises do not have that quality to compete for a larger market.

The use of inferior technology leads to lower capital intensity. The capital intensity of an enterprise indicates the extent of mechanisation of that particular enterprise. Capital intensity also increases the productivity of labour. In India, it is found that thousands of enterprises
engaged in the retail trading of fruits and vegetables had lower capital intensity indicating the absence of proper storage, sorting and packaging of fruits and vegetables (Kundu et al, 2010). The productivity of labour is also found to be positively related to the capital intensity of the manufacturing industries (Kathuria et al, 2010). In India, there is great variability across the states regarding capital intensity as well as productivity of labour. In Uttar Pradesh, both the capital intensity of the unorganised manufacturing enterprises and the productivity of labour are found to be highest. While in Assam, both the capital intensity of the enterprises and productivity of labour are very low.

2.6.5: Legal Issues Relating to Unorganised Sector:

Contrary to earlier beliefs, the unorganised sector is no more operated outside the purview of laws. Presently, a large segment of such enterprises are registered under laws and also pay taxes and other fees regularly (Hansenne, 1991; Unni et al, 2003). But various problems related to legal issues are frequently faced by these enterprises. In many cases, the workers in the informal sector are not aware of the legal provisions available to them. Moreover, in almost all the aspects the unorganised enterprises face restrictions compared to the organised ones (Unni et al, 2003). Problems are accelerated when the unorganised services are regulated at the local level without any national regulation. For example the urban street vendors constitute a large segment of the urban unorganised enterprises in India. They run their business on the urban street. But according to Indian civil administration Act, even if the municipal authority permits the street vendors to occupy the road side, police can evict them for the sake of law and order condition. Accordingly, the policeman takes the chance for exploiting the street vendors (Agarwal et al, 2010). Again, the agent of the local government takes money regularly from those enterprises to allow them to run their business in the public place (Agarwal et al, 2010; Unni et al, 2003). Larger percentage of the urban unorganised enterprises faces such problems as compared to the rural one.
Similarly, the Rickshaw puller constitutes a large segment of the urban unorganised sector. But sometimes the legislation enacted by different state governments and municipal authorities to control traffic in the cities and towns, affects the working of the rickshaw puller, which ultimately affects their livelihood (Sood, 2012).

The solution could be found by making the rules and regulation to participate in the formal sector more flexible, so that the tiny and small one could identify itself to be an organised one (Hansenne, 1991).

2.6.6: Social Security of the Unorganised Enterprises:

As a large segment of the unorganised entrepreneurs are working owner, many a times no difference exists between the unorganised entrepreneur and the unorganised workers. The workers as well as the enterprises in this sector are very often lacking in social security. Social security is a multi-dimensional concept. Moreover, the meaning and definition of social security changes over time and spaces. The governments of different countries take social security measures for the unorganised enterprises and workers from time to time. However, these programmes have not been able to fulfil the needs of the workers in the unorganised sector which is partly due to lack of government initiatives and partly due to inherent problems of this sector (Mazumdar et al, 2013). Some of such policies cover only those workers or entrepreneurs who are currently in the unorganised sector. But, the enterprise as well as the workers frequently shifts from one occupation to other (Nagarajan, 2010). As a result, a large segment of the workers are excluded from such social security measures. Further, due to illiteracy and ignorance, the workers in the unorganised sector have lower bargaining power and are deprived of many facilities (Nagarajan, 2010). Again, most of the workers are made to work for a longer time than that prescribed by the law. Due to extreme poverty, most of the workers are engaged in some hazardous works although they know about the dangerous effects of pollution of those units.
Moreover, some of the workers were not conscious about infection that they may have at their work place (Naagarajan, 2010). Only a few employers pay the workers for their health hazards and a large segment of the workers are unable to avail any treatment due to financial constraints.

2.6.7: Financial Exclusion of the Unorganised Enterprises:

Access to financial services is one of the important determinants for the growth and expansion of any enterprise. Access to financial services means timely availability of adequate and cheaper financial services. These financial services include availability of saving, credit and insurance services. The concept of financial access is widely discussed in the existing literatures. The World Bank (2008) considers financial inclusion (financial access) as the availability of financial services to all without any barrier. Thus, financial access is a broader concept that includes both those who have access to financial services and those who are voluntarily excluded. In fact, it is a supply side concept. Moreover, financial inclusion indicates the availability of financial services both from the institutional and non institutional sources. But, it is difficult to differentiate between the voluntary and non-voluntary exclusion from financial services. Moreover, due to exploitative characteristics of the non institutional sources, one segment of literature measured financial access as the actual availability and adequacy of loan from institutional sources (Bhavani et al, 2012). Existing literature states a strong positive link between financial intermediary development and economic growth of a country (Levine et al, 2000 and Levine, 2005).

Financial access has two dimensions. The first one is coverage of the enterprise by financial services and the other is the adequacy of financial services. Access to finance has different dimensions. Having a bank account is also one type of financial inclusion. Similarly, having access to credit from the formal financial institutions is another
dimension of financial inclusion. But, along with access to financial services, adequacy of financial services is also important.

Saving is one of the important financial services for the unorganised enterprises. Saving is also regarded as one kind of insurance (self insurance). By definition, the unorganised enterprise cannot be separated from the entrepreneur. So, saving made by an unorganised enterprise is similar to that of entrepreneurs' household popularly known as informal sector household. Savings made by unorganised entrepreneurs’ household depends on different factors such as income of the household, household size, age structure and marital status of the head, occupation, level of education etc (Banerjee et al, 2011). Savings made by informal households may take different forms like physical assets, currency and a number of other instruments. Sometimes expenditure on consumer durable is also regarded as savings. Among the institutional sources, informal sector households prefer to deposit their savings with the banks and post offices. Savings made by an unorganised enterprise is also an important source of investable resources for such enterprises (Banerjee et al, 2011).

A large segment of unorganised enterprises do not have a bank account (Farazi, 2014). In some countries, holding a bank account is a costly affair. Empirical study made in such countries indicate that in the absence of such cost, many poor businessmen would like to open up their saving bank accounts which would have a positive impact on their future income level (Banerjee et al, 2011). Although it is not applicable in India; still opening up of a bank account is not an easy task in India both in terms of time and documents necessary. Farazi (2014) states that registration status; size of firms, owner’s level of education and having a job by the entrepreneur in the formal sector have positive significant impact on having a bank account by the enterprise. Level of financial sector development and quality of legal framework of a country also increase the likelihood of firms using bank accounts for their business.
Insurance is another financial service needed for the unorganised enterprises. Insurance is more important for the informal sector households as most of them are with a low and fluctuating level of income. Moreover, in many cases the workers in the unorganised sector have to work in very unhygienic conditions, as a result they are vulnerable to diseases and the burden of treatment is unduly large for them (Visaria and Gumber, 1994). Those with a health insurance are able to spend more on their treatment than the rest (Gumber et al, 2003). Only the relatively richer and educated ones are covered by the medical insurance schemes (Gumber et al, 2003). The government of India has introduced different insurance schemes for the workers in the unorganised sector. But, only a small fraction of the unorganised enterprises as well as workers are covered by such insurance programme, as many of them are not aware of these schemes (Naagarajan, 2010). Moreover, there is also deficiency in the implementation of these programmes.

Among these three aspects of finance, credit is the widely discussed one. Any enterprise needs credit for different purposes. Debraj Ray (2008) classified the purposes of loans into three categories viz. capital expenditure, working capital expenditure and consumption expenditure. According to him, capital expenditure is that part of expenditure made to start up new businesses or for large scale expansion of the existing ones. Working capital includes the ongoing production expenditures like raw materials or labour cost. Finally the consumption loans are needed to bridge the gap between consumption period and income receipt period. Sometimes consumption loans are also needed due to winfall losses in businesses. Again consumption expenditure may be classified into two categories, that is, current consumption expenditure and expenditure on consumer durables. As the unorganised sector is a heterogeneous sector, the credit needs of the different enterprises in this sector are also different (GOI, 1987).
Very often, lack of alternative wage employment force many, specially the poor, to seek self employment by setting up their own business. Thus, these units by definition have a capital constraint (Sethuraman, 1992). The International Labour Organisation surveys found that an overwhelming proportion of the sample enterprises considered capital as their major constraint. A large section of the existing literature states that the micro enterprises rarely obtain credit from Formal Financial Institution (FFI). As a result, all of their financial needs for starting up business, fixed capital investment and working capital investment are made through personal saving schemes, supplemented by borrowing from individuals. Reinvestment of profit is another dominant source of investment for working capital (Morewagae et al, 1995). Most of the sample surveys on the unorganised enterprises found that the biggest constraint faced by the unorganised entrepreneurs was the lack of access to credit (Allen, 1977; Sethuraman, 1992; Farazi, 2014). Compared to small scale organised enterprises, the unorganised enterprises have lesser percentage of their borrowings from the banks (Farazi, 2014). This problem is found to be more serious one for women entrepreneurs (Agarwal et al, 2010). In some countries, to have credit by the women entrepreneurs, her husband has to sign the application.

Beck et al (2008) also found that banks in the developing countries were less exposed to small and medium enterprises and charged higher fees and interest rate to those enterprises. Another segment of literature states that capital constraint may not be so severe in case of fixed capital investment for the micro enterprises but more severe one in case of working capital; due to slow rate of turnover of output of such enterprises (Kurwijila & Due, 1991).

In Indian context, the same conclusion was provided by the NCEUS (2007). The rural informal enterprises in India don’t have access to bank credit which ultimately hamper their work and prevent them from earning livelihoods (Solanki, 2008, cited in Kar, 2010) and women are
more marginalised (Chavan, 2008). As a result, they have to depend on the informal sources of credit. For most of the informal enterprises, own savings is the main source of start up capital followed by funds from friends and relatives; while institutional sources of credit have no role as start up capital (Bose, 1990; Upadhyay, 2007). Bhavani (2006) observed that access to finance was the main obstacle on technological progress in India. However, another segment of literature states that in India, there is a net increase in borrowing by the informal households compared to the formal households both in rural and urban areas (Pradhan et al, 2003). Asymmetric information, high risk and transaction costs, and lack of collateral are the main determinants of limited financial access of small enterprises (Tendulkar and Bhavani, 1997 and Zavatta, 2008).

Mukherjee et al (2015) found that the average size of loan is higher for those enterprises registered with VAT. Moreover, the cost of capital from informal sources is higher in case of enterprises not registered under VAT. However, this study states that formal sources are the major source of credit for the unincorporated enterprises.

Bhavani and Bhanumurthy (2012), based on NSSO unit level data concluded that the unorganised enterprises had limited access to financial services from external sources. Moreover, larger unorganised enterprises have higher access to external credit. Volume of sale, proportion of owned assets, account records, enterprise type, ownership groups and registration with any government agency turned out to be statistically significant factors affecting financial access of an enterprise.

Bhavani and Bhanumurthy (2012 and 2015) used the concept Financial Resource Gap (FRG) to measure the adequacy of credit. FRG indicates the percentage of productive investment made by an enterprise not financed by the institutional sources. To derive the productive investment they added value of total fixed asset of an
enterprise to working capital of that enterprise. It is found that registration status and maintenance of accounts of business separately reduces the financial resource gap. Again FRG is smaller for the larger enterprises. But while the fixed asset is a static concept, working capital is a variable concept, so these two cannot be added together. The authors themselves stated that it would be a better measure if the potential investment could be used to find out the FRG.

Allen et al (2006) also states that external long term finance is an important bottleneck for the Indian industries irrespective of size. But it is impossible to fulfil the credit needs of the unorganised sector enterprises fully unless formal sector financial institutions do not extent their hands.

The problem of non inclusion reduces as the enterprises grow older. Fazari (2014) states that the top three reasons firms do not apply for loans include complex application procedures, unfavorable/ too high interest rates and high guarantees/collateral requirements. Similarly, registration status of a firm, owner's level of education, level of financial sector development and quality of legal framework increases the probability of informal firms' access to credit from formal financial institutions. The unorganised enterprises are ready to pay even higher rates of interest. They might be ready to pay higher interest rate due to higher need of for credit on their side. Inability of the informal enterprises to meet collateral requirements, and cope with plethora of procedure and formalities are also causes for their financial exclusion (Subramanian, 2012). Literature states that possession of landed property; educational attainment, social networking etc have positive impact on the financial inclusion of an informal entrepreneur (Kar, 2010; Farazi, 2014). In those countries where the financial sector is well developed, larger percentage of unorganised enterprises has access to credit (Farazi, 2014). Regarding credit to the micro enterprises, the researchers (Morewagae et al, 1995) suggest that these entrepreneurs should also learn about the importance of savings
by themselves and should also be informed about different loan packages.

However, another segment of literature is of the view that these results are not based on an objective analysis of return to investment, but purely based on a subjective assessment of the entrepreneur concern (Sethuraman, 1992). But a large segment of literature still believes that credit can play an important role in raising the income of the unorganised enterprises. NCEUS (2007) stated that financial exclusion is the problem most severely experienced by the informal enterprises in India. Moreover, other facilities like training and skill formation, technological improvement are also related to the availability of credit.

Considering the financial exclusion of unorganised enterprises the government of different countries have introduced various government subsidised credit schemes. Some of them are credit cum skill development programmes. In India, during the early days of independence, co-operatives were assumed to play a major role in providing credit to the unorganised enterprises along with the agricultural sector. In 1955, based on the suggestion of All India Rural Credit Survey Committee, the State Bank of India (earlier known as Imperial Bank) was nationalised with the motive to provide easier credit and other financial services to such enterprises. Thereafter, in 1969 fourteen commercial Banks were nationalised for large scale expansion of rural banking system. After nationalization the priority sector of rural areas, agricultural sector and weaker section was defined with 40% of mandatory credit and interest concession (Dasgupta, 2001). Later the definition of the priority sector was broadened and many small and tiny industries were also included in that list. Thereafter in 1975, the Regional Rural Banks were established. These banks were created with the aim to provide easier credit to the rural weaker sections. In 1982, the National Bank for Agriculture and Rural Development (NABARD) was created to provide credit to the agriculture and allied activities. NABARD also provides credit as well as non-credit
assistance to the non-farm sector. In 1990, the Small Industries Development Bank of India (SIDBI) was created as the apex refinance bank and principle development financial institution for the promotion, finance and the development of small industries sector and co-ordinate the functions of other institutions engaged in similar activities.

Along with the above mentioned policies, different subsidised schemes have been undertaken by the government to provide credit to the unorganised enterprises. But such programmes could not achieve their goals and resulted in high overdue with the banks. According to Dasgupta (2001), such subsidised schemes were “Supply led not demand led credit programmes ..........” Here the statement supply led scheme contradicts to the popular belief that the smaller enterprises need credit, but they do not have it. Actually it does not mean the absence of demand for credit. Perhaps these schemes could not provide those kinds of credit which the poor had demanded for. In other words, the policy makers did not investigate the kinds of demand existing in the credit market. The main motive was to provide more and more credit to the unorganised sector. Thus, only credit target was the main concern and the bureaucratic machinery was in charge of ensuring credit achievements for which they did not have any professional respect. Moreover, the formal financial institutions were not allowed to see the credit absorption capacity and previous banking records of the clients (Dasgupta, 2001).

Indeed one of the striking features of the unorganised sector throughout the world is the fact that it has been able to mobilise quite significant savings from within the sector through various type of self help savings and credit schemes (Hansenne, 1991). In India also the SHG- Bank linkage programme is helping the unorganised enterprises to have access to credit. Considering the success of the SHG- Bank Linkage programme the government introduced the SGSY programme in 1999; where subsidised credit is provided to the SHGs to start some income generating activities.
Presently micro-finance has emerged as an alternative source of credit for the unorganised enterprises and households over the world and is helping such enterprises (Banergee et al, 2011). India’s Self Help Group- Bank Linkage programme is the single largest micro-finance programme in the world. One segment of literature also states that SHG’s membership of an unorganised entrepreneur is found to be helpful while taking loan from formal financial institutions (Kar, 2010). But the main argument against the micro-finance programme is that this programme provides very small amount of loans to the client; and it is not sufficient to fulfil the credit needs of an unorganised enterprise (Mahajan, 2005 and Bujar Baruah, 2012). Moreover, larger percentage of loans taken under micro-finance programme was for consumption purposes; only a small percentage was meant for asset creation and productive purposes (NCEUS, 2007, Bujar Baruah, 2009).

Considering the inability of the existing FFIs to fulfil the credit needs of the nonfarm unorganised sector, the National Commission for Enterprises in the Unorganised Sector (2007) suggested for the creation of a National Fund for the Nonfarm Unorganised Sector following the structure of National Bank for Agricultural and Rural Development (NABARD). Realising the importance of the micro and small enterprises, the Finance Minister of India in his 2015-16 budget speech announced the creation of a new bank named Micro Units Development and Refinance Agency Ltd. (MUDRA). This was formally inaugurated by the Prime Minister of India on 8 April, 2015. MUDRA is set up through a statutory enactment. The bank will be responsible for refinancing micro-finance institutions in the business of lending to small entities. It will be responsible for developing and refinancing all micro-finance institutions (MFIs) which are in the business of lending to micro and small business entities. Moreover, the vast postal network of the nation is expected to be used for increasing access to the formal financial system. MUDRA bank is expected to regulate the lenders and borrowers of micro-finance and bring stability to micro-finance system...
through regulation and inclusive participation. It also provides credit to micro-finance agency for on lending to individuals, SHGs etc. It will register all MFIs and introduce a system of performance rating and accredit them. Such a system will introduce a system of competitiveness among these agencies and the borrowers will be able choose the best. Moreover, it will provide structured guidelines for the borrowers to avoid defaults and also to the lenders to reduce default risks. To achieve such objectives, it would introduce appropriate technologies to assist in the process of efficient borrowing, lending and monitor the disbursed capital. Finally, MUDRA bank would offer credit guarantee scheme for providing guarantee to loans being offered to micro business. It has built a framework under Pradhan Mantri MUDRA Yojana for developing an efficient last mile credit delivery system to small and micro businesses.

Presently, MUDRA bank has classified the borrowers into three categories. The starter would be provided a loan called Sishu that amounts up to Rs.50,000. The mid stage finance seeker will be given loans ranging from Rs.50000 to Rs.5 lakhs called Kishor. Finally, established business persons would be given a loan product named as Tarun that will range from Rs.5 lakhs to Rs.10 lakhs. Initially, these loans would be limited to the sectors like land transport, community, social and personal services, food products and textile product sector which is expected to expand to other sectors in future. These measures are targeted towards mainstreaming young, educated or skilled workers and entrepreneurs, including women entrepreneurs, the release said.

2.7: CONCLUSION:

From the above discussion it is clear that the unorganised sector has been playing an important role in the developing and underdeveloped countries like India. But despite of its importance in these economies, the unorganised enterprises are facing various problems and
constraints such as low and fluctuating level of income, lack of advanced technology, lack of adequate skill and training of the entrepreneurs and workers, low productive technology, financial exclusion etc. Among these, a large segment of literature identifies the lack of adequate amount of credit to be the most important one. As other facilities like training and skill formation are also related to the availability of credit. Here queries arise regarding the causes of financial exclusion of these units. Moreover, all the enterprises in the unorganised sector do not have the same potentiality to grow. So, before formulating any policy for these enterprises, it is important to differentiate between those enterprises which have the potentiality to grow and those which do not have the potentiality to grow. Accordingly, different policies should be formulated for the two segments of the enterprises.