

## Skill Challenges of Informal Sector in India



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India is experiencing a demographic dividend as more than 50 per cent of the population is in the working age group which can make India the skill capital of the world. It is estimated that by 2020, the average Indian will be 29 years of age compared to average age of 37 years in China and US and 45 years in Europe and 48 years in Japan. However, skilling this youth bulge constitutes a challenge particularly when there is preponderance of informal/unorganised sector.

The question is what constitutes informal sector and how to define it. The ILO's Resolutions on Statistics of Employment in the Informal Sector adopted by the 15th International Conference of Labour Statisticians (ICLS), 1993 and 2003, provided a definition of the "informal sector" as consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. The units operate at low level of organisation, with little or no division between labour and capital as factors of production and on a small scale. Labour relations— are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees.

In India, the National Commission for Enterprises in the Unorganised Sector (NCEUS), 2009, has also made an important distinction between organised or formal and unorganised or informal employment - "Unorganised workers consist of those working in the unorganised enterprises or households, excluding regular workers with social security benefits, and the workers in the formal sector without any employment/ social security

benefits provided by the employers."

To understand the implications for skill development in the sector, it is necessary to reflect on the sectoral composition of workers both in terms of organised/ unorganised and within these broad categories formal and informal. It is also necessary to understand the size of enterprises, the status of employment and the level of education of the labour force.

The informal sector in India consists of workers in micro enterprises, unpaid family members, casual labourers, home based workers, migrant labourers, out of school youth, domestic workers, street vendors etc. As per the 66th round of NSS survey (2009-10), approximately 92.8 per cent of the total work force in 2009-10 constituted of informal workers. The sector is heterogeneous covering all economic activities both in organised and unorganised sector covering both the rural and urban areas. Table1 indicates that between 1999-2000 and 2009-10, the share of organised sector employment in total employment increased merely from 13.6 per cent in 1999-2000 to 15.8 per cent in 2009-10. Over the same period, the share of informal employment in the organised sector increased from 37.9 per cent in 1999-2000 to 57.8 per cent in 2009-10. In other words, the small increase in the share of employment in the organised sector was of poor quality as it was accompanied by increasing informalisation. A manifestation of this phenomenon is the fact that organised sector employers are increasingly hiring workers on contractual terms (may be due to labour laws and other concerns).

**Table 1: Formal and Informal Employment in Organized and Unorganised Sectors (in million)**

Sectors/ Years	Employment		
	Formal	Informal	Total
<b>2009-10</b>			
Unorganised	2.3	385.1	387.3
Organised	30.7	42.1	72.9
<b>Total</b>	<b>33.0</b>	<b>427.2</b>	<b>460.2</b>
<b>2004-05</b>			
Unorganised	1.4	393.5	394.9
Organised	33.4	29.1	62.6
<b>Total</b>	<b>34.9</b>	<b>422.6</b>	<b>457.5</b>
<b>1999-2000</b>			
Unorganized	1.4	341.3	342.6
Organized	33.7	20.5	54.1
<b>Total</b>	<b>35.0</b>	<b>361.7</b>	<b>396.8</b>

Source: 12th Plan Document Volume III, Planning Commission (Table 22.5)

A further probing into the status of employment in the country shows a decline in the share of self-employed in the work force from 56.4 per cent in 2004-05 to 50.7 per cent in 2009-10 but corresponding increase in casual

workers from 28.3 per cent to 33 per cent. This is a manifestation of the increasing informalisation of work force particularly in organised/ formal sectors.

**Table 2: Number of Workers According to Usual Status (PS+SS)  
Approach by Broad Employment Status (in million)**

	1999-00	2004-05	2009-10
Self employed	209.3(52.6)	258.4(56.4)	232.7(50.7)
Regular/Salaried employee	58.2(14.6)	69.7(15.2)	75.1(16.4)
Casual labour	130.3(32.8)	129.7(28.3)	151.3(33.0)

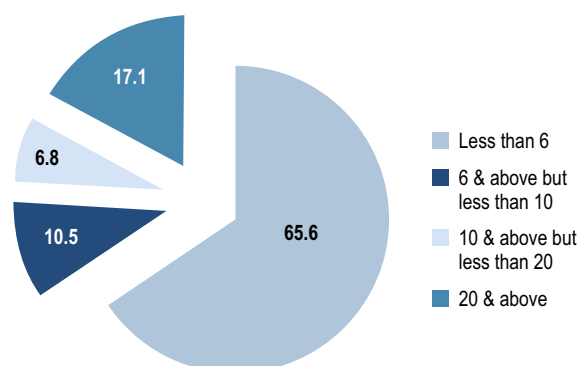
Source: 12th Plan Document Volume III, Planning Commission (Table 22.7.)

Figures within parentheses indicate per cent share out of total employment/ workforce

The increase in casualization is a matter of great concern as these workers are not having access to assured social protection, job security and other benefits which workers in the formal sector enjoy affecting their productivity level. As a result, they remain engaged in un-

certain low paid jobs. Hence, mainstreaming the informal sector workers is a major challenge in the Indian context. This is more challenging when we look at the size of enterprises where more than 65 per cent of the workers are working in the own enterprises.

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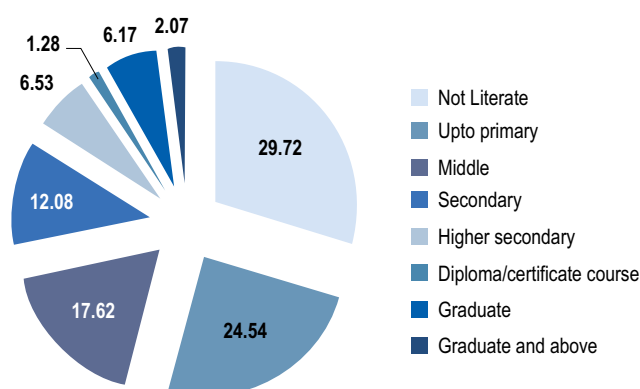
**Figure 1: Size of Enterprise in Industry and Services (percentage)**


Source: Compiled from NSS, 2009-10 (66th Round) and NSS, 2004-05 (61st Round)

## What causes this Informalisation?

The factors<sup>2</sup> affecting the process of informalisation can be classified as (i) labour and (ii) non-labour factors. The

labour factors include the quality of labour in terms of education and training. In India the level of education is low and there is lack of vocational skills in the workers entering the labour force. It is evident from the pie chart below that more than 50 per cent of those entering the labour force are having upto primary level of education.

**Figure 2: Education profile of Labour Force in India in 15-59 years age group (in per cent)**


Source: Based on (Table 22.19) of 12th Plan Document Volume III, Planning Commission

Table 3 below indicates the abysmally low share of those who have received or are receiving vocational training in the country. As per NSS 66<sup>th</sup> round, only 6.7 per cent persons in the age group 15-59 years fall in this category with the proportion of women being further low at 4.1 per cent. The per cent share of people hav-

ing received or undergoing formal vocational training is even lower at 1.6 per cent and 0.6 per cent respectively. With about 92.6 per cent of the persons in this age group not having received any form of skill training speaks volume about the inability of these people to get formal / organised sector jobs – they are compelled

<sup>2</sup> Adapted from Economic Survey 2012-13.

to take up low paid, unproductive jobs in the informal sector. The structural transformation associated with the process of development is reflected in the declining share of agriculture in the GDP but the relatively slower pace of decline in employment is worrying. Even those

who are migrating from farm to non-farm work are not able to adjust due to skill mismatch. This also restricts the shift of labour towards manufacturing and services particularly in low skilled construction work.

**Table 3: Status of Vocational Training Received or Being Received by Persons in the Age Group 15-59 Years (in per cent) in India (Rural + Urban)**

Category of Person	Receiving Formal Vocational Training	Received Vocational Training						Did Not Receive Vocational Training
		Formal	Non - Formal				All (col. 3 to 7)	
			Hereditary	Self - learning	Learning on the job	Others		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<b>Male</b>	0.7	2.0	2.5	1.4	2.8	0.4	9.2	90.0
<b>Female</b>	0.4	1.2	1.1	0.8	0.5	0.5	4.1	95.4
<b>All Person</b>	<b>0.6</b>	<b>1.6</b>	<b>1.8</b>	<b>1.1</b>	<b>1.7</b>	<b>0.5</b>	<b>6.7</b>	<b>92.6</b>

Source: NSS 66th Round (2009-10): Report on Status of Education and Vocational Training in India

The plethora of labour legislations often act as obstacles to growth of private entrepreneurship and industry reliance on capital and resorting to use of contractual labour. Besides these labour related factors, there are non-labour factors viz. regulatory procedures such as initial procedural requirements to obtain a number of clearances when applying for building permits; utility connections like electricity, water etc. In addition the absence of quality infrastructure including roads, uninterrupted power supply, etc. also acts as hindrance to development of manufacturing industries, of which the MSMEs (which are one of the largest sources of employment) face greater problems due to their inability to access credit and funding from institutional sources. Another constraint in setting up industry is land acquisition. In many cases, the MSMEs are unwilling to expand in size to avoid further regulations and taxes.

The huge informal sector and the necessity to generate decent employment opportunities within this sector necessitates the requirement of improved availability of skill training of the workers so that their productivity and in turn income improves. The issue of skill building

has been one of the key objectives of the policy makers. It has been realised that for India to make use of its youth bulge it is necessary to equip its workforce with relevant skills to seize the opportunities both nationally and internationally.

## Skill System in India

The low level of education and skills are the prime reason for the vulnerability of the workforce in the rapidly developing economy. The heterogeneous nature of informal sector together with differing nature and condition of work necessitates different kinds of training. The question is training for whom, for what, what kind and how? Currently there is no mechanism to validate and estimate the training needs of different units in the unorganised sector. The workers are either not aware or deliberately avoid training for loss of income.

The rapidly growing economy and the availability of demographic dividend necessitated Government of India

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to put in place the necessary institutional and governance structure both in public and the private sector to skill/ up skill/re-skill its labour force to meet the skill demand of the growing economy. In the 11th Plan, a Co-ordinated Action on Skill Development was initiated for the focused attention on skill development aiming at an appropriate policy formulation; synergizing efforts of different Ministries/departments in the skill field to achieve efficiency of expenditure, and catalysing private sector participation. This has been replaced by the National Skill Development Agency in June, 2013. The National Policy on Skill Development announced in 2009 emphasized on policy coherence, inclusivity, improvement of quality, and employment outcome to achieve the massive ambition of skilling and achieving inclusivity. It laid special emphasis on the skill development for the informal/unorganised sector. The Scheme of Vocationalisation of School Education along with polytechnics and ITIs are catering to the requirement of various sectors including informal. The private initiatives supported by the National Skill Development Corporation are also helping the training needs of the unorganised sector. Through Sector Skill Councils and the skill gap studies of the NSDC effort is being made to link the skill demand with the industry and the market. More than 20 central Ministries are implementing various plan programmes for skilling. The 12th Plan has identified certain issues for the skill development of the people in the unorganised sector:

- a) Recognition of prior learning.
- b) Skill up-gradation and certification.
- c) Expanding the outreach of skill development activities throughout the country. particularly in the backward/ LWE areas by setting Skill Development Centres (SDCs) as the sector is heterogeneous and spread across the country
- d) Provision of literacy and basic education.
- e) Replication of successful models.
- f) Use of ICT and mobile vans for expanding outreach
- g) Cluster approach for apprenticeship training.
- h) Using the process of Train—Loan—Link—Support system for improvement in the success rate of training in self-employment or job employment.
- i) Developing a pool of certified trainers with adequate technical competency.
- j) Developing a transparent system for conduct of the programmes, registration of participants and so on and putting it in the public domain.

Government of India has initiated various steps for improving the employability of its labour force which is mainly in unorganised sector.

### Measures/ Initiatives of the Government for Skilling:

Government of India has initiated several measures including implementation of plan schemes under various Central Ministries/ Departments aiming to expand the outreach of skill training to the informal sector workers. The major systemic initiatives undertaken by the Government of India which have bearing on the informal sector includes:

- 1. Setting up of an autonomous body, namely, National Skill Development Agency (NSDA), in June 2013, with the single point focus on coordinating and harmonizing skill development activities in the country so as to meet skilling targets and to ensure that the skilling needs of the disadvantaged and the marginalized groups like SCs, STs, OBCs, Minorities, Women and differently-abled persons are taken care of.
- 2. Notifying the National Skill Qualification Framework (NSQF) to provide learning pathways with horizontal and vertical mobility between general education and vocational education/training, recognition of prior learning, credit accumulation and transfer etc. NSDA is mandated to operationalize by bringing together the key stakeholders sector-wise through the National Skills Qualifications Committee (NSQC).
- 3. Setting up of Sector Skills Council by the National Skill Development Corporation (NSDC), which are striving to complement the existing vocational

education system for the Industry/ Services sectors in meeting the entire value chain's requirements of appropriately trained manpower in quantity and quality across all levels on a sustained and evolving basis.

- 4. Development of National Occupational Standards (NOS) for entry level jobs in a number industrial/ services sectors.
- 5. Indian Banks' Association (IBA) has launched a Model Loan Scheme for providing loans from Rs. 20,000 up to Rs.1.50 lakh for skill development training for various durations.
- 6. A Credit Guarantee Funds Scheme for Skill Development to provide a guarantee against default in repayment of education loans extended by the lending institutions has also been approved.
- 7. Under the new Companies Act 2013, vide Section 135 of the Act, 2 per cent spending on Corporate Social Responsibility (CSR) is mandated out of the average net profit made by the company during every block of three years which would cover activities like employment enhancing vocational skills.
- 8. To motivate a large number of youth to voluntarily join skill development programmes, Central Government has started a new scheme titled STAR (Standards Training Assessment and Reward) wherein on successful completion of training and obtaining a certificate, every candidate will be provided with a monetary reward of an average of Rs. 10,000/-. The scheme is operated by NSDC.

## Programmatic Intervention for the Informal/ Unorganised Sector

- 1. Skill Development Initiative based on Modular Employable Skills (MES) is implemented by the Ministry of Labour & Employment. This has been developed in close consultancy with Industry, State Governments & Experts in pursuance of excellence in vocational training. MES is the 'Minimum Skill Set' which is sufficient to get an employment in the world of work. MES allows skills upgradation / formation, multi entry and exit, vertical and horizontal mobility and lifelong learning opportunities in a flexible manner and allows recognition of prior learning. The major objective is to provide vocational training to school leavers, unorganised sector workers, ITI graduates, etc. to improve their employability by optimally utilizing the infrastructure available in Government, private institutions and the Industry. Existing skills of the persons can also be tested and certified under this scheme and to build capacity in the area of development of competency standards.
- 2. Hunar Se Rozgar Scheme implemented by the Ministry of Tourism is aim to bridge the gap of skilled manpower in hospitality sector with focus on youth belonging to economically weaker sections of the society. The courses are conducted by the Institutes of Hotel Management and Food Craft Institutes sponsored by the Ministry of Tourism and the India Tourism Development Corporation.
- 3. Entrepreneurial Skill Development Programme (ESDP) implemented by the Ministry of Micro, Small and Medium Enterprises with objectives of (a) upgrading existing skills and to create new skills in workers and technicians of existing units and educated unemployed youth; (b) providing training to unskilled/ semi-skilled workers engaged in SME sector and to equip them with better and improved techno-managerial skills of production; and (c) implement specific tailor made programmes for the skill development of socially disadvantaged groups in remote regions/ pockets of the States are offered. Also called "Out-Reach Programmes".
- 4. The major objectives of the Aajeevika / National Rural Livelihood Mission (NRLM) are (i) to create efficient and effective institutional platforms for the rural BPL youth. The Special Projects under Aajeevika scheme provides placement linked market driven skill trainings; and (ii) to train rural BPL youth in the age group of 18-35 years in marketable skills and place them in suitable jobs.
- 5. Support to Training and Employment Programme for Women (STEP) implemented by the Ministry of Women & Child Development targets the marginalized, asset less rural women and urban poor. This includes wage labourers, unpaid daily workers, female headed households, migrant labourers, tribal



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and other dispossessed groups. The scheme's objectives include (i) mobilising women in small viable groups and making facilities available through training, access to credit and other inputs; (ii) provide training for skill up gradation; (iii) enabling groups of women to take up employment-cum-income generation programmes of their own, or to access wage employment.

- 6. A new scheme "Roshni" within NRLM/ Aajeevika Skill Development Programme for tribal areas and critical LWE affected districts involving training of 3, 6, 9 or 12 months. 50 per cent of the beneficiaries under the scheme would be women. In addition, allocation for skill development under National Rural Livelihoods Mission (Ministry of Rural Development) from 15 per cent to 25 per cent has been enhanced.
- 7. Seekho Aur Kamao scheme of the Ministry of Minority Affairs for upgrading the skills of the minority youth in various modern/traditional vocations.
- 8. Revamping the Swarna Jayanti Shahari Rozgar Yojana of the Ministry of Housing & Urban Poverty Alleviation into National Urban Livelihoods Mission with enhanced allocation for skill components – (i) Employment through Skills Training & Placement (EST&P) by providing assistance for development / upgrading of the skills of the urban poor so as to enhance their capacity for self-employment and salaried employment and (ii) Support to Urban Street Vendors which aims at skilling of street vendors, support micro-enterprise development, credit enablement and pro-vending urban planning along with supporting social security options for vulnerable groups.
- 9. Various Central Ministries are also implementing schemes for providing wage/ self-employment opportunities including MGNREGA and NRLM by the Ministry of Rural Development, Prime Minister's Employment Generation Programme (PMEGP) of the Ministry of MSME and NULM under the Ministry of

Housing & Urban Poverty Alleviation. ITIs and Polytechnics are also helping with skilled manpower.

## International Experience

As per available literature <sup>3</sup> in the informal sector, the traditional apprenticeship training has emerged as a mechanism for training. This involves observing and imitating the master trainer over long period in a specific product. So the training is not broad-based but product specific. This is found to be self-regulating and self-financing catering to individuals who lack the educational requirement for formal training, cost effective and serves the target group. There are examples where state encourages the employers to take on apprenticeship beyond their needs and pay the allowances, both to trainee and the master. Since informal sector lacks safety net, for those who are retrenched and fall back in the informal sector, countries like China have undertaken initiatives of re-employment training particularly for poor people which helps to raise their vocational skills, generate market awareness and assist them towards reemployment. Kenya under the JUA KALI project aims at increasing access of informal sectors entrepreneurs to services and improving the policies and institutional environment by removing restrictive laws and policies. The project provides choice to informal sector operators to undergo training wherever they want to avail of such training.

Some of the best international models for informal sector training in practice are Cooperative, Enterprise based, Voluntarist and state driven:

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<sup>3</sup> NCEUS Report "Skill Formation and Employment Assurance in the Unorganised Sector, April 2009", Axmann, M(2004) Facilitating Labour Market Entry for Youth through Enterprise Based Schemes in Vocational Education and Training and Skills Development. Seed working Paper No.48 Geneva:ILO .

## Training Systems across the world for the Informal Sector

System	Countries	Main Features
Co-operative	Australia, Germany, Switzerland and many countries in Latin American countries	Pressures to undertake training resulting from strong co operation amongst employers' organizations, the state and trade unions
Enterprise-based		
- Low labour turnover	Japan	Low Labour mobility, lifetime employment for many staff, 'longtermism' arising from absence of stock market pressure, wage system based.
- Voluntarist	The United Kingdom, United States	Few institutional pressures on firms to provide training
"State-driven"		
a) Demand-led	Hong Kong, Malaysia, Republic of Korea, Singapore, Taiwan, China	State plays a leading role in coordinating the demand for a supply of skills, Operates in an open and competitive economic environment.
b) Supply -led	Economies in transition, many developing countries especially in Asia and Africa	Govt. taken on a prime responsibility for formal sector training in training institutes, Little or no pressure on employer to train.

Source: Skill Formation and Employment Assurance in the Unorganised Sector, April 2009, NCEUS

In the Indian context, state driven training is predominant. However, both the “cooperative” method and “enterprise-based” training can be undertaken. Skilling the informal workers will be beneficial to all the stakeholders in the system – employers’ organisations, the Government and trade unions. India adopts a tripartite mechanism in dealing with labour issues. It is, therefore, essential that there needs to be stronger cooperation in imparting training undertaken by these three stakeholders. Enterprise-based training is also limited in India and needs to be expanded to cover the large number of MSMEs to impart apprenticeship training. The big enterprises do undertake training of their employees on a limited scale to meet their own requirement. A cluster of MSMEs working in the same sector or locality can be platform to impart such training. The Government should provide necessary support – financial, technological and marketing to incentivise such MSMEs.

It is clear that re-skilling/re-training require support from Government to equip workers to make them available for market by anticipating demand. It also emerges that the apprenticeship and enterprise ship based system allows trainees to use their skills with suitable incentives provided to employers and those training is essential.

## What’s Next

It is evident that the scale of challenge in mainstreaming more than 90 per cent of workers engaged in informal/ unorganised sector is a daunting task. The Government’s sectoral and other specific initiatives as also systemic reforms are making a difference in addressing the needs of the sector but much more needs to be done during and after the 12th Plan period to make an appreciable impact. Some of the immediate initiatives that can be taken to address the skill challenges as identified in the 12th Plan as also emerging from the above analysis are:

- Expanding the coverage of formal and informal apprenticeship training by amending the present Apprenticeship Act, 1961, and the relevant Rules to cover more enterprises including MSME clusters. The 7000 plus MSME cluster can act as a centre for apprenticeship training.
- Expand the training infrastructure, upgrade the quality of training and ensure greater use of ICT for reaching out in the remote and difficult areas. This may involve documenting best practices both nationally as well as internationally for replication.
- There is a need to develop a pool of certified



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trainers with adequate technical competency as the country suffers from an acute shortage of quality trainers.

- • Advocacy and awareness generation among the informal sector workers about the availability of schemes and other facilities on vocational training and its impact on their productivity. The examples on the impact on productivity and its consequential effect on wages in the formal sector can be provided.
- • Strong cooperation among employers, government and trade unions to ensure that this large segment of workers is actually covered by skill training and social protection.
- • Creating flexible and short cycles of enterprises-based schemes that directly respond to training needs of this category of workers. MES programme of the Ministry of Labour & Employment can be the base for such models.
- • Speedy operationalization of the National Skill Qualification Framework, National Occupational Standards and development of a dynamic labour market information system (LMIS) are important systemic reforms for helping in the skilling needs of the informal sector.
- • Financing skill development for the informal sector is another challenge towards which creation of a dedicated corpus, namely, National Skill Development/ Training Fund would be very useful. Presently, funding of skill development in India is predominantly a state driven activity. However, a dedicated fund

can be financed through a cess like the current cess for education on income tax or through some new levy on luxurious services/ consumption. The private sector which may not be undertaking apprenticeship training or contributing towards any CSR activity may also contribute certain per cent of their net profit.

- • An essential condition for reducing the size of the informal sector involves creating large number of formal sector jobs. For that to happen, it is necessary to ease the regulatory framework, provide flexibility in labour legislations, provision of incentives/ support to MSME sector, improving the infrastructural facilities etc. Unless there is adequate availability of formal sector jobs, skilling or re-skilling alone may not be able to address the humongous challenge of mainstreaming the informal sector in India.
- • Finally to realise the benefits of skill training programme and to achieve decent employment objective there is need for provision of social security measures to the informal sector workers. The Government has enacted the Unorganised Workers Social Security Act, 2008 and is implementing the Rashtriya Swasthya Bima Yojana (RSBY), Aam Admi Bima Yojana along with other social protection measures. It is also contemplating a comprehensive social security scheme encompassing life, health, maternity and retirement benefits to all the unorganised sector workers.

*(Views expressed are personal)*