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India's Informal Workers Under the Lockdown: A Snapshot

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Not only did the income of the informal workforce take a hit, but limited savings made survival extremely difficult, adversely impacting their livelihood.

ABSTRACT

The informal sector employs over 90% of the total Indian workforce (Murthy 2019). The COVID-19-induced lockdowns massively reduced demand for various non-essential goods produced by the informal economy, leading to a decrease in production levels. This significantly contributed to the soaring levels of unemployment in and beyond this sector. Not only did the income of the informal workforce take a hit, but limited savings made survival extremely difficult, adversely impacting their livelihood. Consequently, the informal workforce entered a trap that reinforces their wage loss, fall in consumption levels, and high indebtedness. This issue brief analyses the impact of the COVID-19-induced lockdown and the economic slowdown on India's informal workforce.

CONTEXT

About 92.4% of India's total labour workforce and 85% of the entire rural workforce¹ (National Sample Survey 2011-12) is engaged in the informal sector (Murthy 2019). Moreover, this sector contributes to more than 50% of the economy's total output (ibid). With no written job contracts, social security, health benefits, or paid leaves, the nature of employment in this sector makes those engaged with it quite vulnerable.

The precarity of working in the informal sector most likely worsened after the demonetisation exercise in November 2016. While its stated objective was to restrain the stock and flow of black money in the economy, the largely cash-dependent informal sector was severely affected as the government sought to impose formalisation onto the economy (Mukta 2018). This led to a contraction in production and consumption levels, and the technological unawareness of many informal workers forced them to shift to traditional payment methods and borrowings (White 2020). As noted by some experts, demonetisation amplified the level of income inequality by transferring income from the informal to the formal sector (Mukta 2018). The introduction of the Goods and Services Tax (GST) in 2017, another step towards formalisation, resulted in revenue losses — at least for small businesses. Some economists assert that this may have led to job losses for approximately 35-45% of workers engaged in the informal economy (White 2020). In September 2019, rural household consumption reached a 7-year-low, reflecting agricultural distress and stagnating rural incomes which further “eroded demand for consumer goods” (Tandon 2020).

The nationwide lockdown announced on 24 March 2020, mandated the suspension of all services and establishments with relaxations to only essential service providers². It was only a month later that small retail shops could reopen, but with only 50% of their staff. As a result, economic activity suffered and unsurprisingly, India's GDP growth reduced by 23.9% in the first quarter of FY 2020-21. This was a significant decline. However, when viewed in isolation, this conceals the plight of the informal economy. While gradually slumping into a slowdown, the informal sector's situation worsened with the pandemic's onset — as demand, consumption, and production levels dwindled further. The following sections look at how the lockdown impacted the lives of informal workers who were engaged in the production and provision of non-essential goods and services.

EXTENT OF INFORMAL EMPLOYMENT

To gauge the degree to which the pandemic and resulting lockdown impacted informal workers, there is a need to identify the level of informal employment across sectors. Table 1 shows that employment in the non-farm sector is overwhelmingly informal in nature, meaning that most workers in the sector do not have written job contracts, employment benefits, etc.

¹ The survey stated that 85% of the employees engaged in agricultural and non-agricultural activities in rural areas didn't have access to job contracts.

² Agricultural businesses, public works programmes, cargo transportation and bank, and government aid distribution centers.

Table 1: Informal Employment in Non-farm Sector in India in 2017-18

Sector	Share of Informal Employment (%)
Manufacturing	84.6
Non-Manufacturing	94.8
Service Sector	78.5
Non-Farm Total	83.5

Source: Mehrotra 2019

Additionally, 88.2% of those employed in construction (part of non-manufacturing) are categorised as casual workers³ and contribute considerably to the overall pool of informal workers (Ministry of Statistics and Programme Implementation 2019: A86). The formal sector also exhibits some degree of informality: data from the Periodic Labour Force Survey 2018-19 suggests that about 69.5% of the total regular salaried workers⁴ don't have a written job contract.

INFORMAL WORK UNDER LOCKDOWN

Estimates suggest that up to 80% of the informal sector workers lost their jobs as the lockdown progressed (ActionAid India 2020: 2). Among these, daily wage workers, street vendors, small enterprises, and retailers were completely choked for various reasons.

Much of their revenue relies on face-to-face interaction with customers, which was not possible under the initial preventative restrictions and remained difficult even after the lockdown was lifted. As most informal workers in developing economies have low incomes (Shekar et al. 2020), they did not have the means to adopt alternative modes of work quickly.

For most consumers, the lockdown also led to a shift in expenditure. While the expenditure on non-essentials was reduced to afford necessary goods, the overall demand for goods and services slipped considerably, pushing the economy into a demand crisis (Kasliwal 2020). What followed was a decline in production and an increase in layoffs. Since consumers did not exhibit the willingness to purchase non-essential commodities, all enterprises engaged in their production had to cut back on their output levels and production costs in the initial months of the lockdown (ibid). The employers also resorted to laying off several workers to save costs. Table 2 shows, from a survey on informal workers, the sector-wise breakdown of the share of respondents looking for work before and after the lockdown.

³ Those who are guaranteed work only when required without expectation of additional work in the future.

⁴ Those who are paid a fixed sum of salary on a regular basis by their employers.

Table 2: The Status of Employment of Informal Workers Across Sectors Pre & Post Lockdown (in %)

Sectors	Pre- Lockdown			Post Lockdown		
	Unemployed	Seeking Work	Working	Unemployed	Seeking Work	Working
Agriculture	6.14	10.75	83.08	69.92	20.43	9.65
Construction	4.55	7.69	87.76	83.85	10.84	5.31
Manufacturing	2.22	5.12	92.66	79.96	13.07	9.97
Services	2.72	7.42	89.86	76.32	14.2	9.47

Source: ActionAid India 2020

The loss of income due to sudden unemployment might have been bearable if informal workers had been earning enough before the pandemic kicked in. However, more than 50% of all types of workers were living on wages lower than the national minimum wage recommendation of INR 375/day in 2017-18, as shown in table 3.

Table 3: Share of Workers Earning less than 375 MW in 2017-18

Labour Status	Rural Persons	Urban Persons	Total
Casual	88.22	69.23	84.62
Regular Salaried	62.34	47.34	52.83
Self-Employed	75.40	48.72	67.90
Combined (C+R+SE)	77.61	50.94	68.07

Source: Shekar et al. 2020

Estimates show that in low-income countries like India, depleted labour incomes caused by the lockdown could translate into more than 56% of informal workers and their families living in relative poverty (Griffin et al. 2020). Uncertainties around employment, income, and livelihoods, led to large scale migration of daily wage workers and other informal sector workers. The large influx of labour force migrating from cities to villages might have led to an increase in labour supply, which could cause a fall in agricultural wages at least in the near-term.

SPENDING, SAVINGS AND DEBT

Food Inflation

Informal sector workers, who had not been earning adequately before the pandemic, further lost their primary income sources due to the lockdown. While the overall economy faced income/wage cuts, spending on essential commodities remained of primary importance, even for the poor. The lockdown caused a

massive disruption of the supply chain, leading to stockpiling of some essential commodities. The suspension of transportation services led to overflowing inventories and unavailability of these products in the market. Since the demand for such items (vegetables, fruits etc.) was high whereas supply was less, their prices increased.

The Households' Inflation Expectations Survey was conducted by the Reserve Bank of India (RBI) between August and September 2020. It aimed to show what consumers thought inflation levels (rise in prices of commodities) would be in the upcoming year. As shown in Table 4, the survey respondents — most of whom belong to the informal economy — expected the level of inflation to rise significantly in three months from September.

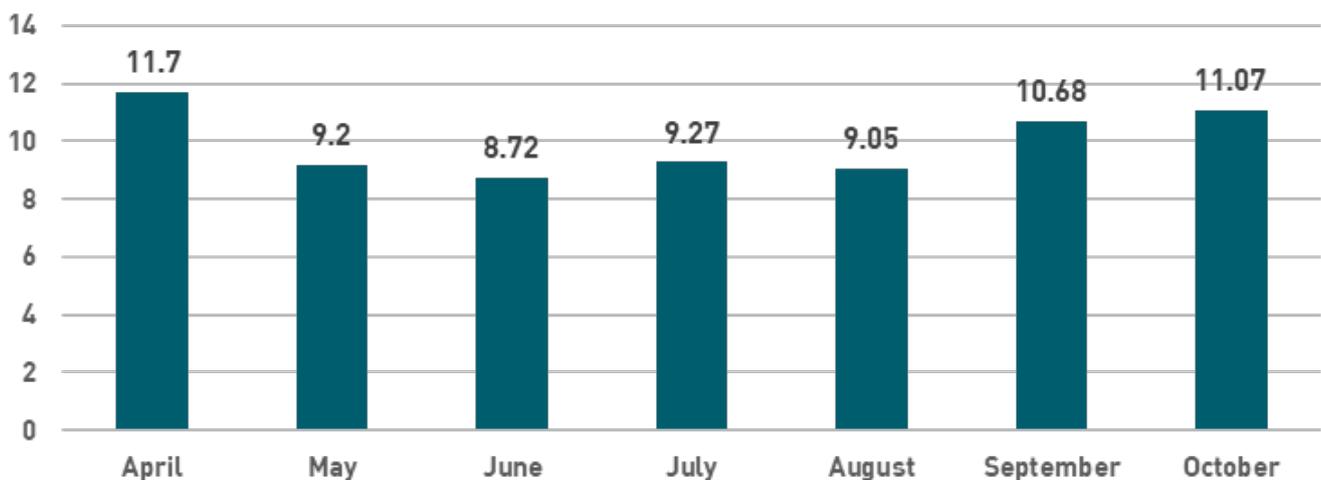
Table 4: Inflation Expectations of Various Groups (September 2020)

Categories	Current Perception of Inflation	Three Months Ahead, Expectation of Inflation
Self Employed	9.9	10.7
Homemaker	9.9	10.7
Daily Workers	10.0	11.1

Source: Reserve Bank of India 2020

As anticipated in the RBI survey, food price inflation saw an increase in the last months of 2020 with essential consumption commodities like onions, potatoes, and eggs becoming more expensive (Jadhav & Ahmed 2020). Additionally, since the lockdown, everything from healthcare services to transportation and communication has become more costly — as shown in Figure 1 (ibid).

Figure 1: Consumer Price Inflation in India in 2020



Source: Ministry of Statistics and Programme Implementation

This means essential goods and services became even more unaffordable for informal workers who were already surviving on inadequate income levels. As previous levels of consumption could only be maintained at higher prices, consumption saw an expected decline. Table 5 shows the reduction in food consumption as recorded in a survey of informal workers during the lockdown.

Table 5: Decline in Food Consumption by Employment Category (in %)

Category	Decline %*
Casual Labour	61.65
Own Account Worker (Home Based)	63.17
Regular Labour	69.27
Self Employed (Non-home Based)	63.32

* The percentage was taken as a simple average of percentages across rural and urban areas.

Source: ActionAid Association India 2020

This could lead to two possible scenarios. One where prices soar and households in the informal sector are forced to borrow since they have limited or no income to purchase goods and services at levels essential for survival. In the second scenario, households dig into and bleed out their limited savings to make survival possible. This process of dissaving or borrowing could severely impact the consumption of certain requisite services. This may include removing children from schools, increasing child labour, selling fixed assets at non-corroborating prices etc. (Ho et al. 2020).

Low Savings and Higher Indebtedness

While estimates of savings made in informal households are not readily available, many researchers rely on the assumption that workers in the informal economy from developing nations have limited or no savings at all. According to the World Bank, “Informal workers on average have incomes 19% lower than formal workers and have limited savings” (Yu 2020). An International Labour Organization (ILO) report suggests that informal workers “have low productivity, low rates of savings and investment, and negligible capital accumulation” (ILO 2020). The report also highlights the possibility of owners of informal enterprises using their negligible business capital to fund consumption, as they have no savings or financial cushions (ibid). Thus, it can be concluded that a dearth of savings and rising prices leave informal workers no civil option besides borrowing. An Action Aid survey on informal workers found that 58% of the respondents had to borrow money to meet their expenses during the lockdown (Shekhar et al. 2020).

The accrued indebtedness of informal workers puts them at risk of being pushed into bonded labour⁵ (Nagaraj 2020). As millions of informal workers remained desperate without cash or food, they would have found it hard to possess adequate paperwork for credit from traditional sources. Subsequently, this may have led them to turn to informal moneylenders who provide loans at higher

⁵ Also known as debt slavery, bonded labour is when a person pledges their services in case of repayment of the loan taken.

interest rates, leading to higher debt, the risk of violence, and being trapped in bonded labour (ibid).

With soaring debt, diminishing savings, spiking food inflation, and mostly absent income, people make purchases for the most basic items in small quantities meant only for daily consumption (Jadhav et al. 2020). In fact, only 63% of the respondents in a survey reported being able to consume two meals a day after the lockdown (ActionAid 2020: 32).

This process has probably pushed India's informal workers into a trap which can be visualised in the following manner:

Figure 2: The Vicious Trap



POLICY RESPONSES AND CONSTRAINTS

The informal economy is in urgent need of reform. In particular, pandemic-induced hardships require additional support. This would require the government to boost the informal sector while making government programs and relief measures more inclusive. However, with no job contracts, social security, or any other benefits, it isn't easy to gather sufficient data on informal workers. Consequently, strategies to support or reform the sector face challenges during implementation.

Tackling food insecurity among informal workers has so far been inefficient. Households in a poverty-stricken informal sector are unable to reap the benefits of government schemes. An estimated eight crore households in India do not have ration cards, unable to utilise the relief provided by the Public Distribution System (White 2020): this holds true for informal workers also. In a recent survey, only 7% of informal workers were found to be enrolled in the Integrated Child Development Services (ICDS) Programme, while only 5% were enrolled in PM-KISAN (ActionAid India 2020). Many informal workers were not able to receive

any form of cash assistance. The following table shows the different sources of cash assistance provided to a group of informal workers who were surveyed during the lockdown.

Table 6: Cash Assistance Across Various Sources (in %)

SOURCE	% of respondents
Government	10.73
Trade Unions	3.2
NGOs	4.5a
SHGs	4.56
Employers	5.78
Others	4.65
NO ASSISTANCE	78.76

Source: ActionAid Association India 2020

The efforts taken by the government to keep an account of this sector — its contribution to the economy and its nature — have been minimal. In 2004, the National Commission for Enterprises in the Unorganised Sector (NCEUS) was created, which provided an online platform for research and policy material on the informal economy (White 2020). However, this organisation was later dissolved in 2013, restoring a greater degree of uncertainty and anonymity to the sector and its constituents.

A crucial feature of informal establishments is that they are not registered. Hence, the formalisation of the informal sector may assist in achieving certain goals. “The pandemic has put the informal sector enterprises in a position where the cost of registration seems much lower compared to the benefits which they will receive in terms of access to finance and liquidity from the government in such troubled times” (Deb 2020). Such a transformation will qualify informal enterprises to reap the benefits put forth in the government’s relief packages (ibid). Formalisation could also help in data collection, having a ripple effect in tracking and monitoring efforts when it comes to migrant labourers.

With soaring levels of unemployment, concerns to re-employ workers of the informal economy become essential. The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) may prove useful at this point. However, most of the employment guaranteed by MGNREGA is in agriculture, which is already overstaffed. In April 2020, only 12% of the projected level of employment was created by MGNREGA (ActionAid India 2020). Not only this, MGNREGA aims to provide a solution only to the rural unemployed. A similar scheme for informal workers who are out of work in urban areas might prove useful.

The stimulation of demand in the economy is one of the main ways to carry it out of the current recession. Since Micro, Small, and Medium Enterprises (MSMEs) along with other allied enterprises, generate more than 80% of earnings in India,

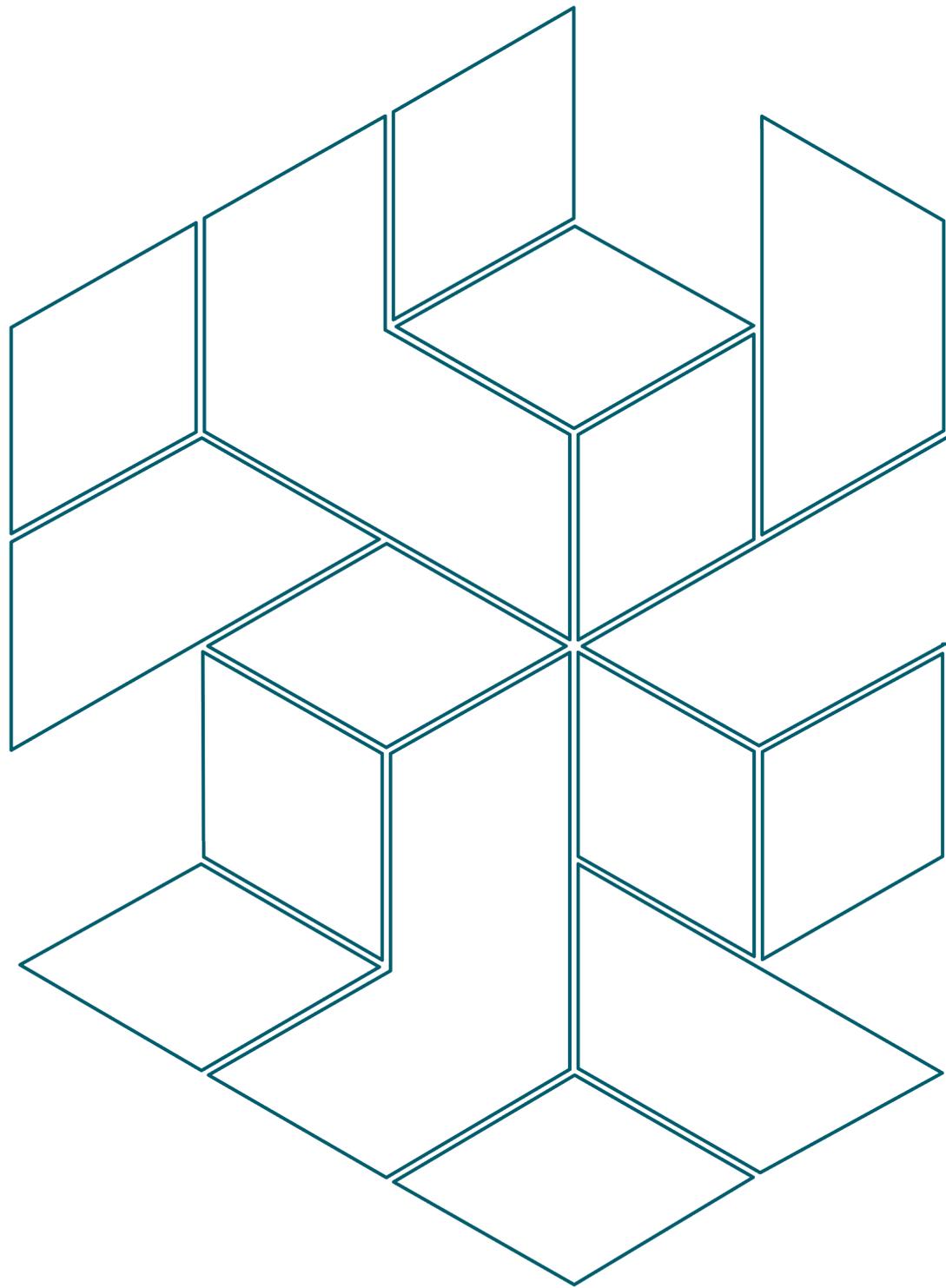
the relief introduced by the government in this regard might prove useful. The Centre had recently agreed in the Supreme Court, to waive compound interest charged on loans taken by individuals and MSMEs worth up to 2 crores (Press Trust of India 2020a). Also, as part of its first tranche of relief measures, the government had proposed to offer collateral-free loans to MSMEs which would be fully guaranteed by the Centre (Press Trust of India 2020b). This may encourage borrowings by individuals and informal enterprises, thus reviving demand in the economy and therefore pushing the informal workforce out of the trap.

In conclusion, the ongoing pandemic has created an urgent need for building resilience in the informal economy. The government needs to take action with regards to the job security provided to the workers engaged in the informal sector. Additionally, the government needs to provide social security benefits, food security, health benefits, and safety of migrant workers and all other members of the informal sector. This needs to be done in a way that not only manages the current crisis but also immunises the informal economy from the adversities of future shocks.

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