



Reforming India's Informal Labour Market

For Prelims: Unorganized Sector vs Organised Sector, Labour Force Participation, Status of Informal Labour Market in India, [Pradhan Mantri Jeevan Jyoti Bima Yojana](#) , [Pradhan Mantri Suraksha Bima Yojana](#), [Ayushman Bharat- Pradhan Mantri Jan Arogya Yojana](#), [eShram Portal](#).

For Mains: Unorganized Workers in India and Related Initiatives

[Source: TH](#)

Why in News?

India's labour market is characterised by a vast informal sector, with over **400 million workers** operating outside the formal employment structure.

- The informal workforce contributes to over half of the country's GDP. However, the prevalence of **lower-income and semi-skilled workers** highlights the urgent necessity for a structural shift towards formalisation and equitable opportunities.

Note

- **Labour Supply:** It refers to the number of persons willing to work at different wage rates. It depends upon the existing wage rate and is measured in terms of **man-days**.
- **Labour Force:** It refers to the number of persons actually **working or willing to work**.
 - It does not depend upon the wage rate and is measured in terms of **number of days**.
- **Workforce:** It refers to the number of **persons actually working**.
 - This measure does **not include those persons who are willing to work but are not getting work**.

What is the Difference Between Formal and Informal Labour Market?

Aspect	Formal Labour Market	Informal Labour Market
Definition	Organised sector with Legal Recognition and Regulation	Unorganised sector lacking Formal Recognition and Regulation with minimal adherence to Labour Laws
Employment Type	Fixed Working Hours, Permanent, Contractual Agreements, or Temporary jobs. (Also includes Part-time Work and Self- Employment)	Casual, Domestic Workers, Daily-wage, Part-time Workers or Self-employment.
Job Security	Generally higher job security due to labour laws.	Lower job security; vulnerable to layoffs.
Wages and	Fixed wages, benefits (e.g., provident	Variable wages, limited benefits.

Benefits	fund, insurance)	
Social Security	Eligible for social security schemes (e.g., pensions)	Limited access to social security programs.
Work Conditions	Better working conditions (e.g., safety standards).	Often poor working conditions (e.g., lack of safety measures)
Trade Unions	Active trade unions and collective bargaining.	Limited unionisation and weaker bargaining power.
Sector Examples	Manufacturing, IT, finance, government jobs.	Street vendors, domestic workers, agriculture.

What is the Current State of the Labour Market?

▪ Global State of Informal Economy:

- Over **60% of the global workforce and 80% of enterprises** worldwide function in the informal economy.
- More than **2 billion workers earn their livelihoods through informal employment.**
- Informal employment represents:
 - 90% of total employment in low-income countries.
 - 67% of total employment in middle-income countries.
 - 18% of total employment in high-income countries.
- From 2010 to 2016, informal work contributed approximately 40% of **GDP** in Sub-Saharan Africa, Europe, Central Asia, Latin America and the Caribbean.

▪ In India:

- India's **informal labour market** accounts for almost **85%** of the country's **workforce**.
 - More than **90%** of this informal workforce works as **self-employed or casual labourers**.
- The informal sector generates **more than half of India's GDP**.
- Over 94% of 27.69 crore informal sector workers registered on the **e-Shram portal** have a monthly income of Rs 10,000 or below and over 74% of the enrolled workforce belongs to **Scheduled Castes (SC)**, Scheduled Tribes (ST) and **Other Backward Classes (OBC)**.
 - The proportion of the General Category workers is 25.56%.
- Around 94% of the registered informal workers have a monthly income of Rs 10,000 or below, while 4.36% have a monthly income between Rs 10,001 and Rs 15,000.

What are the Challenges Posed by the Informal Labour Market?

- **Precarious Employment:** Agricultural labourers and street vendors face **seasonal unemployment** and **low wages** due to a lack of regulation and bargaining power, leading to income inequality and increased **poverty**.
- **Sustainable Livelihoods:** Ensuring sustainable livelihoods and equitable opportunities for the informal workforce is challenging.
- **Social Vulnerability:** Large family sizes place a burden on agricultural labourers, while low incomes trap home-based workers and street vendors in cycles of low social status. This results in limited access to social security, healthcare, and other basic rights.
- **Occupational Hazards:** Waste pickers and recyclers face health risks due to poor working conditions and inadequate safety measures. Child labour is also prevalent in this sector.
- **Institutional Challenges:** Informal workers lack proper legal protection and are vulnerable to harassment by authorities.

What are the Government Schemes for Informal Labourers?

- [Pradhan Mantri Jeevan Jyoti Bima Yojana \(PMJJBY\)](#)
- [Pradhan Mantri Shram Yogi Maan-dhan \(PM-SYM\)](#)
- [Atal Pension Yojana](#)
- [eShram Portal](#)
- **Additional Schemes for Unorganized Workers:**
 - [Mahatma Gandhi National Rural Employment Guarantee Act \(MGNREGA\)](#)
 - [Deen Dayal Upadhyay Gramin Kausal Yojana](#)
 - [Mahatma Gandhi Bunkar Bima Yojana](#)

- [Deen Dayal Antyodaya Yojana](#)
- [Pradhan Mantri Kaushal Vikas Yojana](#)
- [PM SVANidhi: Micro Credit Scheme for Street Vendors](#)
- The government is **simplifying labour laws** by consolidating them into 4 codes, which are not yet implemented.
 - [Code of Wages, 2019](#)
 - [Industrial Relations Code, 2020](#)
 - [Social Security Code, 2020](#)
 - [Occupational Safety, Health and Working Conditions Code, 2020](#)

Unorganised Workers' Social Security Act, 2008

- **Coverage:** The Act defines and aims to support informal workers who lack regular employment and social security benefits.
- **Benefits:** The Act empowers central and state governments to **design schemes** offering various benefits like **life insurance, disability coverage, healthcare, maternity support**, and even assistance with education and housing.
- **Governance: National and State Social Security Boards** are established to advise and monitor the implementation of these schemes, ensuring proper execution.
- **Registration:** The Act mandates registration of informal workers by the district administration. This creates a record and facilitates delivering benefits.
- **Accessibility:** Worker facilitation centres are envisioned to provide information and help workers access the various schemes offered under the Act.

Way Forward

- **Universal Coverage:** Leverage the [eShram portal](#) and collaborate with industry associations to gradually enrol all informal workforce of over 400 million into social security schemes.
- **Simplifying Registration Processes:** Simplifying registration processes for informal businesses can help integrate them and their workers into the formal economy. **Self-help groups (SHG)** can play a key role in promoting self-reliance and improving working conditions for informal workers.
- **Implementation of Labour Codes:** Swiftly implement the four consolidated labour codes (Wages, Industrial Relations, Social Security, Occupational Safety) to address current challenges.
- **Needs-Based Support:**
 - **Tailored Schemes:** Design social security programs specific to diverse worker groups like **street vendors, agricultural labourers, and construction workers**.
 - **Extending** Maternity Benefits, Accident and Death Compensation, Education and Livelihood opportunities during lean period to informal workers also.
- **Skill Development and Formalization:**
 - **Skill Upgradation:** Equip informal workers with relevant skills to enhance employability and potentially transition them into the formal sector.
 - **Formalization Incentives:** Implement policy changes and attractive schemes to encourage formalisation of the labour market.
 - **Reduced GST for Employment Services:** Consider employment services as "merit services" with a lower GST rate (e.g., 5% instead of 18%) to promote job creation.
 - **Skilling for Employability:** Link skilling initiatives directly to employment opportunities.
- **Grievance Redressal Mechanism:** Grievances from informal workers should be heard and redressed periodically through an accessible and officially monitored mechanism.

Drishti Mains Question:

Discuss the challenges faced by India's informal labour market and examine the importance of formalisation of the workforce in ensuring equitable opportunities and sustainable livelihoods.

UPSC Civil Services Examination Previous Year Question (PYQ)

Prelims

Q. Pradhan Mantri MUDRA Yojana is aimed at (2016)

- (a) bringing the small entrepreneurs into formal financial system
- (b) providing loans to poor farmers for cultivating particular crops
- (c) providing pensions to old and destitute persons
- (d) funding the voluntary organizations involved in the promotion of skill development and employment generation

Ans: (a)

Q. Disguised unemployment generally means (2013)

- (a) large number of people remain unemployed
- (b) alternative employment is not available
- (c) marginal productivity of labour is zero
- (d) productivity of workers is low

Ans: (c)

Mains

Q. Most of the unemployment in India is structural in nature. Examine the methodology adopted to compute unemployment in the country and suggest improvements. (2023)

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