

Three mantras for informal sector



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Persistent and pervasive informality is a defining characteristic of developing countries, India being no exception. While formalisation of the informal sector continues to be the ultimate, yet arduous goal, a concrete blueprint elaborating where to begin and how to sustain the momentum is patchy at best and even theoretically inconsistent sometimes. Any strategy in this respect runs the risk of being counter-productive and inflicting huge costs on individuals, and even on the national economy, given the complementary nature of backward and forward linkages of the informal sector with the rest of the economy. Due to the high stakes involved, developing a proper understanding of how India is treading this path is of utmost importance.

To recapitulate, the informal sector consists of casual workers and self-employed persons. Informal enterprises are small in size and deploy very little fixed capital, as reflected in very high levels of capital productivity. These enterprises confront operational and market uncertainties as a majority of them are semi-permanent in nature and work at flickering margins of profit. Working conditions are sub-optimal and wages are low mainly driven by low levels of labour productivity.

Moreover, as pointed out in mainstream literature, the level of corruption determines the size of the informal sector and economic viability of enterprises therein. The origin of the informal sector is attributed to inefficient regulations and very high compliance burden. On one hand, corruption prepares the breeding ground for informal enterprises, and, on the other

hand, it effectively curtails any scope of their transition into viable economic entities. This vicious life cycle of labour-dystocia and severely stunted growth of informal sector enterprises is the crux of pervasive and persistent informality.

By some accounts, the informal sector accounts for more than 80 per cent of the workforce and 50 per cent of the GVA in India. The corollary of static share in total workforce and declining share in total GVA overtime is increased concentration of workers in low productivity jobs. Besides, micro enterprises constitute more than 90 per cent of total enterprises in total formal and informal sector. The average number of persons engaged in these enterprises is less than 2. Moreover, the real contribution of the informal sector through provision of goods and services to households and to the formal sector enterprises can be gauged and appreciated by severity of supply shocks endured in the backdrop of the Covid-19 pandemic.

Thus, the imperatives behind formalisation of the informal sector transcend far beyond mere economic rationale. Any such strategy must adhere to two canons. Firstly, the process must be incremental rather than an abrupt overhaul. It should facilitate natural progression of enterprises from informal to formal. Secondly, the strategy must deter factors behind creation of new informal enterprises along with meticulously shepherding the existing informal enterprises towards formalisation. The system of incentives that promote voluntary dwarfism in the informal sector must be corrected promptly.

Technology is poised to play an instrumental role in this endeavour as reflected by various initiatives of the government in this direction.

The recently launched “Shram Suvidha Portal” is an appropriate example here. It works in a transparent and accountable manner as a one-stop shop for compliance with labour laws. Similarly, the Startup India Mission nudges the enterprise ecosystem towards formalisation by way of streamlining the entire entrepreneurial journey from formation to self-sustaining growth trajectories.

In addition, the concept of portability

has triggered a tectonic shift in the ways entrepreneurship is imagined. It has catapulted the apparent weaknesses of the informal enterprises into their strengths. The small size of these enterprises is seen as imparting them with requisite agility and dynamism, the defining attributes of competitiveness in an era of mega global supply chains. Portability of benefits (welfare measures for workers and incentives for enterprises) fuses these intrinsic strengths of informal sector enterprises to spontaneous growth trajectory.

The enterprises can further augment their competitiveness through migration to optimum industrial locations where they have strong backward and forward linkages. This would minimise their operational and logistical costs and help them reap benefits accruing from economies of aggregation and scales. In a similar vein, workers can also relocate to distinct industrial clusters where their specific skills are in demand, resulting in higher wages.

To boost the productivity of workers in the informal sector, the government has launched Skill India Mission. According to the Ministry of Skill Development and Entrepreneurship’s Annual Report 2018-19, India would have a human resource requirement of 614 million people, about 15 per cent of them in construction and real estate alone. The progress in this direction is heartening as under PMKVY 2.0, the NSDC has trained about 7.3 million persons by December 2019.

These steps, along with many others, together manifest a silent structural transformation taking place in the informal sector. They are meant to bring down corruption, catapult weaknesses into strengths, enhance productivity and assure better wages and profits for those engaged in this sector. And, most significantly, they knit a consistent strategy towards formalisation of the informal sector, keeping the sensitivities of the vast diversity of India’s informal sector in mind.

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