Strengthening India's Social Protection Architecture for the Informal Sector: Lessons from the Covid-19 Crisis

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I. Introduction

The Covid-19 pandemic imposed a significant shock on the Indian economy with GDP contracting by 7.3% in 2020–21. While GDP is set to return to pre-pandemic levels in 2021–22, evidence suggests that this recovery is far from uniform. While the formal sector has recovered rapidly the informal sector has largely been left out of the recovery process. A new Pew Research Center analysis (Kochhar 2021) finds that the middle class in India is estimated to have shrunk by 32 million in 2020 as a consequence of the downturn, compared with the number it may have reached absent the pandemic. Additionally, the number of people with incomes of $2 or less a day is estimated to have increased by 75 million because of Covid-19. What is more, a disproportionate burden of the pandemic has been borne by the economically more vulnerable, the less-educated, the young and women. Many of these individuals were engaged in contact intensive sectors, which have been hit the hardest by the Covid-19 shock.

When the first wave of the pandemic hit in March 2020, the government put in place, a series of policy packages using existing the social protection programmes to provide relief to the poor. While these were effective, several challenges pertaining to targeting, enrollment, interstate portability, inadequate entitlements and delays in payments have arisen. Based on this experience, this article argues that protecting the poor and vulnerable from uncertain adverse shocks requires strengthening safety nets by addressing the above-mentioned gaps and also putting in place a social protection architecture which has components that can behave as automatic stabilizers without any discretionary interventions or requirement for legislative actions. This is important to avoid delays in reaching out to those in urgent need of support during downturns.

The purpose of this article is three-fold. First, to assess the impact of Covid-19 on the labour market and examine who bore the greatest impact of the pandemic. Second, to provide an overview of the policy responses by the government. And third, to outline the future direction of social protection policies in the post Covid-19 period.

II. The unequal effects of the pandemic on the labour market

The impact of the Covid-19 crisis on the labour market has varied across workers depending on the nature of the employment arrangement and the sector of employment. Using data from Periodic Labour Force Survey (PLFS), an annual labour force survey conducted in India, Kapoor (2020) argues that the effects of the pandemic and lockdown shocks were particularly harsh on less-educated workers who are typically engaged in informal employment (characterised by lack of access to social security, low pay and precarious work arrangements) in sectors where the first order effects of the pandemic were strongest due to inability to move work online. In contrast, the more educated workers who are engaged in formal work that offers a steady source of income and some degree of social security and were engaged in sectors amenable to online work were relatively better off. The former accounted for a disproportionate share of the pandemic-related job losses.

Table 1a and 1b show that less educated are typically employed in sectors where the first order effects of the pandemic have been severe and the options for remote work are limited. Outside of the agricultural sector, which accounts for 42.4% of total employment, the three sectors which cumulatively account for approximately 36% of total employment are manufacturing, construction and trade, and hotels and restaurants. These sectors have been significantly affected by the pandemic and the lockdown and collapse of demand. These sectors are a critical source of employment for the less educated (Table 1a).

What is more, as the statistics in Table 1b suggest, the above-mentioned sectors are also dominated by informal and non-standard work arrangements (such as self-employment, casual work and regular informal work) making them highly vulnerable to layoffs. In the construction sector over 80% of the workers are in casual employment and can be fired easily. In the manufacturing sector almost 85% are in informal work arrangements. In the trade, hotels and restaurant segment, less than 5% are in regular formal jobs. In contrast, high-end services sectors which generate employment for the educated and are more amenable to remote work have a higher share of regular formal employment. Given that these sectors offer higher wages, workers had a greater financial wherewithal to cope with any loss of earnings or periods of unemployment. However, the contribution of these sectors to total employment is low (approximately 14%).

Importantly, many of the less educated informal workers who lost employment in the non-agriculture sector found themselves pushed into the agricultural sector resulting in its emergence as an 'employer of last resort.' Data from the PLFS for the period 2019–20, which captures the period of the first lockdown in India shows that the share of the workforce engaged in agriculture rose to 45.6% from 42.5% (2018–19). This increase is significant as it is the first time that the share of agriculture in total employment (in percentage terms) has increased. Importantly, even within the agricultural sector, much of the increase is coming through the category of unpaid family helpers/workers i.e. those who are engaged in their household enterprises, working full or part time but do not receive any regular salary or wages in return for the work performed (considered as poor quality

Table 1a: Distribution of workers across sectors by educational qualification

(%)

Sectors	Not literate	Literate without formal education	Literate below primary	Primary	Middle	Secondary	Higher secondary	Graduates and above	Total
Agriculture	37.50	0.42	6.80	15.21	19.77	9.96	6.64	3.71	100
Mining and Quarrying	20.91	0.07	10.31	12.02	21.33	12.54	10.66	12.15	100
Manufacturing	14.00	0.33	5.70	15.79	25.71	14.62	13.89	9.96	100
Electricity, Gas and Water supply	13.33	0.35	3.00	8.15	18.29	15.08	20.29	21.53	100
Construction	27.72	0.62	6.60	18.35	25.86	11.25	6.51	3.10	100
Trade, Hotels and Restaurants	11.13	0.30	4.55	11.98	24.73	17.09	15.86	14.35	100
Transport, Storage and Communication	9.94	0.33	3.85	12.97	25.58	15.05	12.30	19.99	100
Finance, Business and Real Estate	3.00	0.12	1.35	4.61	11.71	10.41	16.08	52.73	100
Health, Education and Public Administration	10.30	0.21	2.68	7.31	13.67	11.45	15.11	39.28	100
Total	24.30	0.38	5.56	13.88	21.28	12.09	10.30	12.22	100

Table 1b: Sectoral share of employment in total employment and breakdown of employment by employment category

(%)

Sectors	Share of employment in total employment	Regular formal	Regular informal	Self-employed	Casual workers	Total
Agriculture	*42.43*	0.08	1.12	74.13	24.67	100
Mining and Quarrying	*0.42*	28.56	23.66	9.25	38.52	100
Manufacturing	*12.03*	16.49	27.17	42.95	13.38	100
Electricity, Gas and Water supply	*0.56*	45.27	31.51	19.44	3.78	100
Construction	*12.14*	1.60	3.88	10.83	83.68	100
Trade, Hotel and Restaurants	*12.63*	4.69	23.02	67.72	4.57	100
Transport, Storage and Communication	*5.95*	20.37	29.76	38.39	11.47	100
Finance, Business and Real Estate	*3.37*	41.53	26.55	30.08	1.85	100
Health, Education and Public Administration	*10.48*	36.98	38.82	20.15	4.04	100
Total	*100*	9.66	14.13	52.04	24.16	

Source: Kapoor (2020).
Note: Sectors above are based on National Industrial Classification 2008 (NIC 2008).

employment). The share of this category of workers in the agricultural sector has increased from 25.7% to 29.7%. Often when job seekers are unable to find work, they resort to such work reflective of underemployment.

Additionally, data from multiple independent surveys at the local and national level have shown continuing low employment rates, reduced incomes, increased food insecurity, and elevated debt levels (Azim Premji University 2021). Significant amongst these is the Centre for Monitoring Indian Economy (CMIE), a private data source which provides high frequency household data. Based on this data, analysis by Abraham and Basole (2022) show that in April 2021, incomes as well as employment remained below their pre-pandemic levels when the second wave arrived, causing more distress. As of the middle of 2021 (after the second wave), the employment rate remained 3 percentage points below its pre-pandemic value. Household incomes too had not fully recovered, but were stagnant at around 80% of their pre-pandemic levels. The authors also point to the increased level of informality with, the share of self-employed and casual wage workers in the total workforce increasing to 80% in 2020–21 from 78% in the years prior to the pandemic as per CMIE data.

III. Policy responses to the Covid-19 shock

Since the announcement of the first lockdown in March 2020, both the Central and State governments announced a series of relief measures. These programmes were based on existing social protection programmes such as Public Distribution Systems (PDS) which provides subsidised food rations, cash transfers, Mahatma Gandhi National Rural Employment Guarantee Programme (MGNREGA), PM-KISAN payments, and pension payments. This section outlines the measures undertaken under the two key relief packages announced by the Central Government.[1] The first relief package of Rs 1.70 lakh crore, the Pradhan Mantri Garib Kalyan Yojana [Prime Minister’s Poor Welfare Scheme] (PMGKY), was announced in March 2020 and included the following measures reach out to the poorest:

1. A detailed list of support announced at the state level is available online: https://Covid19socialsecurity.wordpress.com/relief-measures/.

- 80 crore poor people to get 5 kg wheat or rice and 1 kg of preferred pulses for free every month for the next three months - *extended to November 2021*
- 20 crore women Jan Dhan account holders to get Rs 500 per month for next three months
- Increase in MGNREGA wage to Rs 202 a day from Rs 182 to benefit 13.62 crore families
- An ex-gratia of Rs 1,000 to 3 crore poor senior citizen, poor widows and poor disabled
- Government to front-load Rs 2,000 paid to farmers in first week of April 2020 under existing PM Kisan Yojana to benefit 8.7 crore farmers
- Central Government has given orders to State Governments to use Building and Construction Workers Welfare Fund to provide relief to construction workers

Thereafter, the government announced a special economic package of Rs 20 lakh crore (equivalent to 10% of India's GDP) with the aim of making the country independent against the tough competition in the global supply chain and empowering the poor, labourers, migrants who have been adversely affected by Covid-19. Some of the key features of this project referred to as Atmanirbhar Bharat [self-reliant India] included:

- Support for businesses and Micro Small Medium Enterprises (MSMEs)
  - Rs 3 lakh crores Collateral-free Automatic Loans for business including MSMEs
  - Rs 20,000 crore Subordinate Debt for MSMEs
  - Rs 50,000 crore equity infusion through MSME Fund of Funds
- Support for migrants and urban poor
  - Government of India permitted State Governments to utilise State Disaster Response Fund for setting up shelter for migrants and providing them food and water etc.
  - Hygienically prepared three meals a day provided for the residents of Shelters for Urban Homeless during the lockdown
- MGNREGA support
  - Additional MGNREGA allocation of Rs 40,000 crores in FY2020–21
  - Drive undertaken to enroll returning migrants
  - Planning for continuing MGNREGA works in monsoon as well: plantations, horticulture, livestock related sheds
- Free food grain supply to migrants for two months
  - Migrants who are neither National Food Security Act (NFSA) or State Card beneficiaries in the state they were stationed in, provided 5 kg of grains per person and 1 kg Chana per family per month for two months
- Support for informal sector workers
  - Rs 1,500 crores Interest Subvention for MUDRA-Shishu Loans
  - Rs 5,000 crores Special Credit Facility for street vendors

In the absence of official government data, multiple independent surveys have sought to understand how effective the above-mentioned programmes were in providing relief. Given the wide coverage of the PDS, which legally entitles up to 75% of the rural population and 50% of the urban population to receive subsidized food grains, this programme stands out in its performance in providing a safety net for the poor. Across multiple surveys, 90% of surveyed households reported having a ration card. For instance, in a rapid phone survey of 50,000 households across 15 states undertaken by Dalberg (2020), PDS emerged as the best performer in terms of accessibility with 91% of entitled households reporting that they had availed of free rations announced under the PMGKY in May. Evidence from a World Bank study (Bhattacharya and Sinha Roy 2021) which examines enrollment and access across various schemes also points to the larger reach of PDS as compared to cash transfer schemes. The study notes that while 90% of rural and 80% of urban households were enrolled in PDS prior to the pandemic, only 60% of rural and 34% of urban households were enrolled in cash transfer schemes. They find that 74% of all households received food through PDS but only 40% of households received cash-transfers.

Cash transfers are likely to have had a limited effect given the widespread exclusion of the vulnerable and needy from these programmes as well as the small size of the transfers. Pande et al. (2020) compute that more than half of all BPL (below poverty line) women were not covered under Pradhan Mantri Jan Dhan Yojana (PMJDY) to begin with. Further, Somanchi (2020) shows that 56% of all women and 46% of all households are likely to be excluded from cash transfers if delivered via Jan Dhan accounts. Extending transfers to women with non-PMJDY accounts would have substantially increased inclusion. Nevertheless, Bhattacharya and Sinha Roy (2021) find that overall, conditional on eligibility, 80% of households who had members with PMJDY accounts received benefits. In terms of cash transfers to construction workers, only one third of construction workers received any direct benefit transfers (Jha 2020). This was due to problems of low registration rates, non-updation of identity cards, enrolment of non-construction workers as beneficiaries and the fact that a large number of construction workers are migrant labourers working in different states far away from their native places. The issue of portability of their registration and benefits has remained unresolved.

Finally, like the PDS, MGNREGA which provides at least 100 days of wage employment in a financial year to every rural household whose adult member volunteers to do unskilled manual work has played a vital role as a safety net in rural areas during the pandemic. In 2020–21 a total of 3.89 billion person-days of work were generated, an increase of 47% over 2019–2020 (2.65 billion person-days). 111.9 million individuals worked under the programme in the pandemic year, up 42% from the previous year (78.8 million individuals). However, the 'rationing rate' (percentage of households who demanded work but did not get it) in the May to August 2020 period was 22.7% (15% for the same months of 2019). Thus the level of fiscal support provided to the programme remains short of making it a truly demand-driven programme, and the extent of rationing worsens as the financial year progresses.

IV. Strengthening India's social protection architecture: Lessons from the Covid-19 crisis

The above-mentioned discussion indicates that while the support packages provided relief to the vulnerable, they fell short on some dimensions. There is an urgent need to strengthen India's social protection architecture to not only help India's vulnerable informal workforce recover from the Covid-19 crisis but also provide a cushion during future crises. This requires a two-fold approach. One, augmenting and expanding existing social protection programmes to ensure exclusion errors are overcome and adequate support is made available. And two, putting in place effective automatic stabilizers which help reduce the welfare cost of macroeconomic fluctuations to the poor and prevent households from resorting to coping strategies that have long term adverse impacts which impede economic growth and poverty reduction.

To begin with, we discuss the importance of expanding the coverage of existing programmes. In the context of PDS, for instance, a key challenge is the exclusion of a large number of deserving vulnerable households. Since the percentages mentioned in the National Food Security Act under whose ambit the PDS comes (75% in rural areas and 50% in urban areas) have been applied to 2011 population numbers, it is estimated that 100 million households are left out of the system (Khera and Somanchi 2020). Failure to update the population numbers has meant that, a large number of deserving households are not entitled to subsidised grains (Trivedi 2020). Another significant problem vis-a-vis PDS is that migrant workers are not entitled to PDS entitlements in their places of work even if their names are on ration cards in their home state. Over the last few years gradual reforms have been carried out with the aim of ensuring inter-state portability. However, when Covid-19 struck, the concept of 'one nation one ration card' was yet to be realised. Given the important role PDS has played during this epochal crisis, it is important to expand the list of eligible beneficiaries, ensure inter-state portability and concomitantly allow households which previously may not have been eligible for food support to become eligible and receive support in a timely manner during downturns. Additionally, the expansion of entitlements beyond wheat and rice to include food items such as protein source, soaps and masks needs to be considered.

The speed at which these changes are implemented during a crisis is crucial. Establishing national and/ or state level triggers that enable automatic adjustments in the programme that remove uncertainty and speed up the use of the programme as both insurance to individuals and as an automatic stabilizer. Such triggers have been proposed for the Supplemental Nutritional Assistance Programme in the United States. Introduction of such triggers, contingent on availability of appropriate data, merit consideration in the Indian context.[2]

Cash transfers have become increasingly popular in India since the government embarked on a financial inclusion programme (namely PM Jan Dhan Yojana) in August 2014. This programme sought to provide banking services to every unbanked adult. It was argued that the Jan Dhan system in combination with Aadhar and mobile phones would provide the necessary infrastructure for delivering cash transfers. When the Covid-19 crisis struck, under the PMGKY package, the above-mentioned architecture was utilized to provide relief through cash transfers. However, as described above, these transfers were inadequate at the extensive margin as they are likely to have excluded as many poor households. Also, as pointed by the State of Working India Report (Azim Premji University 2021), they have also fallen well short at the intensive margin, offering only Rs 500 per month over three months at the Central Government level (Ibid.). The report notes that, India's transfer of Rs 1,500 (over three months) which amounted to 12% of monthly GDP per capita (as opposed to the global average of 32% of monthly GDP per capita) are likely to have fallen well short of compensating for the decrease in incomes that majority of informal workers have experienced.

Another key problem vis-à-vis coverage of cash transfer programmes in the context of the pandemic has been that there are many individuals who may not have been eligible for support under existing schemes but have witnessed a sharp decline in their income or lost jobs given the informal and insecure nature of their employment arrangement. Pushed into a dire situation they too will need income support. However, identifying such individuals will be a herculean task. In developed countries, unemployment insurance schemes which provide cash transfers to those who are rendered jobless and those who meet certain eligibility criteria serve as effective automatic stabilisers on the spending side. However, in India, given the predominance of informal work arrangements, unemployment insurance programmes are likely to have limited efficacy only. Therefore, to provide support to vulnerable households during downturns, it would be useful to put in place a programme that offers a minimum income guarantee in a timely manner for temporary periods during downturns.

The MGNREGA programme is one existing programme which given its self-targetting feature and demand driven nature can work as an effective automatic stabilizer for the economy. For this to happen, there is a need to enhance budgetary provision for the programme such that people are not rationed out during downturns as described above. Additionally, there is a need to extend the number of guaranteed days of work from 100 to 150 at a time of crises such as droughts or national calamities. Meeting this demand requires a large-scale opening of worksites and expanding lists of permissible works at such times (Drèze and Khera 2020). For the programme to provide an adequate cushion, wages paid under MGNREGA also need to be increased. Aggarwal and Paikra (2020) find that programme wage rates of at least 17 of the 21 major states are even lower than the state minimum wage for agriculture. In this regard, it is important that the baseline for MGNREGA wage indexation should be the current minimum wage rate for agricultural labourers.

A clear lesson from the Covid-19 crisis has been that India's social protection system functions better in rural areas compared to urban areas. This is partly due to better coverage (such as with PDS) and partly due to the existence of rural-only programmes (such as MGNREGA). Going forward, an expansion and strengthening of

2. For instance, the Supreme Court has issued orders on universalisation of PDS during droughts, though these have not been implemented: https://scroll.in/article/810489/supreme-court-delivered-a-historic-order-on-drought-relief-but-who-will-ensure-it-is-implemented.

the urban social safety net is highly desirable. To this end, the possibility of introducing an urban employment programme merits serious consideration.

Finally, a crucial dimension of creating a robust social protection architecture particularly for India's informal workers involves ensuring adequate protection to self-employed or casual wage workers in the informal sector, who are outside the ambit of standard employer-employee relationships. In August 2021, the government introduced the E-shram portal which aims to create a national database of unorganised workers, which is seeded with an individual's Aadhaar. The main objective is to create a centralised database of every construction worker, migrant worker, gig and platform worker, street vendor, domestic worker, agriculture worker which will help to implement the social security services to them and share their information with various stakeholders for delivering the welfare schemes. While mandatory registration of all unorganized workers is the need of the hour, two key issues vis-à-vis the design of social protection programmes merit attention. First, the structure of the programmes needs to be sensitive to the huge diversity in employment relations as well as incomes. For instance, those below the poverty (deprivation) line should not be expected to contribute. As incomes rise beyond a threshold, households above the poverty line can be expected to contribute towards their social security alongside the government. Second, the design of the programme also needs to be cognizant of the lack of standard employer-employee relationships in the labour market where workers either work with no employer or work with multiple employers. One possible approach to this challenge is the formation of national and state-level welfare boards for unorganised sector workers as proposed in the 2008 Unorganised Sector Social Security Act (Mehrotra 2020).

V. Conclusion

The Central and State governments have announced several relief packages over the course of the last two years. Despite these efforts, the pandemic has extracted a very large cost from those who are least capable of paying for it. A key learning from this crisis is the need to put in place a social protection architecture that can ensure timely and adequate support to those in urgent need. This will prevent future crises from extracting such a large humanitarian cost.

Strengthening the social protection architecture to make it more robust and effective will not just require an increase in entitlements during crisis, but also an expansion in coverage to support those who may previously not have been eligible for support but witness a sharp decline in their income or lose employment during downturns and therefore require support. The question of how social protection programmes can be designed to achieve these merits careful consideration. The Covid-19 crisis has highlighted the importance of automatic stabilizers in protecting people from losing jobs and income in the developing world. This is not just a promising route towards providing timely support without any administrative discretion but also in reducing macroeconomic volatility and building resilience against downturns (IMF 2021).

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