

SKILL DEVELOPMENT IN THE INFORMAL SECTOR IN INDIA: LABOR MARKET REFORMS TO ACT AS CATALYST

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Abstract: *India's informal sector has been expanding rapidly over the years. The informal nature of unorganized sector manifests through some type of social exclusion like exclusion from social security, exclusion from statistical coverage, exclusion from traditional trade unionism, exclusion from GDP estimates and exclusion from productive resources of large enterprises. In this paper skill development programmes which are crucial in the context of a country like India have been discussed. The paper also highlights the importance of labor reforms which are crucial to make the skill enhancement programmes successful*

A number of steps have been initiated by the Ministry of Labor and Employment and other bodies to upgrade the labor force through training and imparting skill. Non formal basic education will help to promote cognitive competencies. Non formal training programmes for the informal sector including trade courses, survival training and apprenticeship training which are pragmatic help to augment the employment prospects. There is an urgent need to include the informal sector also in the labor market reforms. In fact the much needed reforms complemented by skill enhancement programmes will help to increase competency of India's manufacturing sector. Hence, practical need based training should be encouraged. Multi stakeholder involvement will help in making the schemes more viable and will ensure commitment to take training seriously. It is essential to tackle the problems of skill mismatch, restrictive labor legislation and procedural delays which slow down the process of formalization. It is necessary to eliminate the lacunas in the labor market in view of increased need for competitiveness and efficiency which are inevitable for transforming our manufacturing sector. Comprehensive labor reforms coupled with skill enhancement measures will empower the Indian manufacturing sector

Keywords: *Skill, Development, Labor, Training*

Introduction

India's informal sector has been expanding rapidly over the years. . The various definitions highlight some type of social exclusion like exclusion from social security, exclusion from statistical coverage, exclusion from traditional trade unionism, exclusion from GDP estimates and exclusion from productive resources of large enterprises. Of the total women workforce 93% are employed in the informal sector. The workers who are employed in this sector face a number of problems. Lack of development and limited reach of the Government have increased the scope for the rapid growth of the informal sector in India. The employment creating activities have not worked towards bringing more industries and people in the ambit of the formal sector. This resulted in increase in poverty and low employability of the population. In this paper the various skill up gradation schemes which have been introduced by the Government, pragmatic policies and skill development programmes and the need for labor market reforms which are crucial in the context of a country like India which has a formidably huge informal sector are dealt with

Objectives of Study

- To study the problems of the informal sector in India
- To examine the efforts taken by the Government to bring the informal sector into the mainstream of development
- To review the steps taken to initiate labor market reforms which will complement the skill development initiatives
- To suggest measures to improve employability of the workers to enable them to make a positive contribution to the development process.

Methodology

The data has been collected from secondary sources for the study. Data has been collected from National Sample Survey estimates, 12th Plan document, Central Statistical Organization. The data analysis has enabled to arrive at conclusions with regard to employment and skill development in the informal sector in India. The analytical study is useful in identifying the problem areas in the informal sector and the lacunae in the various innovative schemes which have been implemented so far and suggest solutions to overcome the problems.

The Informal Sector

Keith Hart for the first time introduced the term informal sector in 1973. According to the World Bank and ILO, the informal sector entails a wide range of unregistered and sometimes partially illegal market activities which on the one hand are survival activities of individuals and families in an opportunity poor economic environment and on the other hand profit maximizing activities of micro enterprises in a highly competitive and opportunity related economic environment. (Papola 1980).

The informal sector plays a significant role in income and employment generation in developing countries. However, the conditions of work and employment within the sector are still poor. The informal sector has been growing for decades and is the largest segment of the economy in many countries. The informal economy misreport employment, avoid certain taxes, ignore product quality and worker safety regulations, violate copyright and intellectual property laws and sometimes do not register as legal entities. (Agrawal Meenu 2012). Over half of the informal sector lack accounting records. The problem is particularly acute in developing countries where the companies that operate informally produce as much as 80% of the output in some industries. Although informal companies have small scale production and lower production methods, they have substantial cost advantages that allow them to stay in business by avoiding taxes and regulatory obligations. Under these conditions the formal companies find it difficult to gain market share resulting in slower economic growth and job creation.

The Informal Sector in India

India is having a demographic dividend since more than 50% of the population is in the working age group. This implies the vantage position for India which has the potential to become the skill capital of the world. According to the estimates by 2020, the average Indian will be 29 years of age compared to the average age of 37 years in China and US and 45 years in Europe and 48 years in Japan. (Madhu Singh 2005) The major challenge for India would be to impart the right skill and training to this young population. This is particularly important for India which has a huge informal sector. According the definition by ILO, the informal sector consists of units engaged in the production of goods and services with the primary objective of generating employment and incomes to the persons concerned. The informal sector in India consists of workers in micro enterprises, unpaid family members, casual laborers, home based workers, migrant laborers, out of school youth, domestic workers, street vendors etc... As per the 66th Round of NSS Survey (2009-10) approximately 92.8% of the total workforce in 2009-10 was informal workers. This sector is heterogeneous covering all economic activities both organized and unorganized sectors covering both rural and urban areas.

Table 1
Formal and Informal Unemployment in Organized & Unorganized Sector (In Millions)

Sectors/ Years	Employment	Employment	Total
2009-10	Formal	Informal	Total
Unorganized	2.3	385.1	387.3
Organized	30.7	42.1	72.9
Total	33.0	427.2	46.2
2004-05			
Unorganized	1.4	393.5	394.9
Organized	33.4	29.1	62.6
Total	34.8	422.6	457.5
1999-2000			
Unorganized	1.4	341.3	342.6
Organized	33.7	20.5	54.1
Total	35	361.7	396.7

Source- 12th Plan Document Vol.111 Planning Commission

Table 1 brings out the fact that between 1999-2000 and 2009-10, the share of organized sector employment in the total employment increased from 13.6% to 15.8%. During the same period, the share of informal employment in the organized sector increased from 37.9% to 57.8%. This shows that the small increase in the share of employment in the organized sector was of poor quality since there was no increase in formalisation. This clearly brings out the fact that the organized sector employers are increasingly hiring workers on contractual terms. This could be perhaps attributed to the labor laws and other constraints. A study of the status of employment in India also reveals certain interesting facts. Table 2 makes clear the details of Broad Employment status.

Table 2
Number of Workers According to Usual Status Approach by Broad Employment Status (in Millions)

Type of Labor	1999-2000	2004-05	2009-10
Self-Employed	209.3(52.6)	258.4(56.4)	232.7(50.7)
Regular/Salaried	58.2(14.6)	69.7(15.2)	75.1(16.4)
Casual Labor	130.3(32.8)	129.7(28.3)	151.3(33.0)

Source-12th Plan Document Vol. 111, Planning Commission – Figures in parenthesis indicate % share of total employment

There was a decline in the share of self-employed in the work force from 56.4% in 2004-05 to 50.7% in 2009-10. At the same time there was an increase in the casual workers from 28.3% to 33% particularly in the organized formal sector. The increasing trend in casualisation is a serious matter since the workers are not having access to assured social protection, job security and other benefits which the workers in the formal sector enjoy. These factors affect the productivity level. Bringing the informal sector workers into the mainstream is a major challenge for India

Steps to Streamline the Informal sector

It is a formidable task and a challenge to bring more than 90% of workers into the mainstream. Tough initiatives have been taken by the Government. There is scope for more efforts in this direction

- There is a need to expand the coverage of formal and informal apprenticeship training. The Apprentice Act can be amended to include MSME clusters
- The training infrastructure should be up graded and training should enable greater use of ICT for reaching out to remote areas. It is necessary to adopt the best practices which have proved to be useful in other cases.
- A cadre of skilled trainers should be developed since this will determine the actual training and skill generation
- The employers, Government and trade unions have to espouse the cause for skill training and social protection.
- There is a need to create enterprise based schemes that respond to training needs of their category of work.

- There is a need to operationalize the National Skill Qualification Framework, National Occupational Standards and to develop a dynamic labor market information system. Such steps will help in skill formation in the informal sector.
- A National Skill Development/training fund can be constituted for financing skill development in the informal sector
- The size of the informal sector can be reduced by creating a large number of formal sector jobs. In order to facilitate this it is necessary to allow for flexibility in labor legislation, provide support to the MSME sector and improve infra structural facilities.
- It is necessary to provide social security measures for workers in the informal sector also. The initiatives in this respect are the passing of the Unorganized Worker's Social Security Act 2008, implementation of Rashtriya Swasthya Bima Yojana, Aam Admi Bima Yojana and other social protection measures. Even a comprehensive social security scheme which covers life, health, maternity and retirement benefits to workers in the unorganized sector is on the anvil
- Non- formal basic education can be an alternative instrument for promoting cognitive competencies. Studies have proved that non- formal training programmes for the informal sector including trade courses, survival training, apprentice training and other training measures within the framework of community development will be useful.
- There is a direct link between the quality of trained workers and their contribution to productivity. The course curricula of the training institutes should be designed so that they are flexible enough to face the challenges in the market. Practical need based training should be strengthened.
- Information and communication technology can play an important role in promoting the vision of training, education and skill development for decent work in the informal sector.
- Multi stakeholder involvement constitutes a powerful counter force to market failures. Since the employers in the informal sectors are rarely in a position to finance the cost of training, NGO's and other voluntary organizations can play a pivotal role in taking the initiatives for providing training (Sanghi& Sensarma-2013).

Reforms in the labor market

A series of reforms were announced by India's Prime Minister on October 16th 2014, titled 'Shramev jayate' to overhaul India's labor market and the 'Make in India' campaign is to be hinged to labor reforms which are important for attracting international business. Labor market reforms coupled with skill development programmes will enable the huge unskilled workers to become more productive and make a positive contribution to India's economy. Flexible labor laws will enable economies to grow fast. Estimates using plant level data suggest that firms in labor intensive industries and in states with flexible labor laws 14% higher (Total Factor Productivity) than their counterparts in states with more stringent labor laws.(<http://insightsonindia.com>) According to the Economic Survey, India has too many labor laws ie., 45 of them between Centre and states. The new reforms envisaged by the Government includes doing away with labor inspectors and introducing a computerized system of uploading the reports of companies and use of E- governance.

The informal sector in India is huge. These are micro firms employing 5 to 10 people. The employers are discouraged to expand their business due to a number of regressive laws. Moreover a huge majority of workforce get no formal training. This results in low productivity and low value addition. Hence it is necessary to tap the potential of the unorganized sector for employment generation and skill development. The laws with regard to this sector should protect the workers, and at the same time encourage and motivate the employers to expand employment so as to realize the full potential on the production front.

Labor market reforms are undertaken to increase competitiveness. Though the globalization and liberalization process began in India since 1991, the labor market remained largely out of the purview of these reforms. As a consequence, India missed the opportunity of becoming a manufacturing hub of the world. This can be attributed to problems like rigidities in the labor market, archaic labor laws and glaring skill deficit. Though the Government has tried to bring in sporadic changes in labor laws, labor market in India remains poker faced and fails to attract foreign direct investments especially in labor intensive sectors like leather goods, textiles, gems and jewelry, sports goods, weapons and ammunition etc.. Labor reforms need to be viewed in a holistic manner so that India emerges as a preferred manufacturing destination of the world owing to higher labor productivity, skilled workers, flexible labor market practices and low labor costs without compromising on labor standards.

Labour market liberalization is urgent for complementing the efforts for skill up gradation for our manufacturing sector to become world class. Substitution of bureaucratic control by transparent governance is important for foreign investment. Labor market liberalization will facilitate employment

flexibility, skill development and job creation on a wider scale.

It is important to eliminate out dated laws which has been the biggest obstacle to the realization of an industry friendly labor market in India. It is essential to have labor laws to match the emerging requirements like the casualization of labor, third party employment .It is equally important to ensure that basic rights of workers are protected and labor standards are implemented across industries.

Many times the problem is not so much with the law itself, but the lengthy tedious nature of legal proceedings, which increase the cost of hiring labor and adds to the 'hassle' factor(Jha-2014)

The law enforcing machinery also needs rectification. They use extensive power to harass employers and tries to attract bribes. At the same time trade unions want further strengthening of the law enforcement system. A balanced approach is called for.

There is consensus on the fact that it is necessary to eliminate absurdities, dualities and ambiguities in the various laws. It is necessary to remove the rigidities in the labor market to increase global competitiveness. Comprehensive labor reforms covering all aspects of labor and industrial relations along with skill up gradation will enable India to emerge as an important world player in the manufacturing sector.

Conclusions

There is an urgent need to effectively implement the initiatives which have been taken to bring the informal sector into the fold of mainstream development process. The growth rate of the economy must be high enough to enable productive activities and opportunities in the informal sector. It is necessary to focus on measures to increase employability through special emphasis on skill enhancement and apprenticeship training Efforts must be taken to streamline the activities of the informal sector which forms the major chunk of the Indian economy. It is essential to tackle the problems of skill mismatch, restrictive labor legislation and procedural delays which slow down the process of formalization. It is necessary to eliminate the lacunas in the labor market in view of increased need for competitiveness. Comprehensive labor reforms coupled with skill enhancement measures will empower the Indian manufacturing sector.

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