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ANALYSIS**

**TOPIC**

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**Empowering India's Informal  
Economy**

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## EMPOWERING INDIA'S INFORMAL ECONOMY

### Context

- The unorganised non-agriculture sector plays a vital role in value-creation and employment-generation in India. Understanding its dynamics is essential for shaping inclusive policies.

### Unorganised Sector in India

#### About:

- The unorganised non-agriculture sector, often referred to as the informal or household sector, consists of economic activities operating outside formal regulatory frameworks. These include street vending, construction, household services, and small-scale manufacturing. The sector lacks official labour laws and protections but is critical to India's economic growth.

### Key Statistics:

- **Contribution to GVA:** In 2022-23, the unorganised sector contributed **44.25%** to India's total **Gross Value Added (GVA)**.
- **Employment:** It provides employment to **74.3%** of India's workforce, making it a backbone of the economy.

### Sectoral Trends:

- **Shift Toward Services:** Over the past decade, the unorganised sector has transitioned from manufacturing to services. Currently, **'Other Services'** constitute **38%** of all establishments, followed by **Trade (35%)** and **Manufacturing (27%)**.
- **Rural Dominance:** Rural areas house **55%** of unorganised establishments, emphasizing its strong roots in India's villages.
- **Productivity:** The **'Other Services'** sector also leads in productivity, contributing **41%** of total GVA with a GVA per establishment of 2.58 lakh.

### Challenges Faced by the Unorganised Sector

- **Lack of Formalization and Regulation:** Workers lack formal contracts, social security, and legal protections, making them vulnerable to exploitation.
- **Job Insecurity:** Employment is precarious, with irregular income and uncertain prospects.
- **Low Productivity and Income Levels:** Outdated technology, lack of skills, and limited access to resources lower productivity.
- **Limited Access to Credit and Finance:** Informal enterprises struggle to access credit, hindering growth.
- **Gender Disparities:** Women face additional challenges such as unequal pay and balancing household responsibilities.
- **Health and Safety Hazards:** Workers are exposed to unsafe working conditions and hazardous substances.
- **Skill Gaps and Fragmentation:** Limited access to training, coupled with weak collective bargaining power, hampers worker advancement.
- **Access to Markets and Technology:** Informal businesses struggle to compete with larger, organised players and access formal markets.

### Related Government Initiatives

- **MGNREGA:** Provides wage employment to rural workers, contributing to income security in unorganised sectors.
- **PMSYM (Pradhan Mantri Shram Yogi Maan-Dhan):** Offers social security in the form of pensions for unorganised workers.

- **e-Shram Portal:** A national database for unorganised workers, helping them access welfare schemes.
- **Expansion of ESI Scheme:** Extends health and social security benefits to more unorganised workers.
- **Webinars and Cross-Country Perspectives:** Initiated to shape policies for gig and platform workers in the informal sector.

### Way Forward

- **Formalisation with Flexibility:** For India to achieve its \$5-trillion economy target, catalysing the unorganised sector is crucial. Policymakers should aim to bring unorganised enterprises under the regulatory umbrella, but with simplified processes and low compliance costs to avoid overburdening small businesses.
- **Skill Development:** Focus on creating training programs tailored to the unorganised sector to enhance worker skills and increase productivity.
- **Financial Inclusion:** Improving access to formal credit through digitization, microfinance, and government schemes will empower businesses in the unorganised sector to expand and invest in technology.
- **Social Security:** Expanding coverage of pension schemes, health insurance, and maternity benefits will provide a safety net for workers.
- **Enhancing Collective Bargaining:** Encouraging the formation of informal worker unions or associations could empower workers to negotiate for better working conditions and wages.

### Mains Practice Question

[Q] Highlight the major challenges faced by workers in the unorganised and informal sector in India. How can these challenges be addressed effectively?

