



## **CDEIS POLICY BRIEF SERIES ON PUNJAB ECONOMY**

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### **Making Punjab's Urban Informal Sector More Resilient while Securing Livelihoods During Post-COVID-19 Times**

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## **CDEIS Policy Brief Series on Punjab Economy**

The COVID-19 pandemic has shaken the economies globally and added to the existing problems and their intensity like climate change, poverty, unemployment, migration, education, and of course, health. Developing economies have suffered even more due to their vulnerabilities to such sudden and large shocks. India is no exception to this trend and has regional variations in the impact of COVID-19 as there is much disparity and specificity in the levels of development of state economies. Punjab being an agriculturally grown state though still highly dependent on its agriculture and rural non-farm economy for significant proportion of its population and their livelihoods in the presence of public resource crunch has also faced this COVID-19 onslaught while being in economic, social and environmental crisis.

In this context, it was thought fit to get an independent set of policy directions from scholars in their respective domains based in Punjab, outside Punjab and even overseas to encourage public policy debate in and outside the state about the nature and magnitude of Punjab's economic and developmental crisis and the COVID-19 implications for it and explore possible ways forward to make the economic and social systems of the state move out of the situation of economic and policy inertia.

The policy briefs in this series numbering more than 20 examine issues ranging from agricultural sustainability, environmental and market aspects of the agricultural systems to allied sector and informal and small-scale sector livelihoods including dairy and MSMEs. The marginalised group livelihoods like women, schedule castes, and farm labour and other rural and migrant workers also get adequate attention. The sectors of health and education are also examined. On the fiscal front, institutional credit for recovery and revenue of the state post-GST are analysed. The larger aspects of governance, federalism and diaspora also get a coverage as contextual and overarching themes.

We hope that these briefs would serve to encourage more informed debate and discussion in the interest of the betterment of the state economy and society to aid post-COVID recovery and medium and long-term sustainable development policy making.

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# **Making Punjab's Urban Informal Sector More Resilient while Securing Livelihoods During Post-COVID-19 Times**

**Varinder Jain**

## **Abstract**

Urban informal sector occupies a place of significance in Punjab's economy due to its contribution to output and employment. It encompasses mainly the segments of manufacturing, trading and other services – out of which, the manufacturing segment remains an important constituent. Informal enterprises in urban Punjab operate either as Own Account Enterprises (OAEs) or the Establishments – the former operate with relatively limited scale of operation and suffer from low worker productivity but the latter despite having relatively better scale of operation remain exposed to competition besides suffering from low productivity of labour and capital. A variety of growth constraints continue to retard the operational performance of these firms. Similarly, the informal firms in urban Punjab are found to be having relatively limited access to formal credit when compared with their counterparts in other major Indian states. All this indicates nothing but the fragile state of informal enterprises in urban Punjab which got worsened further due to onslaught of COVID-19 pandemic. In such situation, this article urges for stepping-up business resilience of informal enterprises. In fact, the state should not merely be the tax collecting agency; rather it should act as a facilitator to promote these firms who are striving in an era of competition. Besides firms, the informal workers too suffer from prevailing conditions of livelihood insecurity which need to be contained. Provisions should be made for workers' capability building and sector-specific skill training. Above all, a contributory social security system with state, employers and workers as contributors, should be instituted to safeguard informal workers against contingent insecurity.

# Making Punjab's Urban Informal Sector More Resilient while Securing Livelihoods During Post-COVID-19 Times

**Varinder Jain**

## 1. Introduction

Onslaught of COVID-19 pandemic has dampened economic growth prospects across the globe (IMF, 2020). Both lives and livelihoods have been lost at a pace never seen before (Jackson et al., 2020; Sumner et al, 2020). Spread of COVID-19 pandemic across the globe has been alarming (Jain and Singh, 2020). In India also, the incidence of infections is evident across all the states. Punjab, being no exception, has also felt the pangs of this pandemic. Here too, the lives and livelihoods are being lost. As far as the latter is concerned, it is feared that the urban informal sector might have experienced significant losses. One may base such apprehension on two considerations: first, the firms in urban informal sector on account of their limited scale of operation and a variety of technical, marketing, financial and other constraints remain economically fragile with almost no resilience to offset a shock of such mammoth magnitude that shook the world economies. Owing to such fragility, most of these enterprises lack the wherewithal to support their workforce with either full or partial remuneration during lockdowns which were observed to avert spread of COVID-19 infections; second, the urban informal sector remains characterised by the pervasiveness of livelihood insecurity – here, the workers, both

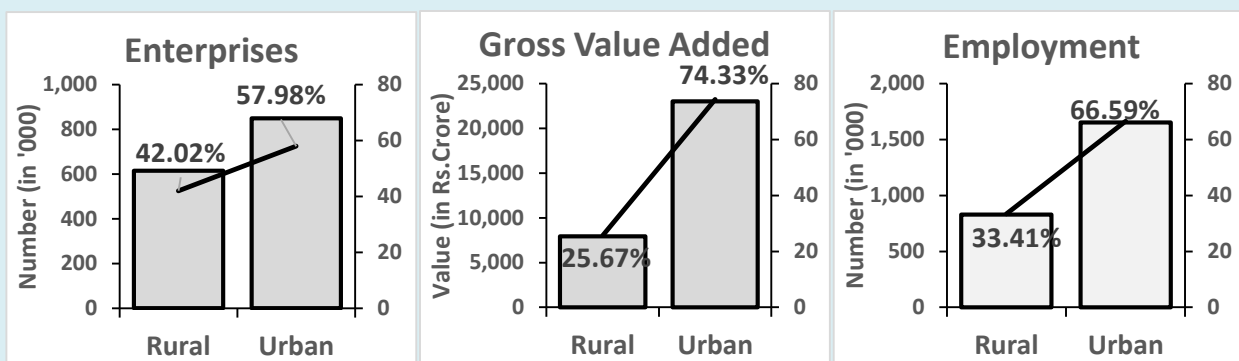
wageworkers and the self-employed, remain economically vulnerable and occupationally-insecure, but with degrees of vulnerability varying vis-à-vis their skill and migration status (Jain, 2010).

In such a situation, an effort to build preparedness against any such future threat should focus on devising ways by which the resilience of informal enterprises may be strengthened and at the same time, ways should be devised to generate decent work conditions in Punjab's urban informal sector. With this focus, this paper discusses the significance and sectoral diversity in Punjab's urban informal sector (in section 2). Section 3 examines ways to strengthen business resilience and section 4 focuses on the question of livelihood security. Section 5 concludes the policy brief.

## 2. Significance of Urban Informal Sector in Punjab's Economy

Formal sector being a relatively small part of Punjab's economy remains limited to organised manufacturing, banking, health, insurance and other similar sectors. Informal sector, on the other hand, comprises 14.64 lakh enterprises that generate gross value added (GVA) worth Rs. 30,962 crore besides engaging 24.79 lakh workers (NSSO, 2016).

Figure 1: Spatial Distribution of Informal Sector in Punjab



Source: Based on NSSO (2016)

Informal sector activity is found in both rural and urban areas of Punjab (Figure 1) but its relatively large dominance is found in the

latter where 8.49 lakh enterprises generate GVA worth Rs. 23,015 crore. These enterprises account for 57.98 percent of total

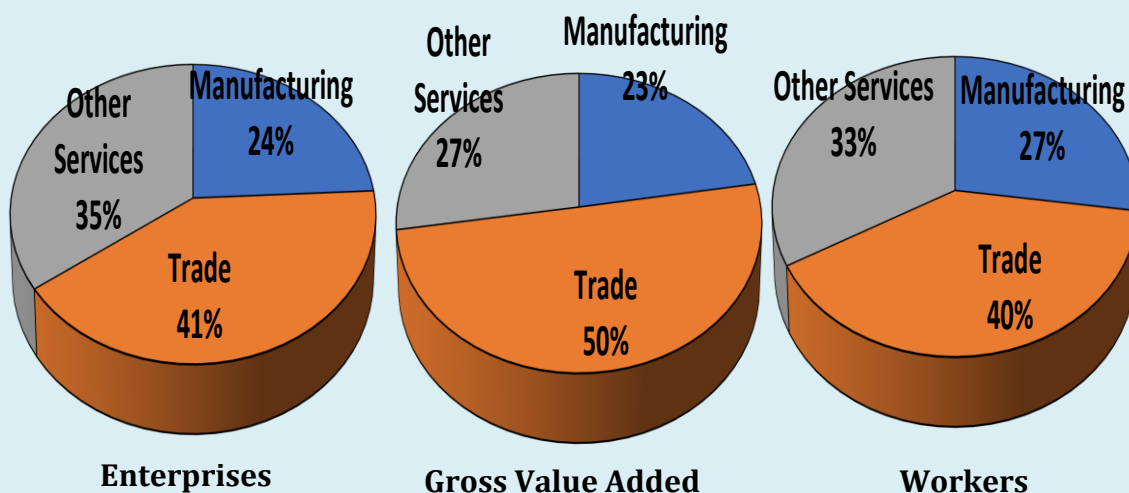
informal enterprises in Punjab. In fact, the GVA generated by these enterprises account for 74.33 percent of the total GVA generated in the informal sector. These urban informal enterprises provide employment to 16.51 lakh workers which, in comparison to rural segment, remains almost double – share of urban segment in total informal sector employment is as high as 66.59 percent.

### 2.1. Sectoral Composition of Punjab’s Urban Informal Sector

Urban informal sector represents a heterogeneous set of activities which can be broadly classified into three key categories, viz. manufacturing, trade and other services. A

glance at Figure 2 indicates a significant presence of all these three categories in Punjab’s urban informal sector. However, among the three, it is trade that accounts for a relatively large share in number of enterprises, gross value added and employment. Other services constitute the second major component of the Punjab’s urban informal sector. The segment of manufacturing remains the third but a very important constituent of Punjab’s urban informal sector. In fact, most of the small-scale industry in Punjab bears the characteristics of informal enterprises which per se are experiencing the challenges of survival in this era of competition (Singh and Jain, 2007; Jain, 2016).

Figure 2: Sectoral Composition of Punjab’s Urban Informal Sector



Source: Same as Figure 1

## 3. Business Resilience

### 3.1. Nature of enterprises: Firm Size

Across the segments of manufacturing, trading and other services, the informal enterprises in urban Punjab operate either as Own Account Enterprises (OAEs) or the Establishments. Among the two, the size of the former in terms of fixed assets per enterprise or worker and gross value added per enterprise or worker

remains relatively small (Table 1). These firms operating with limited capital, generate limited gross value added. Similarly, they also suffer from low worker productivity. The establishments, on the other hand, owing to their better scale of operation, remain relatively better. But, they too remain exposed to competition and suffer from a relatively low productivity of labour and capital.

Table 1: Key Ratios Depicting Firm Size in Punjab's Urban Informal Sector

Key Ratio	Enterprise Type	Manufacturing	Trading	Other Services	All
Fixed Assets per Enterprise*	OAE	1.41	1.98	1.62	1.72
	Establishment	6.16	7.86	9.75	7.86
	All	2.98	3.79	3.29	3.42
GVA per Enterprise*	OAE	1.17	1.73	1.10	1.36
	Establishment	5.25	6.88	6.17	6.23
	All	2.51	3.31	2.14	2.71
GVA Per Worker*	OAE	0.89	1.39	0.98	1.13
	Establishment	1.33	2.05	1.34	1.62
	All	1.15	1.75	1.16	1.40
Fixed Assets per Worker*	OAE	1.08	1.60	1.45	1.42
	Establishment	1.56	2.35	2.11	2.04
	All	1.37	2.00	1.79	1.76

Note: \* implies that the values are in Rs. Lakh.

Source: Same as Figure 1.

### 3.2. Growth Constraints: Nature and Magnitude

Similar to other informal sector enterprises, the firms in Punjab's urban informal sector experience a variety of constraints ranging from erratic power supply, raw material shortages to marketing and financial constraints. Table 2 indicates the percentage of

firms experiencing different constraints. A relatively high percentage of firms in manufacturing remain exposed to the constraints related to fall in demand, non-recovery of financial dues besides other issues related to erratic power supply and labour-related issues. Similar has been the case with trading and other services.

Table 2: Distribution of Punjab's informal sector firms by category and growth constraints (% of all reporting)

Sector> Type of firm> Constraint	Manufacturing			Trading			Other Services		
	OAE	ESTB	All	OAE	ESTB	All	OAE	ESTB	All
I	11.85	13.99	12.59	0.59	3.52	1.44	13.53	5.84	11.97
II	2.43	3.22	2.70	0.16	2.77	0.92	0.39	0.34	0.38
III	64.09	38.29	55.13	56.36	33.93	49.81	48.38	45.16	47.72
IV	1.07	1.49	1.22	8.19	4.54	7.12	2.04	3.59	2.35
V	12.80	11.50	12.34	22.19	25.26	23.09	11.08	10.98	11.06
VI	0.42	14.35	5.26	0.12	14.32	4.27	0.00	12.96	2.63
VII	1.58	12.69	5.43	0.55	6.75	2.36	0.46	10.56	2.51
VIII	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.37	0.08
IX	5.77	4.46	5.32	11.84	8.91	10.98	24.13	10.19	21.30

Note: I-Erratic power supply; II-Shortage of raw materials; III-Shrinkage / fall of demand; IV-Non-availability/ high cost of credit; V-Non-recovery of financial dues; VI-Non-availability of labour as and when needed; VII-Non-availability of skilled labour as and when needed; VIII-Labour disputes and related problems; IX-Others.

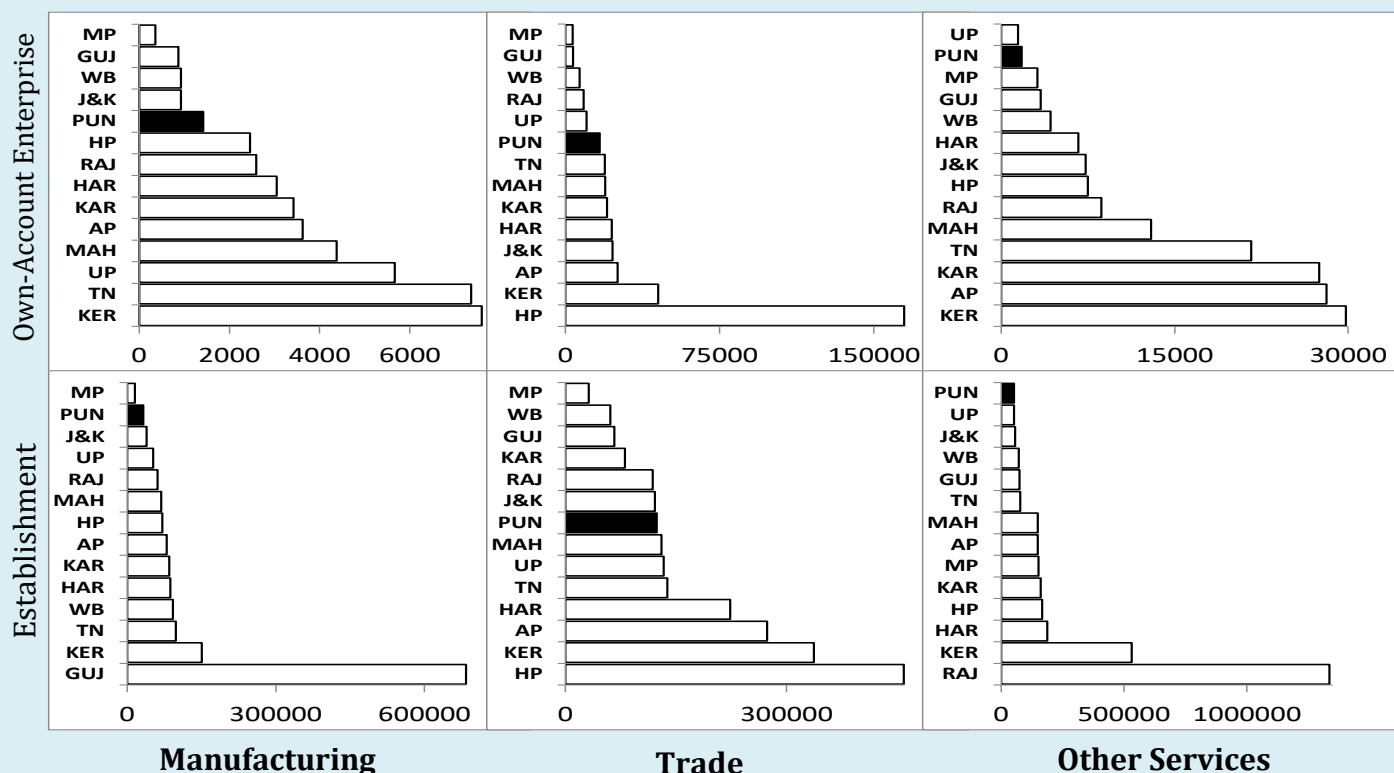
Source: Same as Figure 1.

### 3.3. Access to Institutional Finance

The operational dynamism of informal enterprises remains conditioned by the financial constraints experienced by them. Most often, these firms suffer from the paucity of capital. In such a situation, it is the access to credit that facilitates the smoothening of their day-to-day business. One may assume that the enterprises in Punjab's urban informal sector might be having a better access to credit. But, an inquiry into the relative state of access to formal credit across major Indian states reveals the opposite (Figure 3) where it is

found that access to formal credit by Punjab's urban informal enterprises across manufacturing, trading and other services enterprises remains much lower than their counterparts in other Indian states. Such backwardness in access to formal credit impedes growth and thereby calls for better access to finance as formal credit access is found to have a positive impact on the operational dynamism of informal enterprises (IFC, 2010).

Figure 3: Relative State of Formal Credit in Punjab's Urban Informal Sector



Source: Same as Figure 1.

### 3.4. Stepping Up Business Resilience: Key Considerations

In this situation, it is pertinent to build business resilience of informal enterprises. In fact, the whole notion of business resilience

centres upon seven pillars, viz. 1) resource adequacy, 2) technical edge, 3) market knowledge, 4) product uniqueness, 5) commercial prudence, 6) manpower planning and 7) networking (Table 3).

Table 3: Key Constituents of the Business Resilience

	Broad dimension	Specific dimension
A	Resource adequacy	A Sufficiency of working capital.
		B Ability to raise funds when needed.
		C Easy access to required quality raw material without monopoly price.
B	Technical edge	A Knowledge & adoption of latest production techniques.
		B Worker adoption & adaptability to new techniques.
		C Ability to add efficiency and effectiveness in production process.
C	Market knowledge	A Knowledge of market size, customers, their tastes & demands.
		B Competitors' threat to potential business growth.
D	Product uniqueness	A Product design as per customers' tastes & preferences.
		B Ability to innovate in product design.
E	Commercial prudence	A Ability to produce at low cost while maintaining quality standard.
		B Ability to foresee future demand and arrange production accordingly.
F	Manpower planning	A Adequate access to skilled / trained workforce.
		B Possibility of outsourcing production process to external small units.
G	Networking	A Ability to develop sound networks in input & output markets.
		B Ability to enhance market coverage beyond national boundaries.

Source: Jain (2020)

So, any effort to step-up business resilience should concentrate on strengthening capabilities across various sub-domains of these seven key pillars. Here, it needs to be mentioned that at present, the informal enterprises do not fare well across this resilience scale as Jain (2020) found Jalandhar's sports good manufacturing enterprises at a very low levels of business resilience which requires urgent corrective action.

### 3.5. State as Facilitator

Urban informal sector in Punjab in general and the manufacturing sector in particular has remained a victim of state's apathetic attitude. The state has not drawn any specific schemes for the upgradation of the informal enterprise in the manufacturing sector – same is the case with the trading sector. It could have been better if the state rather than being only a tax collection agency, might have played the role

of a facilitator. If the state could have paid attention to the woes of informal enterprises, definitely some concrete solutions might have emerged. But, it is sad to learn that existing government apparatus could not provide a workable solution to the woes of informal sector enterprises.

Nonetheless, one should note that Punjab's small-scale industry possesses good potential. With a little state support, it may emerge again. For this, the state should evolve a serious strategy to rejuvenate informal manufacturing enterprises. At present, these enterprises are striving to sustain themselves in an era of competition. Sudden onslaught of COVID-19 pandemic has made them economically fragile. . In fact, there are several segments such as sports goods, machine tools, textiles etc. which were known once across the world for their growth performance. With little support, they may emerge again.

Table 4: Workforce Distribution by Segment, gender and type of worker (%) in Punjab's Urban Informal Sector

Segment	Gender	Working Owner	Hired Workers		Helper / Apprentice	Other Workers
			Formal	Informal		
Manufacturing	Male	43.73	0.34	47.49	1.16	7.28
	Female	68.75	0.09	7.92	2.22	21.03
	All	48.93	0.29	39.26	1.38	10.14
Trade	Male	57.51	0.23	32.29	1.34	8.62
	Female	58.42	0.59	17.53	5.10	18.37
	All	57.57	0.25	31.36	1.58	9.24
Services	Male	62.23	4.08	26.77	1.52	5.40
	Female	33.83	12.76	45.36	1.70	6.35
	All	54.93	6.31	31.55	1.57	5.65
All	Male	55.34	1.39	34.59	1.35	7.33
	Female	49.39	6.62	28.45	2.39	13.15
	All	54.35	2.26	33.57	1.52	8.30

Source: Same as Figure 1.

### 4. Livelihood Security

An analysis of NSSO's 73<sup>rd</sup> round on informal enterprises reveals that among informal sector workers, the share of working owners is as high as 54.35 percent. These working owners either operate 'own account enterprises' or head Establishments. Hired workers, helper / apprentice and other workers are the other categories. Among these, a major share is of the hired workers (35.83 percent), within

which the share of informal hired workers is as high as 93.69 percent (Table 4).

In fact, these are informal hired workers who suffer from pervasive livelihood insecurity in Punjab's urban informal sector. Jain (2010) defined wageworkers' livelihood insecurity across five domains, viz. job insecurity, economic insecurity, functional insecurity, agency insecurity and the recognition



insecurity. The informal hired workers suffer from all these five forms of insecurity. Owing to which, they never enjoy their work which has a bearing on their earnings and productivity. So, there is an utmost need to contain this livelihood insecurity by way of providing better work and job security.

#### **4.1. Capability Building and Sector-Specific Skill Training**

Jain (2008) found that acquisition of skill by wageworkers acts as a shield against their exposure to livelihood insecurity. Better skilled workers remain relatively less exposed to livelihood insecurity. So, given such evidence, it would be better to strengthen capacity building of the workforce. For this,

#### **4.2. Contributory Social Security System**

Informal workers do not have access to any form of social security system. In this regard, NCEUS (2006) proposed for instituting a social security system for informal workers. Along similar lines, it would be better to devise a contributory social security system for informal workers. In fact, the institution of this contributory social security system for informal sector would go a long way in not only in providing economic security to the informal workers but also will contribute towards their life-fulfilment and protection against any contingency.

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specific institutions to impart training may be envisioned. Training in these institutions should be for short-term along with some provision for protection of earnings during training period – incentives may be given for recording better performance during the training period. As today is the age of sector-specific perfection, an effort should be made to devise institutions in such a way that they should impart sector-specific skills to the workers (Palmer, 2008). For this, skill requirements from specific industries may be inquired and at the same time, skill-gap studies and estimates derived by National Skill Development Mission (NSDM) on the sector-specific skill requirements should be considered by these institutions.

#### **5. Summing-Up**

Both enterprises and workers are integral to the functioning of Punjab's urban informal sector. If one segment remains insecure, so would be the second one. So, a better approach is to strengthen both so that each may become complimentary and supportive to the other. To attain this, business resilience of informal enterprises should be strengthened with adequate support from the state. At the same time, effort should be made to contain pervasive livelihood insecurity among working masses besides instituting a contributory social security system. On the whole, there is a need to adopt a visionary approach to contain the woes of informal enterprises and their workers.

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