



Reassessing the Place of the Informal Sector in India's Development Story

The Baha'i Chair for Studies in Development, Devi Ahilya University, Indore is organizing a webinar on the theme '*Reassessing the Place of the Informal Sector in India's Development Story*'. In light of the acute precarity faced by India's informal sector brought to light during the COVID-19 pandemic, the webinar seeks to stimulate a conversation around reassessing the place of the informal sector in India's development story and of the paternalistic ways in which informal sector workers are viewed in policy and development discourses.

India has the world's largest informal sector employing close to 400 million people. This sector includes small enterprises and unregistered labourers who remain below the threshold of government regulation and who are excluded from social protections, labour protections, job security, opportunities for economic advancement and a voice in the determination of policies and decisions that affect their lives. Those employed in this sector are engaged in a wide spectrum of work ranging from manual labour and service provision in fields such as agriculture, construction and domestic work to street vendors and home-based workers producing goods and services for the market from within or around their homes.

Informal sector workers make a vital contribution to the Indian economy by providing essential goods and services. It is estimated that the informal sector contributes 55 % of India's national earnings. A disproportionately large number of the socially and economically underprivileged populations in India gain their livelihoods in the informal economy. Thus, the sector helps prevent poverty and hunger and it contributes to the preservation of local culture and social life. Yet, despite their contributions under difficult conditions, informal sector workers are often misunderstood and undervalued and they tend to be stigmatized in policy and development discourses as the cause, rather than the effect, of a low level of development.

The COVID-19 pandemic which came as a devastating blow to informal workers in both rural and urban settings,¹ also exposed the extent to which their state of precarity was invisibilized and normalized in public discourse through the sense of entitlement of the privileged classes. The millions of urban migrants who, in tragic conditions, had to walk back to their native villages and towns during the national lockdowns was a shocking testimony of

¹ Seventy eight percent of the informal workforce in India lost their livelihoods during the lockdowns with unemployment rates in this sector reaching a staggering 90 percent in urban India unemployment and 72% in rural areas.

the distance that separates the lives of informal sector workers from the elite circles where vital decisions that affect their well-being are made.

Those who have analyzed this tendency to undervalue and stigmatize the informal sector have traced its links to various forms of discrimination embedded in India's social structure which have their origins in the history of colonization and in the caste system. During colonial rule in India, the city was divided into two sections - the planned formal section inhabited by the colonial rulers and the unplanned informal city of the 'native' population. Among the legacies of such policies was the pattern of inclusion and exclusion which got embedded in dominant models of economic planning, labour organizing and urban planning. All informal economic activity by the native population was treated with suspicion by the colonial state. Similarly, it has been argued that the stigma attached to the informal sector in India also has its roots in the deep-seated prejudice against performers of manual work such as artisans and service providers in a caste-based social structure where such work is assigned to those on lowest rungs of the caste hierarchy while mental work remains the exclusive preserve of the upper caste groups.

Yet the marginalization of informal sector workers was not just the result of these socio-cultural factors. It was also the outcome of the distortions arising out of the attempt to view and describe India's economic and social realities through the lens of classical development thinking that based its norms and models on the experience of industrialization and modernization in the global North. Economic growth and industrial development was supposed to bring about a transformation of the structure of employment with the movement of labour from agriculture to industrial and service jobs, out of informal self-employment to formal wage employment. Much of the informal sector that did not meet this norm was viewed as part of the traditional, unmodern, under-developed past that needed to be left behind. Over more than seven decades of the application of these theories and models, the promised transition remains far from achieved. The formal economy in India today employs only 31.4 million people while the informal economy continues to provide work to nearly 400 million people.

Many have pointed out that even the conceptual categories used by policy makers and academics are unsuited to understanding the dynamics of the informal sector. The concepts that are currently employed to describe and analyze the labour market take the idea of a formal enterprise transacting with other formal enterprises as the norm. The models of labour markets are largely based on the characteristics and dynamics of wage employment. Wage employment has been institutionalized to the exclusion of other forms of 'informal' employment. The model of wage employment served also as the basis for the design of labour laws and social protections which again excluded informal sector workers who were presumed to be not real workers with a claim to their own rights. To begin to gain a better appreciation of the informal sector would require that the concepts of production, distribution, commerce and markets, employment and labour, self-employment and enterprises be viewed through the lens of informal sector workers and their economic units and activities.

Apart from calling for a better, more nuanced and granular reading of the reality of the informal sector, there has been an appeal for better recognition of their capacities and the contributions they make to the well-being of society. Among those clumped together as an

aggregate in this sector are highly skilled artisans with their own dynamic and sophisticated systems of knowledge which they refine and pass down through a system of apprenticeship. Many of those who form part of the informal sector are known to build and maintain strong social networks as a form of social insurance against risks and unforeseen contingencies. The sector includes micro entrepreneurs who are known to be extremely resourceful², adaptive and creative in their production processes. The highly localized and socially-embedded nature of their work ensures that their economic activities are more likely to be responsive to local environmental, social and cultural contexts and to strengthen existing social bonds and expressions of culture.

In stating the above the intention is not to romanticize or aestheticize the often-difficult circumstances these informal sector workers have to endure or to undermine their need for material and intellectual advancement. While there is undoubtedly the need for improvements in their living and working conditions, the question remains as to how their path of advancement can be paved based on an accurate reading of their realities and by building on their existing strengths rather than destroying their pre-existing values, knowledge systems and cultural base in the name of modernization? How can their sense of agency be strengthened? How can they find a genuine voice in decision making and policy making processes rather than have their participation be reduced to a form of tokenism? This in turn raises other questions about the enabling conditions that would make such participation possible and foster this sense of agency. How can a more accurate, disaggregated and context-specific knowledge about the conditions and potentialities of the informal sector be generated in order to influence policies and programs related to the sector? What kind of economic structures and processes would enable the participation of informal sector workers in more just and inclusive ways? These are some of the many questions that the Chair hopes to explore through this webinar.

² There is usually zero wastage in their production processes