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 productivity. Moreover, they have strong backward and forward linkages. This would minimise their competitiveness through migration to optimum industrial locations where they have strong backward and forward linkages. This would minimise their 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.

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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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