

# Definitions and descriptions of informality and structure of the labour force in India \*

Jeemol Unni

Ravikiran Naik

*\*Authors are RBI Chair Professor and Research Associate at Institute of Rural Management, Anand (IRMA).*

## Objectives:

To Review Various definitions of Informality

Measuring Informality: Recent Approaches

To asses the Informality in India by various approaches

To Compare Informality among migrants and Non-migrants

# Informality: Concepts, Definitions

## **ILO's Definition of Informal Sector ( 15<sup>th</sup> ICLS)**

According to this definition all jobs in informal sector-enterprises or all persons who are employed in at least one informal sector enterprise were considered as part of informal sector

## **Criticism against this Definition**

Continued.....

## **ILO's Definition of Informal Employment ( 17<sup>th</sup> ICLS)**

*“employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to labour legislation, income taxation, social protection or entitlement to certain employment benefits (advance notice of dismissal, severances of pay, paid annual or sick leave, etc.)”.*

Thus all unprotected workers in formal as well as informal sector are considered informal workers

# Informality: Definitions in India

## NCEUS's Definition of Informal Sector)

*According to NCEUS unorganized 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” (Gol, 2007)*

This Definition was incorporated for the first in the labour force survey in 1999-2000(55<sup>th</sup> Round-NSSO).

Continued.....

## **NCEUS's Definition of Informal Employment:**

NCEUS defined informal employment as follows:  
*“Unorganized workers consist of those working in the unorganized sector or households, excluding regular workers with social security benefits, and the workers in the formal sector without any employment and social security benefits provided by the employers” (Gol, 2007).*

# Measuring Informality

- *No consensus*
- *Multiple forms of Informality in the Research and Policy*
- *Different Studies used various indicators to capture informality*

To Measure possible size of informal Employment in India we use different definitions. These Definitions / approaches are explained in details in the next table.....

## Indicators used to define informal sector (IS) and informal employment (IE) in each approach (Employees)

Enterprise - Worker Indicators	Informal Sector		Informal Employment					
	IS (ILO)	IS (NCEUS)	IE (ILO)	IE (NCEUS)	IE_1	IE_2	IE_3	IE_4
<b>1.Employee</b>								
1.1 Registered Enterprise <sup>1</sup>	☆	☆						
1.2 With <10 workers		☆	☆					
1.3 Social protection from employer <sup>2</sup>				☆	☆	☆	☆	☆
1.4 Medical benefits/ insurance					☆	☆	☆	☆
1.5 Paid Leave						☆	☆	☆
1.6 Contract <sup>3</sup>							☆	☆
2.7 State sponsored pension								☆



## Indicators used to define informal sector (IS) and informal employment (IE) in each approach (Self-Employed)

<b>2. Self employed: Employer or Own Account Worker</b>								
2.1 Registered Enterprise <sup>1</sup>	☆	☆	☆					
2.2 With <10 workers		☆						
2.3 Social protection from employer <sup>2</sup>			☆	☆	☆	☆	☆	☆
2.4 Medical benefits/ insurance					☆	☆	☆	☆
2.5 Paid Leave						☆	☆	☆
2.6 Contract <sup>3</sup>							☆	☆
2.7 State sponsored pension								☆
<b>3. Self employed: Contributing Family Helper</b>								
	All contributing family helpers are in informal sector and informal employment by all approaches							

## Definitions of **Informal Employment**:

**IE1:** workers is Informal if does not get standard social protection (Gratuity, Employees State Insurance (ESI), Employees Provident Fund (EPF), Pension under EPF) and Medical benefits/ insurance ( *No of Indicators used: 5*)

**IE2:** workers is Informal if does not get standard social protection (Gratuity, Employees State Insurance (ESI), Employees Provident Fund (EPF), Pension under EPF), Medical benefits/ insurance and paid leave ( *No of Indicators used: 6*)

**IE3:** workers is Informal if does not get standard social protection (Gratuity, Employees State Insurance (ESI), Employees Provident Fund (EPF), Pension under EPF), Medical benefits/ insurance ,Contract and paid leave( *No of Indicators used: 7*)

**IE4:** workers is Informal if does not get standard social protection (Gratuity, Employees State Insurance (ESI), Employees Provident Fund (EPF), Pension under EPF), Medical benefits/ insurance ,Contract , Paid leave and State sponsored pension( *No of Indicators used: 8*).

## Proportion of Informal Workers by Different approaches in the Non Agricultural sector

Definitions	All Workers			Male			Female		
	Delhi	Ranchi	NSS61	Delhi	Ranchi	NSS61	Delhi	Ranchi	NSS61
IE_ILO	86.45	88.61	94.17	87.64	87.45	94.01	76.80	93.49	94.96
IE_NCEUS	86.45	88.61	94.47	87.64	87.45	94.33	76.80	93.49	95.18
IE1	84.02	86.25	79.16	85.38	85.01	79.05	73.00	91.44	79.38
IE2	83.46	85.84	47.51	84.89	84.67	74.95	71.63	90.73	72.43
IE3	74.20	84.30	30.76	75.79	63.57	30.3	61.28	87.34	33.01
IE4	73.78	83.80	NA	75.76	83.31	NA	59.34	86.28	NA
<b>Proportion of workers in Informal Sector</b>									
IS_ILO	67.58	77.38	76.97	68.06	76.89	77.27	63.76	79.42	75.50
IS_NCEUS	57.07	64.44	55.26	57.24	63.98	55.15	55.72	66.33	55.78

## Proportion of Informal Employment across Informal Sector in the (Non Agri.)

Person	Delhi		Ranchi		All India Urban	
	IS_ILO	IS_NCEUS	IS_ILO	IS_NCEUS	IS_ILO	IS_NCEUS
IE_ILO	96.82	98.80	99.29	99.58	98.52	99.74
IE_NCEUS	96.82	98.80	99.29	99.58	98.52	99.74
IE1	95.50	97.49	97.63	98.20	96.26	99.20
IE2	94.89	96.92	97.19	97.67	91.90	96.33
IE3	87.85	90.00	96.75	97.14	36.02	27.84
IE4	87.26	89.39	96.31	96.61		
<b>Male</b>						
IE_ILO	97.11	98.77	98.46	99.60	98.51	99.76
IE_NCEUS	97.11	98.77	99.23	99.60	98.51	99.76
IE1	95.95	97.59	97.36	98.01	96.32	99.21
IE2	95.48	97.20	96.92	97.49	92.33	96.72
IE3	88.95	91.03	96.48	96.96	35.46	26.75
IE4	88.65	90.76	96.26	96.69		
<b>Female</b>						
IE_ILO	94.29	99.05	99.55	99.47	98.58	99.64
IE_NCEUS	94.29	99.05	99.55	99.47	98.58	99.64
IE1	91.59	96.66	98.75	98.93	95.97	99.15
IE2	89.76	94.57	98.31	98.40	89.75	94.46
IE3	78.30	81.45	97.86	97.87	38.78	33.10
IE4	75.25	77.96	96.53	96.27		

# Informality & Migration

In this section we scrutinise informality among migrants in Delhi and Ranchi with the help of different approaches towards informal employment and informal sector

## Proportion of Informal Workers (Migrants, Non-Migrants)

Definitions	Delhi		Ranchi	
	Migrants	Non-Migrants	Migrants	Non-Migrants
IE_ILO	84.33	86.73	83.87	89.12
IE_NCEUS	84.33	86.73	83.87	89.12
IE1	81.12	84.39	82.46	86.66
IE2	81.12	83.76	81.75	86.28
IE3	73.85	74.25	79.63	84.80
IE4	73.85	73.77	79.63	84.34
<b>Sector</b>				
IS_ILO	64.25	68.02	73.27	77.82
IS_NCEUS	47.99	58.26	59.12	65.01

## Proportion of Informal Employment across Informal Sector (Migrants, Non-Migrants)

<b>Delhi</b>				
Person	Migrants		Non Migrants	
	IS_ILO	IS_NCEUS	IS_ILO	IS_NCEUS
IE_ILO	93.06	96.63	97.28	99.04
IE_NCEUS	93.06	96.63	97.28	99.04
IE1	91.91	95.86	95.95	97.67
IE2	91.91	95.86	95.26	97.03
IE3	87.53	91.54	87.89	89.84
IE4	87.53	91.54	87.23	89.16
<b>Ranchi</b>				
Person	Migrants		Non Migrants	
	IS_ILO	IS_NCEUS	IS_ILO	IS_NCEUS
IE_ILO	97.10	97.61	99.51	99.77
IE_NCEUS	97.10	97.61	99.51	99.77
IE1	96.14	96.41	97.78	98.37
IE2	96.14	96.41	97.30	97.79
IE3	95.17	95.22	96.91	97.32
IE4	95.17	95.22	96.42	96.74

## Sector choice regression (Formal Sector Participation)

	Pr(Formal sector)	Including Migrant
<i>Illiterate reference group</i>		
Primary	0.207	0.204
Middle	0.331	0.336
Secondary	0.567	0.562
Higher Secondary	0.809	0.811
Diploma	1.369	1.369
Graduate & above	1.257	1.262
experience	0.026	0.026
exp_square	Not Sig	Not Sig
<i>Male reference</i>		
Female	Not Sig	Not Sig
SC/ST	0.171	0.176
Migrant dummy		0.162
<i>Ranchi reference city</i>		
Delhi	0.199	0.198
Identifying variable	2.045	2.045
_cons	-1.898	-1.919
Number of obs.	4126	4126

## Sector choice regression (Formal Sector Participation)

Variables	Pr(Formal sector)	Including Migrant
<b>years of schooling</b>	0.086	0.086
<b>experience</b>	0.025	0.024
<b>exp_square</b>	Not Sig	Not Sig
<i>Male reference</i>		
<b>Female</b>	Not Sig	Not Sig
<b>SC/ST</b>	0.15	0.156
<b>Migrant dummy</b>		0.155
<i>Ranchi reference city</i>		
<b>Delhi</b>	0.193	0.193
<b>Identifying variable</b>	2.063	2.063
<b>_cons</b>	-2.097	-2.12
<b>Number of obs.</b>	4126	4126