

# Informal Workers in India, Issues and Challenges: Comprehensive Analysis

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## Abstract

According to the Code on Social Security, 2020, an unorganized worker is one who works from home, Employees in the organized sector who are not protected by the Industrial Disputes Act of 1947 or Chapters III to VII of the Code, such as Employees Provident Fund, Employees' State Insurance Corporation, Gratuity, Maternity Benefit, or Employee's Compensation, may be self-employed or wage workers in the unorganized sector. In India around half of the Gross Domestic Product (GDP) of the country and more than 90% of the total workforce have remained informally employed in informal sector. Since India got independence this informal economy have played an important role for socio economic development process especially in agriculture and allied activities. Informal employment contributes more than 95% of total workforces in Indian agricultural sector. This paper presents various issues and challenges faced by informal workers in India and discuss about it' remedies. Also in this paper we have discussed about the current scenario and condition of informal workers force in India. India needs to have employment-intensive growth in the future if it is to properly resolve the demographic dividend conundrum.

**Keywords:** Informal sector, employment, agriculture, development, India, economy

## Introduction

An informal economy or grey economy which plays an important role for employment creation, income generation and poverty reduction in many developed as well as developing countries like India. Informal sector is an 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 works. Unorganized workers consist of those working in the unorganized sector or household 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 is known as informal employment. The First Indian National Commission on Labour (1966-69) under the chairperson of Justice Gajendragadkar has defined the unorganized sector as that part of the workforce, who have not been able to organize in pursuit of a common objective because of constraints such as (1) casual nature of employment (2) ignorance and illiteracy among informal laborers.

The informal employment is against the global standards endorsed by the 15th ICLS. Employment in the creation of goods or services with the main goal of giving the people involved employment and incomes. Unincorporated businesses that are part of the informal sector are not set up as separate legal entities from their proprietors (ILO, 1993). They are owned by one household member, numerous members of the same

household, or members of various households. They typically have little or no separation between labour and capital as inputs of production, operate on a small scale, and have minimal levels of organization. Compared to the organized or official sector, employers in the informal sector typically have lower pay, lower skill levels, and fewer access to financing and social safety nets (Loayza 2018; Perry et al. 2007). They frequently work and live in cramped spaces, and they only ever use cash for transactions, which encourages the spread of a number of hazardous diseases (Chodorow-Reich et al. 2020; Surico and Galeotti 2020). In developing and expanding economies like India, the impoverished frequently rely on illegal economic activities for their means of subsistence. In India, the informal economy produces close to 50% of the country's GDP on average, while more than 90% of all workers are employed in the informal sector. Workers select informal employment for a variety of reasons, depending on India's circumstances and worker characteristics. Informal workers can be found in a variety of small- to medium-sized businesses, unorganized/organized firms, and adjacent industries as day labourers.

### **Significance of the Study**

The informal economy, which includes the informal sector in large part, can be modified slightly to accommodate disorganized manufacturing. Over the past two decades, India's economy has expanded quickly, but more than 90% of the country's labour has remained unemployed, contributing around 50% of GDP (GDP). Data from the Periodic Labor Force Survey (PLFS) show that 75% of informal workers are independent contractors, and that normal wage workers make less money on average than regular salaried employees. While the proportion of formal workers in India is 9.7%, there will only be 47.5 million of them by 2022. Poor capital intensity, low productivity, the prevalence of family labour, and simplicity of entry are some characteristics of the informal sector. The most significant aspect is the employment chances created by India's informal sector, which helps to alleviate the pressure of specific issues like unemployment and poverty by heavily utilizing local resources and time-honored conventional ways that only satisfy local needs.

### **Background of the Study**

Many studies and articles have expressed various serious concern about the deterioration in the employment scene in the country in past years (Gururaja B.L 2020 ) role of informal sector in employment generation in India has explained without support of the government, this sector is generating a huge employees in different sector of the economy. It is based on the findings that if government will interfere then the condition of the informal employee will be better for economic growth. (Anand Thampi 2021; Mehrotra and Jajati 2021, Mehrotra and Tuhinshra Giri 2021). This paper find out that the veracity of assertions such as decline in worker-to-population ratio in recent years, increase in unemployment, withdrawal of women from workforce and deterioration in the overall employment scenario in India. (Ramesh Chand and Jaspal Singh 2022) Workforce Changes and Employment, a NITI Aayog Discussion Paper. This paper has concluded that structural changes in output and employment as growth rate in the output of the non-agriculture sector did not generate commensurate employment. Because of job security, assured salary and other pay and prestige associated with it, preference towards government jobs has increased tremendously. (D Narasimha Reddy, A Amarender Reddy, N Nagaraj and Cynthia Bantilan 2018) Rural Non-Farm Employment and Rural Transformation in India, This paper examines that Though there is growing share of rural non-farm employment (19% in 1980-81 to 31% in 2009-10), still, agriculture is the major employer of the rural workforce (68% in 2009-10).

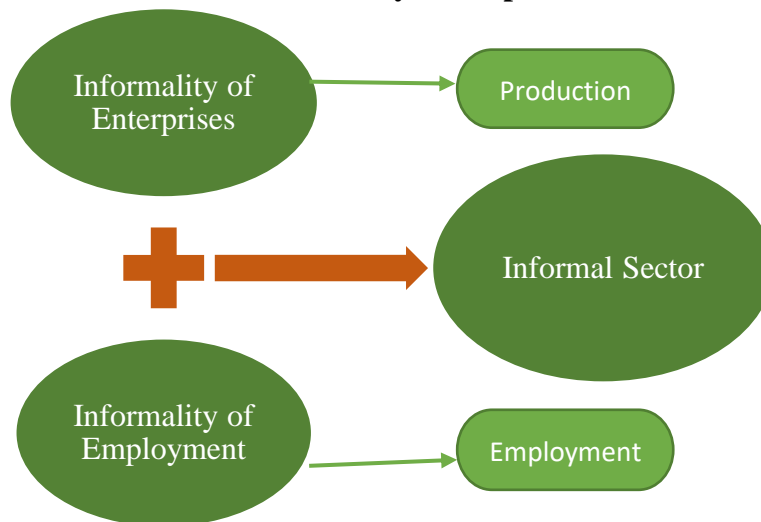
**Objectives of the Study**

- To study the role of informal sector for employment generation.
- To study the current scenario of informal employment in India.
- To study various challenges and difficulties faced by informal employment in India.

**Method and Data Sources**

The present study is based on secondary data only. Data are collected from Periodic Labour Force Survey (PLFS) survey reports, Ministry of Labour & Employment Government of India, International Labour Organization (ILO), National Sample Survey Organization (NSSO), Central Statistical organization (CSO), Economic Survey of India (ESI) etc. The accessible secondary data is intensively used for this research study.

**Figure: 1  
Informality Concept**



Informality as a concept combined both informality of enterprises and informality of employment as Informal sector.

**Conceptual Framework of Informal Employment**

Contrary to the idea of the informal sector, which sees jobs as observation units instead of production units, the idea of informal employment sees jobs as observation units (ILO, 2003; Hussmanns, 2004). Regarding own account workers and employers, the job's status as an informal employment arrangement is determined by the enterprise's participation in the informal economy. Own-account personnel (without hired support) managing a freelance business are therefore seen as being in a freelance position.

**Table 1.1 Matrix: employment in the informal economy**

Production Unit	Informal jobs	Formal jobs
<b>Informal sector enterprise</b>	A1	C3
<b>Other production units</b>	B2	D4

A1 + B2 = Persons in informal employment

A1 + C3 = Persons in the informal sector

B2 = Informal employment outside of the informal sector

C3 = Formal employment in the informal sector

A1 + B2 + C3 = Total employment in the informal economy

Based on the above matrix, the informal economy comprises informal employment (without secure contracts, worker benefits or social protection) of two kinds:

- Self-employment in small, unregistered or unincorporated informal businesses, such as those run by employers, own-account operators, and unpaid family workers.
- Wage employment in unprotected contract, temporary, and part-time jobs (for unregistered or undeclared businesses, households, or formal or informal enterprises), including casual or day labourers, industrial outworkers, unregistered or undeclared employees, and unregistered or undeclared workers without a fixed employer.

**Criteria adopted for harmonized International Labour Organization ILO estimates of informal employment**

1. Institutional sector (government, public enterprises, non-governmental organizations (NGOs); private sector; households). The “institutional sector” is meant to separate persons working in government, public and private corporations, non-governmental and international organizations, and other institutions clearly recognized as belonging to the formal sector. It also serves to identify persons working in private households producing wholly for own final use.
2. If a person is reported as a contributing family worker, no further questions are required and the person is classified as having an informal job.
3. If the person is recorded as an employer, or own-account worker, or member of a producer’s cooperative, no additional questions are required and the formal or informal nature of the job is determined according to the formal or informal nature of the person’s economic unit. Employers, own-account workers and members of producers’ cooperatives with enterprises in the formal sector are classified as having a formal job. Similarly, employers, own-account workers and members of producers’ cooperatives with enterprises in the informal sector are classified as having an informal job. If the enterprise is a household enterprise or a private business producing wholly for own or family use, the owner is also classified as having an informal job.
4. The statistical treatment of ‘employees’ and ‘not stated’ is different and depends on the criteria of social security contributions by the employer or alternatively to entitlements to paid annual leave and paid sick leave.

**Table 1.2 Formal-Informal Employment (ps+ss) across Organized and Unorganized Sector (in Crores)**

Year	Type of Employment	Organized	Unorganized	Total
2017-18	Formal	4.43	0.28	4.70
	Informal	4.62	37.39	42.43
	Total	9.05	38.07	47.13
	Formal	4.91	0.45	5.35

<b>2018-19</b>	Informal	4.55	38.87	43.43
	Total	9.46	39.32	48.78
<b>2019-20</b>	Formal	5.09	0.80	5.89
	Informal	5.46	43.19	47.64
	Total	9.55	43.99	53.53

Source: Estimated using PLFS 2017-18, 2018-19 and 2019-20 Surveys.

Formal-informal employment (ps+ss) across organized and unorganized sector is given in above table. Of the additional workers joined in 2019-20, close to 90 percent were in the informal nature of employment and more than 98 percent were in unorganized sector. About 91 percent of additional workers were in unorganized-informal sector. Table gives estimates of total employment in formal and informal across organized and unorganized sector

**Table 1.3 Formal and Informal Workers Share in percentage**

Year	Formal	Informal	Total
<b>2011-12</b>	16.3	83.7	100
<b>2017-18</b>	18.2	81.8	100
<b>2018-19</b>	18.6	81.4	100
<b>2019-20</b>	17.5	82.5	100

Source: PLFS Report

From financial year 2011-12 to 2019-20 financial year informal workers share in total workforce are much higher as compared to formal sector in every financial year.

**Table 1.4 Percentage of total employment engaged in the Unorganized sector (UPSS) in gender wise**

Year	2017-18	2018-19	2019-20	2020-21
Male	71	71.5	72.9	75.3
Female	54.7	54.1	56.5	56.7
Total	68.2	68.4	69.5	71.4

Source: Prepared by using PLFS (2020-21) report

The distribution of employment in India's unorganised sector from 2017–18 to 2020–21 is shown in the table above. This table shows the percentage of male and female workers in India's unorganised sector. Every year, a greater proportion of men than women are employed.

### Informal sector enterprises

According to the 15th ICLS conceptual framework, unincorporated enterprises owned by households are largely considered as informal sector enterprises. According to PLFS (Periodic Labour Force Survey), proprietary and partnership enterprises are considered as informal sector enterprises. In bellow table share of workers in informal sector among workers in usual status (ps+ss) in non-agriculture sector is presented.

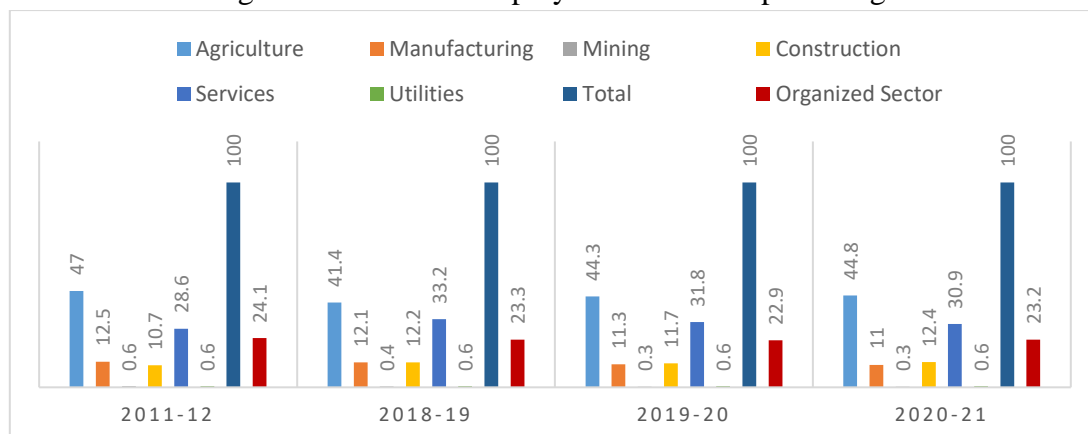
**Table 1.5 Percentage of workers in non-agriculture sector**

Year	category of workers	Rural	Urban	Rural + Urban
2017-18	Male	74.4	67.2	71.0
	Female	59.2	51.0	54.7
	Person	72.1	64.1	68.2
2018-19	Male	76.5	65.8	71.5
	Female	58.5	50.2	54.1
	Person	73.6	62.8	68.4
2019-20	Male	79.0	66.4	72.9
	Female	59.4	54.1	56.5
	Person	75.3	63.7	69.5
2020-21	Male	80.9	68.5	75.3
	Female	58.5	54.7	56.7
	Person	76.4	65.5	71.4
2021-22	Male	81.0	67.7	75.2
	Female	61.6	55.0	58.4
	Person	77.3	64.9	71.8

Source: Annual report of PLFS

In the above table we can see category of workers specially male and female percentage of workers engaged in both rural and urban areas. Also we can see the percentage of rural and urban mix for both male and female workers engaged in non-agricultural sector from the period 2017-18 to 2020-21. Among the above given period in the table we can see male workers percentage is highest 80.9% in rural area in 2020-21 year, lowest in 2017-18 that is 74.4%. Male workers percentage is also highest 68.5% in 2020-21 in urban area, lowest in 2018-19 that is 65.8% only. In female workers category it was highest 59.4% in 2019-20 in rural area, the share of female worker was lowest in 2018-19 and 2020-21 both 58.5% in rural area. In urban area share of female worker is highest in 2020-21 with 54.7% and lowest in 2018-19 with just 50.2%. In rural + urban, the male workers percentage is lowest in 2017-18 with 71% and highest in 2020-21 year with 75.3%. Female workers share was lowest 54.1% in 2018-19 and was highest 56.7% in 2020-21.

**Figure: 2 Sectoral employment shares in percentage**





Source: Ministry of labour and employment, GOI

The above table shows the employment share in percentage for various industries, including agriculture, manufacturing, mining, construction, services, utilities, and organized sector. The performance of these sectors changed very little overall between the fiscal years 2011–12 and 2020–21. Otherwise, things stayed largely the same.

### Challenges face by Informal Sector Workers

Labour Related Challenges: On dividing the large number of workforce between the rural and the urban segment, although the large number is employed in the rural sector, the bigger challenge is in the urban workforce in the informal sector.

- ❖ Labouring under difficult conditions with long hours and low pay.
- ❖ Low job security, a high rate of employee turnover, and low job satisfaction.
- ❖ Inadequate social security regulation.
- ❖ Difficulty in exercising rights.
- ❖ Forced labour, discrimination based on a range of factors, including child labour.
- ❖ Vulnerable, low-paid and undervalued jobs.
- ❖ There are no social security programmes in place to address risks and guarantee the continuation of minimal standards of living during emergencies like unemployment or medical problems.
- ❖ Compared to men, women are more exposed to informality and frequently find themselves in precarious circumstances.

**Productivity:** The MSMEs and home enterprises that make up the informal sector are often smaller than companies like TATA. The benefits of economies of scale are inaccessible to them.

**Inability to Raise Tax Revenue:** Since the informal economy's companies are not directly regulated, they typically evade one or more taxes by concealing their revenues and outgoings from the legal system. The government faces a dilemma because a sizable portion of the economy is still untaxed.

**Lack of Control and Surveillance:** The government continues to not oversee the informal sector. Furthermore, the government finds it challenging to formulate policies regarding the informal sector in particular and the entire economy in general due to the lack of official statistics that accurately reflect the state of the economy.

**Low-quality Products:** Despite the fact that more than 75% of Indians work in the informal sector, very little value is added by each person. This indicates that a significant amount of our human resource is being wasted.

### Initiatives

- In order to help the poor, who make up the majority of the unorganised sector, programmes like the Nehru Rozgar Yojana, MGNREGA, and the Swarna Jayanti Shahri Rozgar Yojana were introduced.
- Atmanirbhar Bharat Abhiyan
- Deendayal Antyodaya Yojana National Urban Livelihoods Mission
- PM Garib Kalyan Ann Yojana (PMGKAY)
- One Nation One Ration Card
- Pradhan Mantri Kisan Samman Nidhi
- World Bank Support to India's Informal Working Class

## Conclusion

The characteristics of the firm, rather than the traits of the person, are what define workers in the informal sector. The concept of a "Informal Worker" places more emphasis on the personality of the employee than on their employer. People with and without education can find opportunities in the informal sector in all regions of emerging nations. This is not a remedy for the current economic downturn or crisis. To support their families and take care of their children's education, everyone needs a certain amount of basic income. Because this sector contributes more than the official sector, the government should pay close attention to it.

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