

# INDIA'S INFORMAL ECONOMY HAS NOT SHRUNK

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According to a recent State Bank of India (SBI) Research report, the informal economy in India has been shrinking since 2018. Formalisation, the report says, has taken place through the gross value-added (GVA) route, consumption through increased digital payments, and the employment route. Let's examine each of these.

The report claims that the share of the informal sector is just 15-20% in 2021 compared to 52.4% in 2018. If that was the case, India would have become a 'miracle' economy overnight, since no upper-middle-income economy in Latin America or the ASEAN or any low-middle-income country has achieved this kind of transformation. On the other hand, since the COVID-19 outbreak, informality of enterprises and workers has increased in all such economies.

Informal sector shrank sharply in 2020-21: SBI report

There is an internationally recognised definition of informality of enterprises and workers. In the 15th International Conference of Labour Statisticians (1993) of the International Labour Organization, household enterprises not constituted as separate legal entities independently of the households or household members that own them, and for which no complete accounts are available, are categorised as informal enterprises. In the 17th Conference (2003), informal workers were defined as those without social security. Based on these definitions, internationally, comparable estimates of both types of informality are available. India's levels are 80% and 91%, respectively. The latter is higher because there are also informal workers within formal enterprises.

The SBI study adopts multiple definitions of formality (digitisation, registration in GST, cashless payments), which are not used by anyone. These could be possible instruments of encouraging formality, but cannot separately or even together be equated with formality. The SBI study confuses the shrinking of the informal sector's share of the GDP due to demonetisation and COVID-19's impact on the economy with formalisation. The informal sector was adversely impacted by the lockdowns and the consequent economic contraction. The sectors that were most impacted by the lockdowns were those with higher informality. Even formal sector activities which are considered informal (outsourcing and contractual activities) were curtailed heavily during the lockdowns. The decline in informal activities might be the cause of the fall in share of the informal sector of the GVA. To term this as formalisation is misleading at best and cruel at worst.

We don't know if this GVA fall is temporary or permanent. It has clearly led to a fall in employment, especially in the non-farm sector, while the share of agricultural workers in total employment rose sharply between 2018-19 and 2019-20 (NSO's Periodic Labour Force Survey). Agriculture is almost entirely informal for enterprises as well as workers. Catastrophically, for already informal workers, the absolute number of workers in agriculture rose from 200 to 232 million between 2018-19 and 2019-20. This was a reversal of the trend of structural transformation in employment underway since 2004-05 — shown by the first-ever absolute fall in workers in agriculture from 2012 to 2019.

Is the economy still reeling from demonetisation?

Another reason that the SBI claims that informality declined is the number of workers registered

in the new e-Shram portal. Since the portal's launch, over 9.9 crore unorganised workers have registered themselves. However, registration means documentation, not formalisation, of workers. Workers who are 'formal' receive social security benefits. Giving such benefits is not the objective of the portal; the objective is to develop a national database of unorganised workers. After registration on the portal, the workers receive a card with a 12-digit unique number, which is good. The government has announced linking accident insurance with e-Shram registration.

At present, there is no credible database for India's unorganised workers. In 2020, government pleaded helplessness in providing numbers pertaining to the number of migrant workers who had suffered or died during the lockdowns. These migrant workers were and are part of the broad unorganised sector.

#### A mirage sold as a panacea for the unorganised sector

Mere registration under this portal does not guarantee access to institutional social security benefits or coverage under labour laws. Benefits such as Provident Fund, gratuity and maternity benefits will remain outside the reach of unorganised workers as conceptualised in the Social Security Code of 2020. All these instruments were and are available only to establishments with 10 or 20 or more workers. Also, the SBI study notes that West Bengal tops the list in registration. This is no surprise. Over 1.3 crore unorganised workers are already registered under various social security schemes in West Bengal. A share of them is now registering themselves on the new portal.

Further, the formal sector has been treated as a homogenous entity in the study. In reality, there are various layers within the formal sector. Not all workers engaged in the formal sector are 'formal'. There has been large-scale informalisation of the formal sector over the last three decades through contractualisation and outsourcing of labour. Among wage workers, the proportion of non-permanent, casual and contract workers increased in the organised sector from 1999-00 to 2011-12. It marginally decreased after that but the pandemic once again changed the numbers. Thus, a significant portion of the output attributed to the formal sector is actually produced by an informal workforce within the formal sector.

#### E-Shram needs some hard work to get going

The systematic dismantling of employer-employee relations in the labour market blurs the distinction between formal and informal. The entire edifice of the formal sector is based on informal workers. There are layers of intermediaries between the employers and the workers to create a disconnect between them. Such a disconnect is deliberate rather than organic. For example, the majority of the output in construction is attributed to the formal sector. But most workers in the construction sector are informal. They don't have access to social security benefits or protective labour laws. They remain informal throughout their lives even though their contribution is attributed to the formal sector. Thus, contrary to what has been asserted in the research, the formal sector's contribution has been overestimated and the informal sector's contribution has been underestimated.

Eighty-four per cent of Indian non-farm establishments are informal by their own account. Some might get registered under miscellaneous laws but that does not imply that they have become formal. Registration under the Factories Act or Employees' Provident Fund or State insurance means that these organisations are formal as the organisation needs 10 or 20 employees to be registered under these laws. But mere registration under other acts like local municipal acts or tax laws does not indicate formalisation.

Thus, the SBI's claim that significant formalisation has occurred in India is unfounded.

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Developing economies such as India are burdened with other issues and require the help of the developed North

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