

India's Informal Workforce - Trapped Between Survival and Stagnation

Mains: GS III - Economy

Why in News?

The recent findings of the Annual Survey of Unincorporated Sector Enterprises (ASUSE) 2025 shed light on this paradox, revealing a sector that is expanding in size but not necessarily evolving in quality.

What is the scale and significance of the informal sector?

- **Establishments** - It comprises 7.92 crore establishments, up from 7.34 crore in 2023-24.
- **Employment** - It employs 12.81 crore workers, making it one of the largest employment providers.
- This scale highlights its dual role:
 - Absorbing surplus labour, especially from agriculture.
 - Sustaining local consumption through small-scale production and services.
- However, its dominance also reflects the limited capacity of the formal sector to generate adequate employment.
- **Growth in Establishments** - The nearly 8% increase in establishments indicates steady entry and survival of small enterprises.
- However, the sectoral composition remains largely unchanged:
 - Manufacturing: 27%
 - Trade: 31%
 - Services: 42%
- This stability suggests that while the number of enterprises is growing, the structure of the sector is not undergoing significant transformation.
- **Employment Trends** - Employment has grown by 6.18%, reaffirming the sector's role as a labour absorber.
- Yet, the nature of employment is revealing:
 - 62% are owner-operators
 - Only 24% are hired workers
- This indicates that employment growth is primarily driven by self-employment and family labour, rather than the creation of stable, wage-paying jobs.
- **Rising Gross Value Added (GVA)** - The sector recorded a 10.9% increase in GVA between 2023-24 and 2025.
- The distribution of GVA highlights a shift:

- Services - 42%
- Trade - 37%
- Manufacturing - 21%
- This reflects the growing importance of service-oriented and trade-based activities, driven by local demand rather than industrial expansion.

What are the issues?

- **Limited Industrial Transformation** - Manufacturing, though significant, shows moderate growth due to:
 - Low capital investment
 - Limited technological adoption
 - Small-scale operations
- The shift toward services and trade suggests a consumption-driven informal economy, rather than one anchored in productivity-enhancing industrialisation.
- **Modest Productivity Gains** - Per worker GVA increased from ₹1.49 lakh to ₹1.56 lakh, a growth of about 4.5%, lower than the previous year's growth rate.
- This indicates:
 - Incremental improvements rather than structural shifts
 - Continued reliance on traditional methods
 - Limited technological progress
- **Wage Growth and Inequality** - Average annual wages rose by 3.88%, from ₹1,41,071 to ₹1,46,550.
- However, this increase is modest compared to GVA growth.
- This divergence suggests:
 - Unequal distribution of gains
 - Weak bargaining power of workers
 - Absence of formal labour protections
- Thus, while output increases, workers do not proportionately benefit, reinforcing economic vulnerability.

What are the Gender Dimensions in the Informal Economy?

- **Rise in Women-Owned Enterprises** - The share of women-owned proprietary enterprises has increased marginally from 26% to 27%.
- While this indicates progress, it remains limited.
- **Structural Barriers** - Women entrepreneurs face multiple constraints:
 - Limited access to credit due to lack of collateral.
 - Weak market linkages.
 - Concentration in low-value, home-based activities.
- As a result, women's participation often remains confined to subsistence-level enterprises, limiting their economic advancement.
- **Vulnerability to External Shocks** - The informal sector is highly susceptible to global and domestic disruptions.
- **Impact of Rising Fuel Prices** - India's dependence on crude oil imports—especially from West Asia—makes the sector vulnerable to geopolitical tensions. Rising fuel prices increase:

- Transportation costs
- Input costs
- Since trade and services account for 80% of GVA, such cost increases directly affect profitability.
- **Decline in Remittances** - Remittances from West Asia support household consumption in many regions Any disruption:
 - Reduces local demand.
 - Weakens small enterprises dependent on consumption.
 - Thus, external shocks are transmitted directly into the informal economy, amplifying its fragility.
- **Structural Features of Informality** - Nearly 95% of enterprises operate as proprietary or partnership units.
- This structure has both advantages and limitations:
 - **Advantages**
 - Low entry barriers
 - Flexibility and adaptability
 - Minimal regulatory burden
 - **Limitations**
 - Restricted access to formal finance
 - Limited scalability
 - Absence of social security for workers
- This duality explains why the sector persists but struggles to transform.

What are the policy measures to be taken?

- **From expansion to transformation** - Policy must move beyond counting enterprises to improving their quality.
- Key priorities include:
 - Enhancing productivity through technology adoption.
 - Promoting skill development.
 - Facilitating access to formal credit.
- **Strengthening labour conditions** - Extend social security to informal workers.
- Improve wage conditions and job security.
- Encourage formalisation without increasing compliance burdens.
- **Supporting women entrepreneurs** - Improve access to credit through targeted schemes.
- Strengthen market linkages.
- Promote women's participation in higher-value sectors.
- **Building resilience** - Reduce dependence on external shocks through diversified energy sources.
- Strengthen local supply chains.
- Enhance infrastructure to reduce logistics costs.

What lies ahead?

- The ASUSE 2025 findings present a nuanced picture of India's informal economy.
- While the sector is expanding in scale, it remains constrained by low productivity,

limited wage growth, and persistent informality.

- It continues to provide livelihoods, but largely in the form of survival-oriented employment rather than pathways to economic mobility.
- The central challenge, therefore, is not merely growth but transformation.
- Unless policies focus on strengthening enterprises, improving labour conditions, and addressing structural inequalities, India's informal workforce will remain caught between survival and stagnation.

Reference

[The Indian Express| India's Informal Workforce](#)

