



ISSUES IN INFORMAL SECTORS - GS III MAINS

Q. “The informal sector is the backbone of the Indian economy but it is struggling with many challenges”. Analyse the statement. (15 marks, 250 words)

News: *India's over 400 million informal labour market requires a structural shift: ISF*

What's in the news?

- India with almost 85% informal labour, generating more than half of the country's GDP, requires a structural shift towards structured and formal employment, said The Indian Staffing Federation (ISF), the apex body representing the country's contract staffing industry,

Unorganised/Informal Sector:

- It is characterised by small and scattered units which are largely outside the control of the government.
- There are rules and regulations but these are not followed.
- This sector includes a large number of people who are employed on their own doing small jobs such as selling on the street or doing repair work.
- Similarly, farmers work on their own and hire labourers as and when they require.

Share of Informal Sector in India:

- Around 80% of India's labour force is employed in the informal sector and the remaining 20% is in the formal sector.
 - Of the 80% informal sector workforce, half work in agriculture and the remaining in non-agricultural sectors.

Issues in Informal Sectors:

1. Inadequate Safety and Health Standards:

- Most industries, especially mining, have inadequate safety and health standards.
- Environmental hazards are evident in the case of the informal sector.

2. Irregularities in Minimum Wages:

- Most of the studies on conditions of employment in the unorganised sector have examined the wage levels and earnings of workers and identified that the daily wages are below the minimum rate of wages.

3. Long Hours of Work:

- Long hours work in the unorganised sector beyond the labour and regulatory norms are common in India. The long working hours have a severe repercussion on the social and family life of labourers in general and women labourers in particular.



4. Poverty and Indebtedness:

- Workers in the unorganised sector had a much higher incidence of poverty than their counterparts in the organised sector.
- Due to low level of income and uncertain employment in the unorganised sector make the workers unable to meet their basic necessities and other social and other cultural responsibilities.

5. Non-Applicability of Social Security Measures:

- There are many times when a worker cannot be economically active.
- For instance, due to biological circumstances such as sickness or old age, on account of personal calamities such as an accident or unemployment.
- There are no social security measures to provide risk coverage and ensure maintenance of basic living standards at times of crises such as unemployment or health issues.

6. Small Scale:

- Typically, informal workers either work as individual casual labour or in micro-enterprises with very small operations, having fewer than 10 employees under conditions of instability in both employment and income.

7. Low-productivity Trap:

- It is huge with limited efficiency because of its many constraints and is a low-productivity trap that chokes off the formation of a genuine middle class in India.

8. Poor Access to Financing:

- The problems of access to financing for informal workers and micro-enterprises which are not a part of any formal supply chain is well known, and we will not reiterate it.
- The ratio of domestic credit to GDP, which measures how much credit has been extended to people and businesses benchmarked against the size of the economy, is far lower in India than in, say, China or the United States, and has also been stagnant for the entire decade ending in 2022, while it expanded in all the key economies in the world.

9. Social Vulnerability:

- Large family sizes place a burden on agricultural labourers, while low incomes trap home-based workers and street vendors in cycles of low social status.
- This results in limited access to social security, healthcare, and other basic rights.

India's informal sector is the backbone of the economy. The nation's quality of life hinges on things becoming better for masses of informally employed people. Improving the conditions of workers in the informal sector assumes significance from the perspective of inclusive growth.