



CHALLENGES AND PATHWAYS FOR INFORMAL SECTOR WORKERS IN INDIA IN THE CURRENT SCENARIO

RAM SINGH ¹ | DR. SUNEET AWASTHI ²

¹ ASSISTANT PROFESSOR, DEPARTMENT OF ECONOMICS, D.A.V. (P.G.) COLLEGE, KANPUR.

² PROFESSOR, DEPARTMENT OF ECONOMICS, D.A.V. (P.G.) COLLEGE, KANPUR.

ABSTRACT:

Indian economy is very large contributions of informal sector, employing over 90% of the total workforce and share about 50% to the national GDP. In this paper, an in-depth analysis of the multifaceted issues of informal sector workers in India in the current socio-economic as well as political scenario has been done. The study uses a descriptive and analytical approach that integrates information from government publications (e.g., Periodic Labour Force Survey), peer-reviewed literature, and assessments of recent economic disruptions, primarily the COVID-19 crisis and following demonetization. The report identifies a systematic of difficulties, such as widespread job and income insecurity, absence of social security, unsafe working conditions, and structural exclusion from state welfare mechanisms. The examination discloses that these vulnerabilities were ruthlessly laid bare in the pandemic, precipitating large-scale reverse migration, poverty, and an intensification of socio-economic disparities. This paper focus on the informal sector economy as a structural dimension of the Indian economy. It advocates a paradigm shift in policy strategy from fragmented welfare programmes towards a rights-based approach embedded in universal social security, improved state capacity for implementation, and enterprise formalization without undermining current livelihoods. The article emphasizes the imperative of inclusive growth policies recognizing and integrating the informal workforce as a pillar for India's economic resilience.

KEYWORDS:

INFORMAL SECTOR, INDIA, SOCIAL SECURITY, COVID-19, GIG ECONOMY, LABOUR RIGHTS, POLICY.

PAPER ACCEPTED DATE:

12th September 2025

PAPER PUBLISHED DATE:

14th September 2025

PAPER DOI NO:

10.5281/zenodo.17114582

PAPER DOI LINK:

<https://zenodo.org/records/17114582>

INTRODUCTION

The informal sector forms the backbone of the Indian economy, employing roughly 90% of India's workforce when agriculture is included, and about 75% in the non-agricultural economy (Bharthi Institute, 2025). This sector significantly contributes to approximately 45% of India's GDP, yet remains outside the purview of formal labor laws and social security systems (Bharthi Institute, 2025; India Employer Forum, 2025). The workers here are predominantly engaged in unregulated, low-paid, and precarious jobs without formal contracts, often lacking access to health care, retirement benefits, and labor rights. Recent challenges have compounded the vulnerabilities of these workers, including the rise of the gig economy, lack of social protection, gender disparities, and digital transformation, impacting the sustainability of their livelihoods.

The Indian economy has two different aspects. One side is a vibrant, global formal region, while the other is a large, diverse and mostly informal area. This informal part is

often called "unorganized region". This includes a wide range of jobs and workers such as road vendors, domestic workers, construction labourers, small farmers, home-based craftsmen, and small businesses. According to the periodic Labor Force Survey (PLFS) 2021-22, about 90.2% of India's workers are in this informal field, there are very little profit and security that comes with formal jobs (Ministry of Statistics and Program Implementation [MOSPI], 2023).

This large group of workers works without official security or rules. Most have written contracts, stable salary, job safety, or social benefits such as pension, health insurance, or time. His life is full of uncertainty and he is always at risk from economic, social and health problems. This area is important for two major reasons: it supports millions of people who may otherwise be unemployed, and it holds a cycle of low productivity, poverty and inappropriate treatment.

Recent incidents like Diminutions in 2016 and covid -19

epidemic from 2020 to 2022 have clearly shown how weak the workforce is. In March 2020, the nationwide lockdown created a serious humanitarian crisis, in which millions of informal workers lost their jobs overnight and faced dangerous returns in rural areas, showing how critical their city jobs are. This situation has reminded us that the health and stability of the informal sector is deeply associated with the overall position of the Indian economy. This paper aims to comprehensive analysis of the challenges faced by informal sector workers. It seeks to contextualize these challenges within recent policy initiatives and global disruptions, arguing for a more holistic and resilient framework for social protection.

REVIEWS OF LITERATURE

The informal sector in India has been extensively studied from economic, sociological, and labor rights perspectives. Early works highlighted the sector's critical role in economic growth and employment generation but also pointed to intrinsic vulnerabilities (Sinha, 2025; Neetha, 2023).

1. SOCIAL SECURITY DEFICIT:

Informal workers largely lack access to essential social security benefits such as health insurance, retirement savings, maternity benefits, and paid leave. These deficits expose the workforce to exploitation, financial instability, and health risks (India Employer Forum, 2025; D&C, 2025). The COVID-19 pandemic underscored this gap, when migrant informal workers struggled during lockdowns and showed the absence of government safety nets (Bharthi Institute, 2025).

2. GIG ECONOMY AND DIGITAL TRANSFORMATION:

The gig workforce, projected to grow from 7.7 million in 2020-21 to 23.5 million by 2030, epitomizes the evolving informal segment, marked by platform-based precarious jobs (India Employer Forum, 2025; Bharthi Institute, 2025). While digital technologies offer new opportunities, they also exacerbate skill gaps and job insecurity for workers lacking digital literacy.

3. GENDER DISPARITIES:

Women form a substantial proportion of India's informal workforce but remain marginalised in earnings and workplace benefits. They often confront wage differentials, restricted workspaces, and are excluded from formal financial instruments and government schemes (Development and Cooperation, 2025). The Self-Employed Women's Association (SEWA) represents a critical collective response advocating for women's labor rights and empowerment in this sector (Development and Cooperation, 2025).

4. REGULATORY AND DATA CHALLENGES:

Informal workers remain largely excluded from labor laws and tax frameworks, perpetuating economic precarity (India Employer Forum, 2025). Furthermore, substantial data gaps exist, hindering scheme implementation and policy targeting, as seen during the pandemic (Bharthi Institute, 2025).

5. EMPLOYMENT TRENDS AND RECOVERY POST-PANDEMIC:

According to the Economic Survey 2024-25 and Labour Ministry reports, the informal sector shows signs of post-pandemic recovery with increased self-employment and female labor participation; however, wage disparities persist and the sector remains fragile (James, 2025).

OBJECTIVES

1. To examine the key challenges—including social security, wage disparities, job insecurity, and gender inequality—faced by informal workers in India.
2. To review existing literature and identify gaps in policy interventions impacting the informal sector.
3. To analyse recent employment trends and socio-economic data related to the informal workforce.

RESEARCH METHODOLOGY

This research paper adopts a qualitative and quantitative approach, drawing upon a combination of secondary data analysis and extensive literature review to achieve its objectives. The methodology is designed to provide a comprehensive and nuanced understanding of the challenges faced by informal sector workers in India in the current context.

ANALYSIS OF CHALLENGES IN INFORMAL SECTORS

Recent empirical findings suggest that informality remains the main feature of India's labor market, about seventy-five percent of non-agricultural workers-and about ninety percent when the agricultural sector is included in the system of informal employment to the agricultural sector, including stable contracts, benefits, or legiti security (fingers, or the fingers, or the fingers, or the fingers, or the fingers, or the monotonous, Failure, or legal safety (bear, it includes widespread demographic self-planned persons, unpaid family laborers, contingent wages and unregistered microenterprise and personnel working in small enterprises. Regional landscape is diverse: while agricultural informal labor remains a significant absentee Teer, a small-scale construction, home-based work, home-based work, home-based work, home-based work, home-based work, home-based work, home-based work, home-based work, home-based work. Areas such as businesses also work as adequate employers. Infections of additional complexity, infections between rural and urban

job locations in response to variable demands. Ride-Hailing, e-commerce support, and some IT-competent services-despite working within labor technology-operated volume chains (India Employer Forum, 2025). In addition, it reflects adaptive strategies employed by homes that depend on many income streams, seasonal work, and social networks to navigate uncertain opportunities, underscoring the complexity of designing protections that fit diverse work arrangements.

SOCIAL SECURITY AND ECONOMIC VULNERABILITY:

The absence of formal social security among informal workers increases due to exposure to health and income shock, a reality that especially visible during the Covid-19 crisis, when earning for many more medical costs evaporates (Bharati Institute, 2025; India Employer Forum, 2025). Without contributor pension, health insurance provided by employers, or without unemployment protection, homes often rely on uncertain sex system-at high interest, selling property, selling property, cutting consumption, or avoiding education and healthcare-to bridge the interval.

Earning in informal economy is generally low and unstable, with widespread ups and downs in weather and areas. Within this, women have to face frequent payment inequalities relative to men and are higher in low-paying, unsafe roles, reducing financial insecurity and upward dynamics (D&C, 2025). These weaknesses interact with other disadvantages - inexpensive credits, high unpaid care burden, and access to low mobility for women; Language and documentation obstacles for migrants; And uneven access to public services in informal settlements - creating layered risks that can implicate homes in a cycle of poverty. Even when safety nets are present, lack of portability, information intervals, or administrative barriers may properly take-up between people who require the most support. The result is a delicate balance in which minor shocks can trigger adequate welfare damage, making scalable, portable and gender-upper security a case for social security, which reduces the instability by enabling workers to invest in skills and enterprises.

REGULATORY EXCLUSION AND LABOR RIGHTS:

A large part of employed persons works outside of formal constructive outlines, suggests that approximately 86% do not have standard employment contracts and therefore lack of statutory benefits, grievances redressal and predicted work situations (Hindu centers, 2025). Federation is limited - only 10% of the workforce and large -scale focused in the public sector - collective bargaining power or extending most informal workers without representation in policy forums. In practice, this regulator exclusion translates to the risks of limited recurrence in the event of wage theft, unprotected working, excessive hours, and disputes or accidents. It also shows the challenges of implementing traditional labor rules for home-based production and road-based

businesses, fragmented, small-scale enterprises and scattered work settings. Enforcement capacity is thin, and compliance regime often does not align with narrow margin and limited administrative bandwidth. Overseas workers, who may have a shortage of local documents or reside in informal settlements, are especially unsafe for exclusion of city-level services, licensing systems, or welfare benefits. Effective inclusion not only requires expansion of coverage in the law, but also creates practical mechanisms for registration, dispute solution and profit distribution that are simple, low cost and portable at employers and locations-which are essential in the labor market defined by high mobility and fluid job matches.

IMPACT OF DIGITALIZATION AND GIG ECONOMY:

Digitalization has expanded work opportunities by connecting customers and tasks on unprecedented scale, yet it has created new forms of uncertainty and exclusion. Many potential participants are closed to digital literacy deficit, smartphone or data, and patchy connectivity -baron -bar -especially humble for women, rural workers, and old cases (India Employer Forum, 2025). For those who participate, platform-medieval work often leads to unilateral changes to pay unilateral changes, opaque rating systems, and unilateral changes without conservation of formal employment. Results can be a limited pathway to earning volatility, high work intensity and complaint or voice. At the same time, digitalization can reduce market-entrepreneurship, enable micro entrepreneurship, and improve customer access to informal enterprises that are successful in adopting basic digital devices for payment, marketing and inventory management. However, realizing these benefits on the scale, targeted skilling, affordable equipment and data, transparent platform and activist, depending on clear rules on classification and social security contribution. In short, digital infection is inevitably not inclusive; Without auxiliary policies and worker-cantered design, it risks to increase existing inequalities by masking informality behind technology.

WOMEN'S WORKFORCE CHALLENGES AND COLLECTIVE ACTION:

Women make an important part of informal workforce, yet face layered obstacles that suppress earnings and limit reach to security. Gender criteria and care responsibilities restrict dynamics and time for paid work; Credit markets often require collateral or documentation that lacks women; And commercial isolation women perform in low-paying, unsafe roles such as home-based pieces, domestic work and petty business. Health and safety risk - especially in dense informal settlements or hazardous functions - cohabitation with limited access to reproductive health services to disrupt participation and productivity. Climate -related stress, including heat, water scarcity, and extreme weather, from road vending to small scale agriculture, forward the feasibility of informal livelihood. The collective action has proved important to solve these challenges. Organizations like SEVA have displayed how unions, cooperatives and member-based

institutions can build bargaining power, can demand a total demand for services, and provide practical solutions-from the coated savings and microfinance to market linkage and skill development-Identification of policy changes that recognize policy changes (D&C, 2025). Such models also promise to take advantage of digital tools for identification, payment and information sharing, provided that they are embedded within the obstacles of women and within reliable community structures.

POST-PANDEMIC RECOVERY TREND:

A recent assessment suggested a reversal in economic activity, which has increased the participation of women within self-employment and an increase in women's participation within informal segments, which indicate a phase of recovery and adaptation after the COVID-19 shock (Economic Survey 2024–25; James, 2025). Nevertheless, the recovery is uneven at areas and locations: contact-intensive services, small manufacturing clusters, and construction hubs perform various trajectory works; Microenterprises face tight margins between high input costs; And rebels can prioritize debt servicing on home -producing investment. For many people, changes towards self-employment reflects both opportunity and need-when the wage jobs are rare when membrane strategies are renewed microbusiness construction. The durability of these trends will be on credit access, market demand, and availability of low-cost devices and infrastructure-such as safe work area, storage and logistics-which enable small firms and self-food workers. Women's return to the labor force within informal areas is encouraging, but continuous gains will require a childcare solution, safe transport and protection against discrimination and harassment. To consolidate recovery and reduce vulnerability, policies require to be targeted and granular: reducing the lack of working capital for microenterprise, expanding portable social security, investing in alignment skilling for local demand, and improving urban services supporting informal functions. Such measures can convert a delicate post-cris rebound into inclusive growth that strengthens both livelihood and flexibility (Economic Survey 2024–25; James, 2025).

CONCLUSION AND SUGGESTION

The informal sector is the backbone of the Indian economy, yet its workers remain its most neglected and vulnerable citizens. The analysis confirms that their challenges are deep-rooted, structural, and were severely amplified by recent economic shocks. Existing policy measures, though expanding in scope, remain fragmented, poorly implemented, and insufficient to address the scale of precarity. These require a versatile policy approach to address these:

- Social security structures: expand universal social security cover including health, retirement, and benefits paid to informal workers, integrating the gig economy participants.
- Regulatory reforms: formal form of labor contracts and rights, strengthen the

representation of the union, and to include informal sector workers under the labor law security.

- Skill development: To develop market demands, adapt to informal workers and invest in digital literacy programs.
- Gender-sensitive policies: Wage equity, safe work area, access to credit, and promote women-focused financial and social assistance schemes.
- Data growth: To enable targeted, effective policy responses, improve data collection on demographics and conditions of informal sector.
- Strengthen collective movements: informal workers, especially supporting grassroots organizations such as SEVA to empower women.

The stability and development of India's informal workforce rests on inclusive reforms that brid down inequalities and provide social and economic security.

REFERENCES

1. Ministry of Statistics and Programme Implementation (MoSPI). (2023). *Periodic Labour Force Survey (PLFS) – Annual Report [July 2021 – June 2022]*. Government of India.
2. Srivastava, R. (2020). *Understanding Circular Migration in India: Its Nature and Dimensions, the Crisis under Lockdown and the Response of the State*. *Indian Journal of Labour Economics*, 63(4), 885–914.
3. The Unorganized Workers' Social Security Act. (2008). Act No. 33 of 2008. Parliament of India.
4. Development and Cooperation 'D+C'. (2025). Women in India's informal sector are fighting for better working conditions. *Development and Cooperation*. <https://www.dandc.eu/en/article/union-informal-workers-how-does-work-more-50-years-women-india-have-been-supporting-each>
5. India Employer Forum. (2025). *India's informal sector: Challenges and solutions*. <https://indiaemploverforum.org/world-of-work/challenges-of-informal-sector-in-india/>
6. James, J. (2025). Informality and inclusion: A critical analysis of India's employment trends in Economic Survey 2025. *African Journal of Biomedical Research*, 28(2s), 1557-1562. <https://africanjournalofbiomedicalresearch.com/index.php/AJBR/article/download/7199/5910/14186>
7. The Hindu Centre. (2025). India's informal sector - The feeder economy within. *The Hindu Centre*. <https://www.thehinducentre.com/the-arena/current-issues/indias-informal-sector-the-feeder-economy-within/article68786567.ece>

8. Bharthi Institute. (2025). *India informal economy and social security*. Bharthi Institute Blog. <https://blogs.isb.edu/bhartiinstitute/2025/02/25/india-informal-economy-and-social-security/>

[t-issues/indias-informal-sector-the-feeder-economy-within/article68786567.ece](https://blogs.isb.edu/bhartiinstitute/2025/02/25/india-informal-economy-and-social-security/)

9. <https://www.thehinducentre.com/the-arena/curren>