

10. What role does the unorganised sector play in the Indian economy? Highlighting its limitations, suggest ways to transform it into organised sector.

Approach:

- Briefly, write about the unorganized sector in India and discuss the role of the unorganized sector in the Indian economy.
- Highlight limitations of the unorganized sector.
- Conclude by suggesting ways to transform it into organized sector.

Answer:

Unorganised sector has been defined under the Unorganised Workers Social Security Act, 2008 as *“a production or service oriented enterprise owned by individuals or self-employed workers (one who is not working for an employer and is engaged in an unorganised sector job earning an income below a threshold or owning land below a notified limit) and if workers are employed, then the total number of workers cannot exceed ten.”*

The Indian Economy is characterized by the existence of a large percentage of unorganized sector. While the sector contributes around half of the GDP, it engages around 90% of the total workforce. A major chunk of this is engaged in the agricultural sector, which indicates the prominence of rural segment in the informal economy.

Limitations of unorganised sector:

- Access to finance is restricted because of uncertainty of the enterprise.
- Lack of modern technology to improve productivity.
- Quality managerial resource is not available- mostly family based enterprises run unprofessionally.
- Poor social protection to employees discourages incentive to be productive.
- Types of goods produced or services offered are not of high value. They are mostly involved as supplier of intermediate parts or low-level services in the market.

Further, a disproportionately large role of the unorganized sector in the labour market poses a challenge to sustainable growth and development due to the following inherent limitations:

- Excessive seasonality of employment (especially in the farm sector) and the preponderance of casual and contractual employment.
- Negation of social standards and worker rights, and denial of minimum wage.
- Low labour productivity due to poor human capital base in terms of education, skill and training.
- Lack of marketing assistance, low capital intensity and excessive reliance on the informal sector for credit needs.
- Caters only to local markets and are not able to expand their market size in a significant way.
- Workers are hugely scattered and not unionized leading to exploitation by employers.
- The absence of a comprehensive legislative framework to regulate various aspects of work.

Ways to transform it into organized sector

- Create employment opportunities by emphasizing on the manufacturing sector which are safe and well paid in the formal sector.
- Extend social security net to unorganised sector and promote labour rights.
- Support entrepreneurship and promote skill development.
- Rationalize Labour laws to balance workers interest and market flexibility. For e.g. changes in dismissal norms in case of Industrial Dispute.
- Provide access to hassle-free multiple credit channels.