



Towards Formalisation of Informal Sector

This article is based on "[The High Cost of India's Illusive Quest for Formalisation](#)" which was published in Livemint on 12/11/2021. It talks about the latest estimates describing shrinkage in the informal sector of the Indian economy and what needs to be done to facilitate formalisation in the economy.

Be it the [demonetization](#) imposed on the country, the roll-out of India's [Goods And Services Tax \(GST\)](#) or the outbreak of [Covid-19 Pandemic](#), much of the **brunt was felt by the informal sector**, which largely deals in cash and operates mostly outside the regulatory ambit. The **net beneficiary was the protected organized sector**.

The rising fortunes of the organized sector, driven by galloping profits at a time when casual wages in rural areas show a real decline, are a reflection of how **two-sided the Indian economy has become**.

Being the primary provider of jobs to an overwhelming proportion of Indian workers, the informal sector in its current form is in **an urgent need to undergo effective formalisation in the least possible time**.

India's Informal Sector

- **Informal Sector, The Worst Sufferer:** Following demonetisation, a disproportionately higher number of jobs were created in rural India.
 - The fact is not as positive as it seems as **wages are 2.5 times lower in rural than in urban India**. As a result, **overall wage levels and GDP declined** over the next few years.
 - Informal sector workers suffered far more from the [national lockdown in 2020](#) than their formal sector counterparts.
 - With an inadequate safety net, there were painful accounts of **displaced informal workers** trying to get back to their rural homes.
- **Decline in Wages of Non-Agricultural Workers:** As per the latest data from the Labour Bureau for August 2021, the **real wages of non-agricultural workers have declined 1.6% per annum** in the last two years.
 - For **agricultural** workers, they **fell 0.4% per year**.
- **Shrinkage of Informal Sector in the Economy:** A recently released report-'Ecowrap' by the State Bank of India (SBI) research team claimed that the **informal sector's share in the overall economy has shrunk** from 52% in 2017-18 to 15- 20%.
 - The **share of our informal sector in Gross Value Added (GVA)** stood at **44%** in 2019-20 which was **marginally higher than in 2017-18**.
 - As per the Ecowrap report, **construction & accommodation** and **food services & trade** are the two sectors that **witnessed the sharpest declines** in their shares of the informal economy.

Issue Associated

- **Absence of Indicators for Informal Sectors:** The **lack of high-frequency real-time economic indicators** makes it hard to track India's large informal sector, which employs around 80% of the labour force and produces about 50% of GDP.
- **Mere Registration in Official Records is not Enough:** The registration of workers on the [E-Shram portal](#) is no indicator of formalization of jobs unless s/he is able to get all the social security benefits listed on the portal as a matter of right.
 - **Increasing digitalization and registration** in official records is **neither a necessary nor sufficient condition** for any enterprise/worker to be classified as formal.
- **Insufficient Wages of Registered Informal Workers:** 92% of the **workers registered on E-shram have monthly incomes of under ₹10,000** which is lower than the minimum wages of unskilled manual workers in most of the states.
- **Ambiguity Regarding the Standards of Improved Economy:** The real issue is whether formalization is necessarily a measure of improvement in the economy or the material condition of workers.
 - However, on both counts, the **economy has performed poorly with a worsening employment situation**, decline in incomes and **setbacks on human-development indicators** such as nutrition.

Way Forward

- **Responsibility of Policymakers:** It is important to recognize the importance of the informal sector which is clearly not limited to providing livelihoods to a significant majority of the country's population.
 - The **policymakers need to define the sector appropriately, provide labour legislation** to protect employment, provide **adequate wages** and treat them on par with the formal sector.
 - Moreover there is a **need to create an institutional regulatory framework** to improve the working conditions and well-being of those engaged in the informal sector.
- **Understanding Forced and Natural Formalisation:** There is a need to understand the difference between "forced" and "natural" formalisation.
 - Formalisation that comes only on the back of external pressure or leads to deep distress in the informal sector, may not be sustainable.
 - By contrast, **formalisation that happens on the back of policy changes that help small and informal firms grow** over time into medium or larger formal sector firms is **more sustainable**.
- **Providing Security to Informal Sector:** What is needed now is **protection for informal sector workers via social welfare schemes** so that the disruption they are facing does not lead to a permanent fall in demand.
 - There is a case for remaining generous with programmes such as the [MGNREGA scheme](#) for longer.
- **Establishing an Urban Social Welfare Structure:** India doesn't have an equivalent urban social welfare scheme which provides more of a cause to **set up a more permanent direct urban social welfare structure**.
 - Promotion of reforms that assist small businesses in growth are also critical. For instance, lowering the regulatory burden associated with growing firms.

Conclusion

Adhering to the fact that the informal sector provides livelihood to the major share of the working population, stricter and more timely measures are required to be taken for the upliftment of the people engaged in it with regard to working conditions, job opportunities, wages and maintaining their database

Drishti Mains Question

Discuss the significance of the informal sector in the Indian economy along with the key issues faced by the sector and the need for a quicker and more efficient formalisation of the informal workers.

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