



# PUBLIC POLICY FOR INFORMAL SECTOR WORKERS

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## Abstract

*The informal economy refers to all economic activities by workers and economic units that are, in law or in practice, not covered or insufficiently covered by formal arrangements. The term informal sector was first initiated by Kieth Hart (1970) in a study on urban Ghana. In India the term “informal sector” is used in a synonym for unorganized sector. Unorganized Sector constitutes a pivotal part of the Indian Economy. More than 90.0 per cent of workforce and about 50.0 per cent of the national product are accounted for by the Informal Economy. A large proportion of socially and economically underprivileged sections of the society are concentrated in the Informal economic activities. The Informal economy in India employs about 86.0 per cent of the country’s workforce and 91.0 per cent of its women workforce. With this background, this paper attempts to highlight the importance of an effective public policy for the development of informal sector in India. It is attempted to analyse the nature and importance, problems of Informal Sector in India and finally to analyze the public policy for welfare of Informal Sector workers*

**Key words:** Informal sector workers, Public policy, Social security measures, E-shram portal.

## Introduction

The informal economy refers to all economic activities by workers and economic units that are, in law or in practice, not covered or insufficiently covered by formal arrangements. Their activities are either excluded from the purview of the law or they are outside the formal reach of the law. They are low paid with limited or no social protection. There is no well-defined employer employee relationship. A worker employed on casual, temporary basis would not have a continuous or a single employer. Entrepreneurs engaged in informal sector are scattered, incapable of engaging in collective bargaining; do not have access to facilities like credit, production or marketing support. They are mostly unskilled and often their work is home based, isolated and vulnerable. The study reveals that the informal sector has characteristics like easy entry for the new enterprises;

reliance's on indigenous resources, family ownership, small scale operations, unregulated and competitive markets, labour intensive technology and informally acquired skills of workers

The term informal sector was first initiated by Kieth Hart (1970) in a study on urban Ghana. In India the term "informal sector" is used in a synonym for unorganized sector. The National Commission for Enterprises in the Unorganized Sector (NCEUS) setup by the government of India in September 2004 defined the unorganized sector in the following manner. "The Unorganized 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 and with less than ten total workers". The NCEUS defined Unorganized or Informal employment as follows: "Unorganized workers consist of those working in the unorganized enterprises or households, excluding regular workers with social security benefits and the workers in the formal sector without any employment/social security benefits provided by the employers."

Unorganized Sector constitutes a pivotal part of the Indian Economy. The informal sector units are labour intensive in character. More than 90.0 per cent of workforce and about 50.0 per/cent of the national product are accounted for by the Informal Economy. A large proportion of socially and economically underprivileged sections of the society are engaged in the Informal economic activity. The Informal economy in India employs about 86.0 per cent of the country's workforce and 91.0 per cent of its women workers. For the development of informal sector workers there is a need for an effective public policy.

## **Methodology**

The study is based on secondary data and information. Secondary information is collected through the review of literature. Analysis of related issue is carried on the basis of secondary data collected from the important sources pertaining to informal sector.

## **Objectives**

The main purpose of the paper is to highlight the importance of an effective public policy for the informal sector workers in India. Following are the specific objectives of the paper:

- To study the nature and importance of Informal Sector in India.
- To understand the basic problems of Informal Sector in India
- To analyze the public policy for welfare of Informal Sector workers

## Employment in Informal Sector

Informal employment comprises 50.0 per cent to 75.0 per cent of non-agricultural employment in developing countries: especially 48.0 per cent of non-agricultural employment in North Africa: 51.0 per cent in Latin America: 65.0 per cent in Asia: and 72.0 per cent in Sub- Saharan Africa. Informal employment is comprised of both self employment in informal enterprises and wage employment in informal jobs. In all developing regions, self employment comprises a greater share of informal employment (outside agriculture) than wage employment, specifically, self employment represents 70.0 per cent of informal employment in Sub Saharan Africa, 62.0 per cent in North Africa, 60.0 per cent in Latin America, and 59.0 per cent in Asia. Informal wage employment is also significant in the developing world: comprising 30.0 per cent to 40.0 per cent of informal employment (outside agriculture). Informal wage employment is comprised of employees of informal enterprises as well as various types of informal wage workers who work for formal enterprises, households or who have no fixed employer. These include casual day labourers, domestic workers, industrial outworkers, undeclared workers, part time or temporary workers without secure contracts, worker benefits or social protection. Informal employment is generally a larger source of employment for women than for men in the developing world. Other than in North Africa where 43.0 per cent of women workers are in Informal employment, 60.0 per cent or more of women workers in the developing world are in informal employment (outside agriculture). In Asia, the proportion of women and men non-agricultural workers in informal employment is roughly equivalent.

## Informal workers in India

The NCEUS Report 2009 reveals that informal sector constitute 93.00 per cent of total workforce in India. The study on 'conditions of work and promotions of livelihood in the unorganized sector report', states that the world's second fastest growing economy is being largely driven by workers in this sector. India's informal sector is the largest in the world. It employs about 91 per cent of the country's total workforce and contributes more than 45 per cent to the country's Gross Domestic Product (GDP).

## Share of formal /informal sectors across broad sectors to GVA (Gross Value Added)

Industry	2011-12		2016-17		2017-18	
	Formal	Informal	Formal	Informal	Formal	Informal
Agriculture, forestry and Fisheries	3.2	96.8	2.8	97.2	2.9	97.1
Mining and Quarrying	77.4	22.6	77.4	22.6	77.5	22.5
Manufacturing	74.5	25.5	76.4	23.6	77.3	22.7
Electricity, gas, water supply and other utility services	95.7	4.3	95.0	5.0	94.7	5.3
Construction	23.6	76.4	26.6	73.4	25.5	74.5
Trade , repair, accommodation and food services	13.4	86.6	13.4	86.6	13.4	86.6
Transport, storage , communication and services related to broadcast	53.0	47.0	53.7	46.3	52.3	47.7
Financial services	90.7	9.3	88.1	11.9	88.1	11.9
Real estate, ownership of dwelling and professional services	36.9	63.1	46.8	53.2	47.2	52.8
Public administration and defence	100	00	100	00	100	00
Other services	58.8	41.2	52.7	47.3	52.1	47.9

**Sources:** National Accounts Statistics 2019

The significance of informal sector is clearly visible in the above table. More than 95 per cent of GVA (Gross Value Added) in agriculture sector is the contribution of informal sector. The share of GVA in construction, trade, repair, accommodation and food services is relatively higher from the informal sector. Hence, the informal sector employment plays a crucial role in Indian economy.

### Importance of Informal Sector in Indian

The informal sector provides income earning opportunities for a large number of workers. In India there are a large number of workforces getting their livelihood from the informal sector. The government has to play the role of facilitator and promoter so that the workers employed in the informal sector are able to get requisite level of protection and security to have decent work environment enabling them to express their skills fully and

according to their capabilities necessary for enhancing the competitiveness of their outputs and thereby raising their income and socio-economic status. Informal sector has a crucial role in our economy in terms of employment and its contribution to the national domestic product, savings and capital formation.

At present Indian economy is passing through a process of economic reforms and liberalization. During the process of merger, integration of various firms within the industry and up gradation of technology and other innovative measures takes place to enhance competitiveness of the outputs both in terms of cost and quality to compete in the international market. The low inefficient units either with away or merge with other ones performing better. In this situation, there is a special need to take care of interests of the workers by providing them training, upgrading their skills and other measures to enable them to find new avenues of employment, improve their productivity in the existing employment, necessary to enhance the competitiveness of their product both in terms of quality and cost which would also help in improving their income and thereby raising their socio-economic status. It has been experienced that formal sector could not provide adequate opportunities to accommodate the workforce in the country and informal sector has been providing employment for their subsistence and survival. Keeping in view the existing economic scenario, the unorganized sector will expand further in the years to come. Thus it needs to be strengthened and activated so that it could act as a vehicle of employment provider and social development.

### **Problems of Informal Sector**

Informal sector suffers from several problems. Important among them are as follows:

- Low productivity syndrome, compared to the formal sector
- Lower real wages and poor working conditions
- Poor organization, less bargaining power
- Predominance of casual and contractual employment
- Absence of social security measures and welfare legislations
- Negation of social standards and workers rights
- Denial of minimum wages and so on
- Poor human capital base in terms of education, skills and training as well as lower mobilization status of the work force further add to the vulnerability and weaken the bargaining strength of workers in the informal sector
- Tribal informal activities have not been encouraged due to lack of clear tenure rights, adverse policy and regulatory environments. Policies and subsidy schemes have generally been designed with large, formal industry in mind. This adversely affect on the activities and potential profitability of the informal sector
- Another important problem of informal sector is finance. Most of the entrepreneurs do not keep any records and are not eligible for bank credits. Hence they depend on money lenders who usually charge excessive interest rates

- Globalization of the economy has adversely affected on informal sector. Some of the products which are produced large scale in the foreign country are dumped to the domestic market. It posed new challenge to the domestic informal sector
- Inconsistent demand for the products produced under the informal sector also threat to the growth of informal sector. Today consumers have got enough alternatives in the market. Hence only competent entrepreneur may remain in the market
- Lack of support by the government for the welfare of workers in the informal sector as well as poor encouragement to the development of informal activities became threat to the growth of informal sector

### **Public Policy for sustainable Informal sector workers**

For the welfare of workers in the unorganized sector, a number of social security schemes are introduced by the central government from time to time. Unorganized Workers Social Security Act 2008 (UWSSA), which is now incorporated under the code on social security 2020, contains various schemes. These schemes provide social protection to the unorganized workers against old age, death, health crisis, accident etc. Unorganized workers who belong to the Below Poverty Line (BPL) category are eligible to get these benefits. Social security schemes which included under the code on social security 2020 are as follows:-

1. Indira Gandhi National Old Age Pension Scheme (IGNOAPS): It is a non contributory old-age pension scheme that covers citizen below poverty line and the above the age of 60 years.
2. National Family Benefit Scheme (NFBS): This scheme provides single time payment of Rs 10000 in the case of the death of the primary earner of a family. This scheme is functioning under the Ministry of Rural Development.
3. Janani Suraksha Yojana (JSY): JSY scheme is implemented to reduce maternal and neo-natal mortality by promoting institutional delivery among the poor pregnant women. It was launched on 12<sup>th</sup> April 2005. Financial assistance for institutional delivery in low performing states is Rs. 1400 in rural areas and Rs. 1000 in urban areas. In high performing states it is Rs 700 in rural areas and Rs 600 in urban areas.
4. Handloom Weavers Comprehensive Welfare Scheme (HWCWS): It provides life , accidental and disabling insurance coverage to handloom weavers under the Pradhan Mantri Jeevan Jyothi Bima Yojana (PMJJBY) , Pradhan Mantri Suraksha Bima Yojana (PMSBY) and Converged Mahatma Gandhi Bunker Bima Yojana (MGBBY).
5. Handicraft Artisans Comprehensive Welfare Scheme (HACWS): It provides health and life insurance coverage for handicraft artisans and their families.

6. National Scheme for Welfare of Fishermen: This scheme provides financial assistance to fishermen for construction of houses, community halls and installation of tube wells for drinking water and assistance during lean season.
7. Aam Admi Bima Yojana (AABY): AABY is a social security scheme launched on 2<sup>nd</sup> October 2007 to provide insurance cover to individual belonging to specified groups. It is administered by the Life Insurance Corporation of India (LIC). It provides monetary support, protecting beneficiaries from economic distress in the case of death or in the case of permanent or partial disability.
8. Pension to Master Craft Person: Development Commission (Handicrafts) extends financial assistance to senior craft person above 60 years of age who are recipients of national awards/ national merit certificate or state awards in handicrafts and whose private income is less than Rs 30000. They get pension of Rs 2000 per month.

The social security schemes for unorganized workers which are not specified under the social security code 2020 include the following:

1. Pradhan Mantri Shram Yogi Maan dhan (PM SYM) was implemented by Ministry of Labour and Employment in 2019. This is a voluntary contributory scheme for unorganised workers. This is meant for those who are not covered under the New Pension Scheme (NPS), Employees State Insurance Corporation (ESIC) Scheme or Employees Provident Fund Organisation (EPFO). It covers home based workers, street vendors, cobblers, rag pickers and domestic workers.
2. National Pension Scheme for Traders and Self Employed Person (NPS-Traders): This scheme is implemented by Ministry of Labour and Employment. It provides old-age social security to retail traders, shop keepers or self employed persons with an annual turnover of less than Rs. 1.5 crore.
3. Atal Pension Yojana (APY) under the Ministry of Finance. It is contributory pension scheme for unorganised workers such as delivery boys, gardeners etc.
4. Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) under the Ministry of Finance. It provides life insurance cover to unorganised workers of Rs. 2 lakhs on payment of premium of Rs. 330 per annum.
5. Pradhan Mantri Suraksha Bima Yojana (PMSBY) under the Ministry of Finance. It provides insurance cover to unorganised workers. It provides Rs.2 lakh on accidental death or full disability and Rs one lakh for partial disability on payment of premium of Rs. 12 per annum.
6. Pradhan Mantri Kisan Man Dhan Yojana (PM-KMY) under the Ministry of Agriculture and Farmers Welfare. It provides a pension of Rs. 3000 per month to small and marginal farmers on attaining the age of 60 years.
7. Pradhan Mantri Kisan Samman Nidhi (PM-KISAN). It is an income support scheme that provides small and marginal farmer with up to Rs. 6000 per year to support their financial needs.

## E-Shram Portal

The Ministry of Labour and Employment has developed e-SHRAM portal for creating a national data base of unorganized workers. It was launched by Union Minister of Labour and Employment Bhupender Yadav and Minister of State Rameshwar Teli on August 26, 2021. Optimum realization of employability and to extend the benefits of the social security schemes is the foremost objective of e-shram portal. Any worker who is unorganized and aged between 16 to 59 is eligible to register on the e-shram portal. E-shram portal became a powerful tool to bring all the unorganized workers together. It paves the way for implementing the government welfare schemes for unorganized workers more effectively.

## Conclusion

Informal Sector plays a crucial role in Indian economy. It is providing gainful employment opportunities for millions of people and also contribute significant share to the nation's output. A large proportion of socially and economically underprivileged sections of the society are concentrated in the Informal economic activity. The introduction of the unorganized workers social security Act 2008 and the code on social security 2020 are conducive to the conservation of the rights of unorganized laborers. But these measures are not very effective. Thus, a comprehensive social security policy is required for the welfare of the workers in the unorganized sector in India. The Ministry of Labour and Employment has developed e-SHRAM portal for creating a national data base of unorganized workers. E-Shram portal became database of workers in the country's unorganized sector. It is a key step towards achieving targeted delivery mission of the central government. It will act as a game changer for the social security of millions of unorganized workers.

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