

The Informal Economy in India: Understanding the Employment Challenge

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REMARKS TODAY

- Employment challenge in India
- Informal economy in India



OVERARCHING CONCERN

India is a fast-growing economy BUT...

- employment is not growing as fast as output
- deep pockets of poverty persist
- inequality is growing



UNDERLYING ASSUMPTIONS

- More and better employment opportunities are key to reducing poverty and inequality
- Informal employment tends to be associated with lower earnings and higher risks than formal employment
- Increasing earnings and reducing risks in the informal economy are key to reducing poverty and inequality



EMPLOYMENT CHALLENGE IN INDIA

What are the most striking recent trends in the Indian labour market?

What are the employment challenges facing India?

EMPLOYMENT CHALLENGE # 1: QUANTITY OF EMPLOYMENT

- **Employment growth rate:**
 - 1983-93: 2.01 percent
 - 1993-2004: 1.89 percent
 - 1.09% per annum (1990s)
 - 2.85% per annum (1999-2005)
- **Recent increase in employment growth rate:**
 - mostly in informal employment, including *informalization* of wage employment in the public and private sectors
 - below rates achieved in late 1980s and early 1990s
 - higher in rural areas than in urban areas
 - insufficient to meet demand:
 - **estimated entrants into labour market over next five years = 70 million**

Source: Dev 2008, Ghosh et al 2007, Paul et al 2009

EMPLOYMENT CHALLENGE # 1: QUANTITY OF EMPLOYMENT

- **Unemployment**
 - growth rate of unemployment since 2000 (3.3%) > growth rate of employment (2.85%)
 - **daily status** unemployment (% of total labour force)
 - 5.6% (1994)
 - 7.2% (2000)
 - 7.8 % (2005)
 - 8.0% (2006)
 - very high among **urban youth** (15-29 yrs.)
 - 20% - young urban men
 - 30% - young urban women
 - increases with level of education

Source: NSS Surveys cited in Ghosh et al 2007, Paul et al 2009

Underemployment: real concern #1

- **Underemployment common among informal workers** – who represent 93% of total workforce
- **Under employment** measured by the difference between daily and weekly status unemployment rates **rose during 1993-94, 1999-00, 2004-05** for men and women in rural (4.2 M 4.5 F in urban areas and 2.3 M 2.5 F in rural areas 2004-05) (D'Souza, 2009)
- **Rise in subsidiary status workers** – those who would be defined as non-workers or unemployed by principal status (i.e. status during major part of the year) but find employment for some part of the year
 - Particularly high among women workers

EMPLOYMENT CHALLENGE # 2: QUALITY OF EMPLOYMENT

- **Shift in Type of Employment**
 - **Casual wage employment: on decline**
 - 32% in 1993-4 to 28% in 2004-5 of total employment
 - **Regular wage employment: stable**
 - 15% in 1993-94 to 15.25 in 2004-5
 - **Self-employment: significant increase**
 - 53% in 1993-94 to 56.5% in 2004-5
 - especially among rural women (mainly as contributing family workers, not own account workers or employers)
 - but also among urban workers, both men and women
- **Today, over half of the workforce in India is self-employed**

Source: Ghosh et al 2007, D'Souza 2009

EMPLOYMENT CHALLENGE # 2: QUALITY OF EMPLOYMENT

- **Falling Real Wages: 1999-2000 to 2004-5**
 - only exception: rural male regular employees
 - slight increase – but
 - lower rate of increase than during previous period
- **Low Self-Employment Earnings – around half of all self-employed in 2004-5 thought their work was not remunerative**
 - 40% of rural self-employed – earned less than 1,500 rupees per month
 - 33% of urban self-employed – earned less than 2,000 rupees per month

Source: NSS Surveys cited in Ghosh et al 2007

EMPLOYMENT CHALLENGE #3

SOCIAL INEQUALITIES

- **Scheduled Castes and Scheduled Tribes**
 - predominantly in agriculture: self-employed or casual labourers
 - outside of agriculture:
 - self-employment: very few
 - wage employment: still largely restricted to caste-based occupations
 - semi-skilled jobs: based on caste skills
 - manual jobs: based on caste status (such as cleaning & sweeping)
- **Muslims**
 - concentrated in non-farm self-employment:
 - manufacturing: textiles and tobacco products
 - non-manufacturing: land transport and retail/wholesale trade
 - low percent in salaried jobs in private or public sector

Source: Das 2006 (for SC/ST) and Sachar Committee Report

Informality in Labour Market

- Definition
- Size and Significance
- Composition and Segmentation

THE INFORMAL ECONOMY: INTERNATIONAL STATISTICAL DEFINITION

- **Self-employment in informal enterprises:** workers in small unregistered or unincorporated enterprises, including:
 - employers
 - own account operators
 - unpaid contributing family workers
- **Wage employment in informal jobs:** workers without social protection through their work/jobs for formal or informal firms, for households, or with no fixed employer, including:
 - non-standard employees of informal and formal enterprises
 - other informal wage workers such as:
 - casual day labourers
 - domestic workers
 - contract workers
 - industrial outworkers (also called homeworkers)

Note: This expanded definition of the informal economy, jointly promoted by the **Delhi Group**, ILO Statistics Bureau, and WIEGO network, was endorsed by the 2002 International Labour Conference and the 2003 International Conference of Labour Statisticians and used by India's **National Commission on Enterprises in the Unorganised Sector**.

INFORMAL ECONOMY IN INDIA: SHARE (%) OF EMPLOYMENT AND GDP

- Share (%) of employment and GDP (2004-5)
 - share of total employment: 93
 - share of non-agricultural employment: 85
 - share of total GDP: 50 (informal enterprises only)
- Share (%) of employment and NDP in key sectors (1999-2000)

	<u>NDP</u>	<u>Employment</u>
◦ agriculture	96.9	97.7
◦ trade	81.9	88.6
◦ hotels/restaurants	58.8	89.9
◦ transport	77.4	64.7
◦ construction	58.2	73.9
◦ manufacturing	39.2	73.2

Source: NSS surveys, cited in Paul et al 2009; CSO, National Accounts Statistics 2000, cited in Ghosh et al 2007

INFORMAL EMPLOYMENT IN INDIA: EMPLOYMENT STATUS BY SEX

(percentage distribution, 2004-5)

	Female	Male	Total
Employers	.4	1.7	1.3
Informal Employees	4	8	7
Own Account Workers	18	45	36
Casual Day Labourers	30	29	29
Unpaid Family Workers	47	17	27

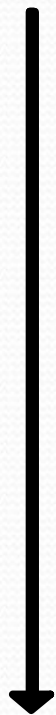
Source: NCEUS 2008: Report on Definition and Statistical Issues Relating to Informal Economy

SEGMENTATION OF THE INFORMAL ECONOMY: BY SEX, AVERAGE EARNINGS, AND POVERTY RISK

Poverty Risk Average Earnings

Low

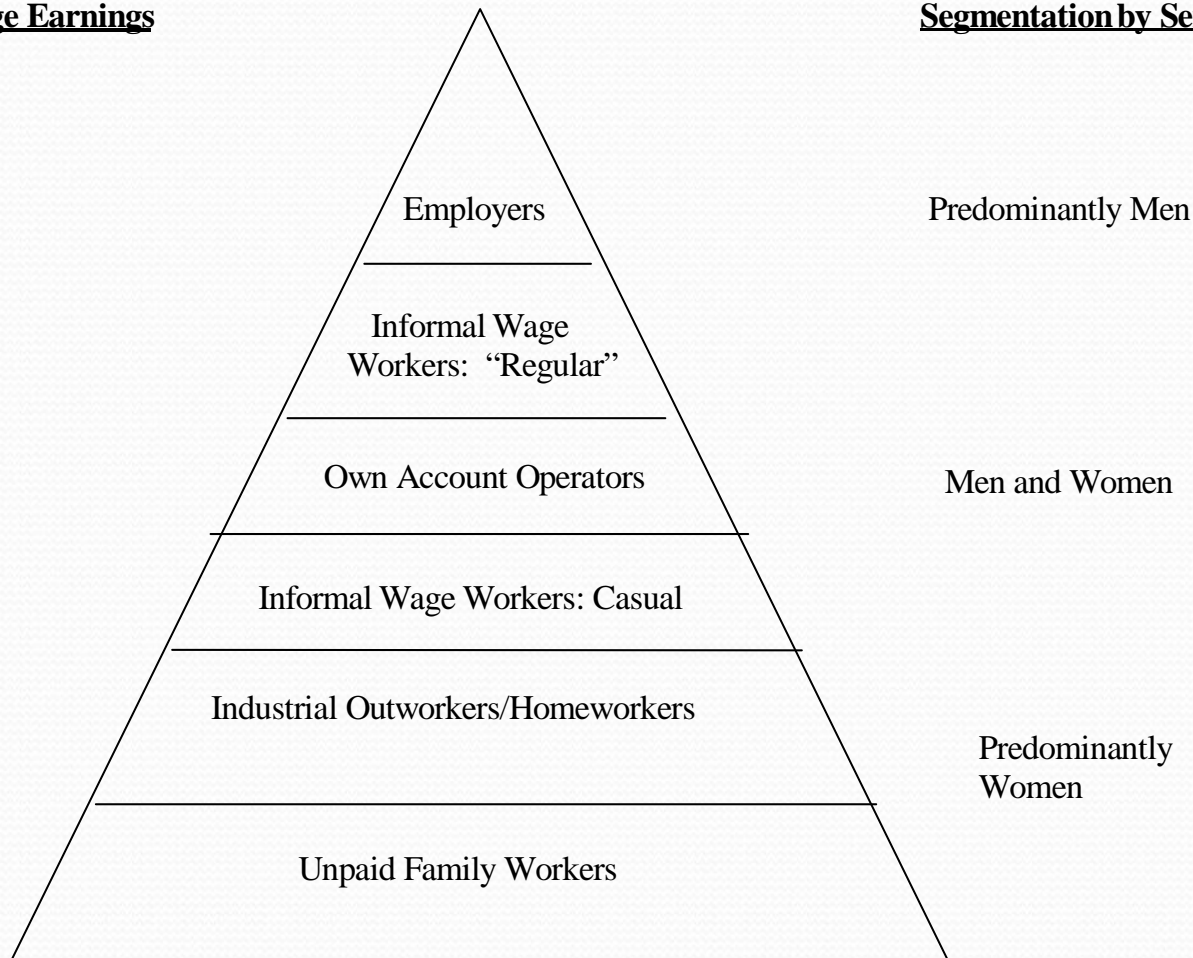
High



High

Low

Segmentation by Sex



Enterprises are largely micro and small

Manufacturing sector, 2000-01	Enterprises (%)
Enterprises by Size of Employment	Organised Sector (Factory Act)
> 100 Workers	0.1
10-100 Workers	0.8
Total Organised	0.9
	Unorganised Sector
DME 6-9 workers	4.4
NDME 1-5 workers	9.7
OAME Only family workers	85.1
Total Unorganised	99.0
Total	100.0

Wage employment mainly in organized sector

Micro-small enterprises dominate the unorganized sector

2000-01	Enterprises (%)
Workers	Organised Sector
> 100 Workers	10.2
10-100 Workers	16.3
Total Organised	26.5
Workers	Unorganised Sector
DME 6-9 workers	14.1
NDME 1-5 workers	10.4
OAME Only family workers	49.0
Total Unorganised	73.4
Total	100.0

Liberalisation impact_1

- Firms attempt to increase productivity through infusion of technology, resizing and cost-cutting: Reduction in wage-bill
- Share of Wages in Value Added:
 - stable through much of the 1980s – around 30%
 - declined consistently between late 1980s and 1996-97
 - then fell sharply to less than half of its level in the mid-1990s
 - wages now account for less than 15% of value added in formal manufacturing sector:
 - one of the lowest wage-value added ratios in the world

Source: Chandrasekhar and Ghosh 2007

Liberalisation impact _2 Skill

- Reduction in wage bill
 - Involved higher earnings for skilled workers to increase productivity
 - With substitution of permanent with temporary, casual in manufacturing
 - Increase in contract workers in large firms
 - and outsourced work
 - Unskilled workers bore the brunt of the wage cut which enabled firms to raise productivity without reduction on profits

Other Skill related differentials_2

- Increasing inequality among regular workers due to skill differentials
- Declining inequality in wages among casual workers (Dutta, 2005)
- Higher earnings in services vs manufacturing with a concentration of graduate and better skilled workers in services
- Within services the better skilled experienced an increase in wages (D'Souza, 2009)

Impact _4: Self employment

- Part of the educated workforce that is pushed out of the formal sector are better educated
- One explanation for the increase in self-employment is that some of these workers set up own enterprises (D'Souza, 2009)
- Self employed have 3.7 years of education, casual workers have 1.8 years,
- Regular workers have 7.8 years of education or double self employed



Thank You

शुक्रिया

धन्यवाद