

FORMALIZATION OF INDIAN INFORMAL ECONOMY

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Abstract

In India, an overwhelming proportion of the workforce gets employment in the unorganized sector. The education level of these people is extremely low therefore fewer chances to get formal employment. Those engaged in rural areas are significantly more than in urban areas. This is because a large number of informal workers are engaged in farm or agricultural activities. As the government has been unable to establish large-scale manufacturing units, so the labour in the rural sector gets stuck in the informal economy of agriculture. The lack of official statistics on informal economy makes its contribution unaccountable to the national income. Therefore, these workers are deprived of regular jobs, social security and even minimum wages. The supply chain and framework of the informal economy directly impact the economic growth and efficiency of the formal sector. Hence, the welfare and well-being of informal workers and a secure future for their families in every respect is very essential. This paper examines the factors responsible for the emergence and growth of the informal sector, as well as the government's efforts to make it measurable in the GDP of the country and to provide a healthy work environment and social security to the informal workers.

Keywords: Informal workers, unorganized sector, gig economy, social security..

INTRODUCTION

The informal Sector is an Indispensable Component of the Indian Economy, having a lion's share of unorganized or informal labour employment. In 2003, the 17th International Conference of Labour Statisticians at the ILO (17th ICLS) guidelines defined the concept of informal employment as "all remunerative work (i.e. both self-employment and wage employment) that is not registered, regulated or protected by existing legal or regulatory frameworks, as well as non-remunerative work undertaken in an income-producing enterprise". Informal workers do not have secure employment contracts, workers' benefits, social protection or workers' representation. It can be highly seen in those countries where a large population base cannot develop the necessary skills to get employed formally. The government's inability to develop a universal employment code has also pushed the people toward an informal economy. In the 7th Statistical Forum of IMF in November 2019, Social Division Additional Director General, Mr. S.V. Ramana Murthy, highlighted that in India 92.4% of workers are currently working in the informal economy and they have lacked even minimum wages.

WHY INFORMALISATION?

- In the Post-independence period, to safeguard employment, government provide several fiscal advantages to small enterprises as these enterprises were usually labour intensive and existed in rural and semi-urban areas. For this government reserved various items which could be produced only by MSME firms and regulated bigger firms through different acts (one

is MRTP Act 1969). Because of socio-economic reasons, the government gave protection to small firms which resulted in an informal economy.

- Informal economic activities are comprised of a high proportion of socially and economically unprivileged sections of the society. Those in urban areas are involved primarily in manufacturing, trade, hotel and restaurant, construction, transport, storage, communication, finance, business and real estate.
- Migrant workers make up a large part of the informal sector. People move to far-flung locations in pursuit of work. Such workers are pushed into the informal sector due to a lack of skills, education, and assets. These workers' living and working conditions are appalling. They also do odd jobs to supplement their income. Moreover, due to the lack of permanent residence, the education of the children of these migrant workers suffers and in future, these children also become a part of the informal economy due to lack of education and skill. This circle will continue and the labour force in the informal sector will continue to rise.
- The new market system, the gig economy, has also increased the number of informal workers. In this, independent workers are hired for a short-term engagement. For example, freelancers, part-time workers, project-based workers, delivery boys in Amazon, Flipkart, Zomato, Swiggy and drivers in Ola, and Uber, constitute the gig economy workforce. Nearly 56% of new employment opportunities in India have been created by the gig economy companies which offer manual labour to the office desktop. At the Global level, India has emerged as one of the largest countries for Flexi-staffing.
- The Indian informal economy has also expanded as a result of the advent of globalization. It encouraged the trend of subcontracting and outsourcing giving a push to the informal economy. The big companies of the western countries like Adidas, Reebok, etc. outsource jobs to China and India for the availability of cheap labour here. They set up their manufacturing units in India and China whereas the branding is done by the parent companies only after a quality check. In this way, they save the cost of setting up large units and escape themselves from government regulations. Most large companies operate in this way. This method provides jobs to a large number of workers in the informal sector.

MAGNITUDE OF THE WORKFORCE IN THE UNORGANISED SECTOR

The majority of the labour force in unorganized economic activities is made up of low-skilled labourers who are willing to work for miserly wages to meet their basic needs. One in five young people are still unemployed, and rural demographic changes that increase the workforce primarily affect the unorganized sector. According to National Commission for Enterprises in the unorganized sector (NCEUS), employment in India is categorized into four types and is distributed between two sectors viz; organized and unorganized sectors:

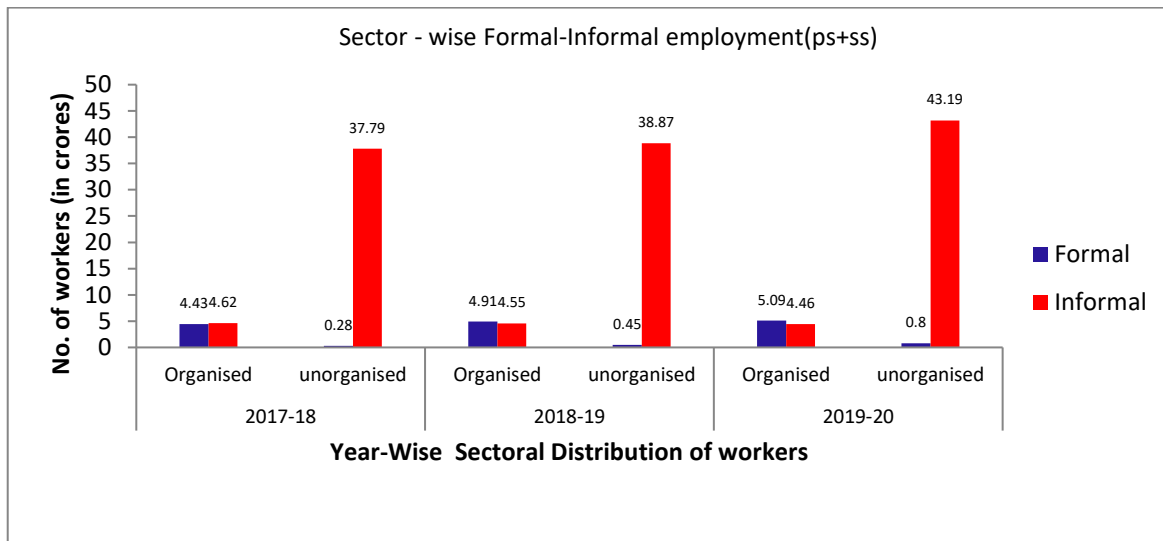
1. Formal employment in the organized sector
2. Informal employment in the organized sector
3. Formal employment in the unorganized sector
4. Informal employment in the unorganized sector

Formal- Informal employment (Principle status (ps) and Subsidiary status (ss)) across organized and unorganized sectors (in crores)

Year	Employment		Formal	Informal	Total
	Sector				
2017-18	Organized		4.43 (94.2)	4.62 (10.9)	9.05 (19.2)

	Unorganized	0.28 (5.8)	37.79 (89.1)	38.07 (80.8)
	Total	4.70 (9.9)	42.43 (90.1)	47.13 (100)
2018-19	Organized	4.91 (91.8)	4.55 (10.5)	9.46 (19.4)
	Unorganized	0.45 (8.2)	38.87 (89.5)	39.32 (80.6)
	Total	5.35 (10.9)	43.43 (89.1)	48.78 (100)
2019-20	Organized	5.09 (86.4)	4.46 (9.4)	9.55 (17.8)
	Unorganized	0.8 (13.6)	43.19 (90.6)	47.64 (82.2)
	Total	5.89 (11)	47.64 (89)	53.53 (100)

Source: Economic Survey 2021-22 and Periodic Labour Force Surveys (PLFS) of 2017-18, 2018-19 and 2019-20.



In the table, the values in parenthesis are percentages. The informal employment in unorganized sector is 37.79 lakh, 38.87 lakh and 43.19 lakh in 2017-18, 2018-19 and 2019-20 respectively. Therefore, 90 per cent of the workforce is engaged in informal employment in both organized and unorganized sectors. The graphical representation clearly shows the dominance of informal employment in both the sectors of the economy.

DEMERITS OF INFORMALIZATION

The increased informalization of the economy is defeating the idea of the welfare state as it causes exploitation of workers with long working hours, low pay, difficult working conditions, low job security, high turnover and low job satisfaction. The workers are also deprived of basic social security provisions. Migrant workers Women are amongst the most exploited groups in an informal economy system. Despite equal pay for equal work, in the unorganized sector female labourers are often paid much lesser than their male counterparts. In domestic help and manual labour jobs, women have significant participation but their financial returns are less compared to males. This has a direct effect on domestic savings and social status.

In an informal economy, Government also loses revenues as the units under informal sectors are not covered by the govt. regulatory regime. This sector potentially adds value to GDP and tax revenue but remains unaccounted for. Therefore, the tax burden falls on the formal sector which has to pay high taxes to the government.

During demonetization, unbanked and financially excluded groups of people were faced with unprecedented hardships. As the payment was only in cash therefore both employer and worker faced a deadlock situation. During the lockdown imposed during the COVID-19 pandemic, the non-digital economic sector came to a complete standstill. The workforce engaged in the unorganized sector had to face financial hardships due to the lockdown. Due to the non-availability of data on inter-state migration and employment in informal sectors, it is difficult to figure out the number of migrants who lost jobs during the pandemic and return to their home state.

STEPS TOWARD FORMALIZATION

- The Government constituted National Commission for Enterprises in the Unorganized Sector (NCEUS) in 2004 to address the issues faced by the Enterprises in unorganized sectors.
- Aadhaar is a 12-digit unique identity number for Indian residents based on their biometric and demographic data. It was launched on 28 January 2009 by the government of India and the data is collected by the Unique Identification Authority of India (UIDAI). It has become the world's largest biometric ID system. It is used for identification to avail essential services like an opening bank account, passports, PAN cards etc. and for direct benefit transfers. It helped unbanked citizens to obtain the digital identity that is required for cashless transactions.
- Pradhan Mantri Jan Dhan Yojana (PMJDY) was introduced on 28th August 2014 as a financial inclusion programme for unprivileged and marginalized groups of the society. Under this scheme, a basic saving account is opened for unbanked persons with which no need to maintain a minimum balance. Accident insurance covers Rs. 1 lakh and a Rupay debit card are provided to the account holder. These accounts are eligible for direct benefit transfer under various government schemes.
- A combination of demonetization and implementation of GST set the pace for cashless transactions in business and reduced the cash intensity of the economy. These reforms activated the process of transformation of the economy from cash to formal finance.
- Although these laid foundations, it was the COVID-19 pandemic that provided a further opportunity to accelerate the process of digitalization. Formalization was elevated during this time through the greater proliferation of digital transactions.
- Pradhan Mantri Rojgar Protsahan Yojana (PMRPY) was launched on 9 August 2016 to encourage employers to the creation of new employment. Under this scheme, the government was paying 8.33 per cent of the employer's EPS contribution in respect of new employees. It was further enhanced to provide a full 12 per cent employer's contribution (EPF and EPS both) w.e.f 01.04.2018. Under this scheme, the benefits have been provided to 1.21 crore beneficiaries through 1.52 lakh establishments which leads to the formalization of the workers by providing social security benefits in the organized sector.
- In 2019 and 2020, 29 Central Labour laws were amalgamated and streamlined into four labour codes, viz., the Code on Wages (2019), the Industrial Relations Code (2020), the Code

on Social Security (2020), and the Occupational Safety (2020), Health & Working Conditions Code (2020). These new laws are to ensure minimum wage requirements, social security and other welfare needs of the unorganized sector workers within the framework of legislation.

- The government launched the E-Shram portal, a database of unorganized sector workers, on 26th August 2021. The portal is the first-ever national database of unorganized, gig and platform workers. This database is seeded with Aadhaar and for the age group between 16-59 years. It facilitates extending the benefits of Social sector schemes as implemented by Central & State Ministries to the workers in the unorganized sectors. Every eligible registered informal worker is entitled to receive complementary accidental insurance cover of Rs. 2.00 lakh for a year, under pradhan Mantri Suraksha Bima Yojana (PMSBY). It may also be used for assisting eligible workers during any national crisis or pandemic situation. As of 21st March 2022, over 27.72 crore workers have been registered on the e-SHRAM portal, with 52.81% female and 47.18% male workers. The States leading the number of registrations in decreasing order of share in the number of registrations-are Uttar Pradesh (29.9 per cent), Bihar (10.2 per cent), West Bengal (9.20 per cent), Madhya Pradesh (5.82 per cent) and Odisha (4.78 per cent). The agriculture sector accounts for 14.45 crore registrations, and domestic workers and construction workers trail with 2.75 crore and 2.53 crore registrations respectively.
- The government has been incentivizing private units under the employee provident Funds Organization (EPFO) to extend social security benefits to workers. The extent of formalization of the job market is indicated by the net addition in EPFO subscriptions and the coverage of social security benefits to the organized/semi-organized sector workforce. An analysis of the EPFO Payroll data suggests a significant acceleration in the formalization of the job market, directed by both new formal jobs and formalization of existing jobs, with 15.32 lakh net addition to EPF subscribers in March 2022 as compared to 6.98 lakh in April 2021.
- Pradhan Mantri Shram Yogi Maan-Dhan (PM-SYM) Yojana, launched on 05 March 2019 is a voluntary and contributory pension scheme for unorganized workers for providing a monthly minimum assured pension of 3000 after attaining the age of 60 years, which. The workers belonging to the age group of 18-40 years have a monthly income of 15000 or less and are not covered under EPFO/Employees' State Insurance Corporation (ESIC)/National Pension Scheme (NPS) (Govt. funded) can join the scheme. The contribution is on a 50:50 basis by both the beneficiary and the central government. As of 27, May 2022, the enrollment under the PMSYM scheme is 46.72 lakh persons.
- In July 2020, the government also introduced new registration of small businesses through 'Udyam'. Through it, the government can create a database on small businesses and small entrepreneurs could access the government schemes. As of 31, May 2022, the total registration is 88.3 lakh out of which 84.3 lakh are Micro enterprises, 3.68 lakh are small enterprises, and 36.6 thousand are medium enterprises.

THE NEED OF THE HOUR

Since the Indian formal economy is unable to absorb a large number of job seekers, it is crucial to enhance the living conditions of workers in the unorganized sector. The informal sector has become an insignificant part of the economy which cannot be ignored or removed. There are many changes to be done in this sector.

- More precise estimates of the informal economy can aid in the formulation of policies more effective and targeted.
- Improvement in education and skill levels of informal workers so that they can shift to the jobs with higher productivity and wages. Appropriate legislative and financial systems need to be put in place to allow the informal sector to transform itself into the formal sector. It is to be done by increased efficiency so that small informal businesses do not get close down.
- Through policy reforms, we can also encourage small businesses to grow to become medium or large businesses that will be sustainable for the Indian economy.
- Social and financial assistance schemes will provide safeguards to seasonal or disguised unemployed workers.
- MNREGA can be strengthened to make provisions for employment round the year. Also, MNREGA is needed for the urban social welfare system or urban workers.
- Women-specific provisions such as maternity leaves can be done for the informal sector as well.
- As the informal sector contributes to employment and GDP therefore the government should introduce this sector in financial planning and policy-making and provide it with a central role.
- While the Kisan credit scheme fulfils the agricultural financial needs of farmers, for other financial needs they still are dependent on non-institutional sources. So govt. should remove those loopholes & formalize the agriculture sector in a better way
- It is to ensure that the formalization of this sector should be a smooth and encouraging process rather than a process of vitiating and punishing the informal sector.

In this way, we can provide a boost, protection and assistance to this sector to formalize it and make it accountable to the national GDP.

CONCLUSION

In nutshell, the informal sector greatly contributes to the social and economic development of India and creates employment opportunities for a sizeable portion of its population. In the stagnation of the manufacturing sector, only the informal sector can absorb India's large workforce. Significant data shortages have hampered the ability of researchers to fully analyze the contribution of the informal sector to production, employment and GDP of the country. It leads to the miserable condition of the workers who are lacking necessities of life, minimum wages, job security and welfare provisions. It is crucial to upgrade the sector's knowledge base, where the informal sector is becoming more intertwined with the formal sector and plays a significant role in the economy and people's livelihoods. As a crucial component of the national statistical system, it is essential to develop an extensive database on the different facets of the informal economy to provide informal workers with working conditions according to government regulatory standards.

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