

THE BIG DEBATE

Is shrinking of the informal sector an indicator of formalisation of the unincorporated economy, or its growing hardship?

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Ravaged by the Covid-19 pandemic, Dhammu (38) is struggling to bring back to life his tarpaulin-clad makeshift shanty-cum-chemical production unit in Mundka, a dusty industrial pocket in West Delhi.

"It has been more than two years since the pandemic got over, but my business is yet to pick up pace. I started working here more than a decade ago after my father passed away. I don't see any increase in my income. I even had to ask two of my helpers to leave last year. It's only me now,

who takes care of the whole thing," says Dhammu.

The informal economy

Dhammu is among the millions of micro-entrepreneurs who own small enterprises and employ workers in the vast informal sector, which had to face a spate of economic shocks in the recent past. The recently released Annual Survey of Unincorporated Sector Enterprises (ASUSE) by the Ministry of Statistics and Programme Implementation (MoSPI) for the period October 2022-September 2023 paints a sombre picture of the employment situation in the non-farm informal sector.

In the Indian context, the

unincorporated/informal sector is important because of the large number of establishments in this sector and the magnitude of employment it provides to unskilled, semi-skilled, and skilled people, besides its sizable contribution to the gross domestic product (GDP) of the country. Enterprises in this sector include businesses which are not incorporated under the Companies Act, 2013. These units may operate without a fixed location, or from homes, small shops or workshops.

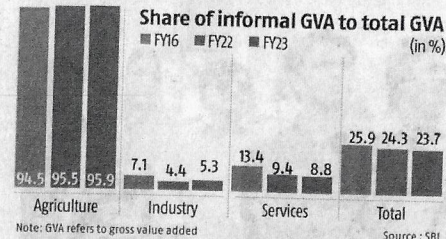
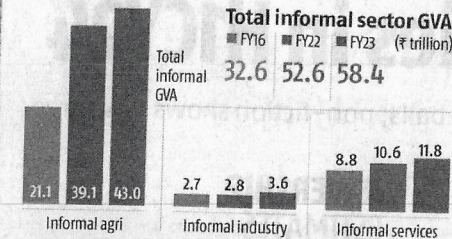
A comparison of the latest ASUSE 2022-23 report with the results of the 73rd round of the National Sample Survey (NSS), which looked at the

unincorporated sector enterprises during July 2015-June 2016 period, showed that the total workforce in the unincorporated enterprises declined by 1.7 million to 109.6 million during the seven year period even though the total number of establishments rose by 1.6 million to 65.04 million during the same time span.

Result of formalisation? The ASUSE report has led to a debate among economists whether the shrinking informal economy means that the Indian economy is formalising, or it reflects the dire state of the unorganised sector for which data is rarely available.

A recent report by the

DECLINING TREND



State Bank of India (SBI) using the ASUSE data concluded that India has formalised ₹26 trillion of its economy during the seven-year period between FY16 and FY23. Assuming manufacturing as a proxy for industry gross value added (GVA) and trade and other services sectors for services GVA, the report said the size of total informal economy declined to 23.7 per cent in FY23 as compared to 25.9 per cent in FY16.

"Rural establishments, apart from embracing higher growth, also witnessed robust growth in GVA (2.7 times against 2.3 times for urban establishments) with traction coming from a rise in contribution from other services. Further, rural establishments have exhibited a rapid pace of increase from GVA per establishment contribution with larger increases in all the three sectors — manufacturing, trade & other services vis-à-vis urban counterparts," the report added.

However, PC Mohanan, former acting chairman,

National Statistical Commission, says that the claims made by SBI in its report regarding the formalisation are not correct, as the GDP data and labour force survey data also show that the share of manufacturing has been fluctuating, with people going back to agriculture.

"The latest report only shows that the services sector has to some extent been able to come out from the impact of successive shocks in the last seven-eight years. Manufacturing and trading sectors still remain affected. Juxtaposing it with other datasets shows that the informal sector still remains quite large," Mohanan adds.

Sectoral analysis of the data showed unincorporated enterprises operating in the manufacturing sector in 2022-2023 declined nearly 9.3 per cent to 17.82 million. Similarly, the number of workers engaged by these establishments declined by nearly 15 per cent to 30.6 million during this period.

In the "trading" sector, the number of establishments declined by 2

MIXED BAG

Indicator	HSS 73rd round	ASUSE 2021-22	ASUSE 2022-23
	(Jul '15 - Jun '16)	(Apr '21 - Mar '22)	(Oct '22 - Sep '23)
Total number of establishments (in mn)	63.4	59.7	65.04
Total number of workers (in mn)	111.3	97.9	109.6
Total gross value added (₹ trn)	11.52	13.4	15.4

Source: NSO

per cent to 22.5 million, even as the number of workers engaged in the sector saw a marginal growth to 39 million from 38.7 million during this time period. Establishments in the "other services" sector grew by nearly 19 per cent to 24.64 million and the number of workers engaged surged by 9.5 per cent to 39.96 million.

Shocks to the economy

Pronab Sen, chairperson, Standing Committee on Statistics, says the unincorporated sector was severely hit by the successive economic shocks in the past decade or so. These include demonetisation, goods & services tax (GST) and Covid, which is reflected in the decline in the number of people employed.

"Usually, the number of unincorporated enterprises grows by close to 2 million annually. Had the sector not faced these shocks, the total number of such enterprises would have been close to 75 million now. In effect, close to 10 million enterprises were lost. Given that an establishment provides employment to around 2.5-3 people, close to 25-30 million jobs were lost in the process," he adds.

GC Manna, professor at the Institute for Human Development, says there are two things at play, one is that the labour intensity of unincorporated enterprises has been going down and it has been observed for quite some time now. "The rise in the establishments is partially due to the increase in the number of un-

account enterprises, each of which only employs a single person. Second, the reverse migration that happened during the pandemic and resulted in an increase of workers in agriculture, thus reversing the decade-old trend of people moving out of farming, has not been arrested yet," he adds.

The International Labour Organisation (ILO) in its latest India Employment Report said the slow transition to non-farm employment has reversed. "One of the most significant features of the Indian labour market is a slow and steady transition of the workforce away from agriculture and into the non-farm sectors. The share of manufacturing employment was stagnant, at around 12-14 per cent. The increase in non-farm employment was absorbed by construction and services. After 2019, this slow transition reversed due to the pandemic, with a rise in the share of agricultural employment as well as an increase in the absolute size of the agricultural workforce," the report said.

The share of the primary sector in total GVA increased from 14.8 per cent to 15.6 per cent, while the share of employment in agriculture rose from 42.4 per cent in 2019 to 46.4 per cent in 2021 and then fell marginally to 45.4 per cent in 2022. "There was a corresponding decline in the share of the non-farm sector except for construction and trade, hotels and restaurants," the report added.