

NEXT IAS

**DAILY EDITORIAL
ANALYSIS**

TOPIC

Contribution of
India's Informal Sector

www.nextias.com

CONTRIBUTION OF INDIA'S INFORMAL SECTOR

In Context

- India's informal sector may be adding more value to its economy than what is predicted.

Unorganised /Informal sector

- About:
 - ♦ The Unorganised /Informal sector is characterised by **small and scattered units** which are **largely outside the control of the government**.
 - ♦ There are rules and regulations but these are not followed.
 - ♦ This sector includes a **large number of people who are employed on their own** doing **small jobs** such as **selling on the street or doing repair work**.
 - ♦ Similarly, **farmers work on their own** and **hire labourers** as and when they require.
- **Share of Sector in India**
 - ♦ **Around 80% of India's labour force** is employed in the informal sector and the remaining **20% is in the formal sector**.
 - ♦ Of the 80% informal sector workforce, **half work in agriculture and the remaining in non-agricultural sectors**.
- Issues & concerns of the sector:
 - **Overall:** Jobs here are **low-paid** and **often not regular**.
 - There is **no provision for overtime, paid leave, holidays, leave due to sickness, etc. Employment is not secure**.
 - People can be asked to leave without any reason.
 - These jobs also lack Social security benefits.
 - **Structural disadvantage:** The structural disadvantage in terms of literacy and skills make them more prone to exploitation.
 - They are overall more susceptible to economic shocks.
 - **Government failure:** There is a government failure to reduce wage inequality and ensure a bare minimum wage to a large chunk of the urban informal workers during normal times.
 - **Implications of Lockdown:** Informal sector workers suffered far more from the national lockdown in 2020 than their formal sector counterparts.
 - The country's informal sector after both demonetization and covid has seen a serious decline both in numbers and in its ability to contribute to economic value addition.

Challenge of GDP estimates & role of informal sector

- About:
- The **recently released provisional estimates for GDP growth** in the fourth quarter (January-March) of 2022-23 (FY23) and for that full year suggest that India's informal sector **may be adding more value to its economy** than what is predicted.
- Despite the decline in overall growth in 2022-23 relative to the post-pandemic "bounce back" year 2021-22 is not too sharp, it is because of resilience in two sectors.
- One is **Agriculture** (including forestry and fishing) & Agriculture is the sector with the highest level of informal employment.
- The other sectors that displayed resilience were **trade, hotels, transport, and communications**.
- Non-inclusion of informal sector:
 - ♦ A long-standing criticism of the official GDP estimates has been that they do **not capture adequately**, if at all, **the large informal sector** that is the source of employment and livelihoods for an overwhelming majority of India's labour force.

- Inflated share of formal sector:
 - ♦ The contribution of the organised sector in this series is seen as inflated because of the use of a data source for manufacturing that exaggerates its performance.
 - ♦ The sectors that are delivering India's world-standard-beating growth rates are **not absorbing enough workers** to even sustain absolute employment by making up for losses in other sectors.
 - ♦ Thus, the **evidence from India's IT- and IT enabled-Services sectors** is that revenue growth runs ahead of growth of employment in the sector.
- Treating organised & unorganised sector equally:
 - ♦ The **“lead indicators”** that are used to approximate the extent of movement of aggregates like GDP **are sourced from the organised sector.**
 - ♦ This **exaggerates the inherent bias in GDP statistics**, by treating **performance in the unorganised sector** as being the **same** as in the organised sector, which it is not.
 - ♦ Evidence suggests that the inflation-adjusted “real” wages of casual workers and the real earnings of self-employed workers in the non-agricultural sector, have fallen or stagnated relative to their pre-pandemic levels.

Government initiatives for the informal & unorganised sector

MGNREGA

- **Pradhan Mantri Rojgar Protsahan Yojana (PMRPY):**
 - ♦ Government is implementing Pradhan Mantri Rojgar Protsahan Yojana (PMRPY) since 2016 with the objective to incentivise employers for creation of new employment and also aimed to bring informal workers to the formal workforce.
- **Aatmanirbhar Bharat Rozgar Yojana (ABRY):**
 - ♦ Aatmanirbhar Bharat Rozgar Yojana (ABRY) has been launched to incentivize employers for creation of new employment along with social security benefits and restoration of loss of employment during COVID-19 pandemic.
- **Unorganised Workers' Social Security Act, 2008:**
 - ♦ The Act empowers the Central Government to provide Social Security benefits to unorganised sector workers by formulating suitable welfare schemes.
- **e-Shram Portal:**
 - ♦ The portal was launched on August 26, 2021.
 - ♦ The portal aims to create a National database of unorganised workers (NDUW).
 - ♦ **e-Shram Card:** Workers will be provided with an e-SHRAM card which will have a 12-digit unique number.
 - ♦ The details of workers will also be shared by the state government and departments.
 - ♦ This portal will be a single-point reference to help authorities reach out to and track workers in the informal sector, and offer welfare in times of crisis.
- **Pradhan Mantri Jeevan Jyoti Yojana (PMJJBY) and Pradhan Mantri Suraksha Bima Yojana (PMSBY):**
 - ♦ Life and disability cover is provided through Pradhan Mantri Jeevan Jyoti Yojana (PMJJBY) and Pradhan Mantri Suraksha Bima Yojana (PMSBY).
 - ♦ Pradhan Mantri Shram Yogi Maan-Dhan Yojana (PM-SYM) and National Pension Scheme for Traders, Shopkeeper and Self-Employed Persons (NPS- Traders).
- **Pradhan Mantri Garib Kalyan Yojana / Package:**
 - ♦ In 2020, the Government of India had announced the “Pradhan Mantri Garib Kalyan Anna Yojana” (PM-GKAY) for all beneficiaries covered under the National Food Security Act, 2013 (NFSA).

Way ahead

- It should be recognised that a single data source is insufficient to understand formal employment and jobs in the country.
- Understanding and addressing issues of job creation or job quality cannot be achieved without a wide range of standardised, stable and publicly available labour statistics.
- There is a need to give protection to informal sector workers via social welfare schemes so that the disruption they are facing does not lead to a permanent fall in demand.

DAILY MAINS QUESTION

India's informal sector may be adding more value to its economy than what is predicted. Examine. What are the challenges faced by the unorganised sector in India?

