



Formalizing the Informal Sector

This article is based on [“A cover for the informal sector”](#) which was published in Financial Express on 11/11/2022. It talks about the Informal Sector in India and related issues.

For Prelims: E-Shram, Labour Codes, PM SVAnidhi: Micro Credit Scheme for Street Vendors, Pradhan Mantri Kisan Samman Nidhi, World Bank Support to India’s Informal Working Class, Periodic Labour Force Survey, Minimum Wages Act.

For Mains: Challenges Related to Informal Sector in India, Recent Government Initiatives Related to the Informal Sector, Gender Pay Parity.

Predominance of **Informal Sector** has become one of the central features of the labor market scenario in India. While the **informal sector** contributes around **half of the GDP** of the country, its dominance in the employment front is such that more than **90% of the total workforce** has been engaged in the informal economy.

Government has made several efforts to formalize the economy. Introduction of the [Goods and Services Tax \(GST\)](#), [Digital Payment Systems](#) and enrollment of informal sector workers on numerous government portals like [e-Shram](#) are all meant to encourage the formalization of the economy.

The above-mentioned efforts are based on the **“fiscal perspective”** of formalization. Despite this, the formal sector is more productive than the informal sector, and **formal workers have access to social security benefits**. It is therefore necessary to consider multidimensional aspects of formalizing Indian Informal workforce.

What is the Difference Between Formal and Informal Sector?

- **Formal Sector:** The formal sector has a formal contract between **employer and employee** and a pre-defined work conditions. This sector consist of **organized group of people** working in the same environment and is legally and socially aware their rights.
- **Informal Sector:** Informal sector consists of all **unincorporated private enterprises owned by individuals or households** engaged in the sale and production of **goods and services** operated on a **proprietary or partnership basis**.

What are the Recent Government Initiatives Related to the Informal Sector?

- **E-Shram Portal**
- [Labour Codes](#)
- [Pradhan Mantri Shram Yogi Maan-dhan](#)
- [PM SVAnidhi: Micro Credit Scheme for Street Vendors](#)

- [Pradhan Mantri Kisan Samman Nidhi](#)
- [World Bank Support to India's Informal Working Class](#)

What is the Scenario of Informal Workers According to E-Shram Portal?

- **Social and Economic 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.**
 - Over **74%** of the enrolled workforce belongs to **Scheduled Castes (SC), Scheduled Tribes (ST) and Other Backward Classes (OBC).**
- **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.**
- **Gender Wise Analysis:** **52.81%** of registered workers are female and 47.19 % are male.
- **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 are the Challenges Related to Informal Sector in India?

- **Gender Disparity:** Women constitute the majority of informal participants, but they receive the least benefits and are characterized by **lower paying, income volatility, and the lack of a robust [social safety net](#).**
 - It has also significantly hindered women's participation in the workforce. The [Periodic Labour Force Survey](#) data shows that the **female labor force participation rate dropped to 21.2% in March 2021** compared to 21.9% one year prior.
- **Economic Exploitation:** The informal employment by definition has no written contract, paid leave and hence pay **no minimum wages, nor pay attention to conditions of work.**
 - The [Code on Wages 2019](#) is still limited in scope and efficacy for the informal sector. Casual workers are typically the least covered because:
 - **If a state government refuses to include a specific job** within a particular sector, it is not covered under the **minimum wages criteria.**
- **Lack of Taxation:** 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.**
- **No Separate Statistics:** There are no official statistics 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.
- **No Fixed Working Hours:** Long working hours **beyond labor standards** are common in India in the unorganized sector. In Particular, there is no fixed working time in the **agriculture sector** because there are **no laws which can act as a guideline** for farm workers' working conditions.
- **Labyrinth of Poverty:** Unorganized sector workers had a much greater rate of [poverty](#) in the organized sector than their counterparts.
 - **Low nutrition intake**, because of low wages, health difficulties, presents risks to their lives.
- **Worst Hit at the Time of Disaster:** Many [natural disasters](#) such as **floods, drought, famine, earthquakes** and so on have devastating effects on the informal sectors.
 - This problem is exacerbated by the **lack of [social security](#).**

What Should be the Way Forward?

- **Simplifying Registration Processes:** There is a need to ease rules for informal business conduct that will **bring informal enterprises** and their workers into the fold of **formality.**
 - A [Self-help group initiative](#) that **organizes informal workers** can contribute to the creation of self-reliance and address issues related to their working conditions.
- **Comprehensive Data of Informal Sector:** It is necessary to build a **comprehensive**

statistical base on various dimensions of the informal economy as an integral part of the National Statistical System, **enabling policy makers to make informed decisions.**

- **Vending Rights:** Vending rights on space to the vendors will increase their accountability on their space and its surrounding environment.
 - **License to the vendors (space and time specific)** against payment of charges is also expected to **enhance the revenue of Local Authorities.**
 - A part of this revenue **could be used for provision of drinking water facilities, toilets and waste collection** at public places
- **Grievance Redressal Mechanism:** Grievances from informal workers should be heard and redressed periodically through an **accessible and officially monitored mechanism.**
- **Gender Pay Parity:** [Directive Principles of State Policy](#) directs **of equal pay for equal work (Article 39(d))**; women agricultural laborers usually receive lower wages than their male counterparts.
 - The Government should strengthen and enforce this DPSP through **relevant legislative backing.**

Drishti Mains Question

Describe major challenges related to India's informal sector, as well as measures that can be taken to formalize the informal economy.

UPSC Civil Services Examination, Previous Year Question (PYQ)

Prelims

Q1. With reference to the schemes launched by the Union Government, consider the following statements:(2009)

1. The Ministry of Health and Family Welfare launched the Rashtriya Swasthya Bima Yojana.
2. The Ministry of Textiles launched the Rajiv Gandhi Shilpi Swasthya Bima Yojana.

Which of the statements given above is/are correct?

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

Ans: (b)

Q2. What is the name of the scheme which provides training and skills to women in traditional and nontraditional trades? (2008)

- (a) Kishori Shakti Yojna
- (b) Rashtriya Mahila Kosh
- (c) Swayamsiddha
- (d) Swawlamban

Ans: (d)

Mains

Q. How globalization has led to the reduction of employment in the formal sector of the Indian economy? Is increased informalization detrimental to the development of the country? (2016)

