

IS EMPLOYMENT IN INDIA MAKING A TRANSITION FROM INFORMAL TO FORMAL? MAKING SENSE OF PLFS & CMIE SURVEYS AND REAL-TIME E-SHRAM DATA

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Our recent report of the shrinkage of the informal sector in India has rightfully stirred a debate. While it is clearly evident that the formalization of the Indian economy measured in terms of GVA is progressing at a rapid pace in terms of the overall direction, that of formalization of informal employment may have just picked up the gauntlet after the launch of E-Shram portal. **It is now estimated that around 28% of the unorganized sector labourers** have registered on the website, with West Bengal, Uttar Pradesh, Bihar, Odisha and Jharkhand accounting for close to 70%.

It may be noted that after registration at E-Shram Portal, the unorganised workers shall receive a digital e-Shram card, a Universal Account Number that will be acceptable across the country and they will not be required to register at different places for obtaining social security benefits. Further, Government also plans to link the National Database for Unorganised Workers under the E-Shram portal with Unnati, a proposed job matching portal.

Given that E-Shram portal is a real time employment portal for registration of informal workers, it begets the question of how such data on informal employment could be juxtaposed with employment surveys like PLFS and CMIE survey. This will also help us to understand whether any fundamental change is also required in the definition of informal employment in India. In India, informal employment is defined as someone who is not eligible for at least one social security benefit among Provident Fund (PF), Pension, Gratuity, Health Care Benefit or Maternity Benefit. Formal Employment on the other hand is one who gets at least one social security benefit.

To understand the linkage of real time E-Shram portal with PLFS and CMIE survey, we looked at the state-wise registrations of E-shram portal and mapped it with the unemployment rate and state-wise number of workers who are not in a job but are unwilling to work, as per CMIE. It is logical to hypothesize that if the number of registrations at E-Shram portal is significantly large in a state, it would ideally imply people are willing to register on the job portal as either (a) they may not be gainfully employed or (b) they are eager to get the benefits of social security or both. This would thus imply that the state will ideally have a low unemployment rate, if we take the example of Gujarat, Karnataka or even Telangana as the base case, where the E-Shram registrations and unemployment rate are positively related. **However, when we mapped the registrations with the unemployment rate across states, it threw up contrasting results, that require a detailed explanation.** In all our analysis, we ideally make a fundamental assumption of the correctness of survey results.

First, in states like West Bengal and Odisha that are witnessing the maximum E-Shram registrations, the unemployment rate is significantly low, contrary to what we hypothesized. We believe this could again imply that (a) An informal labour force necessarily does not imply a higher unemployment, or (b) the formalisation of informal labour force is continuing at a satisfactory pace or (c) people are not willing to work in formal employment as they may be already the beneficiaries of a guaranteed largesse of benefits or the wages are not rewarding. **West Bengal and even Odisha have already introduced universal / limited income guarantees** that may have resulted in such. Interestingly, in US recently, there is news that there is not enough truck drivers possibly because of the same reason. Bihar, Uttar Pradesh and Jharkhand the other 3 states topping the E-Shram portal begets the trend, with Uttar Pradesh adding to the labour force and Bihar and Jharkhand witnessing a high unemployment rate, as we had hypothesized.

However, states like Maharashtra, Andhra Pradesh and Gujarat have also witnessed a significant percentage of labour force not willing to work. This might indicate that the migrant labourers are yet to come back in full steam into these states.

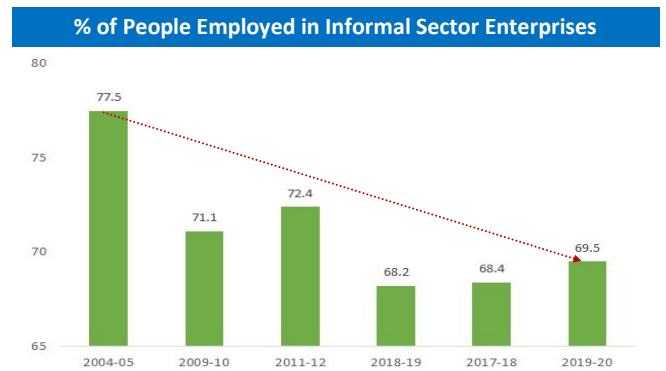
Given these contrasting trends in Indian labour market, we now strongly recommend to look at the existing definitions of informal labour force, specifically after the pandemic. **While it is easy to criticise any data that shows a faster than expected formalisation as a figment of imagination and term it as politically motivated as the existing debate in public domain shows, it is now high time we come up with recommendations for improving the conditions of our labour force. In this context, the E-Shram data that is portable across states could just be the beginning of such a process.**

FORMALIZATION OF EMPLOYMENT

- ◆ Indian economy has undergone significant formalisation in last 5 years. The share of informal sector GVA to total GVA has declined 15-20% in FY21 from 52.4% in FY18. (refer *Ecowrap* dated 01 Nov’21).
- ◆ In India according to PLFS 2019-20, 69.5% of the workers in non-agriculture sector were engaged in informal sector. As per PLFS, proprietary and partnership enterprises are considered as informal sector enterprises. The share of informal sector among male workers was 72.9% and among female workers was nearly 56.5% in non-agriculture. Though it has increased in 2019-20, but has declined significantly compared to 2004-05, when the share of informal sector was 77.5%.
- ◆ The literature suggests that using the employment approach to estimate the informal sector contribution of employment is quite difficult.
- ◆ The earlier literature on the informal economy viewed it as a “monolithic” bloc, where all those without access to the formal sector find themselves in (La Porta and Shleifer 2014). More recent studies have highlighted the heterogeneous nature of the informal economy, recognising the inherent duality in both self-employment and wage employment (Kanbur 2017). In informal self-employment, a distinction can be made between employers, that is, enterprises that employ hired workers and are relatively productive, and own-account enterprises, which use family labour and are involved in subsistence activities (Chen 2006, 2012; Raj and Sen 2016).
- ◆ In Informal wage employment, there may be workers with better paid jobs with some *de facto* benefits, though not with the same security of tenure and social security benefits as formal wage jobs, coexisting with poorly paid jobs in manual work, such as in farms and in construction sites, where informal employment is a last resort job to avoid unemployment (Fields 2014).
- ◆ However, lot of economic components from informal activity particularly production and wages are lost to measurement. But the they may impact formal consumption. For instance an informal wage-earner’s trace in economy may be captured by the shampoo-sachet or glucose biscuit she may be purchasing. Likewise a small entity whose profit is below tax threshold may be a seller in an online platform and accept UPI based payments.

Percentage of workers engaged in non-agriculture sector			
	PLFS (2019-20)	PLFS (2018-19)	PLFS (2017-18)
Rural			
Male	79.0	76.5	74.4
Female	59.4	58.5	59.2
Person	75.3	73.6	72.1
Urban			
Male	66.4	65.8	67.2
Female	54.1	50.2	51
Person	63.7	62.8	64.1
Rural + Urban			
Male	72.9	71.5	71.0
Female	56.5	54.1	54.7
Person	69.5	68.4	68.2

Source: SBI Research, PLFS



Source: NSS; SBI Research

Definition of Formal vs. Informal Employment, PLFS 2018-19			
Status of work	Formal sector	Informal sector	Household
Self-employed: own account	Informal employment		Informal employment
Self-employed: employer	Informal employment	Formal employment	
Unpaid family	Informal employment		
Regular salaried/ wage employee	Informal employment , if not eligible for at least one social security benefit among Provident Fund (PF), pension, gratuity, health care benefit or maternity benefit.		
Casual wage labour in public works			
Casual wage labour in other types of work	Formal employment , if eligible for at least one social security benefit		

Source: SBI Research; Centre for Policy Research, New Delhi

E-SHRAM REGISTRATIONS PLFS AND CMIE DATA: LOOKING THROUGH

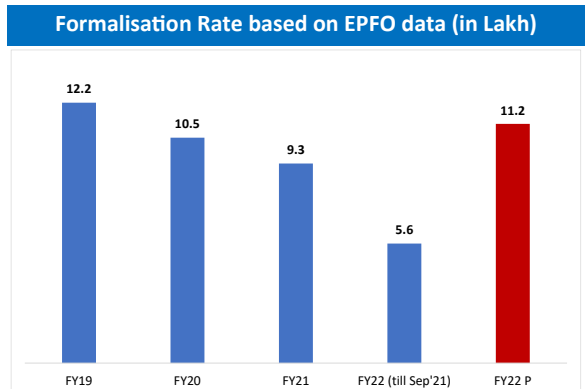
- ◆ The Government launched the E-Shram portal, a database of unorganised sector workers, on 26 August 2021. The portal is the first-ever national database of unorganised workers including migrant workers, construction workers, gig and platform workers. It facilitates extending benefits of social sector schemes to the workers in the unorganised sector. So far (as of 28 Nov), ~9.7 crore unorganised workers have registered.
- ◆ The top 10 states account for 87% of total registration and top 4 states account for 66% of total registration, with West Bengal on the top (with more than 2 crore registrations), followed by Uttar Pradesh and Odisha.
- ◆ There is a general perception that registration of E-shram is more in the states where the unemployment is more. However, the data reveals that this is not true for most of the states.
- ◆ The top three states that accounted for more than 55% of total E-shram registrations have unemployment rate (as per CMIE, Oct-21) less than 6%. Only in the case of Bihar/Jharkhand/Rajasthan, we can say that high unemployment led to high registrations.
- ◆ To understand the linkage of real time E-Shram portal with PLFS and CMIE survey, we looked at the state-wise registrations of E-shram portal and mapped it with the unemployment rate and state-wise number of workers who are not in a job but are unwilling to work, as per CMIE. It is logical to hypothesize that if the number of registrations at E-Shram portal is significantly large in a state, it would ideally imply people are willing to register on the job portal as either (a) they may not be gainfully employed or (b) they are eager to get the benefits of social security or both. This would thus imply that the state will have a low unemployment rate, if we take the example of Gujarat, Karnataka or even Telangana as the base case. However, when we mapped the registrations with the unemployment rate across states, it threw up contrasting results that require a detailed explanation. In all our analysis, we ideally make a fundamental assumption of the correctness of survey results.
- ◆ First, in states like West Bengal and Odisha that is witnessing the maximum E-shram registrations, the unemployment rate is significantly low, contrary to what we hypothesized. We believe this could again imply that (a) An informal labour force necessarily does not imply a higher unemployment, or (b) the formalisation of informal labour force is continuing at a rapid pace or (c) people are not willing to work in formal employment as they may be the beneficiaries of a guaranteed largesse of benefits or the wages are not rewarding.

E-shram registration & Unemployment Rate			
State	E-shram registration (in lakh)@	Unemployment Rate (%)*	Change in Willingness to work ('000)^
West Bengal	210.2	5.6	-1614
Uttar Pradesh	175.9	4.2	1540
Odisha	120.7	1.1	-495
Bihar	100.8	13.9	554
Jharkhand	47.3	18.1	185
Chhattisgarh	40.2	3.1	-495
Punjab	32.1	11.4	-175
Madhya Pradesh	30.1	1.9	-81
Rajasthan	23.5	29.6	222
Assam	22.4	3.7	30
Maharashtra	20.4	4.3	-1400
Kerala	17.1	5.4	-48
Andhra Pradesh	15.6	5.4	-1350
Karnataka	11.6	1.5	-546
Tamil Nadu	11.4	4.9	-830
Gujarat	10.3	2.4	-2463
Telangana	7.2	4.2	-303
Jammu & Kashmir	6.7	22.2	702
Haryana	5.2	30.7	-167
Tripura	4.5	9.9	2

Source: CMIE; E-shram; SBI Research; * Oct-21 @: as of 26.11; ^: Unemployed willing to work but inactive in seeking job May-Aug'21 change over May-Aug'20

FORMALISATION RATE BASED ON EPFO DATA

- ◆ Monthly EPFO payroll report provides data on establishments remitting first ECR (Electronic Challan-cum-Return) in a particular month. Based on this data we estimate that that since FY18, almost 37.6 lakh jobs have been formalised till Sep'21. We expect that this fiscal formalisation rate will be higher than FY20 but lower than the FY19 level.



Source: EPFO; SBI Research

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