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EMPOWERING THE INFORMAL SECTOR: ADVANCING SOCIAL SECURITY AND FORMALIZATION

WHY IN THE NEWS?

The international seminar hosted by the Ministry of Labour and Employment, Government of India, and the Employees' State Insurance Corporation (ESIC), in collaboration with the International Social Security Association (ISSA), has made significant waves in the news. This two-day event, held at Yashobhoomi in New Delhi, brought together over 200 participants, including policymakers, social security experts, and representatives from Asia Pacific countries. The focus of the seminar on "Formalization and Social Security Coverage for Workers in the Informal Sector" underscored the urgent need for inclusive, sustainable, and equitable social security solutions, especially for vulnerable groups.



WHAT IS THE INFORMAL SECTOR VS THE FORMAL SECTOR?

Aspect	Formal Sector	Informal Sector
Employment	Written contract between employer and employee	No formal contract; informal employment arrangements
Regulation	Heavily regulated by the government	Minimal to no government regulation or oversight
Organization	Well-organized, larger businesses, structured work environments	Unstructured, small enterprises, often family-run, low capital
Rights	Workers have legal rights (social security, paid leave, etc.)	Workers have limited or no legal rights or social protection
Taxation	Subject to income tax and other government taxes	Limited or no taxation, often off-the-books
Job Security	Better job security with clear employment terms	Job security is low, and often unstable work
Examples	Large corporations, government jobs, banks, etc.	Street vendors, casual labour, black market, the gig economy
Legal Protections	Workers are protected by labour laws	Workers are not protected by labor laws

INFORMAL SECTOR IN INDIA:

1. Rural vs. Urban Informal Sector

Rural Areas: 80% of informal sector workers are employed, primarily in agriculture and small businesses.

Urban Areas: 60-70% of urban workers are in informal jobs, including street vending, construction, and small retail.

2. Male vs. Female Participation

Male Workers: Approx. 75% of informal sector workers are men engaged in construction, manufacturing, and transportation.

Female Workers: Around 25% of informal workers are women, often in domestic work, agriculture, and small-scale services, facing challenges like lower wages and less security.

3. Regional Disparities

Southern States: Higher formalization, yet informal employment remains significant (e.g., Kerala, Tamil Nadu).

Northern & Eastern States: Higher reliance on the informal sector, especially in agriculture (e.g., Bihar, UP).

Western States: The informal sector is diversified with trade, manufacturing, and construction (e.g., Maharashtra, Gujarat).

4. Contribution to GDP

The informal sector contributes 50-60% to India's GDP.

Agriculture: 17-18% of GDP, with informal workers.

Services and Construction: Significant informal workforce contributions.

IMPORTANCE OF THE INFORMAL SECTOR:

- 1. Employment:** Provides millions of jobs, especially to those without job security, playing a vital role in supporting vulnerable populations.
- 2. Poverty Reduction:** Offers a crucial income source, particularly in rural and underserved areas, helping reduce poverty.
- 3. Skill Development:** Enables individuals to gain practical skills, which can lead to transitioning into the formal economy or self-employment.
- 4. Contribution to GDP:** In regions like Asia and Sub-Saharan Africa, the informal sector contributes significantly to GDP, especially in agriculture-based economies.
- 5. Flexibility:** Offers flexible work hours, making it ideal for those with caregiving or other personal responsibilities.
- 6. Entrepreneurship:** Encourages small-scale entrepreneurship and innovation, addressing local market needs.
- 7. Resilience:** Acts as a safety net during economic downturns, offering adaptable work opportunities when formal employment declines.

GOVT. INITIATIVE TO FORMALIZE THE INFORMAL SECTOR:

- 1. E-Shram Portal:** Aimed at registering unorganized sector workers for social security benefits. Over 280 million workers have registered, offering access to insurance, job opportunities, and welfare.
- 2. Labour Codes:** Four consolidated laws, Wages, Industrial Relations, Social Security, and Safety, aim to simplify labour laws, ensuring fair wages and better welfare for workers while promoting business growth.
- 3. Pradhan Mantri Shram Yogi Maan-dhan (PM-SYM):** A pension scheme for unorganized workers (18-40 years) with incomes below ₹15,000. It offers a ₹3,000/month pension after 60. Over 50 lakh workers enrolled.
- 4. PM SVANidhi (Micro Credit for Street Vendors):** Provides micro-loans (up to ₹10,000) to street vendors to restart businesses post-COVID. Over 30 lakh vendors benefited.
- 5. PM Kisan Samman Nidhi (PM-KISAN):** Direct income support of ₹6,000/year for small farmers. Over 12 crore farmers are beneficiaries.
- 6. World Bank Support:** The World Bank supports India's informal workforce (90% of total workers) through loans and projects aimed at financial inclusion, social security, and improved livelihoods. Over \$1 billion was allocated to these initiatives.

ISSUES IN THE INFORMAL SECTOR:

- 1. Female Disadvantage:** Women dominate the informal sector but face lower wages, income instability, and a lack of social safety nets, contributing to a decline in female labour force participation (21.2% in 2021).
- 2. Lack of Legal Protections:** Informal jobs lack written contracts, paid leave, and minimum wage enforcement. The 2019 Wage Code has limited impact, with some jobs excluded from its scope.
- 3. Tax Evasion and Data Gaps:** Informal businesses often evade taxes, and the lack of accurate economic data hinders effective policy and regulation.
- 4. Poor Working Conditions:** Long hours, especially in agriculture, and the absence of guidelines contribute to poor working conditions in the informal sector.
- 5. Poverty and Vulnerability:** Informal workers are more likely to be poor, with low wages affecting their nutrition and health. They are also highly vulnerable to natural disasters and lack social security support.

WAY FORWARD:

- 1. Relaxation of Restrictions:** Relax restrictions on informal businesses to encourage formalization, benefiting both businesses and their employees.
- 2. Self-Help Groups:** Form self-help groups to empower informal workers, foster self-sufficiency, and address issues related to working conditions.
- 3. National Data System:** Establish a comprehensive statistical database on the informal economy to aid policymakers in making informed decisions.
- 4. Vendor Rights and Accountability:** Grant vendors space vending rights to improve accountability for their surroundings. Provide vendor licenses in exchange for fees, which could boost local government revenue and fund public amenities (e.g., water, restrooms, waste collection).
- 5. Grievance Redressal:** Implement transparent, officially regulated grievance procedures to regularly address and resolve issues faced by informal workers.
- 6. Equal Pay for Women Workers:** Enforce the principle of equal pay for equal work (Article 39(d)), ensuring women farm labourers receive the same pay as their male counterparts through legislative support.

CONCLUSION:

The informal sector is vital to India's economy, offering significant employment and contributing to GDP. However, it faces challenges such as poor working conditions, lack of social security, and gender inequality. Government initiatives like the E-Shram Portal and PM-SYM have helped improve financial inclusion and social protection for informal workers. To fully address these issues, a comprehensive approach is needed. This includes relaxing restrictions to encourage formalization, supporting self-help groups, enhancing data collection, and ensuring equal pay for women. Strengthening grievance redressal systems and granting vendors space rights can further improve working conditions. These steps will help create a more inclusive and equitable environment for informal workers, fostering sustainable economic growth.

PRELIMS QUESTION:

Q. Which of the following initiatives is aimed at registering unorganized sector workers for social security benefits?

- A. PM Kisan Samman Nidhi
- B. E-Shram Portal
- C. Pradhan Mantri Shram Yogi Maan-dhan
- D. PM SVANidhi

Answer: B

MAINS QUESTION:

Q. Discuss the government's initiatives to address these challenges and the way forward for formalizing the informal sector. (250 words, 15 marks)

Ritik singh

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