



Informal Economy in India

For Prelims: e-Shram Portal, Unorganised Sector, Informal economy

For Mains: State of Informal Economy in India, Challenges with Informal Economy and Related Initiatives

Why in News?

According to the latest data, as many as **27.69 crore** [informal sector workers](#) are registered on the e-shram portal.

What is an e-Shram Portal?

- **About:**
 - Launched in 2021, e-Shram portal is aimed at building a comprehensive **National Database of Unorganized Workers (NDUW)** in the country.
- **Aim:**
 - To **register unorganised workers** such as construction labourers, migrant workforce, street vendors, and domestic workers, among others.
 - The workers will be **issued an e-Shram card containing a 12-digit unique number**.
 - If a worker is registered on the **eSHRAM portal** and meets with an accident, he will be eligible for Rs 2.0 Lakh on death or permanent disability and Rs 1.0 lakh on partial disability.
 - The aim of the **portal is to boost the last-mile delivery of the welfare schemes** for over unorganised workers in the country.
- **Background:**
 - The formation of e-Shram portal came after the [Supreme Court directed the Government to complete the registration process of unorganized workers](#) so that they can avail the welfare benefits given under various government schemes.
- **Implementation:**
 - Government in States/UTs will conduct registration of unorganised workers across the country.

What is the Scenario of Informal Sector Workers in India?

- **Social Category Analysis:**
 - **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%.
 - The data showed that **94.11% 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.

- **Age-wise Analysis:**
 - **61.72% of the registered workers** on the portal are of the age from 18 years to 40 years, while 22.12% are of the age from 40 years to 50 years.
 - The proportion of the **registered workers aged above 50 years is 13.23%** while 2.93% of workers are aged between 16 and 18 years.
- **Gender Wise Analysis:**
 - 52.81% of registered workers are female and 47.19 % are male.
- **Top-5 States in Terms of Registration:**
 - **Uttar Pradesh, Bihar, West Bengal, Madhya Pradesh and Odisha.**
- **Occupation Wise:**
 - **Agriculture is at the top with 52.11% of enrolments** done by those related to the farm sector followed by domestic and household workers at 9.93% and construction workers at 9.13%.

What is the State of Informal Economy of India?

- An **informal economy** represents enterprises that are not registered, where employers do not provide social security to employees.
 - In many parts of the developing world, including India, informality has reduced at a very sluggish pace, manifesting itself most visibly in urban squalor, poverty and unemployment.
 - Despite witnessing rapid economic growth over the last two decades, 90% of workers in India have remained informally employed, producing about half of **Gross Domestic Product (GDP)**.
 - Official **Periodic Labor Force Survey (PLFS)** data shows that **75% of informal workers** are self-employed and casual wage workers with average earnings lower than regular salaried workers.
 - Combining the **ILO's** widely agreed upon definition with India's official definition (of formal jobs as those providing at least one social security benefit — such as EPF), the share of formal workers in India stood at only 9.7% (47.5 million).

What are the Challenges related to Informal Sector Workers?

- **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.

What are the Related Initiatives?

- [Pradhan Mantri Shram Yogi Maan-dhan \(PM-SYM\)](#)
- [Labour Code](#)
- [Pradhan Mantri Rojgar Protsahan Yojana \(PMRPY\)](#)
- [PM SVANidhi: Micro Credit Scheme for Street Vendors](#)
- [Atmanirbhar Bharat Abhiyan](#)
- [Deendayal Antyodaya Yojana National Urban Livelihoods Mission](#)
- [PM Garib Kalyan Ann Yojana \(PMGKAY\)](#)
- [One Nation One Ration Card](#)
- [Atmanirbhar Bharat Rozgar Yojana](#)
- [Pradhan Mantri Kisan Samman Nidhi](#)
- [World Bank Support to India's Informal Working Class](#)

Way Forward

- **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.
- **Financial Support for Formalisation:** 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.

[Source: BS](#)

PDF Refernece URL: <https://www.drishtiiias.com/printpdf/informal-economy-in-india>

