

# **SELF-EMPLOYMENT IN INFORMAL SECTOR IN INDIA: PROSPECTIVE AND CHALLENGES**

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## **Abstract**

In terms of the part of the GDP, more than half of India's economic activity is covered under the informal sector. The informal sector includes both self-employed workers and household enterprises; they play an essential role in economic activities, especially in terms of their contribution to job creation, income generation, poverty reduction etc. With this largely informal sector, several undesirable things are also associated, like low tax base and tax evasion, poor labour conditions, absence of social security, and inefficiency due to lack of skill. The UPA and NDA governments continuously give importance to the informal sector and make policies regarding the various aspect of the informal sector.

Keywords: Self-employment, Informal sector, Social Security.

## **Introduction:**

In terms of the GDP, more than half of India's economic activity is covered under the informal sector. In rural areas, the size of the unorganised sector is relatively large compared to urban areas. There is less probability of decreasing the ratio of the informal sector shortly. Because there are limited employment opportunities in the organised sector, these organised sectors are also outsourcing several occupations/activities from the organised sector to the unorganised sector.

The unorganised sector provides an income-earning opportunity to a large workforce, and a more significant number of workers are getting their livelihood. The unorganised sector, therefore, has been playing an essential role in providing employment in the economy. There are several other reasons behind the large informal sector in Indian economy. One of them is our planning system, which cannot meet the adjustment between the demand and supply of the Indian economy. The failure of the Indian planning system may be a reason in case of India. India's policy maker could not adjust the demand and supply of workers. Our economic policies and their reforms cannot meet the challenge of the Indian economy. There is a big

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division between pre-economic reform policy and post-economic reform policy. In the pre-economic reform policy, the government controls most economic activities. It gives a minimal chance to develop the formal private sector, which was one of the reasons for the low development of the private organised sector. The public sector provided a significant part of the formal employment in the economy, and the roles of the private organised sector organised were low in formal employment in the pre-reform period. The role of public and private organised sectors was insufficient to employ according to the workforce supply. Therefore, the informal sector emerges rapidly in Indian economy.

During India's Post Economic Reforms Period, the economic policies give domestic and international private enterprises a chance to increase the formal economic activity. Still, in the case of the Indian economy, the impact is not visible. On some criteria, globalisation has an adverse effect. Therefore, the size of the informal sector is vast in Indian economy.

As part of the informal sector, self-employment enterprises' role is vital. There are several challenges in informal sector self-employed enterprises; a small number of informal sector enterprises have access to organised finance institutions to generate financial resources for expansion, technology modification and innovation. Institutional finance, to entrepreneurs, plays a vital in the lives of those self-employed in the unorganised sector. The level of awareness in the self-employment unit is also very low regarding the know-how and technology. These enterprises do not give importance to improving their managerial and labour productivity through education and research. These are the central focus area for government policies.

## **2.0. Objectives:**

- a. To analyse the various conceptual accepts of the informal sector of the Indian economy.
- b. To analyse the importance of self-employment in the informal sector.

## **3.0. Methodology:**

A descriptive methodology based on a review of previous literature is used. This research work is based on secondary data and information.

## **4.0. Review of Literature**

D'souza. & Anthony P. (2013), in his paper unorganised sectors: role of an entrepreneur and challenges in self-employment, gave some recommendations regarding increasing self-

employment through skill development. Through skill development programmes, the first goal is to promote the reemployment of the unemployed to decrease the number of persons left with no other option but to turn to self-employment. To inform potential self-employers, it is crucial to create a self-regulatory environment. Third, the government should help the businesspersons to start the business in a well-prepared manner and to increase productivity. The authorities should provide education for the different age groups to increase productivity. Five more training institutes should establish and include the training in universities. Six innovations should be promoted as a national campaign. Health and environmental awareness programmes should start with self-employment training to make them sustainable, DIC (district industrial center) should focus on solving the problem of self-employment people, and the organised sector should connect with the informal sector.

Monsen, Erik; Mahagaonkar, Prashanth; Dienes, Christian (2010), in his paper Entrepreneurship in India: The question of occupational transition, in this paper, is trying to examine whether the regional socioeconomic differences increase or decrease if an individual move into self-employment from employment in India. The second goal of his paper is to investigate regional Factors and how regional factors affect entrepreneurship and self-employment in developed and emerging countries.

This paper makes it clear that it focuses on employment to self-employment, but some other scholars focus on the movement from unemployment to self-employment, which is different. Several scholars explained that Personal or family wealth is also an essential factor determining the individual's self-employment decision. In industrialised countries, as opposed to emerging economies, the importance of personal wealth is more considerable. According to certain writers, family and personal experience might have a role in the transition to self-employment. Other family members have previously worked for themselves. They discover that prosperously self-employed parents pass on their entrepreneurial talents to their kids. Successfully self-employed families exploit not only their generation but also their future generations. They transfer the economic environment and skills of entrepreneurship.

In emerging economies, market and institutional frameworks are changing for various reasons. The industrial base and traditional labour markets are less well established. Self-employment is very much meaningful. The factors influencing the shift from work to self-employment are different and may be more critical in industrialised nations.

Srivatva, Padhi & Ranjan (2020) explain in their paper “Structural change an Increasing Precarity in India “ that the debate on the informal sector gained importance in the 1980s when scholars realised that the informal sector was not a transitional phenomenon, Earlier it was a well-established fact that the informal sector will convert in the formal sector with development. Now it is happening due to a change in global economy direction. These changes in the global economy are increasing the have been increasing the size of informal sector employment. The International Labour Organization (ILO) defines the parameters for characterising informal sector enterprises. In addition, the ILO try to develop the methodology for estimating the size of informal sector employment across countries. In the 15<sup>th</sup> ICLS (1993), Conference of the International Conference of Labour Statisticians (ICLS) tries to identify the characteristics of the informal sector. The Delhi Group (2012) did work to define the informal sector and give yardsticks to compare the informal sector across countries. Due to several economic changes in the global economy, the informal sector also exists in the formal sector. Therefore, there is a classification of the informal sector, which exists in formal and informal sectors. The informal sector is part of all three sectors of the economy: primary, secondary, and tertiary. The informal includes both informal sector enterprises and households’ categories. The ILO (2013) defines the broad definition of the informal sector based on job security and social security. The ILO definition is more inclusive and country-wise; it gives more specific criteria to estimate the informal sector.

Jyoti Vij and Anshuman Khanna, and Pragati Srivastava (2017), in their Report on Informal Economy in India, stated that more than half of India's economic activity takes place in the unorganised sector. Undoubtedly, informal businesses contribute significantly to the economy, particularly in the number of jobs they create. However, a sizable informal economy is generally unfavourable due to its low tax base, precarious employment, lack of social protection, and decreased productivity brought on by a lack of competence. Therefore, policymakers worldwide seek to formalise Unregistered/Unorganised Enterprises to diminish the Informal Economy's extent. Further, they said that the share of informal sector in Gross Value Added is very high in developing countries. This part of economy is beyond the tax system. The government wants to bring the informal economy into the tax net; it is a big source of revenue, which can help finance the growth and development of national income. It is not only a matter of national income growth but also the overall development of the more significant population segment; that is engaged in the informal sector because the informal sector is facing several problems like poor working conditions of labourers, Lack of social

security, inefficiency due to lack of skills etc., that is necessary to bring the informal sector into the planning process.

Ghosh and Chandrashekhar (2007) say that the new job creation in India during the post-liberalization period has been by self-employment; those people are involved in several petty and small enterprises. The primary industries in which the self-employed are engaged are trade, services, and construction. This is half the total Indian workforce). Ghosh and Chandrashekhar (2007) say that it is an opportunity-driven phenomenon; the worker is getting a chance to get partially and fully employed in private sector enterprises, and almost half of self-employed persons say that their work does not provide them with sufficient income. Hence, they are involved in some other self-driven economic activity. According to Ghosh and Chandrashekhar, self-employment in India is need-based and is primarily motivated by the country's economic misery.

Ahluwalia (2005) says that in the post-liberalisation period, the government opened various areas for private sector enterprises, which was the government policy to remove the barrier to operating the private sector in those previously established areas reserved. The strategy was to promote economic development in post-liberalization-reform India through the participation of the private sector. The process of economic liberalisation includes various new economic. Reforms to the economy's fiscal, structural, and industrial systems were the main objectives of these programmes. The elimination of antiquated industrial licencing laws and a quota system, both of which had impeded market access, was the main goal of the structural reforms. Removing these obstacles boosted private investment and broadened the available business options. The national and state governments are pursuing growth and development strategies that support entrepreneurship and self-employment, according to Ahluwalia (2005). Ahluwalia (2005) says that The Indian government has been using self-employment to target Poverty. The purpose of the different government support programmes and schemes like the Integrated Rural Development Programme (IRDP), Prime Minister's Rozgar Yojana (PMRY), and Sampoorna Grameen Rozgar Yojana (SGRY) is to encourage the unemployed to start their businesses. These initiatives offer capital subsidies, credit guarantees, and exceptional support through banks. These things clear that Indian policy uses self-employment to alleviate unemployment and poverty. In keeping with prior strategies, these structural reforms also included boosted support for efforts promoting self-employment with the primary objective of lowering

unemployment. However, the Convergence of unemployment rates was not found before and after the reform period.

Bhalotra (2002) reports that regions within India differ in unemployment rates and that, surprisingly, states with the highest incidence of poverty appear to have the lowest unemployment rates and vice versa, making it more than a little puzzling that self-employment policies for the unemployed are still viewed as a viable method of alleviating poverty. Despite this, India has significantly declined normal wage employment since its economic liberalisation. The widely reported difficulties in finding work have led to a sharp rise in self-employment.

### **5.0. Informal sector Areas:**

The informal sector consists with consist with petty traders, small producers, and a range of casual jobs; the informal sector provides the means of livelihood to millions of people around the world, especially in developing countries. A range of urban informal sector economic activities from food processing, vending, garbage shifting and other petty activities, which require less capital, soft skills are part of the informal economy. In rural areas, the Non-Farm sectors, the small businessperson, traders and manufacturers are associated with the informal sector. They play a vital role in employing the workforce. Both are part of the informal sector. These two urban and rural sectors require making social security policies for their people.

This perception is that it is a traditional sector which will disappear with development. It is prevailing in the formal sector due to several regions. The ILO in 2002 included the informal sector of these groups,

a) the self-employed workers engaged in survival-type activities, such as vendors of non-perishable goods like locks, clothes, and vessels as well as perishable items like fruits, vegetables, meat, and fish; garbage collectors; rag-and-scrap pickers; head-loaders; agricultural and construction workers; rickshaw- and cart-pullers; etc. b) the domestic employees who are paid, such as maids, gardeners, chauffeurs, etc. c) The self-employed in micro-enterprises, such as roadside mechanics, barbers, cobblers, carpenters, tailors, bookbinders, owners of small stalls and kiosks, etc. d) The home-based workers, such as garment makers, embroiderers, incense stick rollers, bidi-rollers, paper bag makers, kite makers, food processors, etc. Along with the ILO definition, an informal sector exists in the formal sector.

## **6.0. Informal sector's characteristics:**

In General opinion, the informal sector employment is of low quality, low wage and no income security, more working hours, no leave, and no social security. The informal sector is neither state nor neither regulated nor collective agreement, and traditional institutions determine the employment conditions.

## **7.0. The relation between economic growth and employment:**

There is a significant relationship between economic growth and work; the informal sector is the main component of economic growth and jobs in developing countries. It provides employment and helps in poverty reduction. Most jobs are low-wage based and insecure, so it is controversial that the low-wage based jobs and insecurity in the job are increasing or decreasing poverty. In some sense, the informal sector is expanding job security and employment.

## **8.0. Self-employment as a part of the informal sector:**

Self-employment includes those who work entirely for themselves (own-account workers), operators of small businesses with a few employees, and unpaid family helpers. There are reasons for self-employment; it is divided into two broad categories. First, the people voluntarily involved in self-employment, such as job satisfaction, independence, extra income, autonomy in work, start innovation and self myself-business. Second, he is pushed into self-employment without other options. The problem faced by self-employed enterprises are shortage of capital, reach in the market, unpredicted nature of demand, small level of operation, transportation and steerage capacity, skill and technology level, rejection and outdated goods, liquidity requirement for various purposes, business losses, lack of presentation, unequal competition, higher age of the self-employed person, lack of motivation etc.

## **9.0. Importance of informal sector self-employed entrepreneurs and workers in the Indian Economy:**

The informal sector includes both self-employed workers and household enterprises. The Role of an entrepreneur is vital on various criteria; they are part of planning and Creating employment for others. Capital formation, research and selling, strategy, Promote regional balance growth, reduce the monopoly, Wealth creation and distribution, Improve the standard of living, Start forward and backward linkage, develop the skill etc.

The UPA (United Progressive Alliance) addressed the problem of the informal sector first time in Common Minimum Programme (CMP) in 2004. The issues and challenges of the unorganised sector are, according to the Common minimum programme (CMP), “to ensure the welfare and well-being of all workers, particularly those in the unorganised sector, constitute 93 per cent of our workforce and to enhance the welfare and well being of the farmer, farm labour, particularly those in the unorganised sector and assure a secure future for the families in every respect”. India was the first country to set at the commission on unorganised sector workers in September 2004.

The NDA (National Democratic Alliance) government also give importance to the unorganised sector, Hon’ble Prime Minister Shri Narendra Modi said in his speech during the launch of Pradhan Mantri Mudra Yojana. “People think it is industry and corporate house that provide higher employment. The truth is that only 12.5 million people are employed by big corporate houses against the 120 million in MSME sector. We need to understand the energy of the bottom of the pyramid of individuals and provide them with a means for Upliftment”.

#### **10.0. Conclusion:**

In India's developing nations, there are few work prospects in the formal sector. In India, the informal sector is growing in the absence of opportunities in the formal sector and the ability to work on one's own; this sector employs a sizable portion of the labour force. Both wage-based work and self-employment are included in the informal sector. A self-motivated person who works for themselves manages their business with their meagre resources. In both urban and rural locations, there are self-employed individuals working in the informal economy. Due to factors like population pressure from remote regions, migrant workers looking for work, high population density brought on by urbanisation, minor and pitiful trader commercial activity, which tries to meet out demand create due high standard of increase the life of every segment of the population, agglomeration of goods and service production units and their supply chain, etc., self-employment in the informal sector is increasing in urban areas.

The government is setting up a number of wage-based programmes in rural and urban areas for unemployed and part-time workers, but this is not a long-term fix for these issues. Therefore, the government is attempting to offer the facility to small-scale, self-employed members of the informal sector through programmes like the Mudra Loan, Skill India, and Insurance Scheme.



Another argument is that because it is impossible to formalise the informal sector's economic activity, social security must be offered to them.

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