# Persistence of Informal work in India

## What is the issue?

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The persistence and spread of informal work suggests that current official attempts at formalisation are simply not working.

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## What is the need for formalisation of workforce?

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- The demand for formalising economic activity, or shrinking the unorganised component and expanding the organised, has been rising in recent times.
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- The core reason behind is the unorganised sector, which is seen as being largely outside the direct and indirect tax net, depriving the government of much-needed resources.
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- The GST regime is likely to force formalisation by requiring transactions to be recorded whenever those transactions are between the organised and unorganised units.
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- Workers could also realise workplace benefits such as written contracts, legal minimum wages, paid leave and social security on formalisation.
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- Framing and implementing legislation that ensures workers one or more of these benefits is seen as transforming the nature of the workplace as well.
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- It can also be a process of transferring workers from low productivity units to higher productivity units.
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- So anything facilitating formalisation also contributes to a rise in average productivity and growth.
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## What is the position of women so far?

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- There is a perception that since women obtain the residual jobs in the labour market, they are the ones more likely to be involved in informal work.
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- So formalisation is often seen as particularly favourable for women, improving the conditions of their work and the remuneration received.
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- However, there has been a sharp fall in women's labour force participation rates, from 42.7% in 2004-05 to 31.2% in 2011-12.
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- In addition, women do not feature predominantly in a sector that accounts for the largest increases in employment in the non-agricultural sector.
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- Construction accounts for a substantial share of non-agricultural employment, with the figure having risen from 14.4% in 1999-00 to 30.1% in 2011-12.
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- There were 51 million construction workers in 2011–12, 93% of whom were in the unorganised sector.
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- However, men constituted 82% of the construction workforce, with women contributing just 11% and children (aged 18 years or less) 7%.
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## What does the NSSO survey show?

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- National Sample Survey Organisation's 73rd Round survey of Unincorporated Non-Agricultural Enterprises (excluding Construction) in India provides information on the unorganised sector.
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- The survey, relating to 2015-16, covered unorganised enterprises except those in construction as well as units registered under the Factories Act, Beedi and Cigar workers (Conditions of Employment) Act, and the Central Electricity Authority.
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- The number of unincorporated non-agricultural enterprises (those not registered under the Companies Act, 1956), excluding construction, grew by 27% to 6.34 crore in 2015-16, compared with 5 crores in 2010-11.
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- There were 111 million workers (including part-time workers) working in unincorporated non-agricultural enterprises excluding construction, or about a quarter of the workforce of 459 million workers employed in that year.
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- This implies that unorganised sector employment in construction even in 2011-12 accounted for more than 40% of workers in the rest of the non-agricultural unorganised sector in 2015-16.
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- **Distribution** - A noteworthy feature is that those employed in the unorganised non-agricultural sector were rather evenly distributed across rural and urban areas with urban workers accounting for 55% of the total.
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- This shows that the units located in semi-urban and rural areas rather than in urban areas would be less advanced and unlikely to be precursors of more productive non-agricultural activities.
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- Also, these activities persist and proliferate because of the absence of more 'decent' jobs in the organised sector.
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- **Sector-wise** - Interestingly, these non-construction jobs in the unorganised sector were more or less equally distributed across manufacturing (32.4%), trade (34.8%) and 'other services (32.8%).
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- This would imply that there were 36 million workers engaged in unorganised manufacturing in 2015-16, as compared with just 14.2 million employees (of which 11.1 million were workers) in the registered manufacturing sector.
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- Those employed in unorganised manufacturing are two-and-a-half to three times the number engaged in organised manufacturing.
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- This indicates starkly the limited degree to which the transition to 'formality' has occurred in the manufacturing sector.
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- Hence the possibilities of formalisation are likely to be the highest in the manufacturing sector.
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- **Gender-wise** - Also, the share of female workers was the highest in manufacturing (52.67%) followed by 'other services' (25.91%) and trading (21.42%).
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- This shows that the residual jobs accrue to women because of the gender bias in labour markets, especially in the unorganised sector.
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## What does it imply?

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- The evidence increasingly shows that the factors stimulating growth and determining the institutional features of the organised and unorganised sectors are quite separate.
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- The drivers of growth do not necessarily ensure the displacement of the unorganised by the organised.
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- Of course there are strong linkages between the organised and unorganised sectors, which influence the profitability and/or survival of both.
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- But these linkages are not the means through which the organised pulls the unorganised into its own fold.
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- Instead, most often, organised-unorganised sector linkages reproduce and perpetuate the backward unorganised sector.
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- Also, Government initiatives, such as Make in India, Skill India, Digital India and Start-Up India find it difficult to reach the vast number of unregistered enterprises.
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- Hence the governmental measure to increase formalisation of workforce needs to be strengthened further in the future.
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**Source: Business Line**

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