

# FORMALISATION OF THE INFORMAL LABOUR FORCE: CASE OF THE BENGALURU METROPOLITAN REGION

## Abstract

The Indian economy is largely informal based with 15 to 20 percent contribution to the Gross Domestic Product (GDP). Informal sector workers provide crucial support for the smooth functioning of the formal sector. Most of the informal workers face precarious challenges due to non-contractual nature of the job, lack of social security, job dismissals and low wages. The volatility of the economy, along with poor monetary savings, risks their daily survival. Government of India has implemented various schemes to formalise the informal sector and safeguard their interest. It necessitates the need to critically evaluate the process and efforts towards the formalisation of the informal labour force. The chapter aims at analysing the contribution of the informal labour force in the Indian economy. To achieve the aim, the objectives are to comprehend the characteristics of informal workers, assess the contribution of informal workforce in Indian economy, analyze the measures initiated to formalize the informal sector and to recommend strategies for implementation of formalization measures by government. An extensive literature review of documents i.e. magazine (Down to Earth) and news reports from Business Standard, New Indian Express, etc. was carried out. The secondary data sources have been obtained from Census of India, Government of India, the International Labour Organization (ILO), the International Monetary Fund (IMF), Women in Informal Employment: Globalizing and Organizing (WIEGO), etc. Bengaluru Metropolitan Region (BMR) has been chosen as a case to analyse the contribution of informal labour force in the region. It is the fifth largest metropolitan region in terms of area (8,005 km<sup>2</sup>) and population (13, 193, 1000).

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The data reveals that informal sector workers' contribution has been significant towards the expansion of Information Technology (IT) sector. Despite providing employment to millions of workers in India, its contribution is less in the Indian economy. The significance accorded to informal sector in Bengaluru need to be revisited.

Government of India (GoI) has launched multiple schemes such as the *e-Shram* portal, *Udyam* portal, etc. These schemes aim to encourage the informal workforce to shift towards the formal sector. The increased registrations of informal workers depict the success of the schemes. There are crucial lessons to learn from the process. It is challenging to formalise the informal sector due to the existence of structural issues. Such issues need to be addressed for the smooth transition of informal sector workers to formal sector. Their skill enhancement is necessary to be an integral part of the formal sector as well as for their shift towards formalisation.

**Keywords:** Formalisation, Formal Sector, Indian Economy, Informal Sector, Metropolitan Region.

## I. INTRODUCTION

The Indian economy is dependent on the formal sector. However, it is the informal sector which employs the maximum number of people. The formal sector has regularly employed professionals whereas the informal sector engages workers in contractual jobs. The informal economy refers to those activities and economic units which are either not covered or insufficiently covered under formal work arrangements (ILO, 2022). The informal workers' contribution to the Indian economy is nearly fifty percent of the total Gross District Product (GDP) (Maitra, 2020). Such workers are mainly migrants engaged in construction activities. Informal sector workers are economically and socially intrinsic to regional development. The marginalised section forms a significant portion of the workforce engaged in the informal economy. Since liberalisation, a high level of economic growth has been a key reason for the accompanied growth of the informal sector.

Informal workers provide services to the formal sector due to the limited availability of full-time workers in the formal sector. The informal sector workers are mostly engaged in outsourced work, which is not sufficiently covered under the law. The oversupply of labour in the informal sector results in their exploitation by employers. They are paid lower wages than the mandated wage by the Government of India (GoI, 1948). Their income does not match with inflation, which brings them to the brink of poverty.

The informal sector workers were economically and socially impacted in the aftermath of COVID-19. In the absence of a written contract, the lockdowns proved devastating for informal workers. The lockdowns were intended to curtail the virus but they also resulted in the loss of employment. Out of 116 million workers, 104 million are employed in the informal sector. The informal sector workers lost their job in phase one and phase two of the lockdowns in India. They mostly reside in informal settlements in the absence of affordable and planned residential spaces. The absence of basic amenities affects their quality of life. Nearly twenty-two percent of India's population resides in encroached spaces (Harish, 2018 & Choudhry 2020). Such spaces are either located on vacant unused land or around sewerage lines, solid waste dumping sites and industrial areas (GoI, 2017). They lack tenurial rights and basic services namely water, sanitation and electricity. Natural calamities and manmade disasters are the cause of great distress for the informal sector workers. Lack of formal jobs, along with poor social reserves to fight calamities, takes a devastating toll on their psychological and physical well-being. Their hardships are more in large-size settlements namely Mumbai, Delhi, and Bengaluru, which host large numbers of migrant workers.

## II. AIM & OBJECTIVES

The chapter aims to critically evaluate the informal sector's contribution towards India's GDP, suggest measures for the upliftment of informal sector workers, and recommend ways to formalise the informal sector. To achieve the aim, the objectives are as follows:

1. To understand the characteristics of the informal workers.
2. To determine the viability and contribution of the informal workforce.
3. To analyse the measures initiated to formalise the informal sector.

4. To recommend the ways to implement the process of formalisation of informal sector workers.

The research tries to answer the following questions: Is formalisation of the informal sector real? Does informal and formal sectors co-exist to meet labour requirements? How can the government be effective in the implementation of the measures to formalise the informal sector workforce?

### **III. METHODOLOGY**

The chapter is primarily based on a literature review and secondary data analysis. The articles from magazines (Down to Earth) and newspapers (Business Standard, New Indian Express, The Print, The Hindu) have also been referred to comprehend the role and characteristics of informal and formal sector workers in the Indian context. The secondary data has been obtained from publications of the International Labour Organization (ILO), International Monetary Fund (IMF), Census of India, Ministry of Housing and Urban Poverty Alleviation (MoHUPA), and Women in Informal Employment: Globalizing and Organizing (WIEGO). It helped to comprehend the measures initiated to integrate informal workers into the formal economy. The case study of the Bengaluru Metropolitan Region (BMR) has been taken to analyse the contribution of the informal labour force. Among informal sector workers, street vendors have been chosen as a case to assess the impact of government schemes in the state of Karnataka.

### **IV. INFORMAL SECTOR WORKERS IN BENGALURU METROPOLITAN REGION (BMR):**

Karnataka employs nearly 74 percent of the state's workforce, of which only 7 percent have received training. In the age group of 16-35 years, 9 percent of workers have received different skills-based training. According to the Department of skill development, entrepreneurship and livelihood of the Karnataka government, seventy-four percent of the workforce is employed in the informal sector (Ranganath, 2019).

Bengaluru is the largest metropolitan city followed by Mysore and Hubli-Dharwad in the state of Karnataka. BMR has been divided into 243 wards and 8 zones. Bengaluru Metropolitan Region (BMR) has a population of 8,520,435 out of which 8,443,675 (99%) stay within the urban boundary (Census of India, 2011). Bengaluru has 20 of the top 500 Forbes companies. Its economic growth is attributed to the presence of these I.T companies and internationally reputed educational institutions. This provided a host of opportunities to a large number of migrants traveling from the neighbouring villages and towns. They work in retail, construction, and real-estate sector, thereby, contributing to the BMR's economy. Many of them also work as street vendors and domestic workers. Out of 8.5 million people, nearly 1.4 million reside in informal settlements due to the non-availability of affordable and formal housing facilities (PRIA, 2014). Bengaluru's 4.2 million migrant labourers account for 25 to 35 percent of the total population and 44 percent of population residing in informal settlements (Roy et al., 2018). It led to increase in the number of informal settlements from 159 in 1971 to over 2000 in the year 2015. Hence, Bengaluru was chosen as a case to analyse the informal sector workers' contribution in the economy.

## V. LITERATURE REVIEW

### **Informal Sector's Contribution to the Economy**

The informal economy provides job opportunities to the unskilled labour force in developing countries. The high prevalence and persistence of informal labour are attributed as key barriers to sustainable development in developing economies. Informal sector firms are non-registered entities and lack social protection as well as credit access facilities (GoI, 2017). They do not contribute much to the tax base despite having significant market value. They are mostly small entities with lower productivity rates and access to financial investments. Hence, they tend to remain small in size (IMF News, 2021). The prevalence of a large number of informal enterprises contributes to poor economic performance (Nagaraj & Kapoor, 2022).

The informal sector's contribution to national income is limited, but it has provided employment opportunities. The informal sector is considered to be an underperforming or stagnant sector, yet it provides different types of jobs to sustain millions of lives and livelihoods. On one hand, the working population is getting younger in developing nations and there is a dearth of job opportunities in the formal sector (Chen, 2007). The formal sector's employment opportunities are not able to match the rising job demands. On the other hand, the informal sector provides low-cost labour, goods and services (Kumar, 2017). The informal sector is poorly valued despite its contribution through the market and non-market activities. Informal workers are unable to avail benefits of public policies. Their work is accorded low value as they earn lower wages than the formal sector workers. The job-associated risks and persistent poverty threaten their existence due to their poor ability to face such risks (OECD/ILO, 2019). Informal jobs get obliterated due to inadequate safety nets. In order to transition to formal sector employment, they need to acquire skills and knowledge.

The workers in the informal economy interpret differently the aspect of formalisation. The overarching demands such as a safe work environment, and the opportunity to organize and avail legal, social and economic safeguards remain, but the specific needs of workers require a closer examination. Informality results in lower tax revenue yields. The possibility of an increase in the tax base is the key argument in favour of the formalization of the informal economy and in turn, affects social investment. The tedious process to access funds in formal processes affects the poor sections' ability to avail it. Hence, they receive minimal benefits from government schemes (Georgieva, 2019).

The social network, economic worth and institutional processes influence the informal sector. Dense social networks provide communal and social participation. Acquaintances and friends help to secure the job. The social network also guide them to circumvent the government regulations. Many informal workers choose to remain within the ambit of the informal economy for various reasons i.e., flexibility in work schedules and autonomy to select the place of work (Aguilar and Guerrero, 2020).

## VI. FINDINGS AND DISCUSSIONS

India provides an interesting paradox as inequalities increased alongside its economic growth. Oxfam's report titled "Inequality Kills: The unparalleled action needed to combat unprecedented inequality in the wake of COVID- 19" highlighted the increase in the number of billionaires from 102 to 142 in India (Ahmed et al., 2022). Despite the high Gross Domestic Product (GDP), 80 percent of workers are engaged in non-agricultural activities. This reveals that the poor have not benefited much from the high GDP (OECD 2021). The number of people below the poverty line, further, increased post-COVID -19 pandemic. There exists a glaring income divide in the country. These numbers are concerning as it results in poor access to health and education facilities. According to estimates of the Union Budget for the year 2020-21, there is a significant decline (10%) in the healthcare budget and a steep cut (6%) in fund allocation for the education sector (Roy et. al., 2018). There has also been a significant decline (0.6%) in investment in social security schemes.

**Formalisation of the informal sector workforce:** Informal sector has grown exponentially in many countries. ILO (2022) states that out of 10 workers nearly 6 are working in the informal sector. Out of 5 enterprises, 4 belong to the informal sector. In India, 83 percent of the workforce is part of the unorganized sector while only 17 percent work in the organized sector. As per Murthy (2019), informal sector workers are 92 percent of the total workforce. Due to the contractual nature of work, 10 percent of informal workers are engaged in the organized sector.

ILO (2016) report titled 'R 204-Transition from Informal to the Formal Economy Recommendation, 2015 (No. 204)' encouraged member countries to formalise the informal sector workers. This was initiated to facilitate the latter's transition into formal enterprises so as to safeguard the workers' fundamental rights. This paved the way for the informal sector's transition to the formal sector in many countries, including India.

**Indian Government's measures towards the formalisation process:** The government of India has initiated measures for transitioning the informal economy to the formal economy. Such measures promoted jobs, with social protection, in the informal sector. To shift the informal sector workers into the formal economy, the government's initiatives are explained below:

1. **The e-Shram portal:** Ministry of Labour and Employment (MoLE) developed the *e-Shram* portal for facilitating the employment of unorganized workers. The portal intends to have a centralised database of unorganized workers. The portal links the data of unorganized workers to their Aadhar cards. It helps to identify the beneficiaries of the government's social security schemes. The government's effort led to the collation of data on the unorganised labour force. The portal provides demographic, social and economic detail. The stakeholders use the information to facilitate their registration in various social security schemes (Kulkarni, 2022). The portal provides the information to job seekers, who wish to work in field or desk jobs in the sectors such as IT and retail (Press Information Bureau (PIB), 2022). The information is also used to enhance their skills for facilitating their shift towards the formalisation.

2. ***The Udyam Portal:*** Ministry of Micro, Small and Medium Enterprises (MSME) manages the *Udyam* portal as a paperless platform for registering MSME. It adopts a self-declaration process and facilitates the informal sector entrepreneurs to set up their enterprises. The portal is an attempt to formalise the economy. Registration is essential for availing benefits under different schemes designed for MSMEs. The registration helps the enterprises to receive the benefits of the Credit Guarantee Scheme, Government tenders, and protection against delayed payments. It also makes them eligible for availing of loans on a priority basis, as per RBI regulations (Vanamali, 2022).
3. ***Pradhan Mantri Shram Yogi Maan-dhan Scheme (PMSYMS):*** MoLE launched the PMSYMS social security scheme to protect unorganised workers during their old age. The scheme is voluntary and based on individual worker's contributions. It provides the workers with an assured sum of INR 3000 after the age of 60 years. In case of death, their spouses receive the benefit of the scheme.
4. ***Pradhan Mantri Street Vendor's Atmanirbhar Nidhi (PM SVANidhi):*** MoHUA launched the PM SVANidhi scheme to provide a collateral-free loan and promotes digital transactions. It provides loans up to INR 10,000 in a year. It was launched to provide support to street vendors who lost their income during the COVID-19 pandemic.
5. ***Deen Dayal Antyodaya Yojana (DDAY):*** DDAY promotes self-employment of the street vendors to reduce their poverty and vulnerability. Under the scheme, space is allocated to street vendors for carrying out their businesses. It provides them with institutional credit and skill enhancement training to meet the requirements of the formal sector.
6. ***Goods and Services Tax (GST):*** GST aims at bringing the informal sector within the realm of the formal economy by taking into account all transactions. This widens the tax base. This results in an increase in the overall number of taxpayers leading to a reduction in tax rates. The revenue is used for the betterment of society through targeted scheme.

State Bank of India (SBI, 2021) reported that India's informal sector shrunk from 52 percent in the year 2017-18 to 15 to 20 percent of the GDP in 2020-21. The findings depict an increase in formalization of the informal sector that picked up pace post demonetization. GST's provisions discouraged registered businesses to undertake any transaction in an informal manner. On one hand, it necessitated informal entities to register themselves as formal if they intend to remain within the supply chain network. On the other hand, formal firms witnessed a rise in sales as opposed to informal firms. As informal sector's compliance costs increased, it led them to register as formal sector firms.

**Karnataka Government's efforts towards Informalisation of Workforce:** Karnataka government has initiated efforts to scale up workers' skills and protect their needs to transform the informal economy to formal, as mandated by ILO. 1,507 public and private industrial training institutes (ITI's) and 289 polytechnic institutes (Ranganath, 2019). However, the enrolment rate is quite poor. In Rural Bengaluru, 69 percent of the population resides, but it has only 16 ITI and 1 polytechnic institute. In Urban Bengaluru, the government has set up around 60 poly-technics and 83 ITI. *Deen Dayal Upadhyaya Grameen*

*Kaushalya Yojana* (DDUGKY) was launched to train around 9,88,014 rural youth in various skills. Yet, only 6, 95, 283 have been trained. Out of the total trained youth, only 3, 24,956 are certified. Chief Minister's *Kaushalya Karnataka Yojana* (CMKKY) aims at providing skills to 5, 00,000 school dropouts every year. The scheme supports the youth's ability to work with MSMEs.

The Building and Other Construction Workers (BOCW) (Regulation of Employment and Conditions of Service Act), 1996 has provisions for the unorganised sector's welfare, especially for the labourers engaged in construction activities (GoI, 1996). Under the Act, registered workers are eligible for insurance, pension, medical assistance, subsidy for the construction of houses, grants for children's education, and to purchase toolboxes, etc. However, it is difficult to assess its impact as data with respect to registration and subsequent benefits availed by the beneficiaries is not available. Moreover, it is challenging to increase the outreach of the scheme as less than 20 percent of the intended beneficiaries have the probability to receive the training and other welfare benefits. The key challenge lies in the enrolment of the beneficiaries under the scheme as many of the workers are not keen to avail its benefits.

To date, the e-Shram portal has registered 27.69 crore, informal sector workers. Out of the total registered workers, around 94 percent of the workers earn less than INR 10,000 per month (PTI, 2022). Seventy-four percent belong to the scheduled caste, scheduled tribe and other backward classes. These workers face many hurdles while working in the informal sector. They are excluded from the organized forms of production, access to information technology, and modern infrastructure. This would have boosted their production and services. They lack access to education, health and other social services. Lack of savings heightens their economic risk as well as obstructs their economic growth. Under the Unorganized Workers Social Security Act 2008 and Code on Social Security 2019, the government implemented various welfare measures to alleviate their misery (GoI, 2008 & GoI, 2019). The schemes aim at upholding the interest of the informal workers. However, they have not been effective in implementing the schemes (Punia, 2020). Within the informal sector, there are approximately 6 lakh street vendors out of which only 2 lakh street vendors are recognised in the government's database (Kulkarni, 2021). Under the DDAY scheme, cash assistance of INR 2000 was disbursed to nearly 2, 16,439 street vendors during COVID-19. There exists a mismatch between the number of street vendors that benefitted by the scheme and the number of vendors as per the survey conducted by BBMP.

The Street Vendors (Protection of Livelihood and Regulation of Street Vending) Act, 2014 defined the responsibility of BBMP to set up Town Vending Committees (TVC) and carry out the survey to identify the number of street vendors and demarcate vending zones (GoI, 2014 & Ramesh, 2022). The demarcated zones enable them to access basic sanitation and drinking water while carrying out their activities (Ravi, 2021). In 2017, *Bruhat Bengaluru Mahanagara Palike* (BBMP) identified only 25,000 vendors in the survey. Out of the identified vendors, only 60 percent were issued Identity Card (ID) and vendors' certificate to enable them to work as a legalised entity. The delay in issuing them the ID Cards debarred them from street vending activities in the demarcated zones in the region. As their location was outside the identified zones, they were regularly victimized through eviction drives. They set up their base illegally and adopt illegal practices to get the permission. Flipkart has a tie



up with Ministry of Rural Development (MoRD) for selling products of informal sector workers on the e-commerce platform under the *DDAY* – NRLM (National Rural Livelihood Mission). Such measures enable them to sell their products through online platform.

## VII. CHALLENGES

**The transition:** Informality in the economy is viewed as lack of economic development whereas formalisation enables access to capital, financial and insurance services to the informal enterprises. The formal sector has the requisite skill sets and technology thereby, reducing the threat of enterprise closure. By bringing them inside the formal economic regulations, the tax base gets increased on one hand and on the other, tax evasion reduces. It helps in increasing government revenues which, in turn, steers the economy towards a high growth rate (Kapoor, 2022). The schemes help to streamline the formalisation process of the informal economy. The transition from informal to formal occurs at a sluggish pace. It is not a smooth process due to several factors. The informal to formal shift or choice of informal to remain a formal entity entails compliance and registration costs, cost-benefit analysis, and payment of taxes etc. The ability to withstand volatile market conditions emerges as a critical point of enquiry when informal firms are in competition with other established enterprises. Earlier, informal firms managed to earn profits owing to tax evasion and non-compliance with regulatory norms. This enabled them to sell their products at relatively lower rate. Post GST, such firms face challenges as they have to pay taxes, sell on lower margins and bear the increased compliance costs. They compete with large-size firms having access to infrastructure, resources and capital. It proves detrimental to the survival of smaller firms. They find it difficult to withstand the challenges owing to pre-existing inequalities. The smaller manufacturing units and other businesses experience the fallout because of poor business. On one hand, their exit creates pressure to formalise the informal firms (WIEGO, 2022). On the other hand, it is accompanied by job loss of workers in the informal sector. The formal firms' employment does not count their experience of working in the informal sector. This affects the employment of a large section of the informal workforce reeling under the impact of COVID-19 and demonetization.

**Job readiness for the market:** Informal economy's shift towards the formal sector necessitates addressing basic issues. The formal workforce requirement should be assessed before bringing the informal sector into the fold of the formal sector. The professional trainers and skills assessment, placement records, apprenticeship programmes, and coordination among the various stakeholders, are a few factors to be considered during the formalization process (Jishnu, Gupta & Basu, 2014). The formal sector works in a highly competitive environment (Patel, Furlan & Grosvald, 2021). Hence, skills and capabilities of informal sector workers should be upgraded. The upgraded skills will also help them to avail policy benefits. The country faces a challenge in terms of a gross mismatch between desired skill sets and job requirements (Sengupta, Gaurav & Evans, 2021). With over 12 million individuals aspiring to be the job seekers, the infrastructure catering to their training requirements stands at 3.1 million per annum, in monetary terms. Government and non-government entities have initiated several training programmes to build the skills of the informal workforce.

## VIII. RECOMMENDATIONS

Informal and formal economies are intertwined owing to the nature of business transactions. Informal economy workers engage with formal enterprises in varied ways. Their interactions occur at significant junctures such as individual transactions, commercial networks, sub-contracts for the supply of goods and assets, etc. Both economies are interdependent. It would be a fallacy to view both sectors as two separate entities. The need of the hour is to promote linkages between the sectors (Dasgupta, 2016). There are multiple challenges in the formalisation of informal firms. It requires a feasibility analysis on a massive scale. They are unaware of the ways to access capital and the market. The lack of information denies them the opportunity to thrive in the job market. The process to provide the license to a large number of informal firms should be streamlined. Their know-how of the ways to obtain operating licences and payment of taxes should also be developed. They shall be provided incentives in the initial period so as to bear the additional costs of entering the formal economy. The incentives can be in the form of tax relief in order to enhance their competitiveness. Informal firms should be projected as effective contributors to the national economy, as they are central to the economic development of the country. The negative image associated with the informal sector shall be removed by altering the illegality attached to it.

The formalisation of street vendors entails a need to provide them with formal recognition. It can be achieved by providing them with ID cards which, in turn, will work as identity proof. It will help to assess the area requirement and demarcate the spaces, where they can sell their products. They will also be able to access clean and affordable public spaces. The formalisation need of domestic workers means that they shall be provided with secure, safe, and decent work conditions, minimum wages, leaves and pensions. The formalisation need of home-based workers requires securing contracts that are based on fair pricing, affordable infrastructure, zero eviction, and relocation threats. Therefore, it becomes important to recognize the specific requirements of different categories of informal workers. This is a long-drawn exercise requiring a balanced approach and equal participation from multiple stakeholders. An informalisation process, without considering the specific needs of various segments of workers within the informal workers, would result in imbalanced transition. This can further weaken the GDP and threaten livelihoods in the country (WIEGO, 2022). The cost-benefit analysis and listing of weaknesses is important to ensure maximum benefit during the transition period (Qiang & Ghossein, 2020). Along with the ability to handle money, internet usage, and ways to navigate the job market, these workers capacity and soft skills regarding language, personal and social skills should be upgraded. The knowledge of the local language will help them to converse with local people as well as help in assimilating with the local culture, and develop networks to thrive in the competitive markets. It is in contrast that on one hand, their knowledge about the places to work will be enhanced with assimilated information but on the other hand, their survival is difficult in an economy affected severely by demonetization and lockdowns.

There is a need to urgently scale up the data collection on informal sector workers in the BMR. Lack of data denies them the benefits instituted by the government. In Bengaluru, there exists a discrepancy in the available street vendors' data. The inconsistency pertains to the number, location, work profile and contact details of informal workers. The data will help

them to be meaningfully employed in decent jobs with an assurance of minimum wages. They shall be issued ID Cards as the absence of it debars them from street vending at the demarcated vending zones. The ID Cards will safeguard them from eviction drives.

During and post-COVID-19, informal workers were provided different kinds of support, including monetary support to run the enterprises. The relief provided in the form of INR 2000 was not of much help. As it started getting auto-debited from their bank accounts. This occurred even before they were able to recover from the COVID-19-induced economic stress. BBMP should implement schemes which enable informal workers to get employment. As per The Street Vendors (Protection of Livelihood and Regulation of Street Vending) Act, 2014, BBMP must set up Town Vending Committees, which would, in turn, conduct surveys to identify the number of street vendors (GoI, 2014 & Divya, 2020). Based on the requirements, vending zones shall be defined. Such zones shall have provisions for basic facilities such as drinking water and sanitation so that they can carry out their work in a healthy environment (Ravi, 2021). The initiatives, such as MoRD and Flipkart tie-up, shall be scaled up to promote informal enterprises (ET Bureau, 2021). These measures should be accompanied by regulations to ensure workers' rights. This will ensure them a fair opportunity to compete and sell their products alongside the top companies.

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