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India's Labour Legislation and its Employment Relation for the Next Decade



Financial Inclusion in Unorganised/ Informal labourers

KEYWORDS

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ABSTRACT *Financial Inclusion is a critical factor in developing countries. Unorganised/ Informal Lobourers constitute a large portion of work force in India. This economically and socially poor people are mostly resourceless people and wage labourers involved in various informal and unorganized sectors for their livelihood. Most of the socio-economically poor do not have adequate access to financial and social amenities due to various reasons. The Informal labourers play a significant role in the economy in terms of employment opportunities and poverty alleviation. Labourers from Informal sector can be described as a grey economy. The extend of financial flow in this sector is often stigmatized as troublesome and unmanageable. This sector includes casual labourers, day to day vendors etc., though it provides critical employment opportunities to the poor. The owners have to raise the necessary finance at their own risk and are personally liable, without limit, for any debts or obligations incurred in the production process. There is a vital need for structuring the financial flow in informal sectors. A major obstacle in Informal sector is the lack of financial awareness, comprehensive management training etc. Improving financial management literacy within the sector will have a beneficial flow and to create an ambience that would encourage small enterprises to register and realize that this cost of formalization will result with benefits of access to finance, better infrastructure, market information, government incentives, a platform for formal association, providing them legal framework, efforts to overcome uncertainty in financial returns and safety precautions. As a result, a large extent will help to overcome challenges to informalisation not only in unorganised sector but also arrest growth of informal employment in organised enterprises. This in turn will inculcate a tradition of regulatory compliance in terms of taxes and labour laws. This will not only help to increase the tax base but also help government finance, minimum social security cover for workers in those enterprises.*

1. Introduction

The National Commission for Enterprises in the Unorganised Sector (NCEUS) has defined the informal/unorganised sector as all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten workers. In many least developed and developing countries, the observed and non-observed informal sector involves an important labour force, which contributes to economic production. Financial inclusion is the delivery of financial services at affordable costs to sections of disadvantaged and low income segments of society, in contrast to financial exclusion where those service are not available or affordable. This paper defines and presents the criteria used to identify the informal sector, the measurement methods to be adapted , financial benefits attained by this sector. The economic impact of the informal sector is hard to measure because of the difficulty in defining and analysing the phenomenon owing to the limited available information. This is often due to the financial restrictions faced by statistical offices and the characteristics of the informal sector in a specific country. Participants of informal sectors avoid the burden of taxes and regulations but at the same time, do not get a chance to fully utilize the protection and services that the law and the state provide. Unorganised or informal sector constitutes a pivotal part of the Indian economy. More than 90 per cent of workforce and about 50 per cent of the national product are accounted for by the informal economy. A high proportion of socially and economically underprivileged sections of society are concentrated in the informal economic activities. The high levels of growth of the Indian economy during the past two decades are accompanied by increasing informalisation. Large informal sectors can also have substantive fiscal implications regarding erosion of tax revenue. A high degree of informality means that for any given level of public expenditure, incomes and profits generated by the formal sector will be taxed at a higher rate. Large informal sectors also imply that certain transactions are omitted from official economic statistics rendering macroeconomic indicators vital for policy inaccurate and possibly leading to optimal policy decisions. On the other hand, informal economies can potentially play a positive role, especially in developing countries where they may be viewed as the nursery of future economic growth in the formal economy. Informal sector can also provide buffers against economic uncertainty and underdevelopment in the formal sector as it can provide livelihood to a large number of people. Moreover the incomes generated in the informal sector, insofar they would not have been generated otherwise when spent in the formal sector can provide boost to the formal economy.

2. Challenges of Informal Labourers:

The informal sector in India consists of workers in micro enterprises, unpaid family members, casual labourers, home based workers, migrant labourers, out of school youth, domestic workers, street vendors etc. As per the 66th round of NSS survey (2009-10), approximately 92.8 per cent of the total work force in 2009-10 constituted of informal workers. The sector is heterogeneous covering all economic activities both in organised and unorganised sector covering both the rural and urban areas. In India, huge flow of Labourers, poor and the not-so-poor, criss-cross the country in search of a better life for themselves and their families. Most of cases the families are left behind in their villages. They take up non-contractual and nonpermanent jobs, such as, house help, security guards, daily wage labourers, hawkers, and petty workers working in and around the industrial areas in cities. These labourers need a fast, low cost, convenient, safe and widely accessible remittance service to send money to their families and dependents to meet

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their consumption needs and other life cycle needs in particular, medical emergencies. Safe, speedy and affordable means of remittance, however, remains a major problem for the migrant domestic labour in urban, many of whom unlike overseas migrants do not even have bank accounts either at their native places or their work places. Other reasons attributing to banks/MFIs inhibition in providing financial services to the urban poor may be primarily due to lack of identity proof, lack of cohesion among the inhabitants of urban slums, irregular incomes and migration among the workers to and from rural areas in contrast to the rural poor who have a permanent address proof as needed for requisite documentation. Labourers in the informal sector face a number of challenges that can negatively impact their growth.

3. Financial Inclusion:

Financial Inclusion is a critical issue for developing countries and represents a significant challenge for India. Financial Inclusion, a key goal to change lives, reduce risks. Nearly 90% of the informal labourers in india are far away from formalizing their cash transactions. The informal labourers constitute a large portion of economy . This economy is more or less illiterate. They are employed for a short term basis with fewer wages. They are paid on daily basis or weekly or fortnightly. This section of people is not guaranteed with job and they can jobless at any time. This section of laborer has to be at the courtesy of the employer. Some time they have take advances from their employer and have to work for more time in due course. Advances and payments are received by cash.Thus ignoring the benefits offered by the banks. Financial Inclusion to informal sector in spite of all citizens to open a bank account is at vogue. Just by opening a bank account doesn't mean that the unprivileged labourers are being benefitted by all financial means. Distance from the bank is surely the most important aspect that shows how inadequate financial infrastructure is. Some places where the branches are near, the limited staff and the inadequate facilities that are being offered by the banks are a problem. Then there are lack of familiarity with the banking system, as well as the inability to use the infrastructure. Globally not all workers have access to formal financial services. This is measured in terms of financial inclusion. In other words, the extent to which household has access to a range of modern financial services, including savings, credit, insurance and payments. The concept of financial inclusion also includes education and other support service that help people to make sound financial decisions.

Financial inclusion and financial literacy have been important policy goal for quite some time. There were reports that a comprehensive financial inclusion plan will be envisaged. Financial inclusion is seen something more than opening a bank branches in unbanked areas to take formal financial services across the length and breadth of the country. In the context of various shortcomings in delivering subsidies, direct transfers using technologies. It is impossible to open branches every places. Rather to make it easier to open electronic accounts. Technology adaptation by informal sectors would be key feature in this financial inclusion. In order to draw the informal labourers, the product should address the needs- a safe place to safe, a reliable way to send and receive money, a quick way to borrow in times of need or to escape the clutches of the money lender, easy to understand life and health insurance and an avenue to engage in savings for the old age.

4. Financial Inclusion in Informal Sector:

Financial Inclusion in India has improved considerably in the last few years. Between 2011 to 2014, more than 175 million people opened a bank account, representing 18% of the population. Similarly, the country also has one of the highest rates of informal financial services in the world as 12% of its adult population borrowed from an informal lender. To promote even greater financial inclusion, the government of India implemented in 2014 the Pradhan Mantri Jan Dhan Yojana Programme (PMJDY). The financial education efforts have to be customized to encourage savings and create greater awareness towards the banking services to cover the urban poor under the banking network. With the implementation of employment/income generation schemes for the disadvantaged groups, such as, Prime Minister Rozgar Yojna (PMRY) and Swarna Jayanti Shahari Rozgar Yojna (SJSRY), formation of joint liability groups (JLGs) of the urban poor for provision of bank credit with collective obligations for interest and loan repayments is an option. In urban areas, JLGs, even SHGs, can obtain credit by forming a homogenous group in the growing resettlement colonies keeping in view the diversity of occupations, financial needs and time availabilities of the urban poor. The next step may be to give individual loans, namely, micro-enterprise loans to select JLG members who establish a good track record through group borrowings, entrepreneurship skills and who want larger loans for productive purposes. Their higher risk is usually addressed by obtaining security in some form and higher interest rate. Though SHGs can handle urban heterogeneity since they are designed to accommodate different loan amounts, and, like chit funds can accommodate non-borrowing or net saver members who prefer to sit back and earn interest on loan taken by others, not many SHGs are functioning in urban microfinance. The prime reason for underdeveloped SHG sector in urban areas is the misconception that there is a lack of homogeneity among the urban slum dwellers, though a reality check suggests that there is a scope to develop homogenous groups required to form SHGs among the slum dwellers as kinship ties back home can be re-established among some of them who have migrated from the same village generations ago and have similar financial needs. With the implementation of a number of urban development projects like Jawaharlal Nehru National Urban Renewal Mission (JNNURM), there is a possibility of growth in resettlement colonies as the migrants with better employment and educational opportunities and improved standard of living will tend to bring their families from villages and settle down in urban areas, thus, providing space to form more and more homogenous groups required for forming SHGs in such areas.

- Use of Business Facilitators/Outreach Agents & ICTSolutions
- Initiatives by Banks for Financial Inclusion of the Urban Poor
- Providing Remittance Facilities
- Catering to the Credit Demand, Help Affinity (SHA) groups. More such innovative products, including those developed around the General Credit Cards (GCC), may be explored by banks/MFIs
- Central Government's proposal to issue integrated smart cards to the beneficiaries of various government schemes may help in solving the problem of identity proof for a certain section of the urban poor. With the implementation of employment/income generation schemes for the disadvantaged groups, such as, Prime Minister Rozgar Yojna (PMRY) and Swarna Jayanti Shahari Rozgar Yojna (SJSRY), formation of joint liability groups (JLGs) of the urban poor for provision of bank credit with collective obligations for interest and loan repayments is an option.

This segment of economy has inbuilt vulnerabilities, and the study of unorganised sector based on reliable data is important for informed decision making and addressing the problems faced. The National Statistical Commission constituted a Committee on Unorganised Sector Statistics to identify major data gaps relating to unorganized enterprises and unorganized workers and to suggest ways and means for developing statistical data base on unorganized sector with standardized

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concepts, definitions, coverage and comparability over time and space. To examine this issue in all its dimensions and to make necessary recommendations, the National Statistical Commission (NSC) constituted.

The terms of reference of the Committee are:

i. To examine the existing definitions of informal enterprises and employment and suggest appropriate modifications with specific objective of their amenability towards better measurement.

ii. To identify major data gaps relating to unorganized enterprises and unorganized workers.

iii. To review the existing methodologies and arrangements for estimating informal employment
and income arising from informal enterprises and suggest modifications.

iv. To examine the existing databases for estimation of income and employment in informal sector and suggest improvements

v. To analyse the present system of data collection relating to informal sector and suggest modification needed in the coverage and content in the existing surveys or new surveys.

5. Conclusion

With rapid growth of urbanisation, social engineers have been compelled to give attention to providing financial services to meet the savings, credit, remittance and other financial requirements of the urban poor and not so poor engaged in the informal/unorganised sectors. Financial inclusion should not begin and end with opening of bank account. In fact, product innovation in financial services keeping in view their life cycle needs is the need of the hour. Literacy to the informal labourers through NGO'S and other institution should be roped in so that an effective management can be chalked out. Rolling out of an innovative financial product, however, should not be undertaken without adopting a systematic approach that involves conducting market research on the financial needs, developing a proto type, analysing the associated risks, pilot testing of the product, etc. Launch of the product should also be backed by an effective strategy. Linkages with NGOs/MFIs/community based associations/ cooperatives/occupational unions/trustworthy individuals as the Business Facilitators/ Correspondents of banks may be encouraged to deliver the financial products to the urban poor at place and time convenient to them. For improved efficiency and better risk management, innovative ICT solutions have to be leveraged to provide banking services at the doorstep of the excluded groups. As financial literacy plays a significant role as an "auto pilot" mechanism to empower the urban poor to proactively seek support from the formal financial institutions, banks/MFIs need to formulate and implement multi pronged strategy of financial literacy for achieving greater financial inclusion in the urban areas as a successful business model rather than just considering it as a part of their corporate social responsibility.