

**T**HE SUBJECT of transitioning from informality to formality continues to be discussed extensively. The informal economy comprises activities that are beyond the state's reach. Emerging and developing countries have 93 per cent of the world's informal employment. Around the world, informality makes up for about a third of low- and middle-income countries' economic activity. India is no exception to this. The oft-cited statistic to show the grip of informality in the Indian economy shows that 99.7 per cent of all enterprises in India operate informally, and 93 per cent of its total workforce earn

spread of formality in India. The Udyam Portal is one such recent initiative that facilitates formal registration of MSMEs, the majority of which operate informally, through a digital, paperless process based on self-declaration. The *Economic Survey 2021-22* stated that as of January 17, 2022, 66 lakh enterprises have registered on the Udyam portal. It is now critical to assess the trajectory of the enterprises and address challenges they face as newly formalised units. This exercise is particularly important for the micro firms which form around 94.6 per cent of the total number of these registered enterprises.

For enterprises, the choice between formal and informal is usually perceived through a cost-benefit lens. The costs of

Increasing productivity makes enterprises confident to transition to formality as it boosts their ability to compete with larger, formal competitors. For productivity enhancement, a range of mutually reinforcing policy initiatives such as investment in health, education, skills and infrastructure are needed.

There are pathways into and out of formality. Our focus has to be on strengthening pathways leading to formality and enhancing capabilities of firms to stay in the formal arena. The 27 per cent increase in the number of unincorporated non-agricultural enterprises (excluding construction) between 2010-11 to 2015-16 in India makes this all the more crucial. It is not just the high share of informality but also

## Need Enabling Ecosystem for Formalisation of Enterprises



their livelihoods as informal workers. The benefits of formalisation in an economy are myriad – access to capital, suppliers, talent, skills, and technology. Greater formalisation in enterprises levels the playing field for enterprises ensuring fairer competition, contributes to government revenue and enables higher economic growth. While there are strong arguments in favour of the transition from informal to formal, it is high time we understand that this process is not a linear one. Formalisation is not an end point that is to be reached. It has to be approached as a process that enables enterprises to formally register and thrive beyond that.

Over the years, the government has taken multiple initiatives to increase the

becoming and remaining formal include registration costs, tax and compliance costs, fees and social contributions. On the other end, benefits associated with being formal include reduction in closure risk, better access to business development services, financial and insurance services and access to a wide variety of markets. In addition to offering greater benefits exceeding costs, the other recommended approaches towards greater formalisation suggest simplification of laws, enforcement and easing compliance. However, one approach that calls for greater emphasis is enhancing competitiveness of enterprises.

the stubborn persistence of it over decades that calls for a re-evaluation in our approach to formalisation. Apart from focusing on creation, preservation and sustainability of enterprises in the formal economy, the International Labour Organisation puts emphasis on preventing informalisation of formal economy jobs. We must make efforts to ensure that enterprises do not fall back into informality or are forced to shut shop. Formality is not a given forever. An ecosystem facilitating the journey to registration as well as the journey beyond that point will create pathways towards sustained formalisation. **BW**

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