

SBI Research

THE DICHOTOMY OF FORMALIZATION: Economy is getting formalized at a faster pace than the Labor Force but the fault lines may soon taper in particular with full scale harnessing of e-SHRAM portal: 45% of labour force is still informal / as per PLFS Survey it is at 38.9% ...65 lakhs jobs formalized since FY19 as per EPFO data...43% consumption contributed by those at the bottom of pyramid going by ASUSE Survey...

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- ❑ Basis recently released ASUSE data for 2021-22 and 2022-23, meaningful insights into the changing landscape of informal sector can be gauged across rural and urban latitudes, stamping the rapid tilt towards formalization reaching a tipping point now
- ❑ Other Services and Trade led the rapid growth in unincorporated enterprises, more so in rural areas, inching upwards to 6.5 crore in FY23 from 5.8 crore in FY11 even though decadal plus trends shows stability for workers, greater number in urban establishments and there is a concomitant shift in workers from manufacturing to trade
- ❑ Rural establishments, apart from embracing higher growth, also witnessed robust growth in GVA (2.7X against 2.3X growth for urban establishments) with traction coming from rise in contribution from other services...Further, rural establishments have exhibited a rapid **pace of increase from GVA per establishment contribution** with larger increase in all the three sectors, viz. manufacturing, trade & other services vis-à-vis urban counterparts...**Also, GVA per worker increased more for rural establishments** with the other services sector contributing more
- ❑ ASUSE data gets a thumping stamp of credibility, with its figures on wages earned by regular workers matching with PLFS findings....**On an average, a formal hired worker earned Rs 2.45 lakh per annum as compared to Rs 1.11 lakh earned by informal hired worker**...with services being most remunerative and trade being the least!
- ❑ **Distribution of labour force (~568 million) shows 45% of labour force is still informal, with the usual suspects of agriculture (25.5%) and services (13.9%) accounting for close to 40% of total workforce / 88% of informal workforce**
- ❑ Employment distribution data is in consonance with KLEMS data which showed 83.3 million employment generation in between FY16-FY22, with the share of industry and services growing while that of agriculture shrinking (even with a marginal increase in numbers employed because of the reverse migration during pandemic)

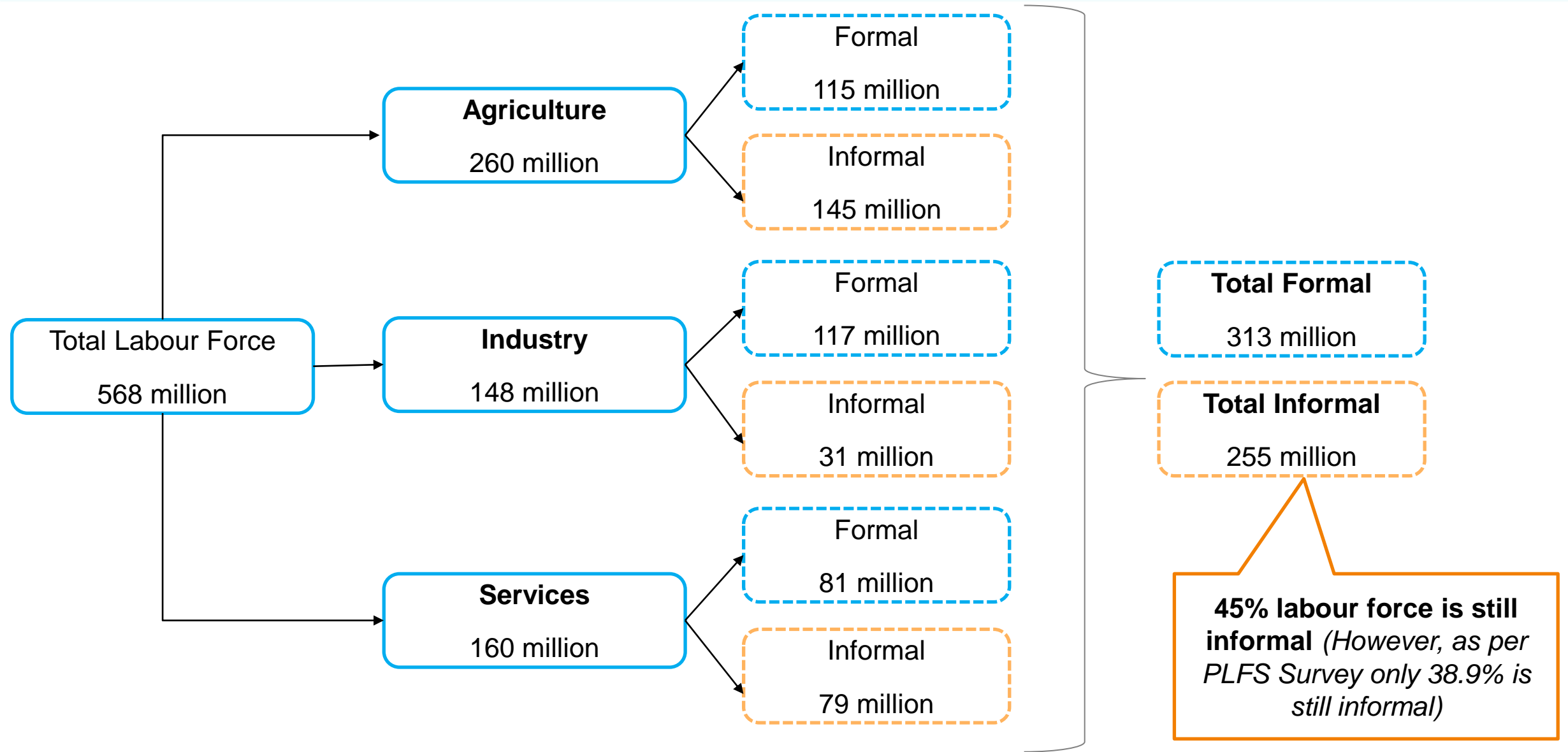
- ❑ We have endeavored to estimate the share of informal economy with some assumptions based on the ASUSE data. Assuming manufacturing as a proxy for industry GVA and trade and other services sector for services GVA, the size of total informal economy comes close to 23.7% in FY23 as compared to 25.9% in FY16.....In absolute terms, this translates into **Rs 26 lakh crore formalized in seven years!**
- ❑ As on date, **~29.7 crore unorganised workers have registered on e-Shram portal of GoI** which holds unbridled possibilities to become a lynchpin for speeding up the formalization of labour force and migrant statistics as a substantial percentage (~47%) comes from migrant outbound states like UP, Bihar, WB etc. Further, the registration in e-Shram portal is slightly higher than the informal labour that we have estimated using ASUSE database (~26 crore), possibly a % of such workers are in the formal sector
- ❑ **Using ECR data of EPFO**, since FY19, close to 65 lakh jobs have been formalised till Mar'24 (though the speed of formalisation shows some deceleration in the last three fiscals)
- ❑ **Bottom of the pyramid's share in consumption stands at ~43% now**

- ❑ The Government has released the factsheet of Annual Survey of Unincorporated Sector Enterprises (ASUSE) 2021-2022 & 2022-2023 which exclusively measures various economic and operational characteristics of unincorporated non-agricultural establishments in manufacturing, trade and other services sector (excluding construction)
- ❑ The comprehensive data pertaining to unincorporated sector including informal sector is essential for planning and policy formulations
- ❑ ASUSE 2021-22 was conducted between Apr'21 to Mar'22 and ASUSE 2022-23 was conducted during Oct'22 to Sep'23
- ❑ The survey covers Proprietorship, Partnership (excluding LLP), Self-Help Groups (SHGs), Co-operatives and Societies/Trusts etc. in rural as well as urban areas (except the villages in Andaman and Nicobar Islands, which are difficult to access)
- ❑ The survey has been conducted following a multi-stage stratified sampling scheme, where first stage units (FSUs) are census villages in rural (except for rural Kerala, where Panchayat wards have been taken as FSUs) and UFS (Urban Frame Survey) blocks in urban areas
- ❑ A total of 16,199 FSUs (8,425 in rural and 7,774 in urban) were surveyed for ASUSE 2021-22 and 16,382 FSUs (8,495 in rural and 7,887 in urban) were surveyed for ASUSE 2022-23

- ❑ 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)
- ❑ However, lot of economic components from informal activity particularly production and wages are lost to measurement. But 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

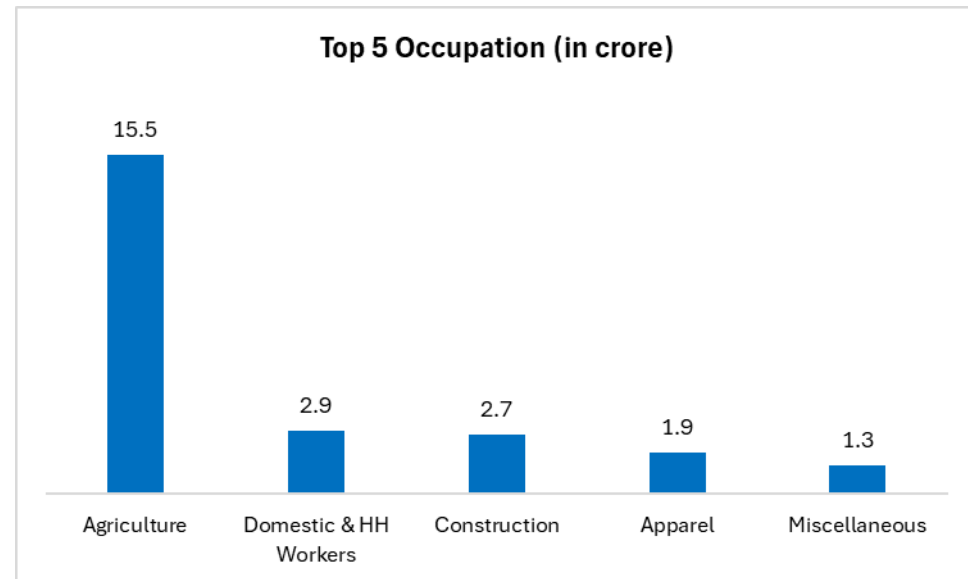
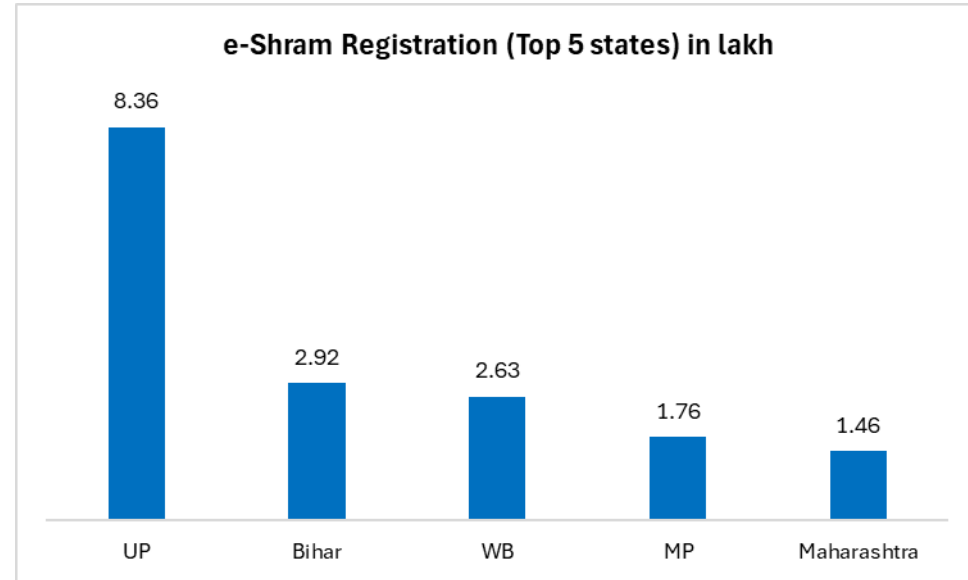
Definition of Formal vs. Informal Employment, PLFS 2018-19			
Status of work	Formal sector	Informal sector	Household sector
Self-employed: own account worker	Informal employment		Informal employment
Self-employed: employer	Informal employment	Formal employment	
Unpaid family worker	Informal employment		
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	Formal employment , if eligible for at least one social security benefit		
Casual wage labour in other types of work			

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



As per E-Shram Portal 29.7 crore workers have registered as informal...possibly, a % of such workers are in the formal sector

- 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 20 June), **~29.7 crore unorganised workers have registered**
- The top 5 states account for 58% of total registration, with Uttar Pradesh on the top (with more than 8 crore registrations), followed by Bihar and West Bengal
- Interestingly, **the registration in e-Shram portal are approximately matching with the informal labour we have estimated using ASUSE database (~26 crore)**
- **Further, the occupation wise e-Shram registration in Agriculture is also matching with our informal estimate**
- We believe that e-Shram data is a powerful tool to speedup the formalization of labour



- Our labour force estimation is based on PLFS survey 2022-23, and the distribution is similar to the KLEMS database

Employment distribution as per KLEMS data base						
	2010-11		2015-16		2021-22	
	No in Mn	% share	No in Mn	% share	No in Mn	% share
Agri	230	49	207	44	237	43
Industry	103	22	111	24	131	24
Service	134	29	152	32	185	34
Total	467	100	469	100	553	100

- With the help of ASUSE recent data, we estimated the share of informal economy with some assumptions
- Assuming manufacturing as a proxy for industry GVA and trade and other services sector for services GVA, the size of total informal economy is 23.7% in FY23 as compared to 25.9% in FY16
- In absolute terms, **Rs 26 lakh crore formalized in just seven years**

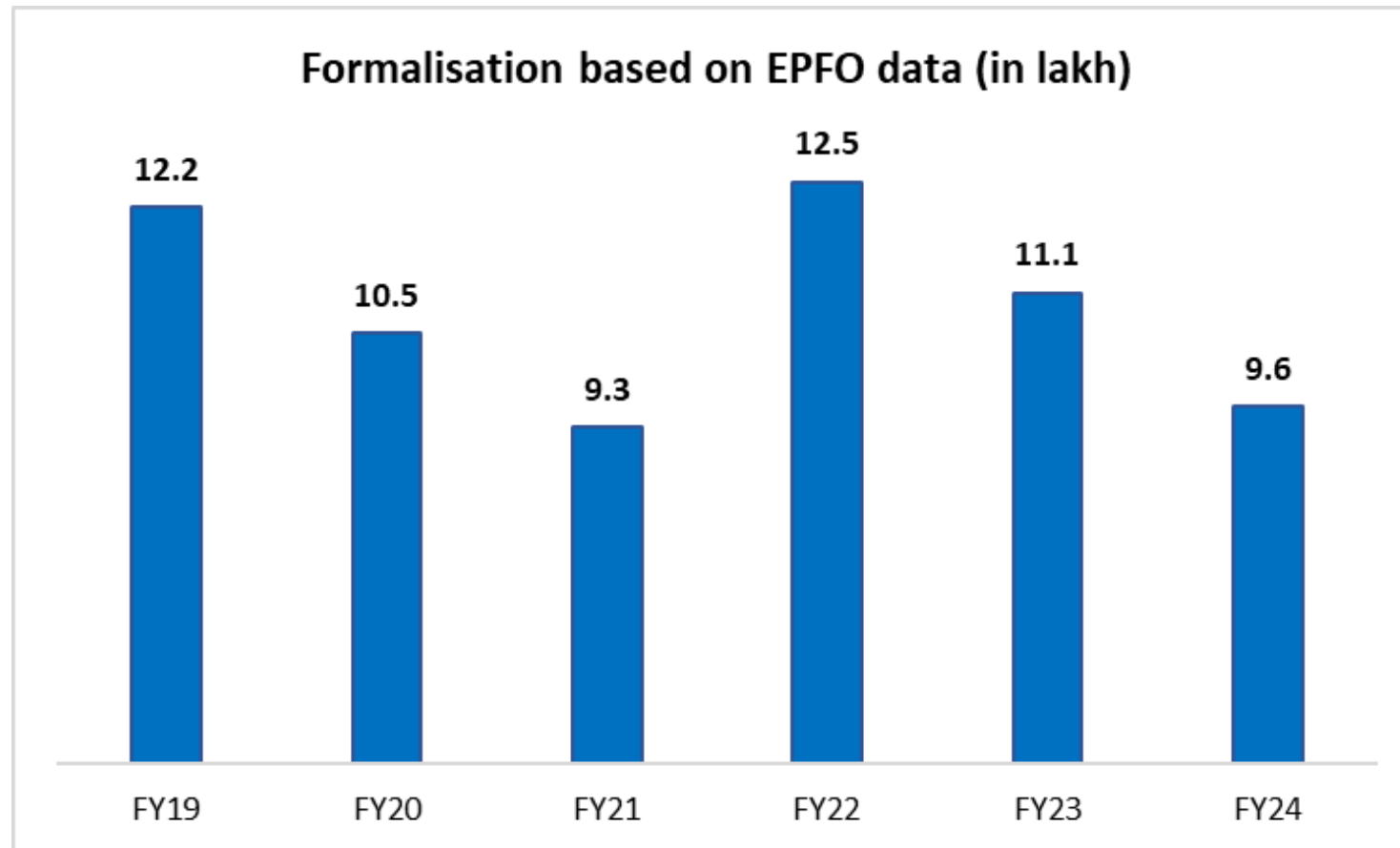
Informal Sector GVA arithmetic as per ASUSE				
	FY11	FY16	FY22	FY23
Actual amount in Rs lakh crore				
Informal Agri	12.3	21.1	39.1	43.0
Informal Industry	1.5	2.7	2.8	3.6
Informal Services	4.7	8.8	10.6	11.8
Total informal GVA	18.6	32.6	52.6	58.4
% share of informal GVA to total GVA				
Agri	94.8	94.5	95.5	95.9
Industry	6.6	7.1	4.4	5.3
Services	13.8	13.4	9.4	8.8
Total	26.3	25.9	24.3	23.7
Source: SBI research, ASUSE Survey, Manufacturing was taken as proxy for informal industry GVA, trade and other service GVA were taken as informal Service GVA, informal Agri GVA is estimated				

Power of Formal Economy : Bottom of the pyramid consumption share at 43%

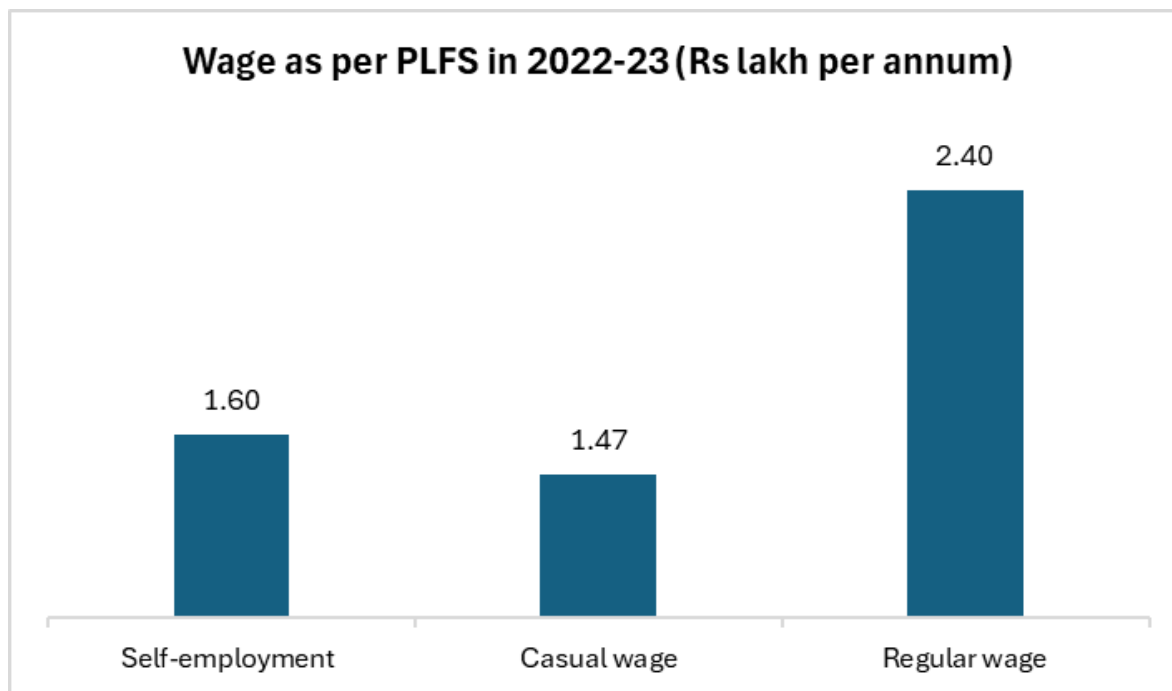
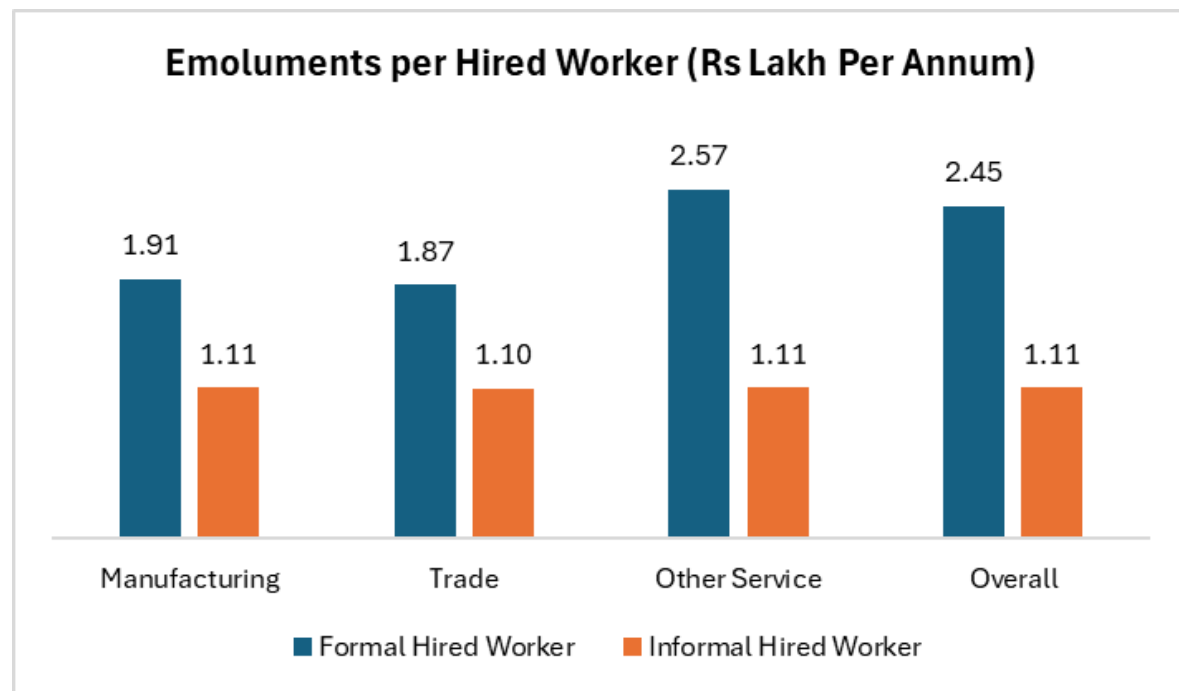
- According to the World Bank data, at 2017 international prices 44% of our population spend less than \$3.65 per day
- As per the ASUSE 2022-23 annual emoluments per hired worker is Rs 1.25 lakh and assuming those 44% earn this amount annually, total consumption spending of such population amounts to Rs 75.9 lakh crore or 43% of the private final consumption expenditure of FY24

Estimate of consumption by those at the bottom of the pyramid	
A. Total population (crore)	138
B. Population living <\$3.65 per day (crore)(=44%*A)	60.7
C. Annual Emoluments (Rs lakh) per Hired Worker (as per ASUSE 2022-23)	1.25
D. Consumption of those living below <\$3.65 per day (lakh crore)(=B*C)	75.9
E. Private Final Consumption Expenditure (Rs lakh crore) FY24	178
F. Consumption of those living below \$3.65 per day (% of PFCE)	43%
Source: SBI Research, ASUSE	

- 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 since FY19, almost 65 lakh jobs have been formalised till Mar'24 (while the speed of formalisation decelerated somehow in the last three fiscals)

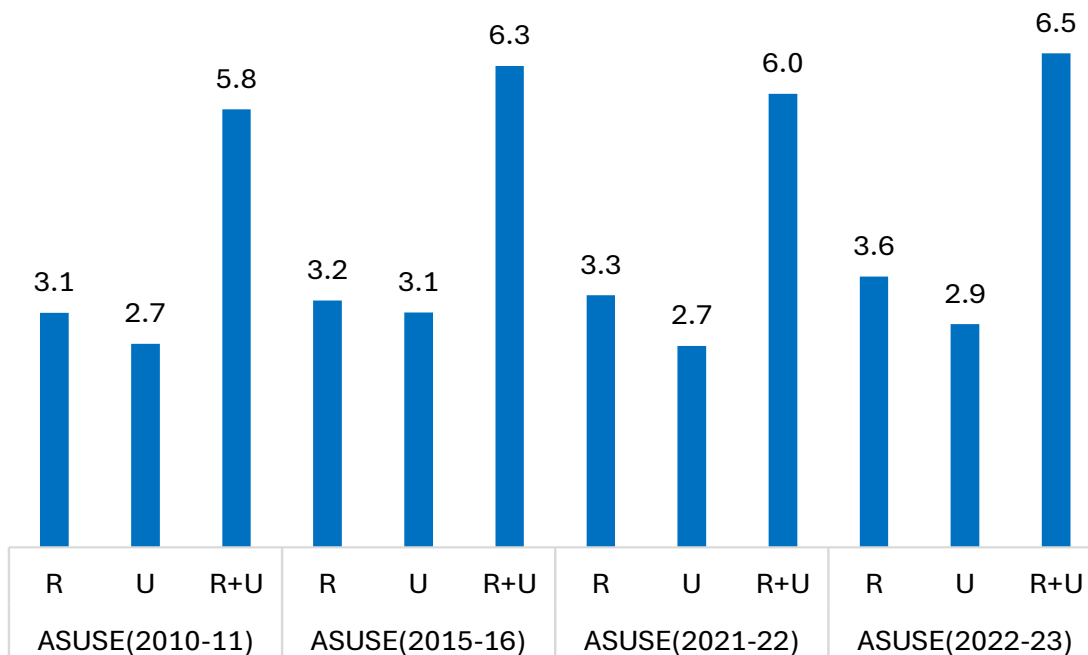


- On an average, a formal hired worker earned Rs 2.45 lakh per annum as compared to Rs 1.11 lakh earned by informal hired worker (with most in services and least in trade)
- Interestingly, wages earned by regular workers as per PLFS are matching with ASUSE data

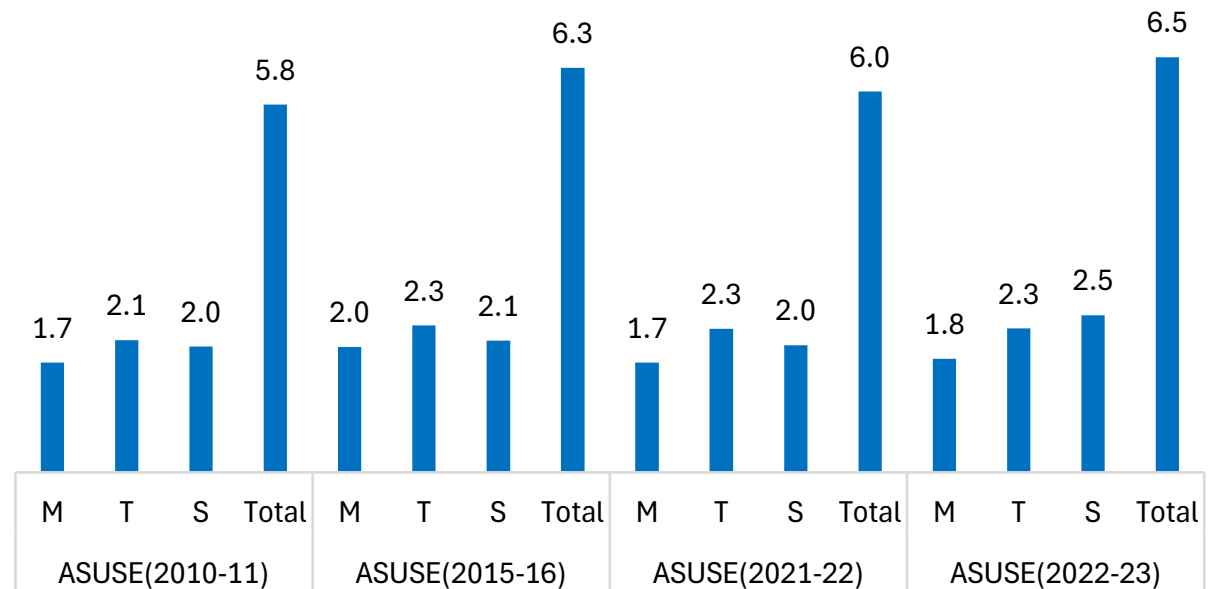


- Number of unincorporated enterprises increased more in rural areas in 2022-23 when compared to 2010-11
- Sector wise data shows largest increase in other services followed by trade

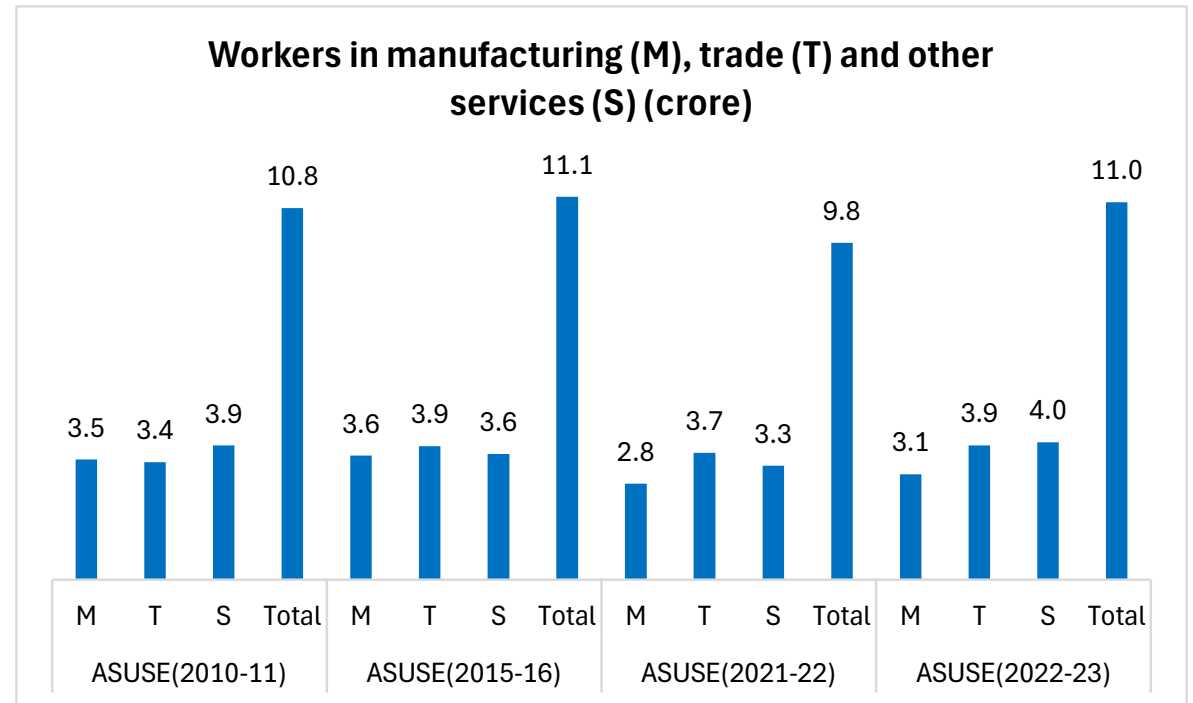
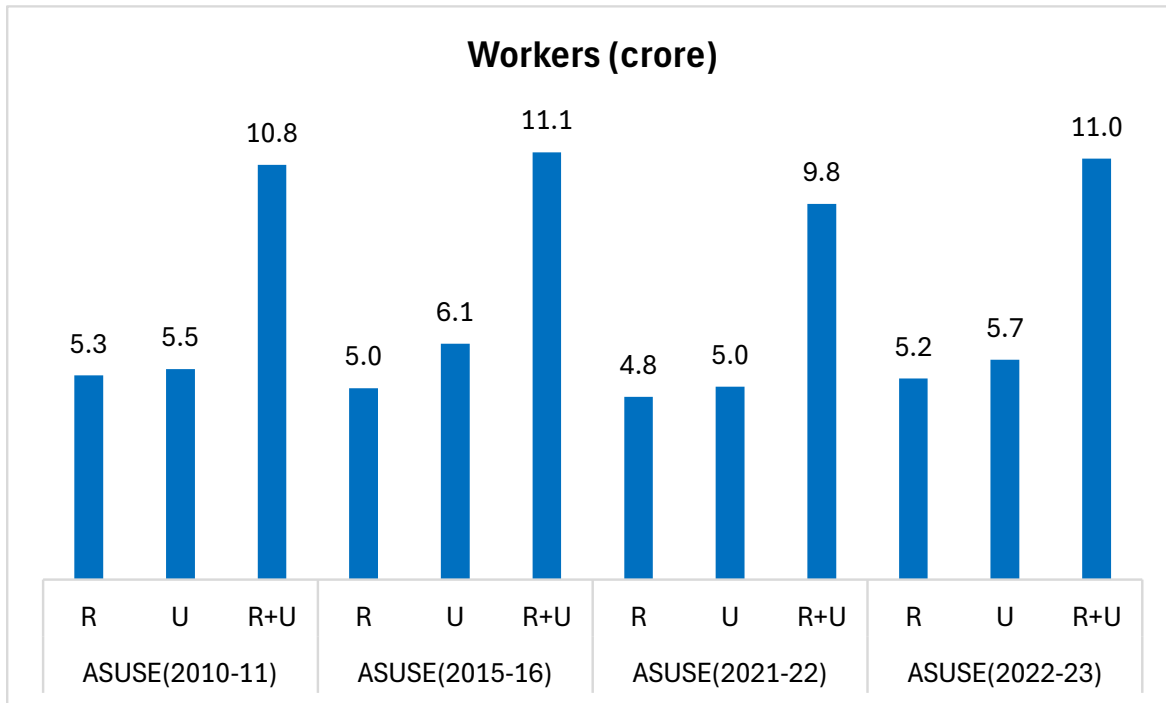
Number of establishments (crore)



Number of establishments in manufacturing (M), trade (T) and other services (S) (crore)

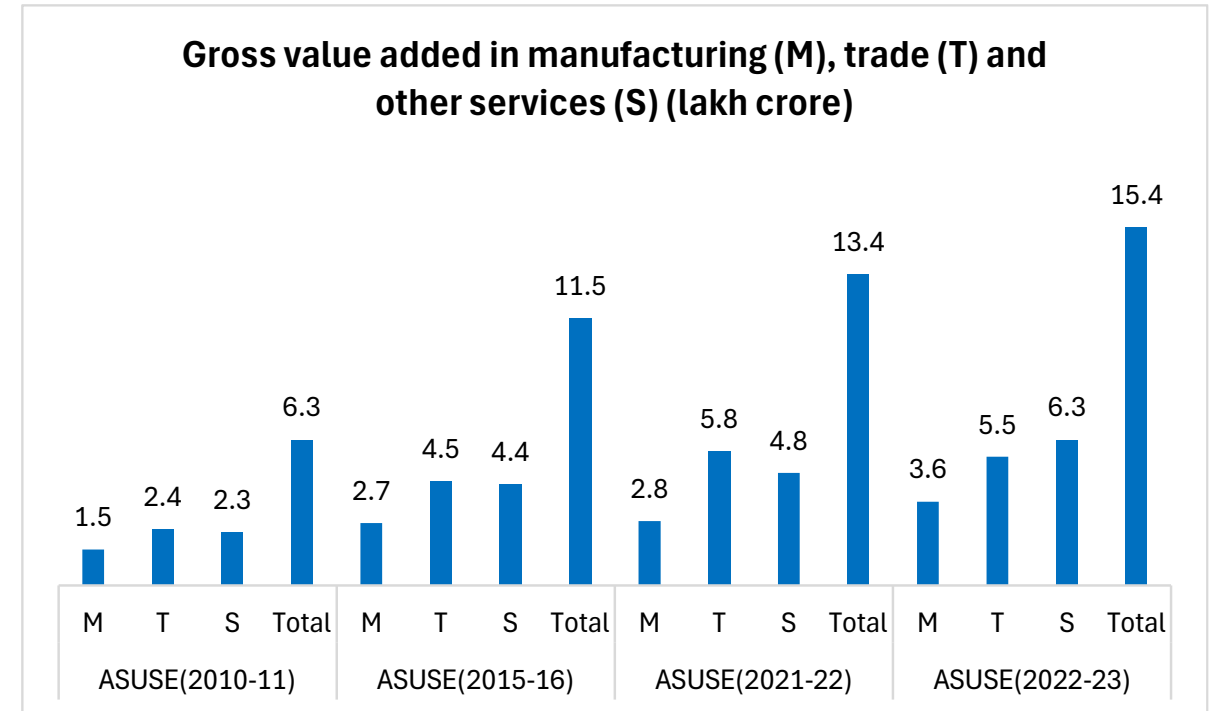
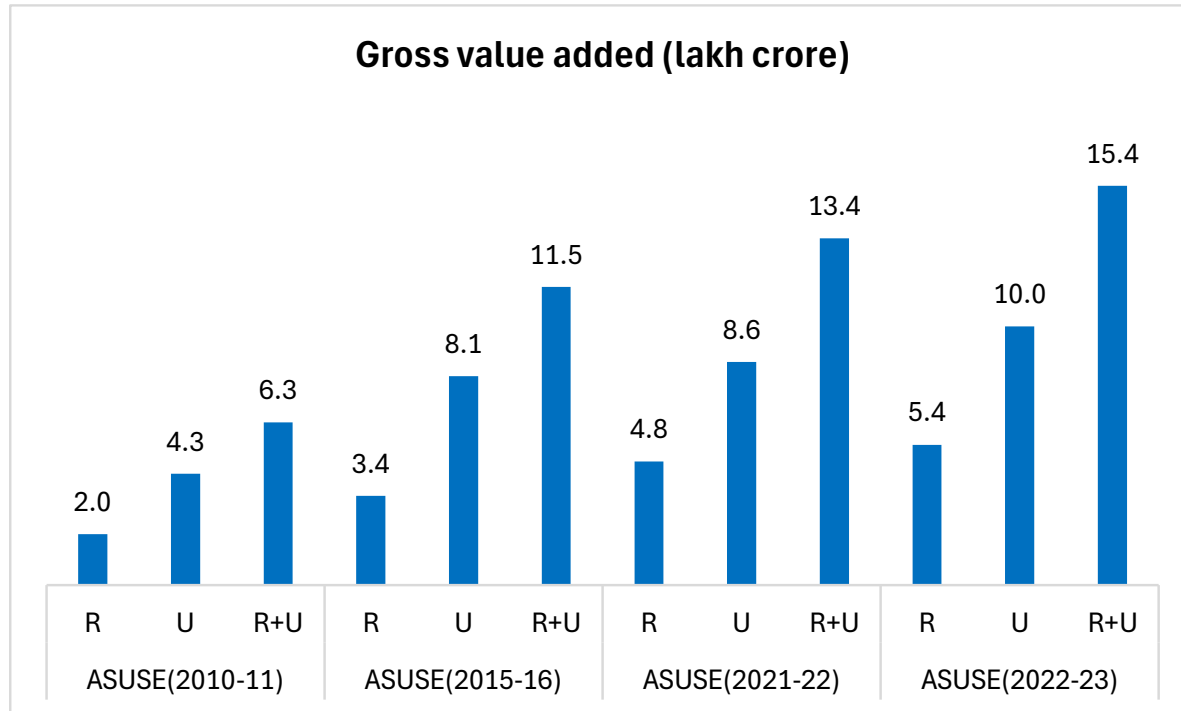


- Workers employed in unincorporated enterprises remain almost stable in the last decade with more workers in urban establishments
- Sector wise analysis shows shift in workers from manufacturing to trade

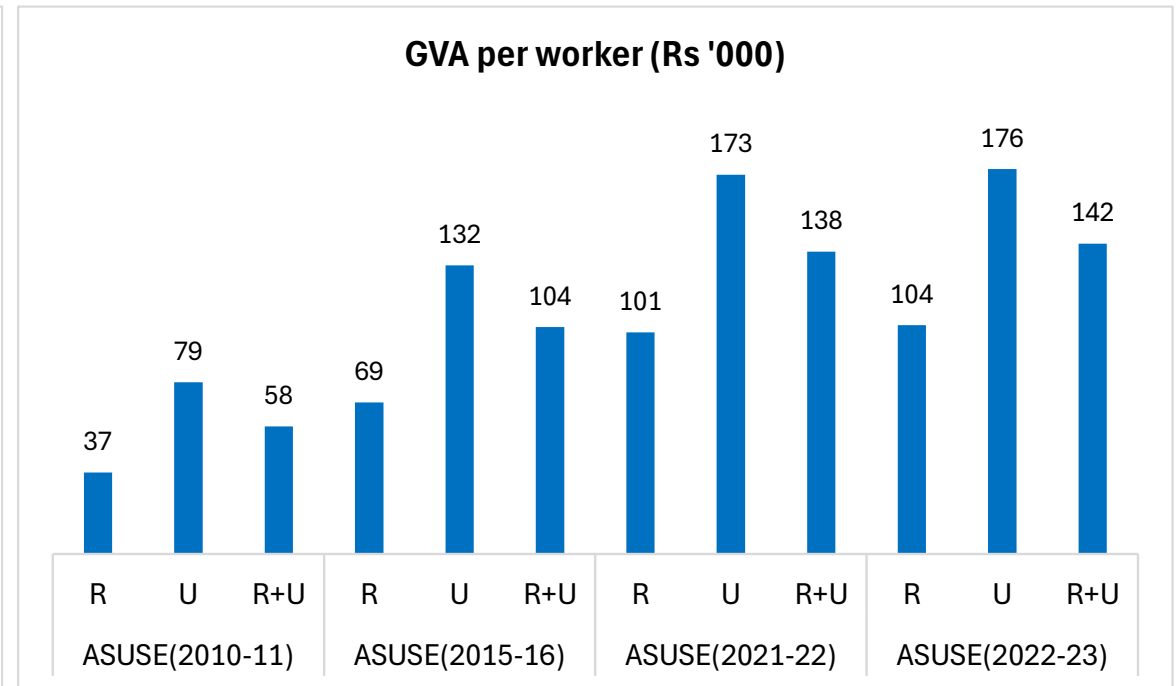
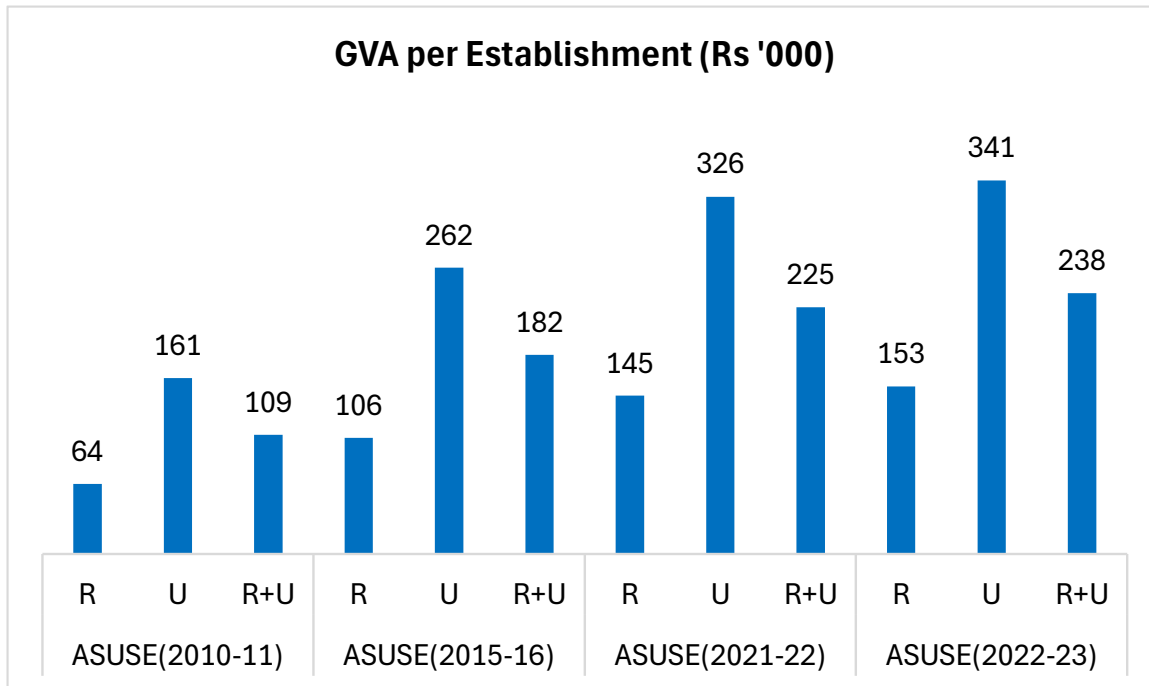


But GVA of rural establishments increased more

- ❑ The GVA of rural establishments increased 2.7 times between 2010-11 and 2022-23, for urban it increased 2.3 times during the same period
- ❑ Sectoral contribution shows greater contribution of other services (2.7 times increase between 2022-23 and 2010-11)



- GVA per establishment contribution of urban enterprises is more, however the pace of increase is rapid for rural establishments, with larger increase in all the three sectors, i.e. manufacturing, trade and other services
- GVA per worker increased more for rural establishments, with the other services sector contributing more



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