

## SOCIAL SECURITY PROVISIONS FOR INDIA'S INFORMAL ECONOMY

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### ABSTRACT

*India has performed reasonably well since 1980 in terms of economic growth but still large proportions of the Informal workers are outside the realm of social security provisions. Indian Government has not provided any comprehensive social security provisions to the workers in an Informal sector. Only 6 % of working population has access to the social security benefits while 94 % have little or no access at all. The paper provides the overview of Social Security issues in India in general and Informal Sector in particular.*

### UNDERSTANDING SOCIAL SECURITY

Conceptually, Social security notion is quite complex and open ended one. The term “Social Security” has no common recognized definition as it has evolved over the years, and it differ from country to country, and it can be understood in many ways. Social security as a concept is dynamic, not static and it keep evolving over the period of time (Garcia and Gruat, 2003). In simple words, social security means providing protection to people against socio-economic risk. Social security is used as a social means to prevent vulnerability and deprivation (Dreze and Sen 1991).

Social Security in developing countries should be viewed in a broader perspective and “*essentially as an objective to be pursued through public means rather than as a narrowly defined set of particular strategies*” (Dreze & Sen 1989). One of the important objectives of social security schemes is to combat low income or poverty (Ahmad 1991, Burgess and Stern 1991, and Guhan 1992).

ILO in 1952 had adopted Convention No-102, “Social Security (Minimum Standard)” which had specified important 9 component of Social Security as medical care, sickness benefit, unemployment benefit, old-age benefit, employment injury benefits, family benefit, maternity benefit, invalidity and survivor's benefits. In addition to nine components of social security, ILO has added ‘general protection against poverty and social exclusion’ to the definition of social security.

Social security has a positive effect on well being of society, on growth, on productivity, in reducing infant mortality and maternity mortality and help individual to have the decent minimum

standard of life. There is a positive effect of higher public expenditure on social security on poverty alleviation, on better health and educational outcomes (ILO).

When social security benefits are introduced to the unprotected workers, this will trend to increase growth and reduce poverty and inequality in society. Since these workers contribute significantly to the growth of a country and if they continuously remain outside realm of social protection then they cannot utilize their potential to the fullest. It is important here to understand the role of social security because workers can work with great zeal and utilize their potential fully only when workers are protected by both economic and social security, which will not only contribute towards economy growth but it would be also for betterment of society as a whole.

Adequate social security arrangements will lead to better human development that in turn will lead to higher economic growth in society (D. Mahendra, Antony, Gayathri, Mamgain 2001). Investment in social security would be 'win-win' strategy where it will act like macroeconomic stabilizer in the short run and improves human capabilities and growth in the long run (ILO, 2011). Comprehensive social security provisions act as an "automatic stabilizers" in socio-economic development (Stiglitz 2009). Millennium Development Goals 2010 recognized that social security can possibly eradicate poverty and there should be 'universal social floor' for all.

There is a need to make a distinction between 'economic security' and social security' although they are connected. Economic security means security of person in terms of employment, income and assets while social security provides workers basic needs like food, old age support, health care, maternity, housing and child care, etc. Economic security is a means to obtain social security and social security is a way to increase economic security (Jhabvala, 1998). A mutual relationship exists between social security and economic growth examples are the experience of Sri Lanka and Kerala where such relationship exists (D. Mahendra, Antony, Gayathri, Mamgain 2001).

## **EMERGENCE OF SOCIAL SECURITY SCHEMES IN INDIA**

Traditionally in India, joint family system used to be an important instrument of providing social security to its family member but rapid Globalization and Urbanization has led to emergence of nuclear family and a need has been felt since 20th century to have institutionalized and regulated social security arrangements.

The emergence of social security schemes in Third World Countries can be traced centuries back during the colonial period. British ruler started social security schemes for the people in colonies. In 1929, 'Employers Liability Scheme' was the first social security scheme introduced in India. After this, the Government introduced 'Employees State Insurance Scheme 1948' to provide social insurance benefits such as maternity benefits, sickness benefits, employment and disability benefits. Then in 1952 'Provident Fund Scheme' was launched to provide retirement benefits. In the early 1970s, some State Government introduced social assistance schemes such as old age pension

benefits (Pillai, 1992). Breakthrough in the area of social security came only after Independence even though Workmen's Compensation Act (1929) and Maternity Benefits for women existed before Independence also.

ILO was established in 1919 and India is one of the founding members of ILO. Since 1992 India is also permanent member of ILO governing body<sup>1</sup>. India has ratified 43 ILO Convention<sup>2</sup> as on 31<sup>st</sup> December 2013. ILO has eight core conventions called, "Fundamental Human Right Convention". India has ratified four core convention of ILO- Forced Labor Convention (No.29) in 1954, Equal Remuneration Convention (No.100) in 1958, Discrimination (Employment Occupation) Convention (No.111) in 1960 and Abolition of Forced Labour Convention (No. 105) in 2000. India has ratified ILO, "Equality of treatment (Social Security) Convention No.118 in 1962, which grant coverage and right to benefit in every branch of social security<sup>3</sup>. Most of the laws relating social security in India are adopting Recommendation and Convention of ILO, but there are many Conventions of ILO on Social Security still to be ratified by India.

India has ratified ILO's Convention of workers right to social security but still Indian Government has not provided any comprehensive provisions for social security to the workers in an Informal sector. In India among nine branches of social security defined by ILO, none of these is institutionalized as a part of an official policy for the entire country.

Social security schemes in India are generally classified into- Preventive measures, Promotional measures and Protective measures (Dev, Kannan and Francis, Thorat, Srivastava). Preventive measures deals with decline in income, Protective measures aim to improve economic position like old age pension, widow pension, survivor benefit etc, while Promotional includes income maintenance measures like employment guarantee programme, wage employment programme, health security scheme, etc. Government should ensure social security schemes to workers in Informal Sector as a way to neutralize the adverse effect of reforms and Government should implement more Protective type social security schemes like old age pension benefit, health benefit, maternity benefits etc. (Dev, 2005). International Social Security Association (ISSA) in its, Dynamic social security concept argues for the systematic and synergic use of the protective, proactive and preventive dimension of social security programs.

## **SOCIAL SECURITY FOR UNORGANIZED SECTOR**

In India only small section of workers in the formal sector have well defined social security schemes while a large number of workers employed in informal sector are deprived of such

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<sup>1</sup> Governing Body is the executive wing of the ILO and it is tripartite in nature.

<sup>2</sup> Ratifying ILO Convention means India is legally bound for obligations.

<sup>3</sup> India has accepted branches (a) to (c) and (g) and (i).

schemes. This section will review existing Social Security status both in Organized and Unorganized Sector.

The majority of workers in the unorganized sector are either casual laborers or self-employed labourers. The informal sector has become a cheap source of employing labor with an aim of maximizing profit. Nowadays in the Formal sector too informalization of workforce has increased to avoid regulation and increase profit. Subcontracting and Outsourcing have become a harsh reality of labor market in India. While the informal sector contributes to two-third of India's GDP and since early 1990's it had been employing more than 90percent of the workforce but in return workers in this sector get little due from economic growth. However the importance of Informal Sector cannot be ignored in developing country, since it is a backbone of an economy providing tremendous opportunity of earning income to unskilled workers, providing them livelihood and it contributes significantly to economy's GDP, capital formation, growth, savings and its share in economy's growth and employment is continuously increasing.

Informal Sector in India is characterized by irregular employment, low productivity, less than minimum wages, long and unregulated working hours, poor working conditions, lack of safety measures, provides seasonal, casual and contractual employment, lack of social security measures and so on. Since workers in the unorganized sector are mainly illiterate and unskilled, it is difficult for them to move vertically up in the occupational ladder. Due to lack of workers mobilization and collective bargaining the vulnerabilities and uncertainties of workers in this sector are on the rise (Ramesh 2004).

## **SOCIAL SECURITY FOR INFORMAL SECTOR**

The importance of introducing social security schemes for the workers in the unorganized sector is justifiable on the equity and social justice grounds. Long back in 1950's Government had started initiative like Community Development Programme to address the issue of providing Social Security for Informal Sector workers but till now there is no comprehensive well defined Social Security scheme or legislative at Centre or State level especially for Informal sector workers. However, it was after 1991 that Government had paid more attention in providing Social Security to Informal workers. The process of Globalization had adverse impact on welfare of workers, as Formal Sector also started employing workers in contractual basis in order to reduce labor cost which eroded employment opportunity and working condition of workers, as a result need was felt by Government to revive the social security schemes for workers in Informal Sector (Dhas and Helen 2008; Rodrik 1997; Ramesh 2007). It was only after 9th Five Year Plan; Government explicitly raised concerns on providing Social Security Benefits to Informal Workers.

There are various Acts implemented both by Central and State Government which improves welfare of poor's in general and informal sector workers in particular like Minimum Wages Act

1948, Bonded Labor Abolition Act 1972, Child Labor Act 1986, Payment of Gratuity Act 1982, Inter- State Migrant Workmen Act 1979, Building and Other Construction Act 1996 and many more but these Act have not adequately protect the employment, job security, working conditions, safety & health issues for Informal Sector Worker either because their coverage is very low or they are for specific category of workers.

Recommendation of “First National Commission on Labor in 1969” ensured that workers in the unorganized sector must get a minimum wage through Minimum Wage Act. Government constituted “Second National Commission on Labor in 1999” to address the social security issue in a detailed manner. Among several recommendation submitted by Commission, one was pilot “*Unorganized Sector Workers Social Security Scheme 2004*” which was to strengthen the existing social security system in India. UPA Government in 2004 had set up *National Commission for Enterprise in the Unorganized Sector (NCEUS)*, which submitted its recommendation to Prime Minister in 2006 for Draft Bill, “*The Unorganized Workers Social Security Bill 2006*”. Under the draft bill NCEUS recommended ‘*National Minimum Social Security*’ which would cover all workers in informal sector within five years and suggested the formation of ‘National Social Security Board’ to execute schemes including health, maternity, disability and old age pension. The NCEUS bill is one of the major step towards the well-defined, comprehensive social security for Informal Sector workers in India (Kannan 2007).

Recently the Government to extend the coverage of social security benefits in informal sector introduced “*Unorganized Sector Workers’ Social Security Act 2008*” on the basis of recommendation by NCEUS. The Act came into force on 14<sup>th</sup> May 2009. The main aim of the Act is to regulate the working condition and provide adequate social protection and health care benefits to informal sector workers. On 18<sup>th</sup> August 2009 ‘National Social Security Board’ was constituted to provide social security benefits to the workers in unorganized sector and Board will have recommendatory as well as monitoring and advisory powers. This Act could be considered a big step forward towards ensuring legal right to social security in informal sector. “*Unorganized Sector Workers Social Security Act, does not provide for a national minimum to be provided to all unorganized workers within a definite time frame*” (Srivastava 2013, pp-88).

Other important initiatives taken by the Government which need special mention on ongoing discussion are implementation of National Rural Employment Guarantee Act (NREGA)-2005, Right to Information Act (RTI) 2005 and Right to Education Act (RTE) 2009 etc. Implementation of NREGA by the Government was a big move towards Right Base Scheme ensuring Right to work and it is one of the significant promotional and protective social security schemes for workers in Informal Sector. RTI also ensures transparency by giving people Right to get information and it improves monitoring and efficiency in implementing Social Security Schemes (Dev. Mahendra

2005)<sup>4</sup>. Major social security schemes being implemented by Central Government are shown in Appendix Table 2A.1.

In addition to the Central Government assisted social security schemes, there is plethora of social security programmes launched by State Government which includes constitution of various Welfare Boards or Social Security Boards for specific categories of workers in unorganized sector. Other is formulation of specific schemes such as pension fund schemes and social protection programmes by number of states for workers in unorganized sector. Apart from centers pension fund schemes there are various pension schemes operated by states such as Shandya Suraksha Yojana in Karnataka, Destitute Widows Pension Scheme and Destitute Agricultural Labourers Pension Scheme in Tamil Nadu, Special Pension for the Disabled and Mentally Retarded Person in Kerala, The Widow pension in Rajasthan, The Laxmi Bai Social Security Pension Scheme in Bihar, The Madhu Babu Pension Yojana in Odisha, old age pension scheme in Punjab and many more. Some states like West Bengal and Rajasthan have also formulated Provident Fund Schemes, in addition to pension schemes for workers in unorganized sector.

***Existing Social Security Schemes in India for Informal Sector workers can be broadly classified into four categories:***

- Centrally Funded Social Assistance Programmes;
- Social Insurance Schemes;
- Social Assistance through Welfare Fund of Central and State Government;
- Public initiatives

**Centrally Funded Social Assistance Programmes:** Government provides social security to both rural and urban people through centrally funded social assistance programmes which basically include employment oriented poverty alleviation programmes such as Employment Assurance Schemes, Swaran Jayanti Gram Swarojgar Yojana (SGSY), Sampoorna Grameen Rozgar Yojana (SGRY), National Rural Employment Guarantee Act (NREGA) etc and national social assistance programmes.

National Social Assistance program (NSAP) was started as a centrally sponsored scheme (CSS) in 1995-6 but since 2002 it has been modified as a state plan scheme. Only BPL families, old, poor and needy can avail benefits under NSAP. In most of the state's NSAP is being implemented by the respective social welfare departments and it is extended to both rural and urban areas. It has five components- *National Old Age Pension Scheme (NOAP), National Family Benefit Scheme (NFBS), Indira Gandhi National Widow Pension Scheme (IGNWPS), India Gandhi National Disability Pension Benefit (IGNDPS) and Annapurna.*

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<sup>4</sup> Dev. Mahendra, "Social Security for Unorganized Workers" Editorial page: THE HINDU, 26 Sep 2005

Under NOAP, all destitute old age people who don't have subsistence source of income are eligible for old age pension of Rs75 pm. The government launched Indira Gandhi Old Age Pension Scheme (IGOAP) as a broad base scheme to include all BPL old age people of age 65 or above instead of only destitute people. Now the central government has increased the pension from Rs75 to Rs 200 per month. NFBS provide lump sum amount of Rs 10,000 if the bread winner of the family below BPL dies in an accident or in case of natural death.

There are very few beneficiaries getting benefits under NSAP which shows the coverage is very limited.

**Social Insurance Schemes:** Insurance is a useful way by which workers can spread their risk over the period of time. The social insurance schemes include several schemes launched by the Central and the State Governments for the benefit of weaker sections through the Life Insurance Corporation of India and General Insurance Corporation of India. There are schemes for the employees of shops and commercial establishments and other weaker sections.

- I. **Jan shree Bima Yojana (JBY)** is the scheme which aims to cover BPL people or people marginally above BPL between age of 18 to 60 years. JBY is being implemented by Life Insurance Corporation of India (LIC). Under the scheme, an individual will get benefit of Rs 30,000 and Rs. 75,000 in case of natural death and death due to accident respectively. Annual premium to be paid under JBY is Rs. 200 per beneficiary and out of this central government will pay Rs. 100 and in some states whole amount is paid by government.
- II. **Universal Health Insurance Scheme (UHIS)** is the government scheme which covers BPL families. The premium paid by the beneficiaries is subsidized by the government. Under UHIS, an individual can avail benefits such as reimbursement of hospitalization expenses and personal accident insurance coverage.

**Public Initiatives:** Several public institutions and agencies are also imparting various kinds of social security benefits to the selected groups of workers. Among these Self Employed Women's Association (SEWA) has made significant achievement in promoting social security through the formation of cooperatives.

## **SOCIAL ASSISTANCE THROUGH WELFARE BOARD**

Welfare fund is one of the innovative ways of providing social security to a specific category of workers in the informal sector. Welfare Board provides several benefits like access to safe drinking

water, health care benefit, old age pension schemes, educational assistance and so on, according to the specific need of occupational category.

According to the 'National Labour Commission, 1969' majority of workers employed in unorganized sector are on casual basis therefore there is no permanent relationship between employer and employee which is one of the major impediments to introduction of social security benefits for them. There is no particular welfare fund at the central level providing social security to all informal workers. The Southern States like- Kerala, Tamil Nadu and Karnataka have been appreciated for successful running welfare board. One of the criticisms of welfare board is its low coverage and inefficient administration. Welfare Board ensures the only minimum level of social security to the workers in the informal sector.

Welfare Board funds are managed by tripartite where employers, employees and state have a stake. There are 20 such welfare boards, the first having been created in 1969. All these boards ran successfully for a particular period, but several are dysfunctional now. Some of those that still run well are the Toddy Tappers Welfare Board and the Construction Workers Welfare Board and even the Fishermen's Welfare Fund. Beedi Workers Welfare Fund coverage is quite impressive, and it has a significant effect on the lives of beneficiaries. Interestingly, the boards that are in a state of disrepute are those in which the majority of workers are women like the Agricultural Workers Board and the Bamboo Workers Corporation, etc. In fact, the government contribution is 10 percent to the Toddy Tappers Board but it contributes nothing to the Agricultural Workers Board. Hence, there are significant flaws and inconsistencies in both the organization and the delivery systems of these boards. (Jhabvala 1998) pointed out that for welfare boards to work efficiently they need to be decentralized and administered through tripartite mechanism both at a state or district level.

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