



## Role of the informal sector in employment generation South Asia: the case of India

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### Abstract

In developing nations, the informal economy is a vital source of employment, contributing to GDP and employment generation globally. The informal sector employs almost 60% of people worldwide, with Africa having 85% of its population in the informal sector. In India, developing countries create over 90% of informal jobs. Men contribute to 63.0% of employment, while women make up 58.1%. Unemployment is a major challenge in the informal economy, with factors such as lack of education, rapid population growth, and agricultural dominance contributing to global unemployment. In 2018, India's unemployment rate reached a 45-year peak of 6.1%, with one in five young people unemployed. The informalsector in India is characterized by a lack of social protection and security, with many workers lacking health insurance, pensions, maternity benefits, and unemployment benefits. They also face workplace dangers such as violence, disease, accidents, and injuries. In cases of conflicts, harassment, or exploitation, informal workers lack legal representation and are powerless to negotiate for changes to their pay, hours worked, or working conditions. In conclusion, the informal economy in India faces significant challenges, including high unemployment rates, poverty, and inequality. Policies that restrict informal business ventures can lead to further inequality and unemployment. The main objective of the study is to assess the role of employment generation in the informal sector in India. The methodology of the study is based on a secondary source of literature. The literature was sourced from the Scopus database, which includes articles between 2000 and 2022. 90 pieces of literatures have been sourced out of which duplicates and papers that are not related were removed. Finally, 35 literatures were found to fit the study. The study explores the role of the informal sector in employment generation in India, incorporating theoretical background on unemployment and its impact on employment. The informal sector's importance and the reasons behind its selection are evident from this analysis.

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## 1. Introduction

In developing nations where employment in the formal sector is highly sought after. Nevertheless, the official sector cannot employ everyone in the current situation. People who are laid off by the formal sector or are unable to obtain employment there typically find themselves incorporated into the informal economy. In fact, the informal workforce functions as a labor reserve army (Gibson and Kelley, 1994). Therefore, for numerous individuals, working in the informal economy is their only option for a living. (Bairagya, 2012) Policies that restrict informal business ventures when formal sector employment options are few will lead to high rates of unemployment, poverty, and inequality within India. The informal sector contributes to gross domestic product (GDP) and employment generation in the world. According to the International Labour Organization (2018), in the world, almost 60 percent of people who work worldwide are employed in the informal economy. At present, Africa is facing 85.8 percent of its population in the informal sector. In Arab states, the informal sector employs 68.6% of the workforce. In Europe and central Aisha countries, 40.0 and 25.1 percent of the population are in informal employment at present. (Gururaja & Ranjitha, 2021) The people are more dependent on the informal sector, which means around 68.8 percent of the population. In India, developing countries create more than 90 percent of the informal jobs. For men, informal labor contributes to 63.0% of employment, compared to 58.1 percent for women. Approximately 740 million women work in informal employment Globally, out of a total of two billion workers. (Gururaja & Ranjitha, 2021) In the majority of low- and lower-middle-income nations, women are more likely to be employed informally and to be in precarious positions. The cause of unemployment are the people are facing lack of education and skills, rapid growth of population, Defects in Education System, dominance of agricultural this are the major cause for the unemployment in whole world.

Unemployment is one of the major challenges that the informal economy in India faces. When people who are willing and able to work cannot find suitable jobs, this is referred to as unemployment. Numerous metrics can be used to quantify unemployment, including the labour force participation rate (either the proportion of the working-age population that is employed or actively seeking work) and the unemployment rate, which is the percentage of the labour force that is unemployed. According to the National Sample Survey Office (NSSO).

The NSSO says in 2018, the unemployment rate in India reached a 45-year peak of 6.1%. One in five young people do not have a job, and those who join the workforce from rural areas typically work in the unorganized sector. In 2018, the labour force participation rate in India was a mere 50%, indicating that half of the potential labour force was not involved in any economic activity.

The high rate of unemployment and low labour force participation in India's informal sector are caused by several factors are:

Lack of social protection and security: -Social security and protections like health insurance, pensions, maternity benefits, and unemployment benefits are not available to mostof the

informal workers. Additionally, they are subjected to a variety of workplace dangers, including violence, disease, accidents, and injuries. In the event of conflicts, harassment, or exploitation, they lack legal representation and no legal recourse. Additionally, they are powerless to negotiate for changes to their pay, hours worked, or working conditions. Informal workers are susceptible to poverty, insecurity, and marginalization due to these factors.

**Impact of the COVID-19 pandemic:-** India's informal economy was severely damaged by the COVID-19 pandemic and the government's ensuing lockdowns. The COVID-19 pandemic, according to the ILO, may have caused over 40 crore informal workers to fall into even greater poverty. A reduction in production, as well as a loss of hours and employment figures, were the severe outcomes experienced by industries like construction, business services, retail and wholesale, hospitality and lodging, and industry. In addition to losing their jobs, savings, and incomes, many of informal workers also had trouble getting access to social services, healthcare, and food. The pandemic also made India's informal economy more vulnerable and unequal.

**Lack of access to credit and markets:** - It is difficult for many unofficial businesses and employees to get credit and find markets for their goods and services. They frequently rely on unofficial lenders, friends, or family, who impose strict repayment terms and charge exorbitant interest rates. In addition, obstacles including a lack of infrastructure, legal recognition, quality standards, and information prevent them from entering formal markets. These limitations prevent workers and informal businesses from expanding and diversifying

**Lack of adequate skills and education:** - The education and skills needed for formal employment, as well as for increasing their productivity and income in the unofficial sector, are often lacking among informal workers. In 2018, just 10.6% of India's unorganized labour force reported having received vocational training, according to the NSSO. The mobility and employability of informal workers across different sectors and regions are further restricted by their low level of education and skills.

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However, from the very beginning, there has been disagreement over what exactly constitutes the informal sector. The Central Statistical Organization (CSO) in India refers to this sector as the "unorganized sector" in its National Accounts Statistics report, even though the majority of international studies have used the term "informal sector." The unorganized sector is defined by the CSO (1980) as operating units whose operations are not subject to any statutory act or legal provision and/or which do not maintain regular accounting records. By making a distinction between the unorganized and informal sectors, the NSSO (2001) offers a clear definition of the informal sector in the Indian context.

As per the Annual Survey of Industries, the unorganized sector encompasses businesses managed by cooperative societies, trusts, private limited companies, and unincorporated proprietary and partnership enterprises. Meanwhile, the informal sector is defined as all other unincorporated, proprietary, and partnership enterprises.

It follows that the unorganized sector can be divided into the informal sector and vice versa.

Additionally, the NCEUS (2008) uses ownership and employment size as its primary criteria for defining the informal sector. In terms of ownership, regardless of who owns them, proprietary and partnership businesses do not form distinct legal entities. In the Indian context, nine jobs constitute the employment threshold. Millions of people in India depend on the informal sector, which is a vital and vibrant component of the country's economy. However, there are several risks and difficulties that the unorganized sector must deal with, including low productivity, unemployment, unfavorable working conditions, a lack of social protection, and exclusion from benefits and legal rights. To address these challenges and to harness the potential of the informal sector for inclusive and sustainable development, there is a need for a comprehensive and coordinated policy response that involves the government, the private sector, the civil society, and the informal workers themselves.

The informal sector, also known as the unorganized sector or the shadow economy, comprises a substantial and diverse segment of the Indian economy, comprising entrepreneurs and workers operating beyond the official regulatory framework. In India, the unorganized sector employs about 81% of workers, according to the International Labour Organization (ILO). The informal sector includes jobs such as construction, farming, domestic work, waste picking, street vending, and home-based employment. Millions of people, especially those without the resources, education, or credentials to obtain formal employment, rely on the income opportunities and way of life offered by the unorganized sector. However, there are several risks and challenges facing the unorganized sector as well, such as low productivity, unfavorable working conditions, and a lack of social.

The XVth International Conference of Labour Statisticians, held in Geneva in 1993, established the concept of the informal sector as a subset of the labour force internationally (ILO, 1993). In its renowned report on Kenya for the World Employment Programme, the International Labour Office was tasked with proposing the first multicriteria definition of the concept as early as the early 1970s (ILO, 1972). However, labour economists and statisticians were not the first to attempt to analyse and limit the informal sector, given the backdrop of rising rural-urban migration, urbanization, and declining employment creation in the modern sector. (Ahmadi & Ahmadi, 2022).

However, included the informal sector in the H-T model in an intriguing paper. 1. However, since the expected urban wage must match the rural wage and the urban formal wage must exceed the rural wage, the urban informal wage in these models is lower than the rural wage. However, casual empiricism points to a fair amount of mobility between the urban informal sector and the rural sector in developing nations. Therefore, we assume that wages in both sectors are equal for workers. Labour from the rural sector and capital from the urban formal sector are drawn into the urban informal sector. The informal sector is given a central role by such mobility. Empirically, numerous studies have understood the importance of the urban informal sector. Agenor (1996) offers a sophisticated analysis of the extent of unorganized industry in developing nations. Citing several studies, the informal labour force makes up over 90% of the labour force overall. Agenor and Montiel (1996) examined the effects of development policies in the context of segmented labour markets. Building on previous research by Agenor (2005), Agenor and Montiel (1996), Marjit (1991, 2003, 2005), and Marjit et al. (2007), this study examined the potential for growing informal employment and wages when laid-off employees from the formal sector migrate into the informal sector.

The informal sector is defined as a subset of unincorporated enterprises (i.e., those that are not constituted as separate legal entities independent of their owners) that are also not registered with a national government authority, in accordance with the international statistical standards adopted by the 15th International Conference of Labour Statisticians (ICLS, 1993). Very few informal businesses are owned or run by employers who employ workers; the majority are family farms or businesses run by one person. They usually function on a small scale, with little to no division between labour and capital as factors of production, and at a low level of organization. (Saaritsa, 2008)

It is common to refer to less developed nations (LDCs) as having dual economies, with an urban (modern, manufacturing) sector and a rural (traditional, agricultural) sector. The former is the more "productive" sector, and growth in that sector is frequently the goal of development policy. Due to the dual economy phenomenon's persistence, it has been used in numerous studies on unemployment (Harris and Tordaro, 1970), income distribution (Santiago and Thorbecke, 1984), and the process of development (Lewis, 1954; Ranis and Fei, 1961). The terms "murky sector," "urban traditional sector," "services sector," and, possibly more accurately, "small industry sector" have all been used to characterize the informal sector. Whatever the term, it is typically defined by labour entering the market relatively freely, competition, subsistence wages, low overhead, and being outside the purview of labour and factory laws. These attributes are thought to have enormous potential for growth. The potential for significant job growth in the informal sector—also known as small-scale industry—has prompted governments and international aid organizations to create development plans that will only serve to accelerate its expansion. The seventh five-year plan for India calls for a sharp rise for production in the small-scale industry. In order to promote handlooms in the textile industry, the Kanungo and Karve committees in the 1950s froze the number of looms in the large-scale composite mill sector (Little et al., 1987). It has been demonstrated (Subramanian, 1987) that Indian government policy favours small paper mills over larger ones. Additionally, US policy has been promoting the small-scale "free enterprise" sector as a means of achieving development through the Agency for International Development. (Gang & Gangopadhyay, 1990)

## **2. Review of related literature**

The informal sector in India employs a significant number of unskilled workers due to technological advancements. As the formal sector shrinks, women's employment opportunities are limited. Globalization and the growing population make the informal sector crucial. This paper examines the changing scenario of women's employment in India's informal sector, focusing on how women are applying for jobs in the unofficial sector (Sharma, 2012).

This essay highlights the significance of the unorganized sector in the Indian economy. The informal sector (I-sector) accounted for the majority of non-agricultural employment growth in India during the 1970s, primarily in trade, construction, service, and manufacturing industries. The I-sector is considered a dynamic industry that adapts to market demands and contributes significantly to output and income. The paper hypothesizes that with these changes, there was a shift in the composition of rural-urban migrants, with a rise in the proportion of people aiming for jobs in the informal sector and a decline in the number aiming for formal jobs. Poorer rural households' migration is likely to have increased due to increased income in the informal sector (Bhattacharya, 1996).

This article explores the promotion of employment in the informal sector in India, a growing nation with limited labour demand. It uses a nationally representative sample of personal data to estimate employment determinants and track employment trends. The study reveals that those without formal education are more likely to work in the unorganized sector, and this chance increases with increased education. The results differ for developing and developed states, with underdeveloped states having no chance of finding employment in the unorganized sector. However, people in the Other Backward Classes (OBC) category who consistently reside in the same employment catchment area have a higher chance of finding employment in the unorganized sector in both developed and developing states. Migration and general and technical education are the two primary variables in policy that affect employment promotion (Bairagya, 2012).

The study examines the impact of Indian government lockdowns on the jobs and wages of informal workers during COVID-19. It estimates that during the first two lockdowns, 104 million and 69.4 million workers faced job losses, with 22.6 percent of their wages lost. The unorganized sector's informal workforce lost Rs. 635.53 billion in wages, nearly the same amount as the union budget for the MGNREGA employment guarantee scheme in 2020–2021 (Estupinan & Sharma, 2020).

The authors address the challenge of identifying the determinants of informality in developing economies by using two operational definitions: 'informal sector' and 'informal employment'. They find that workers' education, vocational training, and gender significantly influence their participation in the informal labour market. The study's results are robust to selection bias and regional variations, emphasizing the need to restructure skill development programs to account for the heterogeneity of informal workers. The findings underscore the need for more inclusive skill development programs (Sheikh & Gaurav, 2020).

The study examines the dualism within India's informal manufacturing sector (IMS) between a traditional non-capitalist segment of family-based household enterprises and a modern capitalist segment of wage-labour-employed enterprises. The research focuses on the high-growth period from 2000–2001 to 2010–2011 to analyse whether this traditional segment has shifted into a modern one. The study uses a variable called net accumulation fund to examine the evolution of this variable across industries and production structures. The results show that while traditional enterprises can economically reproduce themselves, the dualism between traditional and modern segments has been reinforced during this period, raising questions about the process of economic transformation (Kesar & Bhattacharya, 2019).

The modern workplace has led to a shift towards employee-driven human capital development practices. However, current research does not fully consider this change. To align with contemporary methods, the study suggests updating the learning context, incorporating proactively in the definition of employee development, and rethinking the value of human capital. This approach will provide benefits and improve the understanding of employee development, ultimately leading to a more collaborative and effective approach to human capital development (Dachner, Ellingson, Noe, & Saxton, 2021).

The paper examines the causes of informality in developing countries and uses data to determine the best theory for Indonesia's informal sector. It finds that most informal firms are small, micro firms with less than five employees, pay low wages, are unproductive, and are

managed by individuals with low educational attainment. They primarily supply products to local markets and have not recently expanded their operations. Many informal firms do not register their businesses due to lack of desire to expand or borrow from formal financial sources, or to avoid taxes. The one-stop-shops for business registration program, aimed at reducing registration costs, did not affect firms' informality rates or reduce the probability of workers being informally employed. The evidence suggests that a combination of rational exit and dual economy theories best explains the persistence and scale of Indonesia's informal sector (Rothenberg et al., 2016).

The study reveals that average jobless rates increase with GDP per capita, primarily attributed to low-educated workers. The model includes frictional labour markets, a traditional self-employment sector, skill-biased productivity differences, and unemployment benefits that increase as a country develops. A calibrated version of the model effectively explains cross-country unemployment patterns, with skill-biased productivity inequalities being the most significant component in explaining these patterns (Feng, Lagakos, & Rauch, 2023)

The COVID-19 pandemic led to 40 million job losses in the first two months, prompting the federal government to increase unemployment insurance payments. A study examined the relationship between food insecurity and unemployment insurance among individuals who lost their jobs during the pandemic. The study used data from the Understanding Coronavirus in America cohort, a long-term study conducted by the University of Southern California Centre for Economic and Social Research. The sample included people who lost their jobs during the pandemic and lived in households with incomes under \$75,000 in February 2020. The study found that 40.5% of working individuals in families with an income below \$75,000 were unemployed due to the pandemic (Raifman & Venkataramani, 2021).

The livelihoods of thousands of people in developing countries depend on recycling waste items. The main challenge in solid waste management is collaborating with the unorganized sector to improve living conditions and recycling efficiency. The Millennium Development Goals aim to reduce poverty and increase recycling rates. Informal recycling, despite its social and health issues, has substantial economic benefits. Creating new official garbage recycling systems without considering existing unofficial ones can be detrimental. Integrating the informal sector into waste management planning builds on their experiences and practices, aiming to increase efficiency and improve living and working conditions. However, challenges exist in incorporating informal recycling into the official waste management industry (Wilson, Velis, & Cheeseman, 2006).

This article examines the salary gap between formal and informal workers in India using data from the 61st and 68th rounds of the National Sample Survey Office. It reveals absolute wage differential and wage discrimination, with factors such as gender, caste, religion, and geography contributing to wage discrimination. The study uses the percentage relative gap (PGR) to calculate the wage difference between formal and informal workers, breaking it down into three sections using the tripartite Blinder-Oaxaca (B-O) decomposition method. The dependent variable is the natural logarithm of the daily wage. Although there was no significant decrease in the salary disparity between formal and informal workers, the discriminatory component outweighs the endowment component, explaining why informal labourers in India face prejudice in the labour market (Kumar & Pandey, 2021).

The COVID-19 pandemic has significantly affected the livelihood, security, and health of informal sector workers, particularly domestic workers, particularly women. These workers are vulnerable to exploitation and human rights violations due to their lack of organization and institutional support. A study conducted in Delhi, Mumbai, and Kochi found that domestic workers experienced a significant decrease in pay, increased workload, and widespread loss of employment. Additionally, 48% of them did not use safety precautions, and 57% experienced stigma and prejudice at work. The study also highlighted the prevalence of domestic violence, the amount of work done, and challenges accessing healthcare. The study underscores the need for governmental assistance and a national policy targeting women domestic workers to address poverty, health risks, and social marginalization (Sumalatha, Bhat, & Chitra, 2021).

This research surveys the literature on the definitions and theories of the informal economy (IE), identifying variations in methodologies used to define informality. It proposes an interpretation for the IE that aligns with measurement and guidelines. The literature review distinguishes three non-exclusive approaches to the IE: neoclassical, macro econometric, and conceptual. The study provides a framework to highlight key distinctions and commonalities across these schools of thought. It suggests that a "one-size-fits-all" policy approach cannot address the varied nature of the IE, and policy measures should be tailored to distinct segments of the IE (Dell Anno, 2021).

This article investigates the correlation between young unemployment and self-employment in the European Union and identifies whether EU member states have higher rates of youth self-employment due to push or pull factors. Out of 28 EU countries, only seven have statistically significant connections between self-employment and unemployment among young people. If national governments were to lower unemployment through self-employment support measures, the youth unemployment rate in Greece, Italy, and Cyprus would drop. However, promoting self-employment in other EU nations like Malta, Germany, Sweden, and the Czech Republic would not be suitable. To combat youth unemployment in other EU nations, businesses should address other labor market issues, such as reducing the tax burden on young people and combining education opportunities with employment. Applying universal strategies to combat unemployment in all countries is inappropriate. (Remeikienė, Žufan, Gasparėnienė, & Ginevičius, 2020)

This study evaluates the impact of the COVID-19 pandemic on India's unorganized sector, focusing on poverty, hunger, deprivation, unemployment, and economic inequality. The research uses an exploratory methodology and draws on policy documents, research papers, international reports, and existing literature. The findings suggest that policies and protection measures for the informal sector should be implemented to prevent future occurrences. The report also suggests that more research is needed to understand the impact of COVID-19 on emerging and developing nations' unorganized sectors, as this could negatively affect the UN Sustainable Development Goals' attainment (Gururaja & Ranjitha, 2021).

This study explores the link between poverty and the informal economy in developing nations, focusing on empirical studies from 2000-2019. It highlights the causal relationship between household poverty and informal work, and how the informal economy is evaluated theoretically and applied to real-world problems. The study emphasizes the importance of the informal economy as a primary source of income for the poor and disenfranchised, and its impact on household living standards. Policymakers should recognize the informal economy's



constructive role in reducing poverty, especially in nations with lower levels of formal economic activity. The study provides policy discussions and guidance for improving the quality and coherence of future research on the informal economy's role in poverty dynamics. (Sharma & Adhikari, 2020)

This study explores the theoretical foundations of employment in India's informal sector, a concept first introduced in the late 1960s. It explores various hypotheses, such as an infinite supply of labour, decent labour, Neo-Dualists' fragmented approach, and the segmented labour market. The concept of decent work is influenced by employment, social security, rights at work, and social debate. The decent work paradigm, which applies to all workers, is not universally applicable. The International Labour Organization's main objective is to promote equal opportunities for men and women to find respectable and productive work in an environment of freedom, equality, security, and human rights. The study reveals that work in the informal sector is primarily dualistic, with no clear distinctions between rural and urban areas. This dualism leads to inequality in the unorganized sector. (Himchenko & Degtyarev, 2021)

### **3. Research Gap**

The informal sector in South Asia, particularly in India, faces several research gaps. These include a need for a detailed analysis of the sector's composition, regional disparities in employment patterns, and the long-term socioeconomic outcomes of engagement. The intersection between the informal sector and the digital economy is also under studied. The sector's resilience and vulnerability to external shocks are also underexplored. Qualitative insights into workers' perspectives and policy effectiveness are also lacking. The sector's role in skill development, labour market mobility dynamics, participation in global value chains, environmental sustainability practices, technological adoption, social networks, and legal and regulatory changes are also underexplored. Addressing these gaps will help develop targeted policies for sustainable and inclusive economic development in South Asia.

### **4. Statement of problem**

In addition to the identified gaps, there are other noteworthy aspects that require attention in understanding the role of the informal sector in employment generation in South Asia, particularly in India. The adoption and integration of technology within the informal sector present a critical yet underexplored area. Investigating how informal businesses leverage or resist technological advancements could shed light on the sector's adaptability and its impact on productivity and market access. Furthermore, the informal sector's participation in global value chains remains a relatively unexamined facet. Understanding the extent to which informal businesses contribute to or are affected by international trade dynamics is essential for positioning the informal sector within the broader context of the global economy.

Informal sector jobs often demand basic skills, but there is a lack of emphasis on skill development and education, which can hinder worker upward mobility and contribute to low productivity. Women in the informal sector face occupational segregation, low-paying, and low-skilled jobs, limiting their access to higher-paying opportunities. A wage gap exists between male and female workers, and gender disparities in education contribute to this. Women are overrepresented in informal and unregulated work, which lacks legal protections and increases their vulnerability. Limited access to social security benefits, traditional gender

roles, and unequal access to resources further exacerbate their situation. The COVID-19 pandemic has highlighted the challenges faced by women in informal employment.

### **5. Objective of the study**

The main objective of the study is to assess the role of employment generation in the informal sector in India

### **6. Research methodology**

The present study is based on a secondary source of literature. The literature was sourced from the Scopus database that includes articles between 2000 and 2022. 90 pieces of literatures have been sourced out of which duplicates and papers that are not related were removed. Finally, 35 literatures were found to fit the study.

### **7. Theoretical Background**

#### **a) Informal sector**

The informal economy, which comprises unregistered businesses, labour, output, and production activities, makes up a sizable and expanding share of the overall economic activity in many developing nations. Through labour force surveys, researchers have discovered that between 61% and 70% of Indonesia's workforce is employed in the informal sector. Firstly, the government's capacity to support public goods and services is limited since informal businesses usually do not pay official taxes. Secondly, businesses operating in the same industry may encounter disparate marginal production costs due to the presence of legal and informal enterprises. This could result in an economy that allocates resources inefficiently. Third, the cost advantage that informal businesses enjoy over law-abiding formal sector businesses creates unfair competition that may limit economic growth. Lastly, unofficial businesses might not be able to export goods, legally utilize government programs, or lawfully receive financing from official financial sources. This may limit the expansion potential of informal enterprises by placing them at a disadvantage in comparison to other firms. The informal sector refers to businesses not legally recognized by the government and without taxes. This definition aligns with studies on informality, which emphasize the lack of official taxation, state protection, or regulation. Benefits of informality include low-paying, flexible work for women and job seekers during economic downturns, suggesting a growing middle class in areas with weak governance. This concept is supported by various studies across various disciplines (Rothenberg et al., 2016). The economic activity that is not subject to government control or supervision is referred to as the "informal sector." It functions outside of the official economy, and those who engage in it frequently have no legal protection or acknowledgment. This industry is important to many economies around the world, particularly in developing countries where a significant portion of people make their living from unofficial activities. The informal sector encompasses a wide range of economic activities, including home-based businesses, small-scale farming, street vending, and services like day labour and housework. Employees in this industry frequently work for themselves or for small, family-owned companies. The cash transactions, minimal entrance barriers, and flexibility of the informal sector define it. It does, however, also have to contend with issues like unstable employment, restricted access to social services, and susceptibility to shocks to the economy. The capacity of the informal sector

to employ a significant percentage of people, particularly in developing nations, is one of its primary characteristics. Because there are few formal work options, educational requirements, or other restraints, many people resort to informal activities. Thus, the unorganized sector serves as a safety net, taking in excess labour and assisting in the reduction of poverty. In summary, the informal sector is an intricate and dynamic component of many economies, providing jobs, addressing community needs, and acting as an essential safety net for disadvantaged groups. It does, however, also have obstacles with regard to social protection, legal recognition, and financial inclusion. Governments, international organizations, and local communities must work together to address these issues in order to establish an atmosphere that supports the formalization and long-term growth of the unorganized sector. In summary, the informal sector is an intricate and dynamic component of many economies, providing jobs, addressing community needs, and acting as an essential safety net for disadvantaged groups. It does, however, also have obstacles with regard to social protection, legal recognition, and financial inclusion. Governments, international organizations, and local communities must work together to address these issues in order to establish an atmosphere that supports the formalization and long-term growth of the unorganized sector. Low-tech, labor-intensive, small-scale, mostly unregistered, and uncontrolled manufacturing or service delivery defines the informal sector. In addition to not paying taxes or having a trading license, owners or operators in the informal sector are also not covered by social welfare or government insurance programs. The trash recycling operations of waste pickers and scavengers are referred to as the "informal recycling sector" in the context of municipal solid waste management (MSWM). The people who remove recyclable and reusable materials from mixed garbage are referred to by these terms. These labor-intensive, low-tech, low-paid, unrecorded, and unregulated jobs, frequently carried out by individuals or family groupings, perfectly capture the characteristics of the informal sector.

## **b) Unemployment**

The COVID-19 pandemic has far-reaching effects that go well beyond illness and death. The United States has experienced a dramatic increase in unemployment rates, from 3.5% in February 2020 to 14.7% in April 2020, as a result of business closures and reduced economic activity connected to COVID-19. The unemployment rate was 11.1% as of June 2020. 1. People who live in low-income households have been the majority of those who have lost their jobs during this time, and the ensuing income declines have left many of these people and their families at risk of food insecurity. Food insecurity is characterized as "a household-level economic and social condition of limited or uncertain access to adequate food," according to the U.S. Department of Agriculture. Food insecurity is linked to poorer general health and wellbeing, physical hunger pains and exhaustion, psychological melancholy, worry, suicidal thoughts, interpersonal stress and difficulties, chronic illness, and poorer child development results. According to preliminary data, compared to February 2020, food insecurity has more than doubled in all households and tripled in households with children during the COVID-19 epidemic). With unemployment rising so quickly and a recession linked to COVID-19 predicted, unemployment insurance has become increasingly important. Up to July 2020, the federal Corona virus Aid, Relief, and Economic Security Act permitted a weekly federal supplement of \$600 to state unemployment payments. For a single adult or a family consisting of two working adults and two children, the \$600 federal supplement has raised unemployment

insurance payments to a living wage or higher in 48 states (living wages are provided by the unemployment insurance amounts in Massachusetts and Washington). Additionally, the CARES Act established the Pandemic Unemployment Assistance (PUA) program, which provides benefits to independent contractors, individuals advised to remain in quarantine by their healthcare providers because of pre-existing conditions that may increase the risk of a serious or fatal COVID-19 illness, and individuals unable to work because of COVID-19's long-term health consequences or care giving obligations associated with the virus (Raifman, Bor, & Venkataramani, 2021). A complicated socioeconomic phenomenon known as unemployment arises when people who are actively looking for work are unable to find employment. It has significant effects on people, communities, and the fabric of society as a whole and is a vital sign of the state of an economy. There are several ways that unemployment might appear, such as structural, frictional, and cyclical unemployment, each with its own causes and effects. When the abilities that businesses require and the talents that labour possesses diverge structural unemployment results. As certain industries collapse and others arise, technological advancements, alterations in consumer tastes, and changes in the global economy can all have an impact on structural unemployment. Long-term remedies to this kind of unemployment are frequently needed, such as retraining and educational initiatives that give employees the skills necessary for open positions. Reforms to the labour market are necessary to build flexible and adaptable work arrangements. A more dynamic and adaptable labour market can be achieved through labour market mobility initiatives and policies that make hiring and firing more convenient. Furthermore, it is imperative to invest in education and skill development to provide the workforce with the competencies required in a global economy that is changing quickly. In summary, unemployment is a complex issue with effects on the economy, society, and the individual. It is essential to comprehend the various forms of unemployment and the underlying reasons for each in order to create focused and efficient solutions to deal with this problem. To encourage sustainable employment and ensure the wellbeing of individuals and communities, governments must establish comprehensive policies that incorporate education, training, labour market flexibility, and social safety nets in partnership with the private sector and civil society.

### **c) Theories related to employment or unemployment**

The term "informal economy" (IE) refers to a broad range of phenomena that differ in size and content both within and between economies. Even though it can be difficult to gauge the extent of informality, most people agree that it is the main source of employment in developing nations and that it plays a big part in giving marginalized individuals in developed economies a place to work and a source of income. More specifically, 61.2% of employment worldwide is informal, according to the International Labour Organization. British anthropologist Keith Hart first used the phrase "informal sector" in 1971. He published his findings in a report on Kenya two years later, which helped popularize the word. This work is the first in the literature on informality. Hart's most significant contribution to this literature was demonstrating that the sub-proletariat of Southern Ghanaian urban unemployed and underemployed people had "some autonomous capacity for generating growth in the incomes of the urban (and rural) poor," rather than being a passive and exploited "reserve army of urban unemployed and underemployed." The dominant theory of economic development at the time, sometimes known as the "Modernization" theory,

saw the "informal sector" as a passing stage in the process of economic progress, as Clement notes. This viewpoint was in opposition to this idea. Even though the "modernization" idea presupposed that the traditional/subsistence and the modern/industrialized would be subordinated to each other, the informal sector was too big, too tenacious, and sometimes even pro cyclical to be predicted to naturally fade with economic development. Following this groundbreaking research, the "modernization" theory of the IE gradually lost favors in the public's mind. One possible theoretical perspective was that there was only one inevitable direction of growth, which was the formalization of informal activity into the official economy. In keeping with this line of inquiry, a number of academics have categorized hypotheses on informality; nevertheless, these taxonomies aren't always in line with one another as of yet. For example, we can find labels that express multiple theoretical approaches with the same label and labels that imply different theoretical views. Self-employment is frequently promoted as a potential solution to the enduring issue of teenage unemployment since it makes it easier for someone to enter the workforce in spite of having little work experience, low qualifications, care obligations, or health issues. Additionally, self-employment offers a great level of freedom and autonomy. However, it is also true that working for yourself has a risk of low financial returns (when compared to working for similar employers), restricted access to social security and/or health insurance, and little opportunity for personal growth. In these situations, there is ongoing debate about whether or not young, unemployed people should be encouraged to work for themselves. To determine whether or not working for oneself is only a less harmful option than another The majority of research on the relationship between youth unemployment and self-employment to date has focused on evaluating the individual-level factors that encourage young people who were previously unemployed to pursue self-employment, as well as the policy measures that support young unemployed individuals in doing so. It has also examined the influence of both entrepreneurial pull factors and recession push factors. Still, very few studies identify which nations have youth self-employment that is "driven by pull factors" or "driven by push factors." This article's main goal is to investigate the connection between youth unemployment and self-employment in the European Union (EU) and identify whether EU nations have higher rates of youth self-employment due to pull or push causes. The following goals were brought up in order to fulfill the stated purpose: 1) to examine the statistical data on young unemployment and self-employment in the EU; 2) to examine the literature on the subject; 3) to choose and support the research technique; 4) to present the findings of the empirical investigation. Correlation multiple regression analysis, statistical data analysis, and literature analysis are some of the research methodologies used. (Remeikienė, Žufan, Gasparėnienė, & Ginevičius, 2020)

#### **d) Gender wise employment in Indian informal sector**

The great majority of individuals living in developing countries are below the poverty line. They lack proper access to necessities of life like food, shelter, health care, education, jobs, security, equality, and justice. The main issues facing emerging countries are those of sustainable livelihood and the social and political engagement of vulnerable populations. Governments have not been able to ensure that people's rights are implemented. It is impossible for members of the vulnerable categories to obtain and exercise their rights. Everybody has universal access to human rights. The identification process of vulnerable groups within the framework of health and human rights was prompted by the urgent reality on the ground, which resulted from the fact that some groups are marginalized and vulnerable and do not fully enjoy

a variety of human rights, such as the rights to health, education, and political participation. Depriving certain people and groups whose rights have been violated of the exercising agency is considered vulnerability within the framework of the right to health. A few social groups require extra care to prevent possible exploitation since they are frequently the targets of discriminatory treatment in society. This group of people is referred to as a vulnerable group. The main reasons vulnerable populations are less fortunate than others are because they have less access to healthcare and other necessities for good health, like clean, safe drinking water, wholesome food, enough housing, and proper sanitation. One of the primary issues in labour market research conducted in emerging nations has been the quality of employment. In India, a worker's declared status as "employed" does not always indicate that they make a fair wage or that their standard of living is high. This is especially clear from the fact that, in 2004–05, the percentage of persons living in poverty reached as high as 28%, despite the unemployment rate, even according to the highest estimate, being 8.3%. It means that the low productivity of work performed by the poor is just as much of an issue in India as unemployment. Improving the standard of living for workers and their quality of work are key to the overall growth process, with inclusive growth being one of the main priorities of the growth process that India is now undertaking. This will undoubtedly create opportunities to lessen the overall occupational vulnerability of unpaid female workers. Over the past two or three decades, there has been a noticeable growth in the common phenomenon of wage disparity in labour markets for a variety of reasons. Overall income disparity is mostly caused by unequal wages. In this regard, it is possible to identify the non-discriminatory treatment of employees based just on their sex, race, and employment agreements as a moral and social objective in and of it. Eliminating wage discrimination has the potential to enhance economic growth and efficiency. The extensive theoretical literature on the economics of discrimination in the labour market consists of the following. Cox is among the sociologists and anthropologists who have previously conducted empirical analyses of labour market discrimination in emerging nations such as India. Instead of concentrating on discrimination in the labour market, this empirical research primarily examined caste discrimination in general (Kumar & Pandey, 2021). The World Health Organization classified the COVID-19 virus as a pandemic in 2020, and since then, it has posed clear threats to the worldwide public health system. The international economy came to a complete halt as nations declared partial or total lockdowns, causing the populace to experience never-before-seen levels of social and economic hardship. The public health emergency occurs at a time when unemployment is rising and India's GDP growth is already slowing down. While the epidemic has impacted people's lives in all social strata in India, those in the informal sector—which makes up 86% of the labour force—are the most negatively impacted in terms of social security and employment protection since they face both the risk of infection and the challenge of providing for their basic needs. Due to social exclusion and lockout regulations, women domestic workers experienced complete or near unemployment as well as economic insecurity, despite the fact that other worker groups experience comparable limitations with regard to means of subsistence and the social safety net. For the most part, they were ignored by the nation's relief efforts. (Sumalatha, Bhat, & Chitra, 2021).

#### **e) Decision and realest**

The study reveals significant salary disparities between formal and informal workers in India, affecting various industries, genders, education levels, and technical skill sets. Informal

workers consistently earn lower wages than formal counterparts do, with rural sectors experiencing a greater decline in the gap. Industries with high differentials include manufacturing, transportation, and public administration. The study also highlights systemic discrimination in the labor market, implying a segmented labor market where informal workers are paid less for equivalent work. The findings call for legislative initiatives to address these injustices and improve the working environment for unorganized laborers (Kumar & Pandey, 2021).

The study explores the influence of governance quality on formal and informal entrepreneurship in emerging economies. It uses data from 19 nations from 2001 to 2014 and a sys-GMM technique. The research shows that formal entrepreneurship benefits from financial development, while informal entrepreneurship suffers. Improved governance leads to a rise in formal entrepreneurship and a decline in informal entrepreneurship. The study also highlights the role of supply-side variables like GDP growth per capita and educational attainment, as well as demand-side variables like government quality and economic opportunity. The findings suggest strengthening legal frameworks, property rights, regulatory effectiveness, and investing in healthcare, education, training, and unemployment reduction can encourage formal entrepreneurship (Omri, 2020).

Employment participation in India is influenced by various factors, including education, age, gender, land ownership, social group differences, vocational training, and technological advancements. Less educated employees are more likely to work in both informal and formal sectors, while formal education is less likely to be in FSIE. Age also plays a significant role, with workers' age negatively correlated with informality. Gender plays a role, with women having a lower likelihood of employment in both the informal and formal sectors due to India's declining female labor force participation rate. Land ownership, particularly in rural areas, increases the chances of employment in the formal sector. Social group differences also play a role, with STs and SCs having lower rates of informal sector employment compared to the unreserved group. Vocational training reduces informal work involvement, and skills contribute to the transition from unorganized to formal sectors. Rural workers are less likely to have informal jobs compared to urban workers (Sheikh & Gaurav, 2020).

India's unorganized economy faces significant challenges, including poverty, unemployment, and underemployment, despite constitutional provisions guaranteeing equal rights. Cultural expectations and family pressure contribute to high workforce dropout rates, particularly for women in their careers. A significant percentage of female workers are employed in the informal sector, including conventional wage/salaried jobs, self-employment, and casual labor. Gender inequality persists, with women having less access to resources, poorer incomes, and discriminatory practices. Globalization has increased employment opportunities but worsened gender disparities. Comprehensive policy interventions are needed to support gender equality, provide women with more economic power, and promote full participation in the formal economy (Sharma, 2012).

## 8. Significance of the study

- The informal economy, which accounts for 60 percent of global employment, serves as a labor reserve for those unable to secure formal employment and is influenced by factors like education and agricultural dominance.
- The report highlights India's informal workers' challenges, including lack of social protection, poverty, marginalization, and vulnerability due to health insurance, pensions, and benefits, exacerbated by COVID-19.
- The report explores India's informal sector, dividing it into cooperative societies, trusts, private limited companies, and unincorporated enterprises, highlighting challenges like low productivity, unemployment, and poor working conditions.
- India's informal sector, employing 81% of workers, faces challenges like low productivity, unfavorable working conditions, and a lack of social protection, necessitating targeted policies and interventions.
- The paper highlights the potential for large expansion in the informal sector, often known as small-scale industry, and stresses international support for this sector's growth.

## 9. Conclusion

The informal sector in India is a vital source of livelihoods for millions, particularly those with limited access to formal employment. However, it faces challenges such as low productivity, wage disparities, and lack of social protections. The COVID-19 pandemic has exacerbated these inequalities, emphasizing the need for comprehensive policy interventions. Coordination between governments, the private sector, civil society, and workers is crucial for improving working conditions and livelihoods. Key policy areas include providing social protections like health insurance, pensions, and maternity benefits, enhancing credit and market access for informal businesses, and investing in education and vocational training to enhance workers' skills and productivity. Recognizing the informal sector's diversity and distinguishing it from the unorganized sector is essential for inclusive and sustainable economic growth. The studies provide valuable insights into the complexities of the informal sector and emphasize the need for tailored policy interventions.

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