



# Perspective - Informal Economy: Challenges & Opportunities

## Why in News

- According to the [Internal 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.
  - In developing countries like India, a large share of the population typically depends upon the informal economy.

## Key Points

### ▪ About the Informal Economy:

- [Informal economy](#) represents enterprises that are not registered, where employers do not provide social security to employees.
  - It is characterized as a range of economic units which are mainly owned and operated by individuals and employ one or more employees on a continuous basis.
  - It includes farmers, agricultural labourers, owners of small enterprises and people working in those enterprises and also the self-employed who do not have any hired workers.
- National Accounts Statistics (NAS) defines the unorganised sector in addition to the unincorporated proprietary or partnership enterprises, including enterprises run by cooperative societies, trust, private and limited companies.
- The informal sector can, therefore, be considered as a subset of the unorganised sector.

### ▪ Periodic Labour Force Survey:

- According to the [Periodic Labour Force Survey](#), over **90 per cent of workers in India** are **informal workers**. Out of these, those engaged in **rural areas** workers are significantly more than urban areas workers.
  - 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.

### ▪ Distinction Between Formal & Informal Economy:

#### ◦ Formal economy:

- Has a **formal contract** with the employer.
- Has **pre-defined work conditions** and job responsibilities.

- Gets an assured and decent **fixed salary** with perks and incentives.
- Has a fixed duration of work time.
- Is part of an **organized group of people** working in the same environment and is legally and socially aware about its rights.
- Is covered by **social security** for health and life risks.
- **Informal economy:**
  - Has **no formal contract** with his employer.
  - Has no systematic work conditions.
  - Gets irregularly and **unevenly paid**.
  - Has no forum to express his grievances.
  - Has **no fixed hours of work** and mostly earns hand to mouth.
  - Is not covered by any kind of social security system and has poor knowledge about the need to protect himself socially and economically.
- **Need to Protect Informal Workforce:**
  - **Majority of WorkForce:** India's estimated 450 million informal workers comprise 90% of its total workforce, with 5-10 million workers added annually.
  - **Job Loss due to Pandemic:** 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.
    - The Covid-19 pandemic experience tells us that there is also a need to provide social protection, as the vulnerabilities of the informal sector became even more prominent as the entire country went into a state of suspension due to the lockdown.
    - Moreover, in the current financial year 2020-21, the economy is expected to contract by 7.7%. So, there is an urgent need to revive the economy by generating employment.
- **Security for Workers:**
  - Every worker there should be three types of security:
    - **Wage Security:** According to the new payment of **the wages (Amendment) act, 2017**, every worker in India is to be paid certain minimum wages.
    - **Job Security:** in the **globalized economy**, the workers should be provided with job security i.e. it should be easy for the employee to hire and dehire.
    - **Social Security:** In case of **medical emergency**, in case of death or in the case of old age, people should be able to take care of themselves.

## Challenges

- **Labour Related Challenges:** On dividing the large number of workforce between the rural and the urban segment, although the large number is employed in the rural sector, the bigger challenge is in the urban workforce in the informal sector.
  - Long working hours, low pay & difficult working conditions.
  - Low job security, high turnover and low job satisfaction.
  - Inadequate social security regulation.
  - Difficulty in exercising rights.
  - Child and forced labour and discrimination on basis of various factors.
  - Vulnerable, low-paid and undervalued jobs.
- **Productivity:** The informal sector basically comprises MSMEs and household businesses which are not as big as firms like Reliance. They are unable to take advantage of economies of scale.
- **Inability to Raise Tax Revenue:** As the businesses of the informal economy are not directly regulated, they usually avoid one or more taxes by hiding incomes and expenses from the regulatory framework. This poses a challenge for the government as a major chunk of the economy remains out of the tax net.
- **Lack of Control and Surveillance:** The informal sector remains unmonitored by the government.

- Further, no official statistics are available representing the true state of the economy, which makes it difficult for the government to make policies regarding the informal sector in particular and the whole economy in general.
- **Low-quality Products:** Although the informal sector employs more than 75% of the Indian population, the value-addition per employee is very low. This means that a major portion of our human resource is under-utilized.

## Recent Initiatives Taken by Government

### ▪ Atmanirbhar Bharat Abhiyan:

- '[Atmanirbhar Bharat Abhiyan \(or Self-reliant India Mission\)](#)' with an economic stimulus package — worth Rs 20 lakh crores aimed towards cutting down import dependence by focussing on substitution while improving safety compliance and quality goods to gain global market share.

### ▪ Labour Codes:

- The new [labor codes](#) that have been passed by parliament to take care of the informal urban segment of the informal economy i.e. [the gig economy](#), workers now are the worst affected in a pandemic like situation.

### ▪ E-Shram Portal:

- The Ministry of Labour & Employment has developed [eSHRAM portal](#) for creating a National Database of Unorganized Workers (NDUW) for optimum realization of their employability and extend the benefits of the social security schemes to them.
- It is the first-ever national database of unorganised workers including migrant workers, construction workers, gig and platform workers, etc.

### ▪ Udyam Portal:

- It is the only Government Portal for registration of [MSME \(Udyam\)](#).
- The Ministry of Micro, Small Medium Enterprises maintains this portal.
- It gives the details and steps relating to registration and makes the registration process easy for any person.
- It provides **free of cost and paperless registration**.

### ▪ Pradhan Mantri Shram Yogi Maan-dhan:

- [PM-SYM](#) is a [Central Sector Scheme](#) administered by the **Ministry of Labour and Employment and implemented through Life Insurance Corporation of India and Community Service Centers (CSCs)**.
- This scheme seeks to benefit around 42 crore workers from the **unorganized sector** of the country.

### ▪ Labour Reform:

- The Parliament passed [three labour codes](#) — on **industrial relations; occupational safety, health and working conditions; and social security** — proposing to simplify the country's archaic labour laws and give impetus to economic activity without compromising with the workers' benefits.

### ▪ PM SVANidhi:

- The **Ministry of Housing and Urban Affairs (MoHUA)** has launched [Pradhan Mantri Street Vendor's Atma Nirbhar Nidhi \(PM SVANidhi\)](#), for providing **affordable loans to street vendors**.
- The scheme would benefit **vendors, hawkers, thelewale and people involved in goods and services related to textiles, apparel, artisan products, barbers shops, laundry services** etc. in different areas.

### ▪ Deendayal Antyodaya Yojana National Urban Livelihoods Mission:

- The [mission](#) was **launched in 2014** and is being implemented by the **Urban Ministry of**

### **Housing & Poverty Alleviation.**

- It aims to uplift urban poor by enhancing sustainable livelihood opportunities through skill development.

#### ▪ **One Nation One Ration Card:**

- The government of India introduced the [One Nation One Ration Card scheme \(ONORC\)](#). ONORC allows a beneficiary to access his food entitlements from anywhere in India irrespective of the place where the ration card is registered.

#### ▪ **MGNREGA:**

- [MGNREGA](#) is one of the **largest work guarantee programmes in the world.**
  - The primary objective of the scheme is to guarantee 100 days of employment in every financial year to adult members of any rural household willing to do public work-related unskilled manual work.
  - Unlike earlier employment guarantee schemes, the act aims at addressing the causes of chronic poverty through a rights-based framework.

## **Way Forward**

- **Looking After Migrant Workforce:** According to **the Institute of Human Development Report**, the total number of vulnerable migrant workers ranged from 115 million to 140 million.
  - It is, therefore, important for the draft rules to clearly state how their applicability will unfold with respect to the migrant informal workforce.
- **Strengthening MSME:** Nearly 40% of the informal workforce is employed with MSMEs. Therefore, it is natural that the strengthening of **MSME** will lead to economic recovery, employment generation, and formalization of the economy.
- **Skilling Under CSR Expenditure:** The large corporate houses should also take the responsibility of skilling people in the unorganized sectors under [CSR \(Corporate Social Responsibility\) expenditure](#).
  - Unless the labour force is not skilled and educated, they will not be accommodated in the formal sector and the efforts to formalization will result in unemployment.
- **Simpler regulatory framework:** The transition of the informal sector to the formal sector can only occur when the informal sector is given relief from the burden of regulatory compliance and is given enough time to adjust with the modern, digitized formal system.
- **Recognizing Invisible Labour:** A national policy for domestic workers needs to be brought in at the earliest to recognize their rights and promote better working conditions.
- **Social Security:** Investing in social security schemes like [Atal Pension Yojna](#), [PM Jeevan Jyoti Yojana](#), [Rashtriya Swasthya Bima Yojana](#), [Aam Aadmi Bima Yojana](#) can help improve the condition of workers.
  - The mention of [Universal Basic Income](#) in Economic Survey 2016-17 is a positive step in this direction.
- **Financial Support:** Giving financial support to help small-scale industries stand on their own is a crucial step in bringing them to the organized sector.
  - Schemes like [MUDRA loans](#) and [Start-up India](#) are helping the youth carve a niche in the organized sector.

## **Conclusion**

- The informal economy is a very pervasive phenomenon and a complex concept. As many individuals of both the formal and informal sector are dependent on it.
- In an informal economy the social security of the workers in an economy should be the top-most priority of the government for creating a social security network.
- The basic necessities of living a standardised life i.e. food, clothing, shelter, hygiene & education is the criteria to arrive at the minimum wage requirement.

- The focus has to be on three aspects of security i.e, job security, wage security & social security.

PDF Refernece URL: <https://www.drishtias.com/printpdf/perspective-informal-economy-challenges-opportunities>