

A Note on the Unorganized vis-à-vis Informal Sector

Oindrila De

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India's National Accounts System (NAS) uses the term 'organized sector' and 'unorganized sector' in GDP series calculation whereas NSSO uses the term 'informal sector' in their EUS household/enterprise surveys and further divides 'non-formal' sector as household sector and informal sector. Therefore, if we compare these two systems, 'informal sector' is effectively a subset of 'unorganized' sector. However, it seems that the gap between formal and organized sector is reduced in recent times with more data availability and adoption of international definition in Indian statistical system.

International definition

International Labour organization (ILO) and System of National Accounts (SNA) have certain differences in their definition of informal sector which is reflected in India's statistical system as well. It should be stressed here that to maintain consistency, at the international and national level, 'informal sector' is defined by the characteristics of the production units (enterprise approach) rather than the characteristics of the jobs (labour approach).

In January 1993, the Fifteenth International Conference of Labour Statisticians (15th ICLS) adopted an international statistical definition of the informal sector that was also included in the revised international System of National Accounts (SNA 1993). Comparison between these two systems and ILO's definition of the 'informal sector' is shown in the picture below:

Figure 25.4: Identifying units for the ILO informal sector from within the SNA institutional sectors

General government	Non-financial and financial corporations		Households						NPISHs
	Those that are registered or with greater than a given number of employees	Those that are unregistered or with fewer than a given number of employees	Those that are registered or with greater than a given number of employees	Self-employed (informal own-account enterprise)		Unincorporated enterprise with employees (enterprises of informal employers)		Institutional households, households with no unincorporated enterprises, households only undertaking production for own final use (including owner-occupation of dwellings)	
				Market producers	Producers for own final use	Market producers	Producers for own final use		
				Selling most or all production	Selling some production	Not selling any production	Selling most or all production	Selling some production	Not selling any production

Source: System of National Accounts (SNA, 2008)

Coloured cells constitute the informal sector
Note: NPISH= Non-profit institutions serving households.
Both the systems recommend less than five employees as cut off.

Therefore, ILO's concept of the informal sector takes household institutional sector of SNA and further subdivides them into three: one part forms the informal sector (coloured one in the picture), another constitutes formal (registered or with greater than a certain number of employees as practiced by individual countries). Quasi-corporations (unincorporated enterprises that maintains account) are also part of the formal sector. Third part of the household institution sector remains household sector (households/ household enterprises that do not sell their produce).

Indian definition:

In India, NSSO defines organized manufacturing as units under ASI (registered under Factories Act, 1948) and for service sector, the units that are run by Government or by public sector units are considered organized service sector (NCEUS, 2008). On the other hand, National Accounts of Statistics (NAS), uses the term 'organized' solely on the basis of availability of consistent statistics.

NSSO (2001) summarizes that "In the Indian system of National Accounts Statistics, the terms 'organised' and 'unorganised' sectors are used from the point of view of collection of statistics. The organised sector comprises of enterprises for which the statistics are available regularly from the budget documents, annual reports in the case of Public Sector enterprises and through Annual Survey of Industries in case of registered manufacturing. On the other hand, the **unorganised sector** refers to those enterprises where collection of data is not regulated under any legal provision and / or which do not maintain any regular accounts." ¹

NAS new series released in 2015 incorporated many suggestions of SNA (2008) and now defines the **organized and unorganized** sector as follows (more or less consistent with the grouping shown in the picture above):

I Organized sector

- a. General Government
- b. Public Financial/Non-Financial Corporations
 - 1. Departmental Enterprises (DE) or Departmental Commercial Undertakings (DCU)
 - 2. Non-Departmental Enterprises (NDE) or Non-Departmental Commercial Undertakings (NDCUs)

¹ http://www.mospi.nic.in/sites/default/files/publication_reports/concepts_golden.pdf

c. Private Financial/Non-Financial Corporations

1.Private Incorporated Enterprises

2.Quasi-corporations

These include –

i. Crop production in plantations, other than those covered in private corporate sector

ii. Unincorporated Enterprises covered in Annual Survey of Industries

iii. Unincorporated enterprises of manufacturing that are not covered under ASI but maintains accounts

iv. Co-operatives providing non-financial services

v. Unincorporated enterprises providing non-financial services maintaining accounts

vi. Unorganised financial enterprises

II. Households or Unorganised sector

a. Enterprises not covered in 'I' above, i.e., all non-Government Unincorporated Enterprises that have not been classified as quasi-corporations –Includes Non-Profit Institutions Serving Households (NPISH).

Therefore, India's new NAS and GDP series continue to separate unorganized from the organized sectors. Surprisingly, SNA (2008) which is the building block of India's NAS never utters the word 'organized' or 'unorganized'. They have moved to ILO's definition of informal sector as described above. But Indian system still uses these two terms. Moreover, in NAS, there is no separate estimate for 'informal' sector (which is effectively the total unorganized sector minus household sector with own consumption).

In Indian context, National Commission for Enterprises in the Unorganized Sector (NCEUS, 2008) defines **the informal sector** in following manner: "The informal sector consists of all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten total workers".

However, these definitions of unorganized and informal sectors is not consistently exploited in official documents (NSSO surveys and EC). But, unit level data collected under various surveys help us to extract useful information independently. NAS, over the years uses multiple sources to estimate organized-unorganized sector statistics (see NAS, 2015 for details). Let us explore how NSSO and Economic census collated information in recent years surveys that can be used to define informal sector according to NCEUS definition or unorganized sector according to NAS definition.

NSSO household surveys collate data on enterprise type (proprietary, partnership, public/private corporate etc.) and also number of workers (1-6, 6-9, 10-20, and more than 20).² Recent NSSO-PLFS defines informal sector as “unincorporated enterprises owned by the households, (i.e., *proprietary* and *partnership* enterprises including the informal producers’ cooperatives) are largely considered as *informal sector* enterprises.” For the purpose of defining informal sector, NSSO takes AGAEC and non-agricultural sector only.³ Moreover, NSSO collects data on cooperatives but cannot ascertain whether the cooperative is formal or informal [PLFS report, 2017-18]. Also, NSSO final reports (EUS, PLFS) does not include number of workers criteria for defining informal sector. Same is true for LB-EUS. However, information on number of workers criteria can be easily extracted from the unit data.

There are certain limitation of HH surveys to fully extract information on the informal sector. First, asking the question on number of workers may not receive accurate answers unless you are asking it to the owner of the enterprise. Another important point to note is that limited liability partnerships (LLP) that operate under the LLP Act, 2008 are formal enterprises registered under MCA (mandatory registration). Similarly, Companies Act, 2013 gives one person company (OPC) a chance to corporatize which also comes under the formal sector (voluntary registration). Therefore, all proprietary and partnership firms, by definition, may not be informal (though this number will be very small). It is not clear from NSSO reports that these enterprises are excluded from informal sector or not. Lastly, NSSO & LB HH surveys do not extract information on proprietary and partnership firms maintaining accounts (quasi corporations as defined by ILO & SNA) or distinguish between formal and informal cooperatives.

NSSO’s survey on unincorporated non-agricultural enterprises (enterprise surveys) are considered as informal establishment surveys (it is partial since last two surveys (2009-10 and 2015-16) did not include construction sector where the majority enterprise and workers are of informal category). The definition they use is as follows:

“Non-agricultural enterprises which are ‘not incorporated’ (i.e. not registered under Companies Act, 1956) were covered in the survey. Further, the domain of ‘unincorporated enterprises’ excluded (a) enterprises registered under Sections 2m(i) and 2m(ii) of the Factories Act, 1948 or bidi and cigar manufacturing enterprises registered under bidi and cigar workers (condition of employment) Act, 1966, (b) government/public sector enterprises and (c) cooperatives. Thus the coverage was restricted primarily to all household

² See NSSO (2014) for details

³ [AG]ricultural sector [E]xcluding [G]rowing of [C]rops, plant propagation, combined production of crops and animals without a specialized production of crops or animals are referred to as AGEHC sector in PLFS report.

proprietary and partnership enterprises. In addition, Self Help groups (SHGs), Private Non-Profit Institutions (NPIs) including Non-Profit Institutions Serving Households (NPISH) and Trusts were also covered.

Since enterprise surveys collate all the information (number of workers, enterprises maintaining account, excludes LLP units), all elements of unorganized sector as defined by NAS can be found from here. Same is true for informal sector as defined by NCEUS & NSSO. The only problem is regarding cooperatives. According to ILO method, "Producers' cooperatives are considered informal, if they are not formally established as legal entities and also meet the other criteria of informal sector enterprises specified in the Resolution concerning statistics of employment in the informal sector adopted by the Fifteenth ICLS." [ILO-Delhi Group, 2003 reproduced in PLFS report 2017-18]. However, NAS considers cooperatives as organized sector [NAS, 2015]. Therefore, like HH surveys, again the formality-informality of cooperatives are still not sorted.

Economic census (EC) collects information on number of workers (hired/non-hired), types of establishments and various registration (factories act, MSME registration and others). Since 1998 EC, a directory of establishments (DoE) having 10 or more workers are prepared (for the purpose of establishing a business register which did not take off though). In terms of scope, 6th EC included all the unincorporated enterprises, all other units engaged in various agricultural and non-agricultural activities excluding crop production, plantation, public administration, defence and compulsory social security. While covering these activities, 6th Economic Census considered the following ownership categories for inclusion: Government/ PSU, proprietary and partnership establishments, private corporate establishments (Companies), non-profit institutions (NPIs), trusts, cooperatives, self-help groups (SHGs). Proposed 7th EC expands the scope of Economic census to include various original and additional registration criteria including GST. EC does not improve much upon enterprise survey in terms of extracting useful information on informal/unorganized sector except cooperatives and their reporting on additional registration under various acts may help the categorization of formal/informal.

Conclusion: NAS still uses the term organized-unorganized unlike international convention of adopting the definition of formal-informal section. However, NAS (2015) accommodated many recommendations of SNA in defining the organized and unorganized sectors. On the other hand, formal sector is not defined directly by NSSO. But from the above analysis, it is clear that government, public and private corporations, organized manufacturing (unincorporated) are part of formal sector which almost coincides with organized sector definition of NAS (except few caveats such as cooperatives are not categorized as formal/informal; the source of plantation data is not clear etc.). In terms of the size of the informal sector, we do not have an official statistical system since we club household sector and informal sector together under unorganized sector.

Reference:

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