



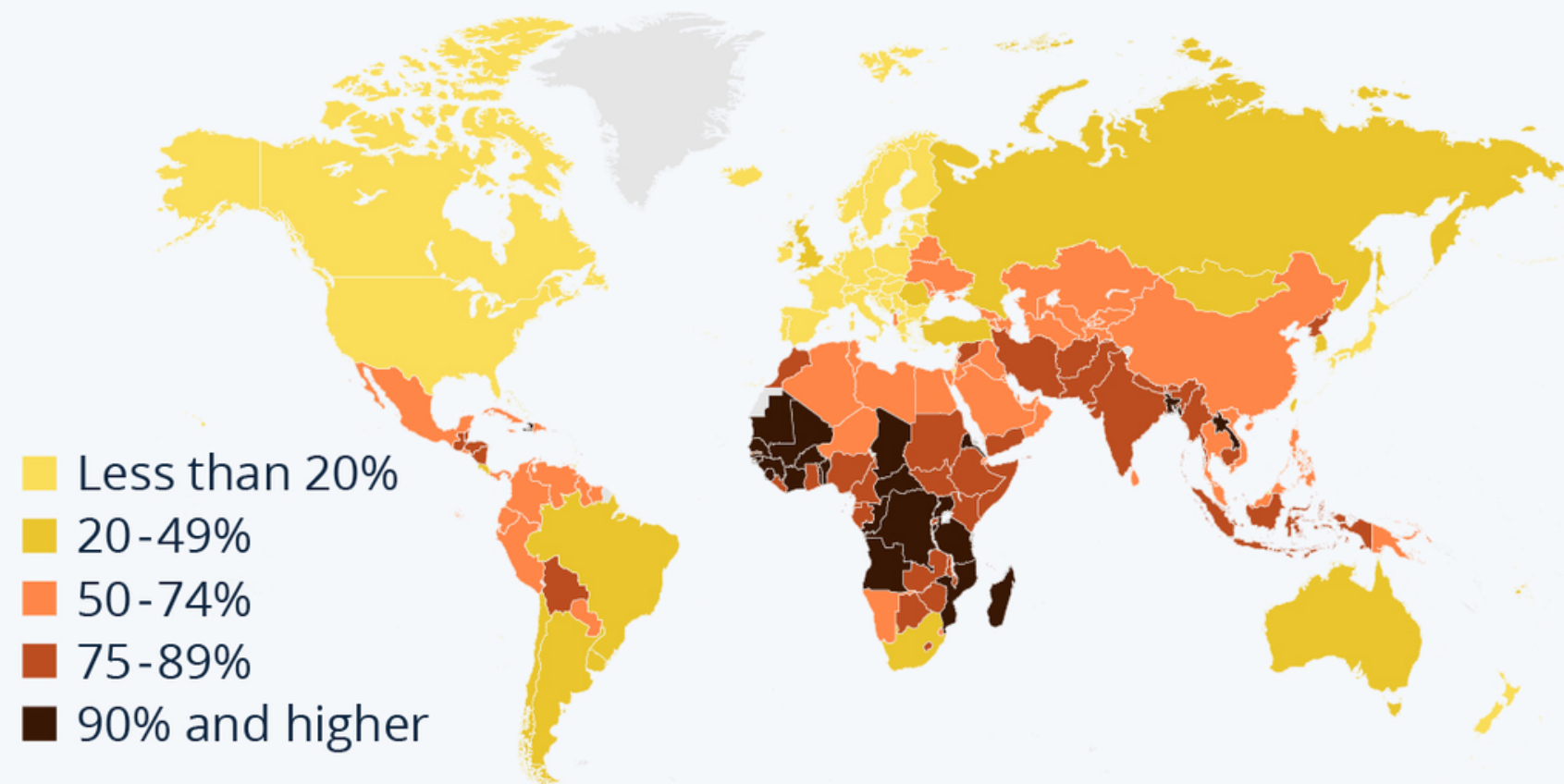
Unveiling the Informal Labyrinth: A Comprehensive Exploration of Labor Market Dynamics

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What is Informality in the labour market?

Mapping the World's Informal Workforce

Share of informal employment in total employment, by country (in percent)*



* 2022 or latest available

Based on national household survey micro datasets from 147 countries.
Estimated values for countries with missing data

Source: International Labour Organization

Informality in the labour market has come to be understood as a compilation of economic activities, jobs, enterprises and workers that do not receive protection from the state nor are they regulated in any manner. It encompasses the idea of self-employment in small unregistered companies and enterprises but over time has come to include wage employment in unprotected jobs. As is evident from the chart a large portion of developing countries rely significantly on the informal workforce and India is no exception since nearly 75-89% of its workforce is employed in the informal sector. The liberalisation policies triggered an increase in informalisation of jobs due to the growing competition in the labour market, which was supplemented by limited resources that led to the emergence of an informal economy. Informality traverses both the organised as well as the unorganised sector. The National Commission for Enterprises in the Unorganised Sector (NCEUS) iterated that “Informal workers consist of those working in the informal sector or households, excluding regular workers with social security benefits provided by the employers and the workers in the formal sector without any employment and social security benefits provided by the employers”.

Informal Economy

Unregulated Markets

Labour intensive

Small scale Operations

Lack access to institutional credit

Easy entry

Characteristics

Unsafe working conditions

No written agreements

Low level skills

Low & irregular incomes

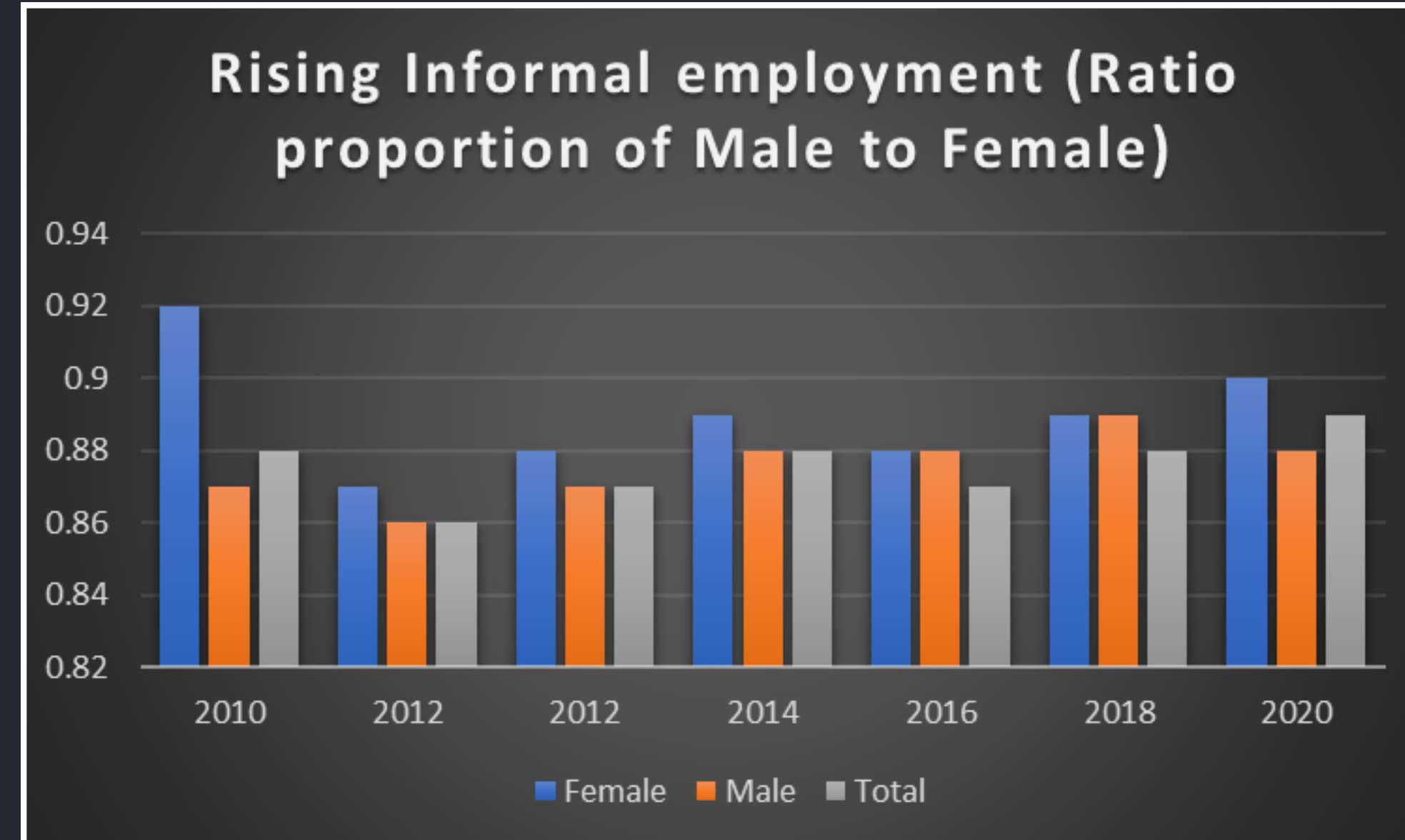
Largely composed of migrant labour

Causes and Determinants of Informality

The functioning of a labour market without a legal or regulatory system in place has been a cause of concern for developing countries such as India, with a staggering 81% of the population employed in the informal sector

Some of the key causes/ reasons for “Informal Labour is given below”

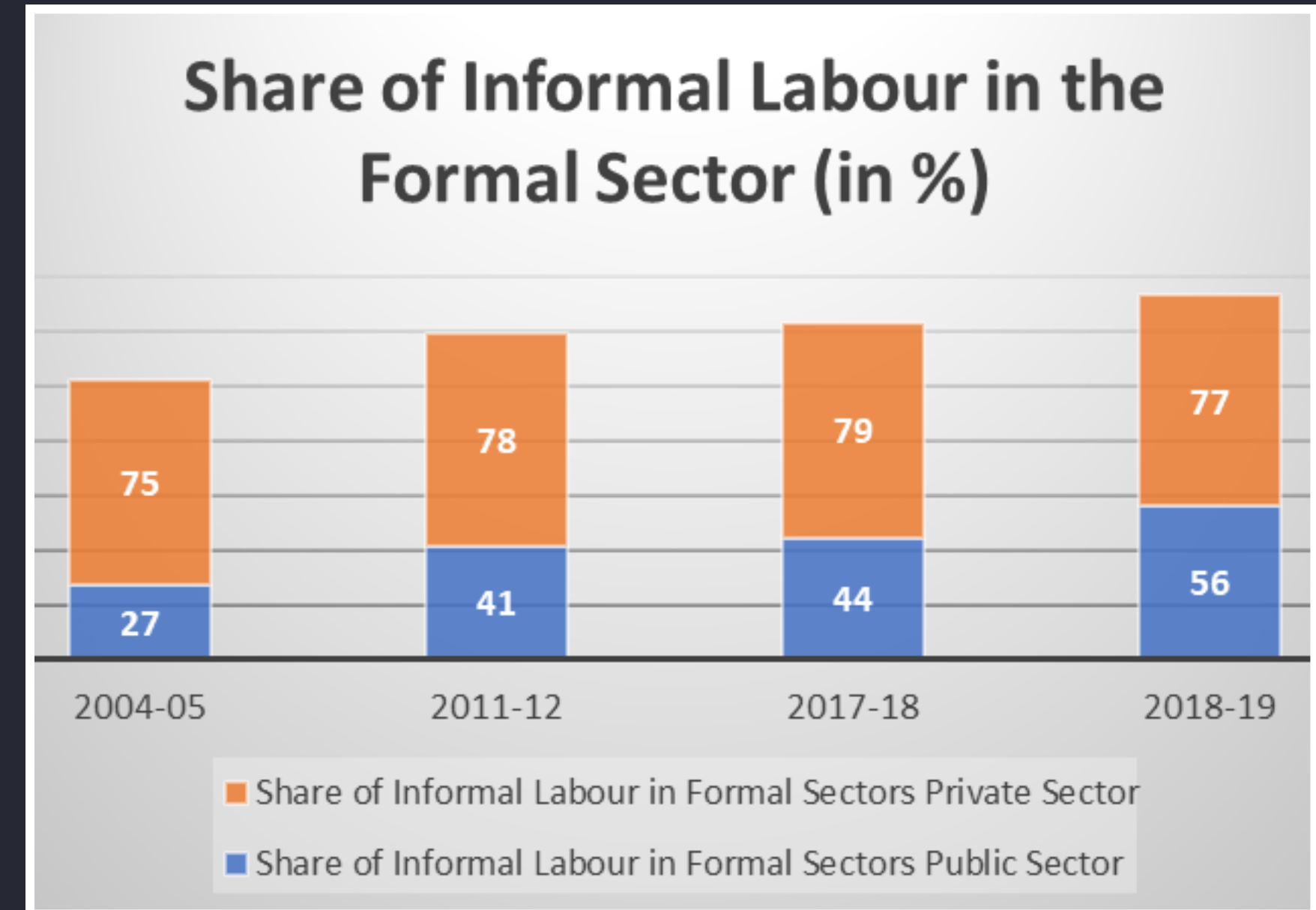
- Weak enforcement of labour laws: Archiac laws and lack of enforcement of laws, make it possible for businesses to function without any fear of penalties/ punishments
- Low Literacy Levels: Lack of education and lack of awareness about the benefits of a “Formal Economy” is one of the key reasons for Informality of Labour.



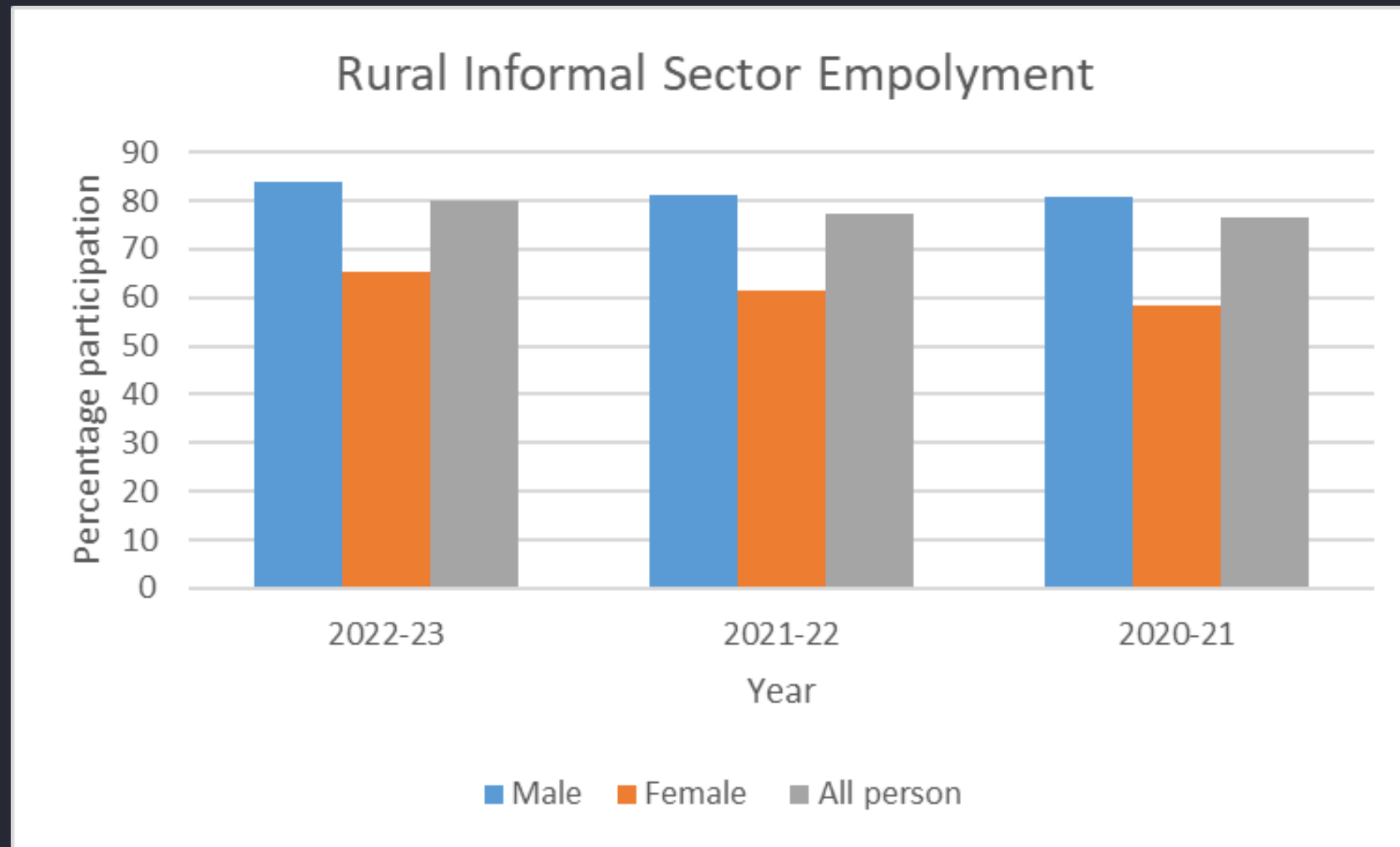
Determinants of Informal Labour

Key determinants of Informal Labour are given below

- Size and location of the firm: Small businesses located in remote areas of the country are observed to have the largest informality of labour due to a lack of advisory support and cumbersome compliance processes
- Government Policies and Macro-Economic Conditions: Adverse economic conditions such as a recession can force workers to shift to informal sectors, similarly, an unfavourable regulatory climate has a negative effect on the “Formalisation of Labour”.

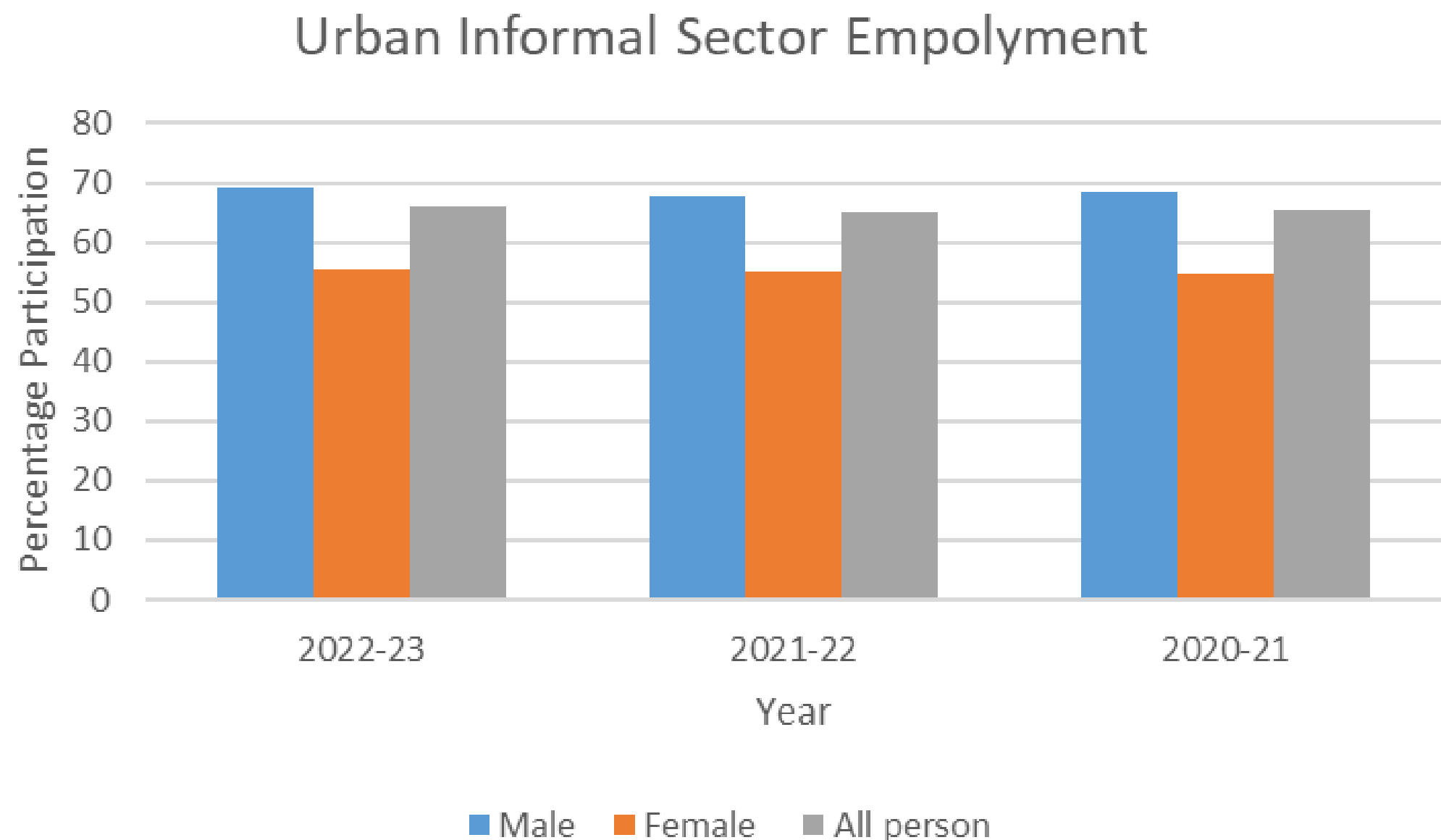


Rural-Urban Disparity in labour force participation



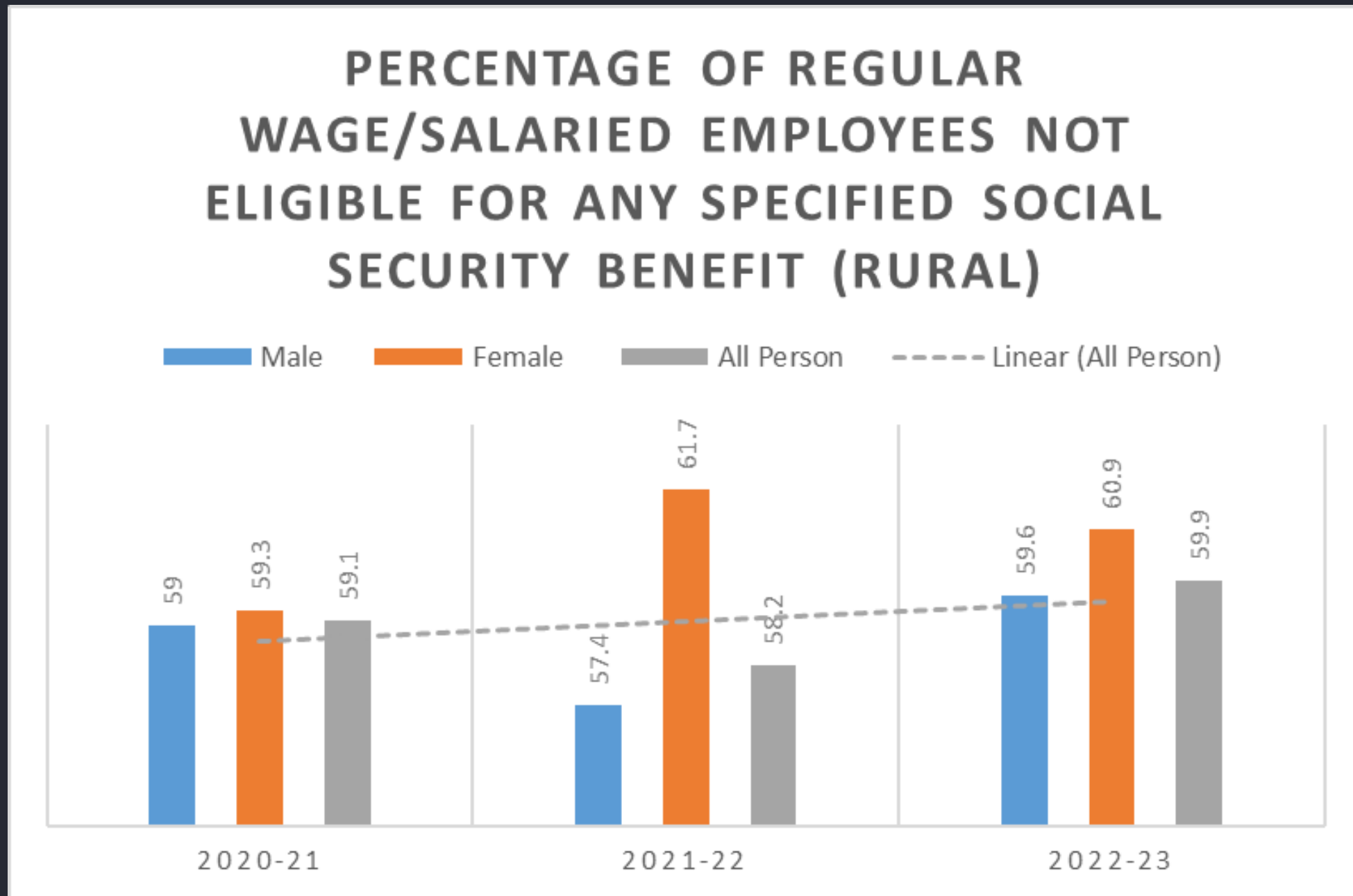
- The rural population's reliance on the informal sector has witnessed a significant surge, with an alarming 80% dependence on non-farm informal employment. This heightened dependency reflects a pronounced trend, indicating the pivotal role the informal sector plays in sustaining rural livelihoods.
- The increase in reliance on informal employment underscores the challenges faced by rural communities in accessing formal job opportunities.
- Moreover, there is a noteworthy gender disparity in this dependence, with the male labour force exhibiting a more pronounced reliance compared to their female counterparts. This gender-specific pattern suggests that economic activities within the informal sector may not be equally accessible or attractive to both genders.

Rural-Urban Disparity in labour force participation



- In the latest recorded year, 2022-23, urban areas exhibit a significant 66% dependency on non-farm informal employment, indicating the substantial role played by informal economic activities in sustaining urban livelihoods. This dependency has witnessed a consistent increase over the past three years, suggesting a persistent reliance on informal employment avenues.
- It is evident that the male labor force in urban areas displays a higher dependency on the informal sector compared to their female counterparts. The figures for males stand at 69.1%, while for females, it is 55.5%. This gender-specific discrepancy could be attributed to various factors such as occupational preferences, societal norms, and differential access to formal employment opportunities.
- Comparing rural and urban settings, the dependency on the informal sector is indeed lower in urban areas, but it remains notably high at 66%. This underscores the pervasive nature of informal employment across diverse geographical contexts.

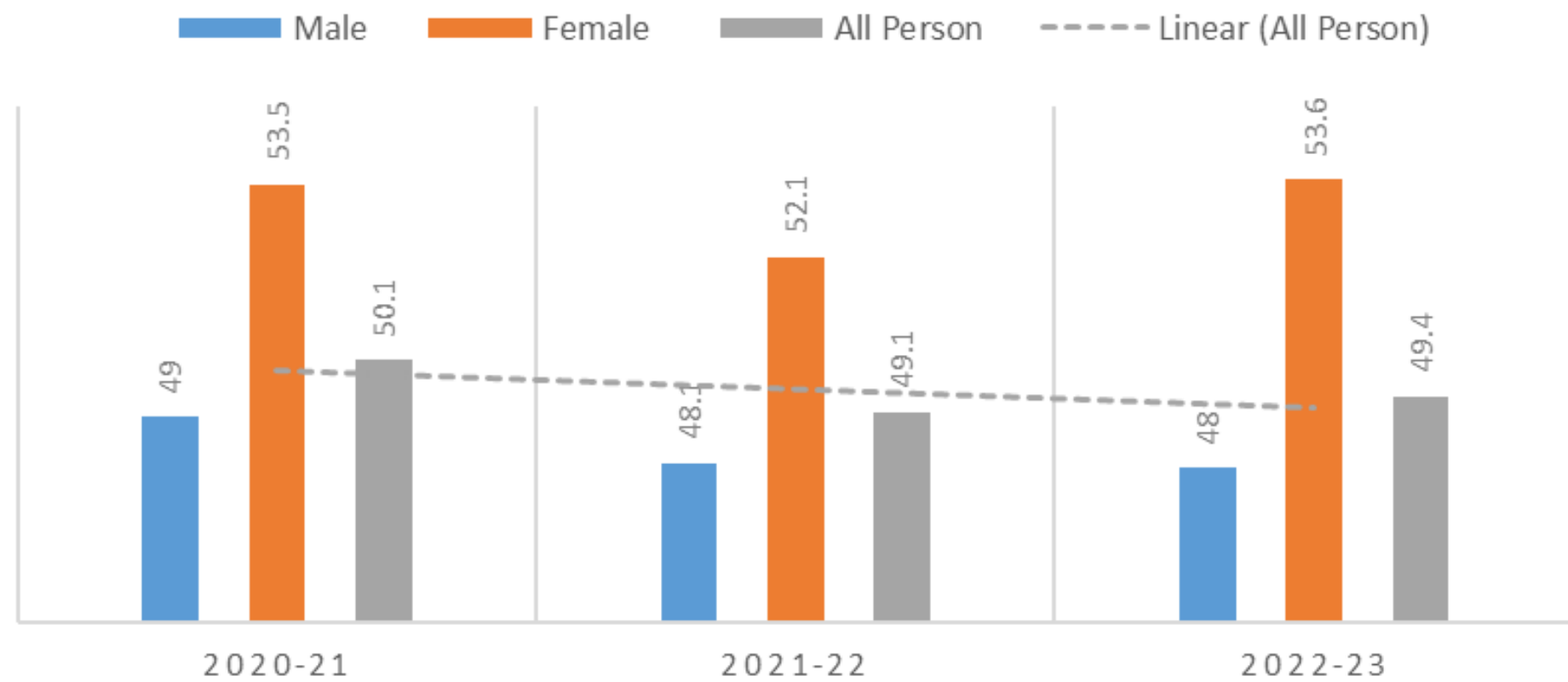
Shrinking Social Security for Salaried Employees in India



- The data on social security benefits for salaried employees in India raises concerns about the shrinking coverage in recent years, particularly in the 2021-22 period.
- The decrease in the percentage of employees receiving social security benefits during this time suggests a potential erosion of protections for the salaried workforce, impacting their financial security and well-being.
- However, the trend takes a notable turn in the 2022-23 period, especially in rural India. There is a sharp increase in the percentage of employees accessing social security benefits with 59.9 percent coverage.

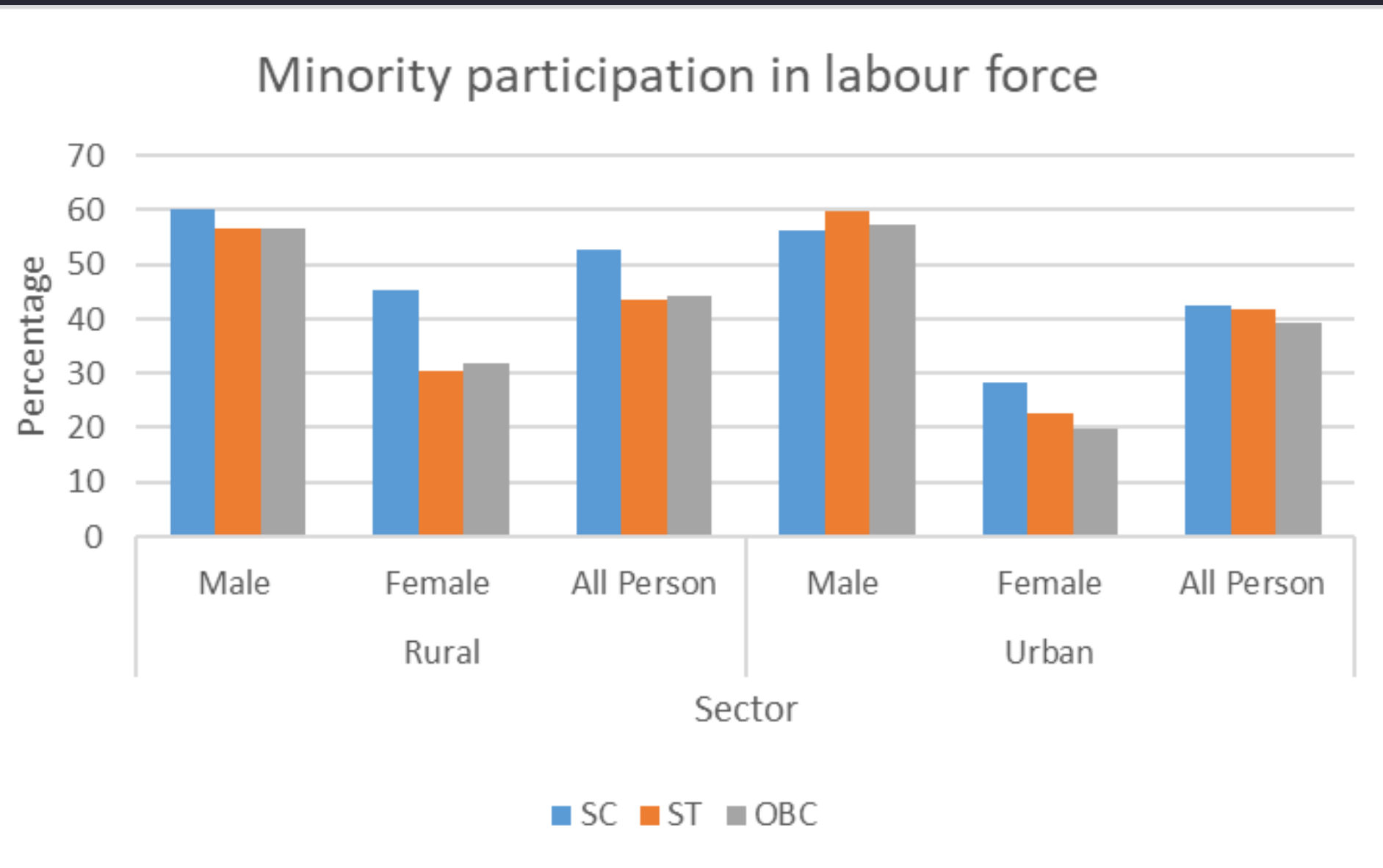
Shrinking Social Security for Salaried Employees in India

PERCENTAGE OF REGULAR WAGE/SALARIED EMPLOYEES NOT ELIGIBLE FOR ANY SPECIFIED SOCIAL SECURITY BENEFIT (URBAN)



- Social security benefits for salaried employees in urban India paints a concerning picture, indicating a worsening situation compared to the rural scenario.
- The percentages for receiving social security benefits show a consistent decline over the three consecutive years, with a notable impact on male employees.
- Male employees in urban areas bear the brunt of this trend, experiencing a continuous decrease from 49% in 2020-21 to 48.1% in 2021-22, and further dropping to 48% in 2022-23.
- The overall decline in social security coverage, as reflected in the "All Person" category, underscores a broader issue of diminishing workplace protections for urban salaried employees. The percentages, though varying slightly, consistently demonstrate a downward trend, indicating a systemic challenge in ensuring comprehensive social security coverage.

Minority participation in labour force



- There is a stark disparity in labor force participation among minority communities in both rural and urban areas, emphasizing systemic inequalities. Overall, there is a concerning low level of minority participation, with the urban female minority workforce standing out as particularly marginalized.
- Scheduled Castes (SC) exhibit better participation percentages in both urban and rural areas compared to Scheduled Tribes (ST) and Other Backward Classes (OBC). However, even among SC, the rural-urban divide is noticeable, with SC having a higher participation rate in urban areas.
- The lowest participation rates are observed among ST in rural areas and OBC in urban areas. This sheds light on the intersectionality of social categories and how the labor force divide is not uniform across different minority groups.
- Urban female minority workforce faces the most significant challenge, with notably low participation percentages. This suggests a complex interplay of gender and minority status, indicating that urban minority women encounter additional barriers to labor force participation.

IMPACT OF INFORMAL LABOUR MARKETS IN ECONOMY

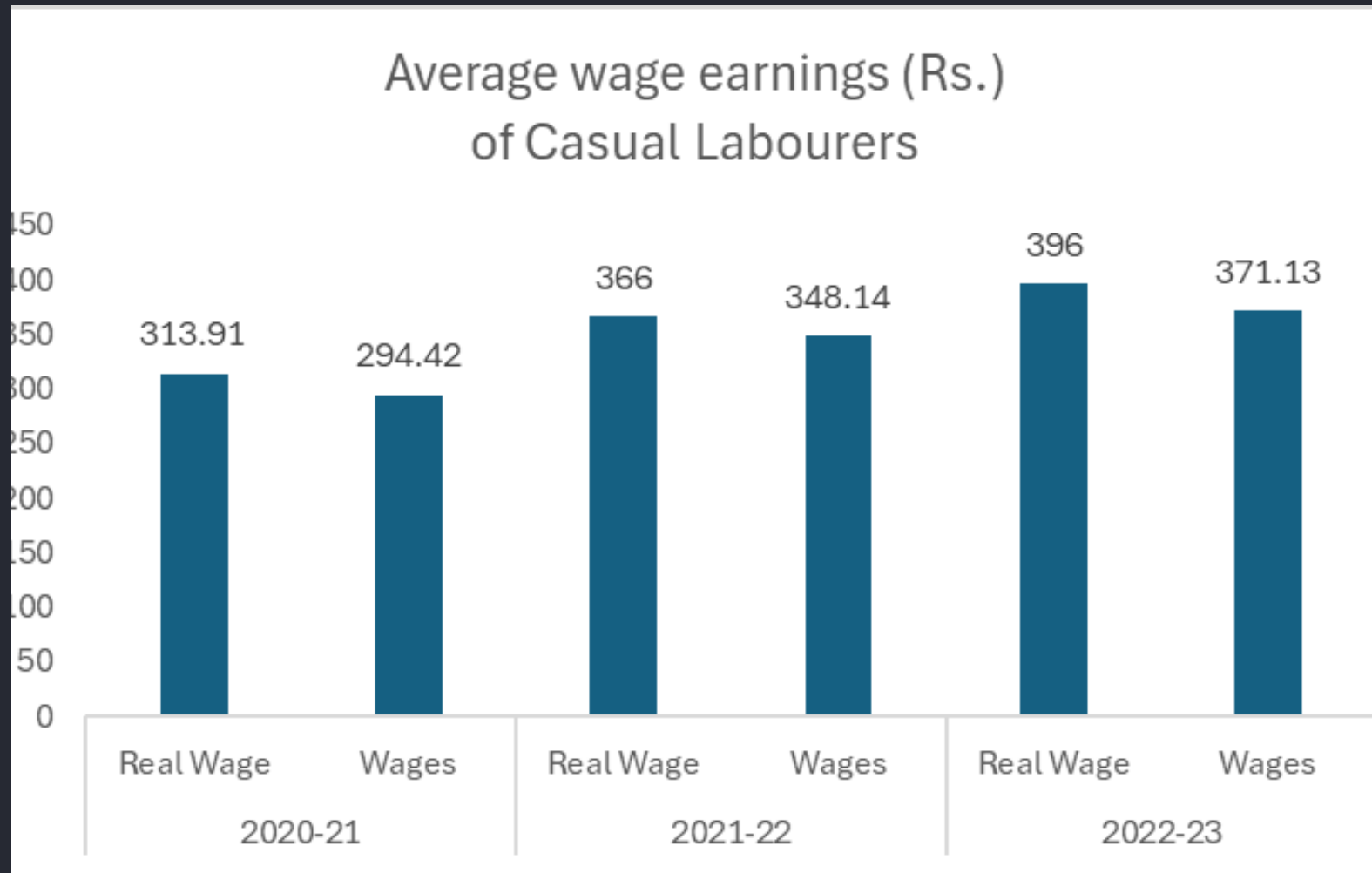
The informal sector in India, which includes businesses and workers, is beset by a slew of problems. Informal firms must deal with difficulties such as restricted financial availability, poor infrastructure, low operational productivity, limited technology access, and the need for a physically functioning market. Simultaneously, informal labourers face challenges such as inadequate living and working circumstances with little security or safety, the lack of a job contract, and the lack of any kind of employer accountability.

Informal enterprises largely remain unregulated in the normal times. But in the current time, the need for monitoring of these firms tends to generate ad-hoc mechanisms which create multiplicity of regulations from central, state and local authorities. This makes business environment very difficult to manage, indirectly forcing the smaller firms to deviate from the guidelines thus increasing the risks for everyone.

IMPACT OF INFORMAL MARKETS ON BUSINESS AND WORKERS

The informal sector negatively impacts formal businesses through lower costs and tax evasion. This poses challenges for formal enterprises struggling to compete on price. The informal sector's non-compliance with regulatory standards raises concerns about product quality and safety, and affects the reputation of associated formal businesses. Meagre business capital leading to volatility of the informal economy introduces uncertainty for formal businesses reliant on stable market conditions. Additionally, the informal sector's tax avoidance reduces government revenue, limiting resources for public services that benefit both formal and informal enterprises. Overall, the informal sector contributes to an environment of unfair competition, financial instability, and regulatory challenges, hindering the development of a robust and equitable business environment.

The informal sector, while providing employment opportunities for many, often inflicts significant negative impacts on workers. Job insecurity is rampant, as workers lack formal contracts and stability in income, leaving them vulnerable to sudden economic downturns. Exploitative practices, including substandard wages, long working hours, and unsafe conditions, are pervasive, as informal workers often lack the bargaining power and legal protections afforded to formal employees. Those belonging to marginalized groups, may face discrimination and exclusion from economic opportunities, further perpetuating social and economic inequalities.



In an overarching view, there has been an aggregate growth of 26.15% in nominal wages and 26.05% in real wages over the span of 3 years. This alignment indicates that the increase in income is, to a significant extent, keeping pace with the enhancement of the purchasing power of casual labourers.

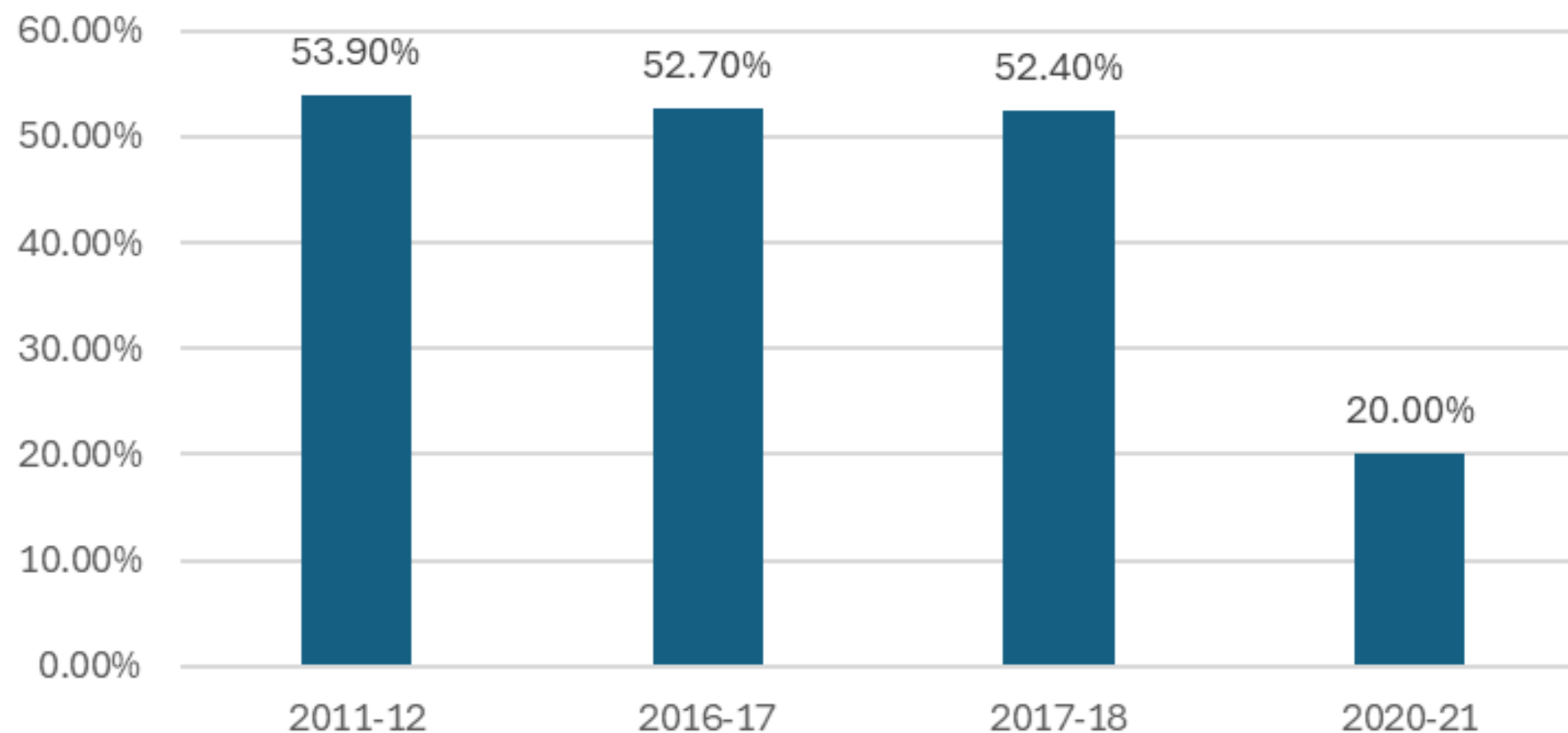
This chart depicts the per day average wage earnings of casual labourers from FY 2020-21 to FY 2022-23.

Between the fiscal years 2020-21 and 2021-22, there was a notable 16.6% upswing in the average daily wage earnings. However, this growth rate has subsequently reduced by half, standing at 8.2% from the fiscal year 2021-22 to the fiscal year 2022-23.

While the nominal wage increase suggests positive economic trends for casual labourers, it doesn't show the actual improvement in their purchasing power.

From the fiscal year 2020-21 to 2021-22, there was a commendable 18% surge in real wages, emphasizing an initial substantive boost. However, this upward trajectory experienced a notable dip in the subsequent fiscal year, with the growth in real wages receding to 6.6% from the fiscal year 2021-22 to 2022-23. This decrease, amounting to almost one-third of the prior growth rate, implies a moderation in the rate of improvement.

Share of informal sectors across broad sectors to Gross Value Added



This chart depicts the share of informal sector to Gross Value Added from FY 2011-12 to FY 2020-21.

From FY 2011-12 to FY 2017-18, the share of informal sectors has been constant around 52% - 54%.

According to a SBI report in 2021, informal sector may have shrunk to no more than 20%, (around 15% -20%)

The report credits this reduction to formalisation of economy.

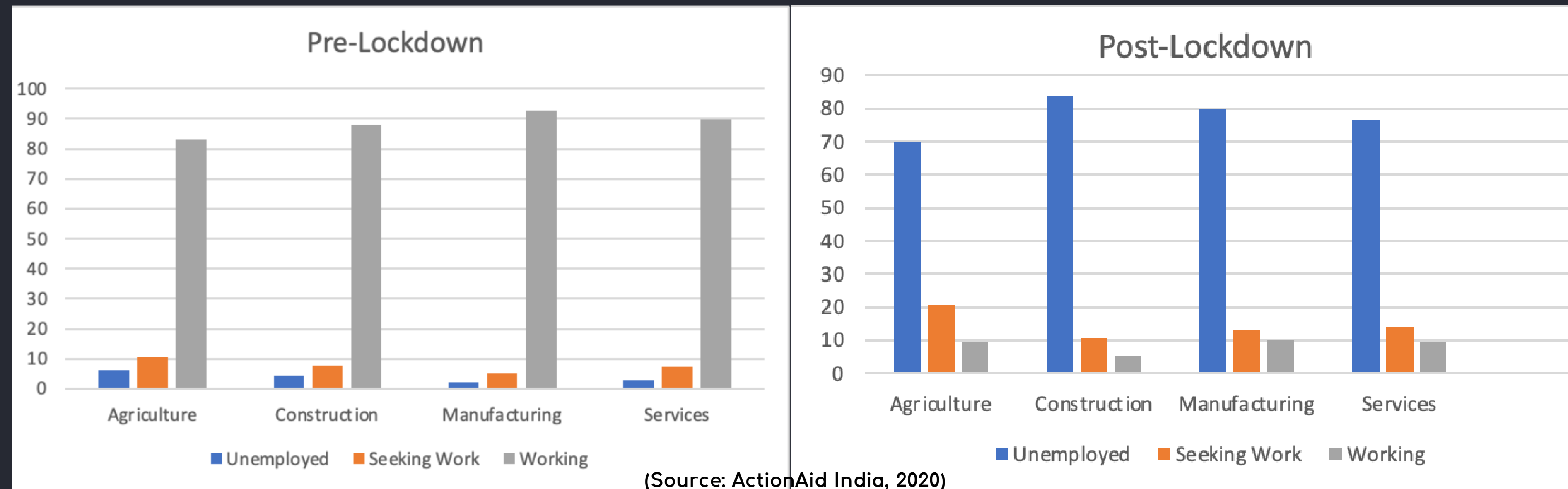
“IMF has also noted that formalisation of economy has increased since the adoption of GST, enhanced digitalisation and demonetisation.”

Formalisation implies heightened productivity, and increased government revenues as the businesses will be taxed. This shift is associated with improved job security, better working conditions, and the potential for enhanced economic efficiency.

Current Status of Informality in the Indian Labour Market

- The pandemic has had a devastating effect on the informal labour market in India.**
- Around 80% of the informal sector workers lost their jobs as the lockdown progressed (ActionAid India 2020).**
- According to reports of the Centre for Monitoring Indian Economy (CMIE), in April 2020, overall 121.5 million jobs were lost in India out of which 91.2 million were informal jobs such as small traders, hawkers, daily wage labourers etc.**
- Following the lockdown in March 2020, 64% of urban households and 35% of rural households faced financial constraints, rendering them unable to afford essentials, even for one week.**

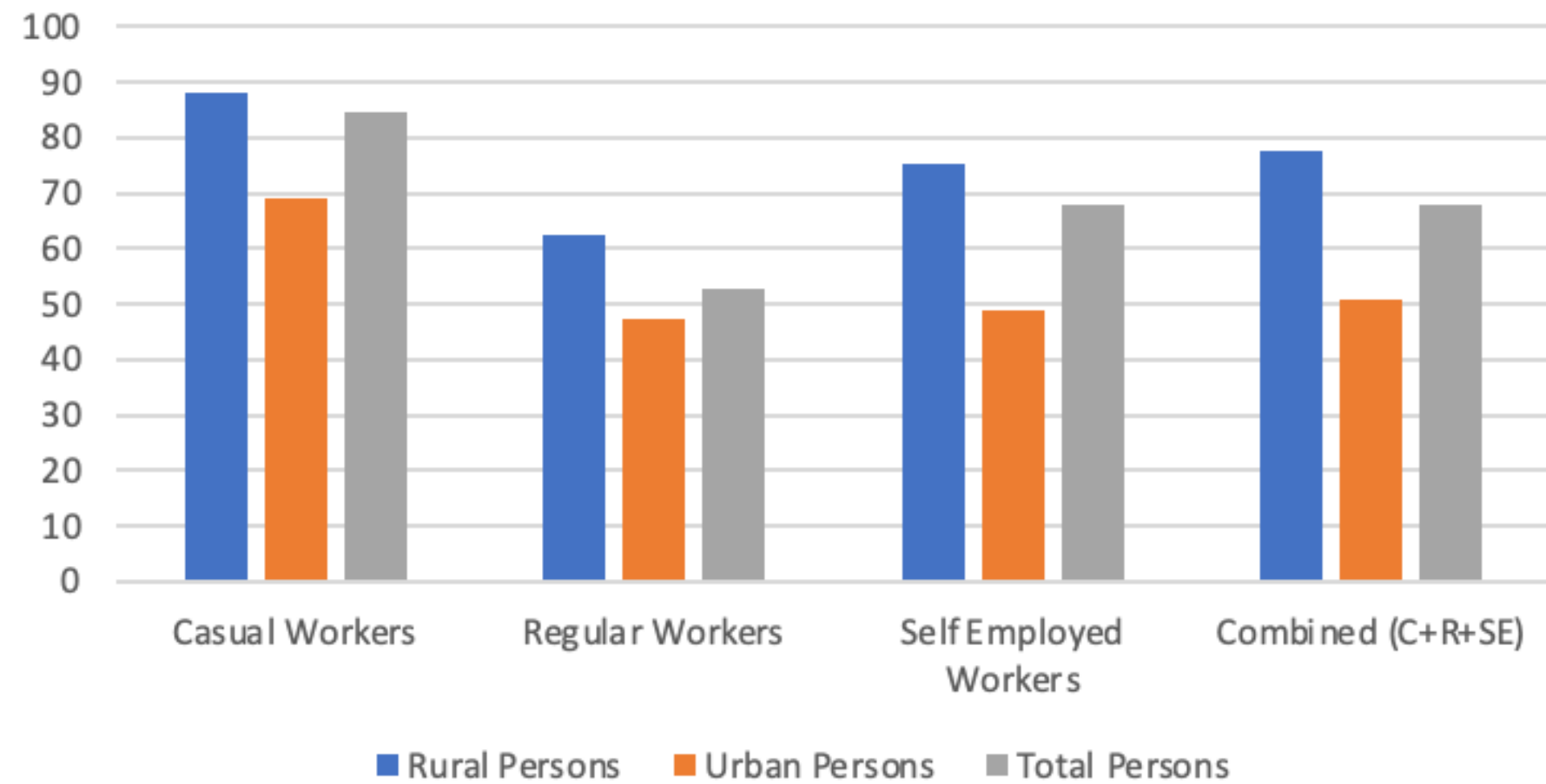
The employment status of Informal workers across sectors pre and post-lockdown (in %)



- Due to the limited low earnings of the majority of informal workers in developing economies, they lacked the resources to swiftly transition to alternative forms of employment.
- Because of a lack of consumer interest in non-essential goods during the lockdown, businesses involved in their production had to reduce output and trim production expenses in the initial months of the lockdown. This, in turn, prompted employers to lay off numerous workers as a cost-saving measure.

Pre- pandemic Condition

Share of workers earning less than INR 375 MW in 2017-18



- The impact of COVID-19 was harsh on the informal sector not because the virus differentiates between the poor and the well-off but rather because the laborers in the informal sector were already in a disadvantaged position due to their socio-economic and other pre-existing conditions.
- The loss of income due to sudden unemployment caused by the pandemic became unbearable for informal workers because they had not been earning even before the pandemic kicked in.

In 2017-18, around 84.6% casual workers, 52.8% of regular workers and 67.9% of self-employed workers earned wages that fell below the recommended national minimum wage (MW) of INR 375 per day, making the gap between the stipulated minimum wage and actual wages 41% (Shekar, 2020).

E - Shram Portal

- Launched in 2021, e-Shram portal is aimed at building a comprehensive National Database of Unorganized Workers (NDUW) in the country.
- The aim of the portal is to boost the last-mile delivery of the welfare schemes for the unorganised workers in the country.
- 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.

27.69 crore

No. of workers registered on e-shram portal

Atma Nirbhar Bharat Abhiyan

In 2021, the government announced an economic stimulus package of Rs 20 lakh crore and major systemic reforms under the Atma Nirbhar Bharat Abhiyan (self-reliant India).

India's vast informal sector in its current position, is severely constrained to play any meaningful role. The size of India's informal sector is huge (more than 90% of the workforce) and so is the extent of diversity therein. It accounts for about 60% of Gross Value Added (GVA) and a major share in the export basket.

informal workers mostly are not beneficiaries of Employees' Provident Fund Act 1952 which is applicable for establishments having 20 or more workers. Informal workers are generally not covered unless those contract workers in organized sector having 20 or more workers.

As part of the scheme 31,64,367 applications from across the country (except from Sikkim, which is officially not taking part in it) were received. Of the total applications, 16,77,027 have been sanctioned and 12,17,507 have been disbursed.

Pradhan Mantri Shram Yogi Maan-dhan (PM-SYM)

- Pradhan Mantri Shram Yogi Maan-dhan is a central government scheme meant for old age protection and social security of Unorganised Workers (UW).
- Each subscriber under the PM-SYM, receives minimum assured pension of Rs 3000/- per month after attaining the age of 60 years.
- The subscriber's contributions to PM-SYM is made through 'auto-debit' facility from his/ her savings bank account/ Jan- Dhan account.
- However, the total subscribers under the scheme fell to 4.43 million on July 11, down 1.19 million from 5.62 million on January 31

Conclusion

There is an urgent need for stricter enforcement and implementation of pre-existing government initiatives aimed at the growth and empowerment of the informal labor force and a steady shift towards the regulation of the informal economy to bring such workers at par with the formal sector workforce, who are protected by the state and provided with certain benefits and reliefs. This must be supplemented by reducing the variegated disadvantages faced by women and lower caste groups in securing formal sector jobs. The state should aim at the creation of a labor-friendly environment that encourages informal sector workers especially those employed in small enterprises to register themselves, which would initiate a shift towards their regulation and protection. This in turn would foster compliance with and awareness about labour laws and government policies that would benefit the relatively disadvantaged workers in the informal sector.