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## Informal Economy and Social Security Two Major Initiatives in India

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While India has embarked on a high growth path that has received considerable international attention, the plight of the working poor continues to be a heated subject in public debates within the country. Two major and recent initiatives for providing social security to the workers in the informal economy, as a legally guaranteed right, marks an important turnaround in the emerging developmental policy in the country. This note briefly discusses these two initiatives. The first is the National Rural Employment Guarantee (NREG) and the second relates to the Social Security for Unorganised (Informal) Sector Workers. Both these were promises made in the election manifesto of the current United Progressive Alliance Government. The NREG has already been enacted by the Indian Parliament and the second one is in the initial stages of enactment.

### I

#### National Rural Employment Guarantee Act 2005

The employment guarantee is basically a form of social security to the working poor by enabling them to access additional income via employment to meet their conditions of 'deficiency' with regard to employment/income. In that sense, this could be viewed as promotional social security to the working poor. In September, 2005, the Indian Parliament passed a Bill called National Rural Employment Guarantee that marked a significant milestone from the perspective of right to development. This Act created, albeit in modest terms, legal entitlements to adult citizens in rural areas to seek work up to 100 days per household per year. In realistic terms, the Act is meant for the working poor in villages to take care of the problem of underemployment and thus to enhance their income that would make them less poor or cross the officially determined poverty line. The work guarantee is in the nature of unskilled manual work in the local area organised and implemented by elected local governments in coordination with the rural development department. The salient features of the Act are given below.

***Enforcing the guarantee:*** Under the NREG, every rural household will be eligible to demand work which will have to be provided within a radius of five kms within 15 days of application. The wages to be paid will be equal to the prevailing (and officially declared) minimum wages for agricultural labourers in the area. Broadly speaking, the type of work relates to land and water resource management and development and construction of roads. If work is not provided within the stipulated time, the applicant is entitled to receive an unemployment allowance.

***Organisational structure:*** At the national level a Central Employment Guarantee Council is responsible for advising the Central Government on all matters relating to the implementation of the Act. The Ministry of Rural Development will be the nodal ministry for implementation at the national level. At the State (Province) level, there will be a similar Employment Guarantee Council

with the Ministry of Rural Development/Local Government as the nodal agency. State Governments are required to formulate their respective Rural Employment Guarantee Schemes. They will have to ensure all administrative, financial and technical support to the bodies and functionaries below the state level. At the District level (administrative units below the State level) the elected district government (called District Panchayat) will be responsible for finalising the district plans and monitoring and supervising the guarantee scheme. The District Programme Coordinator will be responsible for overall coordination and implementation at the district level. Below the district level, there is the Block level elected government (called Block Panchayat) with similar responsibilities. A Programme Officer at this level will work full time for the guarantee scheme. This official is the key person in selection of works, organising the works and payment of wages. He has to work closely with the Village level elected government (Grama Panchayat), which will receive the applications for works, prepare a shelf of projects and execute 50 percent of the works directly. It will work closely with the assembly of village level adults (Grama Sabha) for registration and selection of works.

**Funds:** The cost of the scheme is divided into (a) wage costs (60 percent) and (b) other costs (40 percent). The Central Government will bear the entire cost of wages for unskilled workers and 75 percent of non-wage costs. In addition, it will also bear the administrative costs at the ground level. The State Governments will bear 25 percent of non-wage costs and unemployment allowance in case work is not provided within 15 days. There will be a National Employment Guarantee Fund out of which grants will be made to the States. A similar State Fund will be established at the State level, which will function as a Revolving Fund for meeting expenditure. Similar Revolving funds will also be set up at the district, block and village levels.

**Coverage:** Theoretically the Act has created a work entitlement to all rural households. In practical terms the people seeking work under the Act would be from the poorer sections since it is for manual work with minimum wages applicable to agriculture. In that sense, it addresses the workers in the rural informal economy. As of 2005, the total workforce in India was estimated at 457 million out of which 343 million or 75 percent were in rural areas. Out of this, 315 million were workers in the informal sector including agriculture. However, it is more likely that a majority of those seeking workers would be from the category of waged workers in agriculture and non-agriculture in rural areas estimated at 80 million in 2005 and currently close to 90 million. It needs to be found out, when the scheme completes the first two years or so, whether those categorised as self-employed have also been demanding work and, if so, its exact magnitude. Most self-employed in rural areas are marginal and small farmers working on land up to one and two hectares respectively and seek wage employment for part of the year.

### Issues in implementation

One of the main concerns at the time of enactment of the Bill was the magnitude of the workers to be covered and the costs of financing such a scheme. The estimates varied from one to three percent of GDP. Driven by this factor, the government decided to implement the scheme, as a first phase, in one-third of the total (or 200) districts in India, which are identified as economically backward. However, the preparatory work involved was quite formidable and the demand for work was not uniform and the allocated funds could not be spent fully. Encouraged by this, the Act was extended to another 130 districts from April 2007. However, considering the popular appeal of the

Act, the Government announced in October 2007 that the Act will apply to all the districts in the country from April 2008.

As for the administrative set up, India has a vast network of elected governments and a well-trained cadre of officials. This needs further strengthening mainly at the local level of villages. Apart from the national and state level governments, there is a three-tier local government system in India at the district, block and village levels. Currently there are 234,676 elected governments at the village level, 6,097 at the block level and 537 at the district level. The numbers of the elected representatives are 2,073,715 at the village level, 110,070 at the block level and 11,825 at the district level. While the strength of the supporting official staff is reasonable at district and block levels, their strength is far from adequate at the village level in many, if not all, States. With a view to strengthen the local government system, the central government has created a separate Ministry of Panchayat Raj (Local Governments).

### **Challenges ahead**

There are several challenges in mainstreaming this historic and pro-informal economy initiative into the emerging macro developmental policy. The main issues, in my opinion, are: (i) linking the NREG with the process of capital formation in the rural economy, (ii) widening the scope, and injecting flexible working hours, of the projects to suit the requirements of women workers, and (iii) introducing transparent and efficient mechanisms for processing applications and payment of wages on a pre-determined but short intervals. There is also a need to strengthen the administrative machinery at the village level to support the elected local governments.

The legal empowerment of the working poor to access employment is a matter of great significance and there are not many examples in contemporary developing countries of such a step. If the employment guarantee scheme succeeds, it will no doubt provide a much-required antidote, albeit limited, to the powerful social Darwinist streak of the current process of liberalisation and globalisation that has accelerated the already unequal distribution of wealth and income. For this reason, it will also become a model for other developing countries to follow especially to those where employment generation remains a challenge.

## **II**

### **Social Security for Informal Workers**

As in most developing countries, existing social security arrangements to meet contingencies and eventualities (e.g. health, accidents, death and old age) in India have legal backing only to those employed in the formal sector of the economy, which has been estimated at around 8 percent of the total workforce. Although there are some state-assisted and/or promoted schemes for social security for workers in the informal sector the coverage has not been more than 6 percent of the total. Realising this as well as the developmental issues of the informal sector, the Government of India constituted a National Commission for Enterprises in the Unorganised Sector (NCEUS) to examine a number of issues including the agenda of social security. The first report of the NCEUS submitted to the government in May 2006 was on social security with a detailed scheme.

The NCEUS estimated that in 2005 there were 423 million informal workers in India of which 395 million belonged to the informal sector<sup>1</sup>. In its report, the NCEUS submitted a scheme for a universal social security cover called National Minimum Social Security to all eligible workers over a period of five years. The scheme is based on insurance-cum-state assistance model. It will cover health (hospitalisation for self and family) and maternity, life and disability and old age security in the form of state pension for those belonging to poor households and a provident fund for others. It will be based on contributions in the ratio of 1:1:1 for workers, employers and government. Since there are no visible or identifiable employers for an overwhelming proportion of informal sector workers, their contribution will also be paid by the government. For workers belonging to poorer households (23 percent of workers), their contribution will also be paid by the government.

The scheme will be implemented by a National Social Security Board with a National Social Security Fund responsible for policies, technical assistance and allocation of funds to states. At the state level there will be similar state-level boards and funds. Each state will have its administrative mechanism with organisations at the local level (village and townships) designated as Workers Facilitation Centres to assist workers for registration, etc. Workers who register will be issued Social Security Cards with unique identification numbers. The central government may raise the financial resources through imposing cess on trades or commodities or through a social security tax or a combination of these or any other means as it deems appropriate. As per the estimate of the NCEUS, the cost of financing the scheme for the government would be equivalent to 0.5 percent of the GDP when all the 300 million workers<sup>2</sup> are covered in the fifth year.

## Implementation

Except the old age security, other social security benefits are based on the insurance model. This makes it possible for delivery of the benefits by independent agencies functioning on the basis of the insurance business model. It will be the responsibility of the National Board as well as the State Boards to ensure the best possible deal by selecting the appropriate service provider. On the question of health insurance, there are general insurance companies including four public sector companies who provide such services. The Commission has recommended a cashless model for hospitalisation expenses by which the beneficiaries will be able to access the services of hospitals. This calls for the State Boards to designate health care institutions for this purpose. The Commission has recommended public health care institutions, cooperatives and charitable institutions as well as private hospitals that meet the minimum requirement of infrastructure. The Commission is aware that the public health care institutions, as they are constituted now, are expected to provide health care services free of charge to the people at large. However, at the practical level everyone is aware of the many impediments in meeting this objective. This insurance model, if adopted, will provide to the designated public health care institutions additional revenue for providing services to the eligible informal workers and their families. This could indeed act as an incentive to strengthen the public health infrastructure. Of course, both the central and state governments will have to ensure that adequate health infrastructure is put in place especially

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<sup>1</sup> The remaining 28 million were identified as informal workers in the formal sector.

<sup>2</sup> These 300 million were identified as eligible workers i.e. those with an independent income. The remaining workers are classified as unpaid family workers.

in the rural areas of the country. The Commission recognizes that the ongoing National Rural Health Mission should be in a position to strengthen the health infrastructure in the rural areas. At the same time, it was also recognized that designated facilities might not exist within reasonable distance in certain areas. In such cases, five per cent of the hospitalisation charges may be chargeable for transportation purposes for reimbursement later. There is no denying the fact that experience in providing health care through an insurance model is at present limited in the country and that providers are on a fast learning curve. The Workers Facilitation Centres as well as the organisations of, and working among, informal workers will have to play an active role in educating and assisting them in accessing these social security benefits.

In the case of life insurance, no such problems exist. Both the Life Insurance Corporation of India and the Department of Posts has considerable experience in providing low cost insurance to various segments of the population. In fact, the postal life insurance system is considered more cost effective and provides higher benefits. But the real attraction lies in the vast network of post offices through which the contribution of workers can be collected and benefits delivered.

In the case of Provident Fund for APL workers, it would be managed by a mutual fund. A guaranteed annual return of 10 per cent has been proposed since the savings of the workers should not be subjected to the vagaries of the capital market. The National Fund should provide such a guarantee. To compensate for such a risk cover, the National Fund is entitled to retain any surplus whenever the yield is above 10 per cent. Historical experience suggests that the Indian capital market has done reasonably well to guarantee this proposed return.

The real challenge here is in collecting the contribution of workers over the breadth and length of the country and in ensuring timely delivery of services. The Commission has carefully examined this issue and after discussions with the Department of Posts has recommended that the vast network of the postal system be taken advantage of, for this national project. There are at present more than 1,56,000 Post Offices connecting every nook and corner in the country (including rural areas) with an unbroken record of nearly 150 years of service in the country. As such the system has long standing credibility as well as accessibility to common people. It could also function as a bookkeeper to the social security system by the book keeping accounts and making payments to the service providers as required by the concerned State Boards or the National Board.

Under such an arrangement workers can open savings bank accounts in Post Offices through which benefits could be distributed. In this way, the challenge of collection and distribution of funds can be taken into account without any significant additional investment by the government. The entire scheme has to be implemented in a phased manner over a period of five years. This might seem somewhat ambitious, given the geographical spread of the country as well as the magnitude of coverage. But to make a meaningful dent in providing a modicum of social security to informal workers, it is important to work within a reasonable time frame. As with almost all such national initiatives, there will be a process of 'learning-by-doing' that will also influence the time frame.

## From Proposal to Enactment

The Report was submitted to the Government of India in May 2006. The Government considered the report in great detail through a series of discussions with all stakeholders. All the trade unions and similar organisations of workers in the informal sector have demanded a universal social security cover for such workers. Political parties have also supported such an initiative realising the collective mood that the workers in the informal sector should not continue as unprotected labour for long. Finally, a Bill for Social Security for Workers in the Unorganised Sector was introduced in the Parliament in September 2007 which has since been referred to a Parliamentary Standing Committee. The Bill is noteworthy not only for accepting certain fundamental principles but also falling short of the NCEUS recommendations. It has accepted the principle of social security to informal workers. As such the Bill seeks to provide such minimum but critical social security as health (hospitalisation) and maternity, accident and death, and state pension to the aged. It has proposed a National Advisory Board (instead of an empowered National Board) at the national level and State Advisory Boards at the state level to make recommendations to the government from time to time. The concept of a National Minimum Social Security has not been explicitly recognised although the elements of such a minimum have been ensured. The recommendation for setting up a social security fund has also not found favour with the government. At the moment the schemes are envisaged only for the workers in the informal sector belonging to the officially identified poor households. This could be interpreted as a first step towards the goal of universalisation.

The Parliamentary Standing Committee will now deliberate on all aspects of the Bill and will hear the views of the stakeholders as well as the interested public at large. This would give an opportunity to further strengthen the conceptual and organisational features of the proposed social security. It may be pointed out here that a similar process was quite crucial in the finalisation and subsequent enactment of the NREG. The negotiating process of democratic decision-making, especially for securing legal entitlements to the poor, could be a long and often a tortuous one. But when a final decision is made, it will indeed be a major achievement in empowering.

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