



## **RSTV PERSPECTIVE - INFORMAL ECONOMY: CHALLENGES & OPPORTUNITIES**

**Context:** India's informal economy has shrunk to around 15-20 per cent of the formal GDP as against 52 per cent three years ago, a report by the SBI economic research department has said.

### **More on the news:**

- At least **Rs 13 lakh crore** has come into the formal economy.
- Since 2016, a plethora of measures such as the adoption of GST, enhanced digitalisation, and demonetisation, which accelerated the digitisation of the economy and the emergence of the gig economy, have facilitated higher formalisation.
- Sources of data are monthly EPFO payroll report, e-Shram portal, formalisation through KCC route.
- **25-30 per cent of the GDP comes from SMEs and they are mostly informal; also, over 60 per cent of employment in the farm sector is informal.**
- According to the report, the informal size of the trade, hotels, transport, communication, and broadcasting sectors, which employ around 17 crore households as per the 2011 census, is 40 per cent.
- The informal sector in construction is around 34 per cent, and that in public administration around 16 per cent. Manufacturing sector has an informal component of around 20 per cent.

### **Global Status Of Informal Economy:**

- The informal economy is a global and pervasive phenomenon.
- According to International Labour Organisation approximately **60 percent of the world's population participates in the informal sector.**
- Although this is mostly prevalent in emerging and developing economies, it is also an important part of advanced economies.
- More than **6 workers among 10 and 4 enterprises among 5 in the world operate in the informal economy.**
- This amounts to over 2 billion workers earning their livelihoods in the informal economy.
- **Informal employment represents 90 per cent of total employment in low-income countries, 67 per cent in middle-income countries and 18 per cent in high-income countries.**
- Between 2010 and 2016, informal work made up around 40% of GDP across Sub-Saharan Africa, Europe and Central Asia, and Latin America and the Caribbean.

### **Indian scenario:**

- In developing countries like India, large share of the population typically depends upon the informal economy.
- According to **Periodic Labour Force Survey over 90 percent of workers in India are informal workers.**
- Out of these those engaged in rural areas is significantly more than urban areas. This is primarily because a large number of informal workers are engaged in farm or agricultural activities.
- Those in urban areas are involved primarily in manufacturing, trade, hotel and restaurant; construction; transport; storage and communications; and finance, business and real estate.



- As per a **National Sample Survey (NSS)** of 2014, around **93% of the workforce earned their livelihoods as informal workers.**
- An IMF policy paper estimated that the share of India's informal economy in the **Gross Value Added (GVA)** was at **53.9% in 2011-12 and improved only marginally to 52.4% in 2017-18.**
- India's estimated 450 million informal workers comprise 90% of its total workforce, with 5-10 million workers added annually.
- Further, according to Oxfam's latest global report, **out of the total 122 million who lost their jobs in 2020, 75% were lost in the informal sector.**

### What is informal economy?

- Informal economy broadly comprises of two parts- **informal enterprises as economic entities and informal workforce (employed both in formal and informal enterprises).**
- NSSO has been using employment size (i.e. **establishments employing less than ten workers**) for classifying an enterprise as an informal sector enterprise (except enterprises legally registered as formal enterprises).
- Characteristics include- **Low skill levels, easy entry, low paid employment and primarily immigrant nature of labour force.**

### Opportunities:

- Informal Economy **employs more than 90% of workforce and contributes about 50% of the gross national product.**
- Also, **share of informal workers is around 10% in the formal sector of the economy.**
- **Share of informal sector in rural areas is significantly large (~75%), mainly in areas like agriculture and non-farm economy including low end services.**
- **Witnessed substantial growth in terms of output, share of employment and earnings.** Thus ,special attention needs to be given to the sector to make this growth more inclusive and sustainable.
- Sustaining **high levels of growth are also intertwined with improving domestic demand of those engaged in informal economy.**
- Informal sector is becoming **increasingly interlinked with the formal sector, fulfilling the supply chain gaps and providing essential services.**

### Challenges in the informal sector:

- Most industries, especially mining, have **inadequate safety and health standards and prone to environmental hazards.**
- The daily **wages are below the minimum rate of wages.**
- **Long hours work** in the unorganised sector beyond the labour and regulatory norms are common in India.
- Workers in the unorganised sector had a **much higher incidence of poverty than their counterparts in the organised sector.**
- There are **no social security measures to provide risks coverage and ensure maintenance of basic living standards** at times of crises such as unemployment or health issues.
- The informal sector grapples with **issues like child labour, exploitation of workers, bonded labour and human trafficking.**
- The **'Hand to Mouth' nature of informal employment** creates a scenario where any loss of income directly affects the consumption levels.



- **Women are more exposed to informality** and are often in more vulnerable situations than their male counterparts.

### Challenges owing to the pandemic:

- Given that these enterprises have meagre financial cushion, most owners of informal enterprises may have no choice but to use their negligible business capital for consumption. As a result, they may be forced to close their business temporarily or permanently.
- The pandemic also led to closure of several formal enterprises. The workforce released by these firms tends to get absorbed in the informal workforce.
- The resultant restructuring of economic activities and supply chains could lead to frictional unemployment or further expansion of the informal economy.
- Informal enterprises largely remain unregulated in the normal times. But in the current time, the need for monitoring of these firms tends to generate ad-hoc mechanisms which create multiplicity of regulations from central, state and local authorities.
- COVID-19 induced growth in the market of e-commerce firms-consumer behaviour moving towards formal sector from informal sector.
- The large-scale unemployment, resultant loss of income and increased informalization created by the crisis could intensify social issues prevalent in informal employment.
- According to some estimates, more than 80 percent workers in the informal sector lost employment in India. About 75 percent of these workers were small traders & daily wage-labourers.
- A direct corollary of increased unemployment was the migrant crisis.

### Steps taken to improve conditions in the informal sector:

- **Directive principles:** A number of directive principles of state policy relating to aspects of social security were incorporated in the Indian constitution.
- **Acts:** Employees State Insurance Act (1948), Minimum Wages Act (1948), Coal Mines Provident Funds Act (1948), The Employees Provident Fund Act (1952), the Maternity Benefit Act (1961) and the Contract Labour Act (1970) etc. are important for labour welfare.
- **Labour Codes:** The envisaged consolidation of all the labour laws into four labour codes will also impact the institutional framework in which the informal sector operates.
- **National Commission for Enterprises in the Unorganised Sector:** India is perhaps the first country to set up, a commission named National Commission for Enterprises in the Unorganised Sector (NCEUS) in 2004 to study the problems and challenges being faced by the informal economy.
- **Schemes** like the Nehru Rozgar Yojana, MGNREGA and the Swarna Jayanti Shahri Rozgar Yojana were launched to provide support to the poor who constitute bulk of the informal sector.
- **Social security:** Unorganised Workers' Social Security Act, 2008, Atal Pension Yojana, Pradhan Mantri Suraksha Bima Yojana, Pradhan Mantri Jeevan Jyoti Bima Yojana, Rashtriya Swasthya Bima Yojana etc.
- **Skill development:** Skill India Mission, Pradhan Mantri Kaushal Vikas Yojana, Deen Dayal Upadhyay Grameen Kaushal Yojana, recognition of prior learning etc.



### Way forward:

- **Effective implementation labour laws:** Labour, as well as tax policies, are key to improving the business environment.
- **Local support:** Building-on local institutional support to progressively extend social protection will be critical.
- **Sensitization:** Special attention should be paid to the sensitization of policy makers, municipal authorities and labour inspection services to change their traditional role towards a preventive and promotional approach.
- Localised exchanges of products and services, Focus on local self-reliance for basic needs, Strong implementation of local self-government in villages, Increase in employment opportunities in skill sectors, Local self-reliance with workers' control are other steps that need to be undertaken.

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