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

