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IMPACT OF LOCKDOWN ON UNORGANIZED SECTOR

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Abstract

The lockdown has already started showing us the adverse effects on the unorganized sector workers. The exodus of migrant workers as widely seen over social media and reported in various news reports is the fallout of the crisis. India has about 40-50 million seasonal migrant workers who work in construction sites, factory production and service activities. Since businesses are closed and establishments are shut, migrant workers have run out of work and are seen returning to their native places. Some have reportedly died returning on foot due to the suspension of busses and trains. Some are stuck in places of their work. With no work, no income or savings, it is extremely difficult for them and their dependent families to survive. A recent survey of migrant workers by a Delhi-based NGO Jan Sahas has found that 90% of those surveyed have already lost their only source of income, while 42% of them did not have food rations for a single day. Another survey of 11,000 workers has found that 96% of them have not received food rations from the governments and 89% have not been paid by their employees during the lockdown. This paper discusses about the effect of lockdown on the unorganized sector businesses as well as workers.

Keywords: COVID-19, Worker, Lockdown, Unorganized Sector.

Introduction

Even in the pre-COVID-19 period, the unorganized sector was reeling under shocks from demonetization and a poorly rolled out GST. While the objective of the GST reform and demonetisation was laudable, its hasty implementations have negatively affected the unorganized economy. There is wider evidence that demonetization has also had more negative effects on the unorganized sector than on the formal sector (Balamurugan and Hemalatha, 2017; Agrawal, 2018; Ghosh, Chandrasekhar and Patnaik, 2017). Hundreds of millions of small businesses operating in the unorganized sector that depend on cash have suffered losses and closed. A staggering 6.18 million job-loss between 2012 and 2018 was seemingly a result of the demonetization and GST fallout (Kannan & Raveendran, 2019). The unorganized sector has already been hit hard by the economic downturn and much of it may not be recorded in official statistics.

The unorganised sector has suffered greatly as a result of the lockdown that was implemented in reaction to the COVID-19 pandemic. Due to company closures and restrictions on economic activity, this industry, which employs a large number of people, experienced substantial disruptions. Many of the people working in the informal economy experienced financial instability as a result of job loss and diminished prospects. The difficulties were made worse by the absence of social security protections, which made workers more susceptible. To achieve a more equitable and lasting economic resurgence, it is crucial that we investigate recovery and resilience solutions while taking into account the particular dynamics of the unorganised sector. [1, 2]

Review Literature

On a global economic scale, the decline in labour supply because of the COVID-19 lockdown has vicious effects on the overall economic activities needed to keep economies afloat. At a domestic level, the COVID-19 pandemic might bring detrimental impact on household economies and present unprecedented shocks to sustainable development due to the shutdown of many economic activities. Sumner et al. (2020) note that the COVID-19 pandemic could increase global poverty to similar figures recorded over 30 years ago.

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The International Labour Organisation (2020) estimates that the pandemic will result in 9 to 35 million additional people working poor ($3.20 a day) in developing countries. Other estimates suggest the slowdown of the global domestic product (GDP) by 1% could likely increase poverty in sub-Saharan Africa and South Asia by 14–22 million people (Vos et al., 2020 [4]).

Several studies observed that unprotected workers in the informal economy, the self-employed, women, migrants and casual workers might be disproportionally affected because they are not protected by social security and labour laws (International Labour Organisation, 2020; United Nations Development Programme, 2020). Against this backdrop, this paper explores the socio-economic impact of COVID-19 on the South African informal economy through a case study of informal workers in KwaDukuza Municipality, in the province of KwaZulu-Natal. Based on exploring the socio-economic impact of COVID-19 in developing countries, the COVID-19 disruption on the informal economy as a sustainable livelihoods strategy is delineated against the prevailing pre-cariousness of the informal economy in South Africa and within developing nations. This paper's research question is: what is the socio-economic impact of the COVID-19 pandemic on the informal economy in KwaDukuza? Essentially, the sustainable livelihood approach is relevant to understanding the disruptions of livelihoods in the informal sector during the height of the pandemic.

Analysis

Given the grim truth of occupational structure and poverty in India, it is not hard to understand that the nation-wide lockdown has, in a visceral way, exposed millions of people to hunger, starvation and death. The latest report on the Periodic Labour Force Survey (2017-18) informs us that about 57% of rural households derived their major income from self-employment activities, and 25% had a major source of income from casual labour. The proportions of regular/wage salaried earners accounted for 12.81% of rural households. In urban India, the corresponding figures were 37.57%, 12.68% and 41.66%.

Many of these rural self-employed households are marginal cultivators and petty artisans, while in urban areas they are engaged in small shops, low-scale businesses or intermediation activities. These numbers-self-employed and casual labour households - open our eyes to the hardships millions of households must be undergoing due to the suspension of economic activities amid the COVID-19 outbreak. Even if we go only by the shares of casual labour, we are speaking of about a one-fifth of the household population that is extremely vulnerable and finds itself fragile to cope up with the economic tsunami.

The vulnerability is exacerbated by the unorganizedity of jobs/occupations. Over 90% workers in India are unorganized workers, who are provided with no social security provisions. In absolute numbers, this translates into 411 million out of 461 million. Unorganizedity is also a growing feature of the organized sector as evidenced in Table 2. In 2017-18, around 98.5% of agricultural workers were unorganized. In industry and the services sector, shares are 88% and 78% respectively. These numbers inform us of the hardships millions of workers and their families are having to face on account of the disruption of economic activities.

Much of the economic impact of the COVID-19 on unorganized trading sector comes from the 'aversion behaviour'. Aversive behaviours are the actions people are taking to prevent themselves from being infected with the virus, such as reduced going out and the government ban on 'nonessential' shops, etc. These actions affect all sectors of the economy and in turn, translate into lower incomes, both on the supply side (declining in the production) and the demand side (reduced consumer demand). The closure of businesses results in lost wages for workers in many cases, especially in the unorganized economy where there is no paid leave.

Even if the pandemic subsides, we cannot expect things to return to their pre-pandemic state even in the medium run. Although there is much talk about what policy actions developing countries like India can undertake to mitigate the economic costs of the pandemic, in reality, outside a handful of middle-income 'emerging' countries endowed with the appropriate infrastructure, few have the means to afford prudent and meaningful policy action. Some countries are taking steps to strengthen health systems and expand social safety nets, as well as offer tax relief measures and credit guarantees, but meaningful action requires that there are efficient government agencies that can implement these measures.

Firms in developing countries engaged in the manufacturing of global value chains are already experiencing job cuts as they reduce the employment of unorganized workers in response to declining demand. The effect on unorganized businesses is more ambiguous. On the one hand, few unorganized firms can afford to continue during a recession. On the other, since they tend to 'own' few physical assets and employ people only temporarily, some are likely to recover once demand has returned.

After the crisis, it is not clear whether the global value chain in manufacturing will regain the same dependence on formal and unorganized networks. In the past decade, multinational enterprises (MNEs) have tried to reduce their dependence on unorganized firms as NGOs, consumer groups and other stakeholders have continued to pressurize them to take full responsibility of the chain, making them less dependent on suppliers with lower standards for work, health and safety. Large and formal suppliers were encouraged to involve less unorganized employees. COVID-19 will allow a new realignment.

First, there may be a tendency to use suppliers in more expensive locations (but closer to major markets) by replacing labour with capital. Second, in the medium term, we will see a greater exclusion of productive activities by global value chains from the unorganized economy. Both will be at the expense of countries that want to take advantage of their low labour costs by engaging in the manufacturing supply chain.

Supply chains have been cut off for weeks as many manufacturing units shut down productions. Small businesses selling textiles, electronics or household goods are stranded. The unorganized industry in India supplies all kinds of products, from textiles to electronics, most of which are imported from China. The shortage of supplies for ordinary businesses in India means no business and no income. This situation exacerbates the poverty problem already existing in India.

Another vulnerability-inducing factor is low wages. The average wage a casual worker reported to have received in 2017-18 is Rs 254.83, and the average earnings of a selfemployed person is Rs 276.09, while that of a regular-salaried person is 530.76. Around 68% of all workers are reported to earn wages (or earnings in the case of self-employed) less than the recommended national minimum wage 375. Of this, 84.62% of casual workers alone and 52.83% of regular workers do not earn more than the national minimum wage.

Not only this, the gap between their wages/earnings and the recommended minimum is an average 41%. In other words, they are earning 41% below the stipulated minimum. This minimum wage has been recommended by the expert committee formed under the Ministry of Labour & Employment, Government of India in 2019.

Table 1: Share of Workers Earning

Labour Status	Rural Persons	Urban Persons	Total Persons
Casual	88.22	69.23	84.62
Regular	62.34	47.34	52.83
Self-Employed	75.40	48.72	67.90
Combined (C+R+SE)	77.61	50.94	68.07

Conclusion

According to the Centre for Monitoring of Indian Economy (CMIE), in March 2020, the labour force participation rate has fallen to an all-time low and the unemployment rate has risen sharply. The employment rate has slumped; there was a steep fall of 9 million from 443 million in January 2020 to 434 million in March 2020. This decline is a result of a fall of 15 million in the number of the employed (from 411 million to 396 million) and a 6 million rise in the number of the unemployed (from 32 million to 38 million) in March 2020. The CMIE data reports that unemployment has surged to 8.7%, the highest ever in the last 43 months. Further, as per a report in the Business Standard, only 30.8 million jobs were provided during 15-29 April 2020 under Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), as opposed to 273.96 million in the corresponding period of 2019-20. The work under MGNREGA too has been stalled to curtail the transmission of the virus and this comes at a huge cost to the rural labouring poor.

As yet, we do not have statistics to show how much of this decline in employment and labour force is caused in the unorganized sector. Nonetheless, based on the fragility of the unorganized sector in terms of low capital base, and no employment protection given to workers, it is clear that the unorganized sector has received the greater proportion of the current economic crisis. The loss of livelihood of an unorganized worker is sure to jeopardise the survival prospects of the entire family.

Though pandemics affect all, the effects are much greater on the socially vulnerable populations. Researchers in India have shown how social identities - like caste, gender and religion, all important constituents of identity in India –affect the labour market outcomes such as wages, occupational status, and unorganizedity.

There is no doubt that COVID-19 and the subsequent lockdowns will not have adverse impacts on socially vulnerable populations. As is apparent in the figure below, Muslims constitute the highest share of unorganized workers, followed by STs, SCs and OBCs. The category, Others (mostly upper castes of all religious communities, except Muslim) has the lowest proportion of unorganized workers. While the formality of jobs is low in India, yet Muslims among all social groups have the lowest share. The current economic crisis is likely to affect the depressed groups – STs, SCs and Muslims – the most.

Effects of a pandemic will continue even after the virus is rid of. Studies on the long term effects of the Spanish Flu have demonstrated that the children born to infected mothers are likely to have low learning ability, wages of workers to be lower and productivity to be lower among people affected by the disease than others. While India was already in a downturn before COVID-19, there is no reason why the current economic crisis will not have intergenerational effects, especially on the poor and marginalized populations.

The vulnerability of unorganized workers is, as said above, strongly influenced by their social status and their capabilities. The latter is dependent on their access to education, good health, decent housing, sanitation, and other basic amenities. These capabilities are issues of public intervention in fields of education, housing and sanitation. Warranted by the magnitude of the current crisis, India has to ensure a wider reach of these amenities to both improvise living and protect livelihoods.

Conflict of Interest

There is no conflict of interest by the authors in this manuscript.

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