



## 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
<b>Definition</b>	Organised sector with Legal Recognition and Regulation	Unorganised sector lacking Formal Recognition and Regulation with minimal adherence to Labour Laws
<b>Employment Type</b>	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.
<b>Job Security</b>	Generally <b>higher</b> job security due to labour laws.	<b>Lower</b> job security; vulnerable to layoffs.
<b>Wages and</b>	<b>Fixed</b> wages, benefits (e.g., provident	<b>Variable</b> wages, limited benefits.

<b>Benefits</b>	fund, insurance)	
<b>Social Security</b>	<b>Eligible</b> for social security schemes (e.g., pensions)	<b>Limited access</b> to social security programs.
<b>Work Conditions</b>	<b>Better</b> working conditions (e.g., safety standards).	Often <b>poor</b> working conditions (e.g., lack of safety measures)
<b>Trade Unions</b>	<b>Active</b> trade unions and collective bargaining.	<b>Limited</b> unionisation and weaker bargaining power.
<b>Sector Examples</b>	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)**

PDF Reference URL: <https://www.drishtiias.com/printpdf/reforming-india-s-informal-labour-market>