

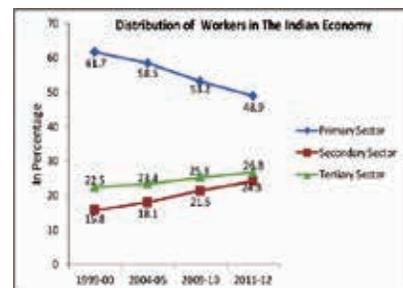
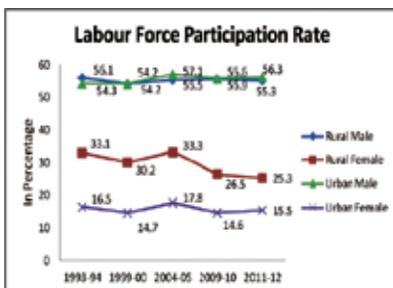
## Labour Policy and Employment: *Structural Reform of Labour Sector Has Been the Goal*



*India needs to generate humongous quantity of jobs to employ its workforce. Under the economic path that India has chosen for itself since 1991 and has embarked upon it with gusto, the duty of government is to create a conducive regulatory regime where the private sector invests in profit-making opportunities and creates jobs in the process. To this effect, the reforms initiated by the Government in the recent years have led to much success worth taking note of. Read on...*

India had 51.52 percent of population in the working age (15-64 years) in the year 2016 according to the World Bank. This high ratio of working to non-

working age population, places our country in the position to reap the demographic dividend, if we are able to gainfully employ this population.



Graphs showing low labour force participation rates and high burden of labour force on the primary sector (Source: NSSO)



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Unemployment problem is challenging in India because it emerges from structural rigidities of our labour market, scarcity of capital and low skill levels of our labour force. Indian economy has low labour to capital ratio economic structure despite the fact that India is a labour abundant and capital scarce country,

low employment elasticity (0.15 percent according to an International Labour Organisation (ILO) report), and an internationally uncompetitive industrial sector. Indian labour laws are complex and restrictive. One of its defining characteristics is job security for workers covered under it. Complexity of labour laws also results in huge compliance cost for the companies. Such policies ignore the reality of interconnected global economy where economies experience cyclical growth and a slowdown in one part of the global economy leads to a slowdown in the other parts.

Steps have been taken to infuse flexibility in the labour market and to reduce compliance cost. The most important reform undertaken by the government is the introduction of 'Fixed term contract' employment through changes made to the Industrial Employment (Standing Orders) Central Rules, 1946. Fixed-term Employment has been defined as an employment on the basis of a written contract for a fixed period. According to the government notification, fixed contract workers must be employed under the same working conditions (such as wages, working hours, allowances and other benefits) as permanent workers. Fixed-term workers are also eligible for all statutory benefits available to a permanent workman proportionately according to the period of service rendered by him/her even if his/her period of employment does not extend to the qualifying period of employment required in the statute. Allowing fixed-term employment would help employers to respond to the fluctuating demand and seasonality in their businesses and facilitate direct employment of workers. The quality of these jobs would be far better than those under contract and informal employment.

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India has an entrepreneurial culture, which is stultified due to non-availability of capital. According to the NSSO survey of 2013, there are 5.77 crore small businesses, mostly proprietorships, running manufacturing, trading or service activities but only 4 percent of such units are able to access institutional finance. The Government launched its ambitious scheme of MUDRA (Micro Units Development Refinance Agency) to provide collateral free loan of ₹ 50,000 to ₹ 10 lakhs for non-agricultural purpose.

As on 18<sup>th</sup> January 2019 the total loan disbursed under the scheme was ₹ 7,22,718.2 crore to over 15 crore individuals. The progress of MUDRA scheme across various years is as follows:

Year	No. of MUDRA Loans Beneficiary	Amount Disbursed (in Crore)
2015-16	3,48,80,942	1,32,954.73
2016-17	3,97,01,047	1,75,312.13
2017-18	4,81,30,593	2,46,437.40
2018-19 (till 18 <sup>th</sup> January 2018)	3,28,65,537	1,68,013.94
<b>Total</b>	<b>15,55,78,119</b>	<b>7,22,718.20</b>

MUDRA is sometimes criticised as just a repackaging exercise as Banks and financial institutions were providing loans to small businesses even before MUDRA and now all the small lending in that category is put under MUDRA scheme. This, however, is not true. The scheme has given a substantial push to small lending to businesses. According to a study done by Skoch Group, a think tank dealing with socio-economic issues, the total number of incremental direct jobs created due to MUDRA scheme in the two years period (April 2015-June 2017) stood at 11,696,576. It also led to generation of 5,146,494 indirect jobs. Thus the total number of incremental jobs generated in two years stood at 16,843,070. As per the study, ₹ 3,42,011 crore were disbursed during the period. If we use the same ratios and the total loan disbursal under MUDRA scheme till date, the total number of incremental jobs created because of this scheme would come to around 3,55,91,818.

Whenever labour reforms are discussed the focus generally is on formal-organised sector and how adversely it would affect them. However, since over 90 percent of the labour force is in the unorganised sector and they are the most vulnerable section of our society, the focus of labour reform should also be to formalise them and provide them with social security. Government's labour policy has also focused on this segment of the labour force.

One of the major achievements of the Government is the increased Employees Provident Fund (EPF) coverage. Employees Enrolment Campaign (EEC) was launched by the Government in January, 2017 to enroll employees left out of and provided incentives to employers in the form of waiver of administrative charges, nominal damages at the rate of Rupee 1 per annum and waiver of employees share if not deducted. In this drive, close to 1.01 crore additional employees

were enrolled with EPFO between January, 2017 to June, 2017.

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Government has also started an initiative to report monthly progress made in the formal employment using data from the administrative records like Employees' Provident Fund Organisation (EPFO), the Employees' State Insurance Corporation (ESIC) and the National Pension Scheme (NPS). Such monthly data is available since September 2017. As per the data around 72,655 new establishments started contributing to the EPFO system during the period September 2017 to November 2018 and the total number of formal employment created during the period was 73,50,786. Thus, there has been a rapid formalisation of the labour force. The month-wise break-up is as follows:



Another area which has seen big changes is on the compliance side. Under the rubric of 'Ease of Doing Business' (EODB) the Labour Ministry has taken number of steps to reduce the compliance burden of the industry. Under Ease of Compliance, the government has pruned the number of registers mandatory for all establishments to be maintained under 9 Central Acts, to just 5 from 56, and the relevant data fields to just 144 from 933. Government has also made numerous technology-enabled transformative initiatives such as Shram Suvidha Portal, Universal Account Number (UAN) and national career service portal in order to reduce the complexity burden and better accountability for enforcement. In order to reduce the labour laws compliance cost for the 'start-ups' self-certification and limited inspection have been promoted.

## Skill India Campaign

The upswing of our economy is increasingly throwing open myriad of opportunities in newer vocations that require specialised skills. Many emerging sectors of economy are even facing the shortage of skilled manpower. Very much alive to this disconnect between demand and supply of skilled workforce, the government has launched a noble initiative of Skill India (Kaushal Bharat Kushal Bharat) with the aim of transforming India into the Skill Capital of the world. A flagship scheme of Ministry of Skill Development & Entrepreneurship, Pradhan Mantri Kaushal Vikas Yojana (PMKVY), together with National Skill Development Mission and National Policy for Skill Development and Entrepreneurship, 2015, aim to train over 40 crore people in India in different skills by 2022. The Ministry is responsible for co-ordination of all skill development efforts across the country, building the vocational and technical training framework, skill up-gradation, building of new skills, and innovative thinking not only for existing jobs but also jobs that are to be created. In the emerging new India, the skilling of its human resources is intricately connected to the vision of a responsive and all beneficial labour policy and employment generation targets.

## Conclusion

India is the fastest growing major economy of the world and it cannot achieve such feat without generating jobs. The challenge is to generate more employment for a given growth rate while boosting the growth rate as well. The growth rate might increase due to cyclical upswing and it might generate some additional employment but the government is working towards a structural transformation of the Indian economy. Given the size and complexity of Indian economy and a fiercely competitive political arena, this transformation will be a time-consuming process but once achieved, it would lead to a higher employment generation for a given unit of GDP growth and a higher (trend) GDP growth rate as well.

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India would then squarely meet the unemployment challenge. ■