

# Socio-Economic Impact of Informal Economy of India

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## Abstract

In an effort to comprehend the intricate dynamics of India's informal economy, a comprehensive survey was undertaken within a representative housing society. The focus of this study was on 32 individuals engaged in various informal occupations, ranging from teaching to cooking and cleaning, all of whom fell within the low-income bracket. What emerged as a noteworthy observation was the prevalent gender disparity within this sector, with a substantial majority of the workers being female. This finding underscores the often underappreciated role of women in sustaining the informal economy. Equally striking was the revelation that the remuneration for these informal jobs was alarmingly below the median income level for India. These insights shed light on the challenges faced by those operating in the informal sector, particularly women, and underscore the urgent need for initiatives aimed at improving their economic standing.

**Keywords:** Informal economy, Minimum wages

## Introduction

The informal economy plays a significant role in shaping the social and economic landscape of many countries around the world. It refers to economic activities that operate outside the formal regulatory framework, often characterized by the absence of legal recognition, social protections, and official oversight. While the informal economy can provide livelihoods and economic opportunities for millions of people, its impact on both society and the economy is complex and multifaceted.

## Employment Opportunities

The informal economy often serves as a crucial source of employment, especially in developing countries. It absorbs surplus labor and provides income-generating opportunities for individuals who may lack access to formal employment channels. One of the defining features of India's informal economy is its role in providing employment opportunities, especially in urban and rural areas. A substantial portion of the workforce is engaged in informal activities, ranging from street vending, small-scale manufacturing and domestic work to unorganized agriculture. The informal sector absorbs a significant amount of labor, contributing to livelihoods for millions of people who might otherwise struggle to find formal employment.

However, jobs in the informal sector are typically characterized by low wages, lack of job security, and limited access to social benefits such as health insurance and retirement plans. This can contribute to the perpetuation of poverty and income inequality.

### **Contribution to GDP**

The informal economy can make a substantial contribution to a country's gross domestic product (GDP). This is particularly true in developing nations where a significant portion of economic activities occurs in the informal sector. India's informal economy makes a substantial contribution to the country's Gross Domestic Product (GDP). This contribution comes from diverse sectors, including agriculture, small-scale manufacturing, services, and trade. However, the lack of formalization poses challenges for effective governance, tax collection, and regulation enforcement.

### **Social Safety Nets**

The informal economy often acts as a safety net for individuals facing economic hardships. It provides a means for people to survive during times of economic downturns or crises when formal job opportunities may be scarce.

The absence of formal social protections, such as unemployment benefits and healthcare, can leave individuals in the informal economy vulnerable. This lack of safety nets may exacerbate social inequality and hinder the overall well-being of workers.

### **Gender Dynamics**

The informal economy can offer flexibility in terms of working hours and locations, making it accessible to women who may face constraints in formal employment due to societal norms or caregiving responsibilities.

On the flip side, women in the informal economy often face challenges such as lower wages, limited job security, and a lack of legal protection against discrimination or harassment.

### **Innovation and Entrepreneurship**

The informal economy is often a breeding ground for entrepreneurship and innovation. Small businesses and informal enterprises contribute to economic dynamism and can eventually transition into the formal sector. The informal economy in India is a hotbed for entrepreneurship and innovation. Small businesses and informal enterprises, often family-owned or operated on a small scale, contribute to economic dynamism. Many successful businesses have originated in the informal sector and later transitioned into the formal economy.

However, the lack of legal recognition and access to formal financial institutions may impede the growth and sustainability of these enterprises. It can also hinder their ability to compete on a level playing field with formal businesses.

### **Literature Review**

**Kamla Sankaran** (2022), this study explores the concept of the 'informal economy' as defined in international instruments and statistics, aligning it with legal categories recognized in Indian law. Examining terms such as 'employed,' 'engaged,' and 'work arrangement' as used in Indian legislation and interpreted by the courts provides insights into the interconnections among work, employment, and livelihoods. The paper delves into the varied aspects of the informal economy, concentrating on wage employment, self-employment, encompassing diverse forms of own-account work, and the contributions of unpaid family labor. Categorizing gig and platform workers as either own-account or waged workers remains a normative challenge. Recognizing that regulatory responses for the formalization of distinct

categories of informal workers and enterprises should not be uniform, and need not be tied to specific legal domains, is crucial. The paper goes beyond social security extension as the primary means of formalization, proposing various avenues within law and policy to enhance working conditions and safeguard the livelihoods of those in the informal economy as strategies for achieving formalization.[1]

**Natascia Boeri** (2018), The existing model of gender and economic development is epitomized by the World Bank's assertion that "gender equality is good business." Within this framework, policymakers and development practitioners advocate for and support women's entrepreneurship, believing that expanding women's opportunities in the market is essential for alleviating poverty among women, their families, and communities. This approach contributes to the formation of a gendered entrepreneurial identity. However, drawing on ethnographic fieldwork and interviews with home-based garment workers in Ahmedabad, India, this article challenges the characterization of women in informal labor as entrepreneurs.[2]

**Roberto Dell** (2021), this paper reviews existing literature on the definitions and theories surrounding the informal economy (IE). It highlights key distinctions in the various approaches to defining informality and suggests a definition for the IE that aligns with both measurement and policy considerations. The survey identifies three primary, not mutually exclusive, perspectives on the IE: the "neoclassical," the "macro-econometric," and the "conceptual" approaches. The paper concludes the review by presenting a framework that highlights the primary differences and commonalities among these schools of thought regarding the nature of the IE. From a normative standpoint, a key recommendation emerges: a uniform policy response is insufficient to address the diverse nature of the IE. Instead, policy measures should be customized based on the specific segments of the IE, taking into account their characteristics, contexts, and unique needs.[3]

**Subhi Kesar** (2019), they have observed a fundamental dichotomy within the informal manufacturing sector (IMS) in India, distinguishing a 'traditional'/non-capitalist sector, consisting mainly of family-based household enterprises that form the majority of the IMS, from a 'modern'/capitalist sector employing wage labor. Our analysis focuses on the rapid-growth period from 2000–2001 to 2010–2011, aiming to assess whether the 'traditional' segment has exhibited a noticeable trend towards transformation into a 'modern' one. To gauge this shift, they introduce a variable called the net accumulation fund, indicating an enterprise's capacity for accumulation and growth. We investigate its progression over time and across industries, considering enterprises with varied production structures and firm-level characteristics. Our findings reveal that, while, on one hand, the typical 'traditional' enterprise has managed to sustain itself economically without decline, the dualism between the 'traditional'/non-capitalist and 'modern'/capitalist segments has persisted and strengthened during this phase of heightened economic growth. This raises questions about the anticipated economic transformation process outlined in much of the development literature.[4]

**Rayees Ahmed** (2020), In the face of increasing informality in developing economies, pinpointing factors associated with informality remains challenging due to diverse definitions and data constraints. To elucidate the determinants of informality, the authors adopt two operational definitions 'informal sector' and 'informal employment' based on enterprise and employment characteristics, respectively. Utilizing unit-level data from a nationally representative dataset, the authors ascertain that, regardless of how

informality is delineated, factors such as workers' education, vocational training, and gender significantly influence participation in the informal labor market. These study results withstand adjustments for selection bias and considerations of regional variations, underscoring the necessity to revamp skill development programs to accommodate the diversity among informal workers.[5]

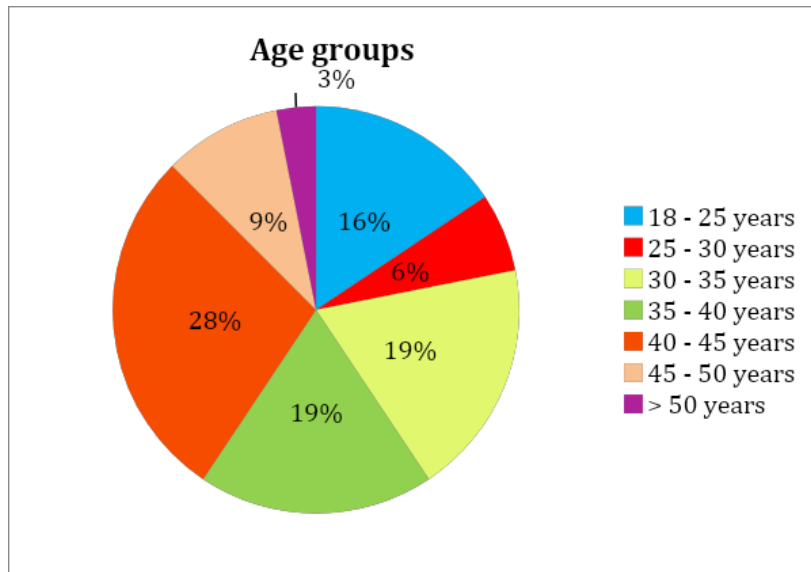
**Bagas** (2023), The COVID-19 pandemic has disrupted both the public health system and the socioeconomic sector, with particularly severe consequences for the informal economy. Despite its historical resilience, the current crisis induced by the pandemic has raised concerns about the ability of the informal economy to withstand such unprecedented challenges. This study seeks to capture the resilience of the informal economy in the face of the economic crisis triggered by the COVID-19 pandemic. Through a review of 42 selected peer-reviewed journal articles, we aim to synthesize a comprehensive understanding of how the informal economy responds to crises of this nature. The findings reveal that stringent pandemic-induced lockdowns emerge as a primary driver that intensifies the vulnerability of the informal economy. Both individual coping strategies and government interventions have shaped the trajectory of informal economy resilience over time. The current amalgamation of defensive mechanisms results in four potential outcomes: bouncing back better, bouncing back, recovering but worsening, or collapsing.[6]

**Joseph fiksel** (2020), the researchers posit that attaining resilience necessitates a dual approach involving forward-thinking government policies and effective initiatives by social and environmental innovators showcasing adaptability to prevailing challenges. These tangible initial measures can serve as prototypes for establishing a more resilient and sustainable economy in India. A promising avenue for expediting progress is the implementation of circular economy solutions, which chart innovative courses for repurposing discarded materials, ultimately aiming to eradicate waste. Past research has demonstrated that such endeavors not only alleviate environmental burdens but also enhance community resilience, all the while fostering regional economic growth.[7]

### **Methodology**

In our recent survey conducted within a housing society in Delhi, we delved into the employment landscape of the community, specifically focusing on individuals engaged in informal occupations to sustain their families. The study involved 32 participants, all of whom are actively involved in informal jobs. Through in-depth interviews and data collection, we gained valuable insights into the diverse range of informal work undertaken by these individuals. Our survey aimed to shed light on the challenges, aspirations, and unique circumstances faced by those contributing to their households through informal means. The findings from this survey not only contribute to a better understanding of the informal job sector within the housing society but also serve as a foundation for potential interventions or support systems tailored to the needs of these hardworking individuals and their families.

**Results and discussions**



**Figure 1. Age demographics of the participants**

The following were the key observations made from the survey done:

- The majority of the respondents fall into the age group of 40 - 45 years, making up 28% of the total sample.
- The highest numbers of respondents are Post Graduates, with 11 individuals, constituting 34% of the total sample.
- Individuals with no formal education have an average income of ₹16,500.
- Respondents with a primary school education have an average income of approximately ₹10833.
- Individuals with a secondary school education have an average income of ₹17,500.
- Individuals with a high school education have an average income of ₹18,752.
- Individuals with a graduate degree have an average income of ₹13,750.
- Individuals with a postgraduate degree have the highest average income at approximately ₹17,500.

The data presented highlights a notable trend: the absence of a direct correlation between formal education and job security within the informal sector. Interestingly, individuals with postgraduate degrees are observed earning comparable amounts to those with lower qualifications, underscoring a prevalent challenge in the informal job landscape. Despite the higher representation of females in this workforce, it appears that their engagement could be influenced by the flexibility of working from home.

Despite the substantial female participation, the average salary remains considerably below the nation's median, which stands at around Rs 1 lakh per capita as of 2023. This indicates that individuals in the informal sector face financial constraints, and their earnings may not be sufficient for self-sustainability, necessitating supplementary sources of income. Moreover, the absence of regulatory frameworks in the informal sector leaves workers susceptible to exploitation and abuse. This underscores the need for measures to address the vulnerabilities of the informal workforce and establish protective mechanisms within this unregulated domain.

In conclusion it can be said that improving the informal job landscape requires a holistic and collaborative effort that considers the specific needs and challenges faced by individuals working in this sector. It

involves a combination of policy reforms, social initiatives, and economic interventions to create a more inclusive and supportive environment for informal workers.

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