
**The Regulatory Paradox: Towards a Universal Social Protection
Architecture for India's Informal Workforce (A Deep Research
Analysis)**

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I. Introduction: The Persistent Dualism of India's Labor Market

The Indian economic narrative is characterized by a structural paradox: high rates of aggregate growth coexist with profound labor precarity. This dualism is reflected in the overwhelming dominance of informal employment, which structurally excludes the majority of workers from foundational rights and protections. The challenge lies in designing a regulatory framework that addresses this structural reality rather than attempting to enforce a formalization mandate that remains unattainable for most enterprises.

A. Contextualizing Informality: Scale and Economic Significance

Employment in India is overwhelmingly informal, defining the economic reality for hundreds of millions of citizens. Based on the 2017-18 Periodic Labour Force Survey (PLFS) data, approximately 90% of the total national workforce operates under informal arrangements, a figure that remains high even in urban centers, where the proportion is about 80%.² This translates to an estimated 461.52 million workers trapped in a regulatory vacuum. By definition, this informal employment subjects individuals to income precarity, limits their labor rights, and involves non-standard employment contracts.³ The disparity is stark: while the formal sector demonstrated a rapid recovery following the COVID-19 economic shock, the informal sector was largely excluded from this process, compounding existing inequalities.⁴ The pandemic demonstrated that the informal workforce acts as the primary shock absorber, bearing the brunt of contractions, which resulted in an estimated shrinking of the Indian middle class by 32 million and an increase of 75 million people earning \$2 or less a day in 2020. This disproportionate burden reveals that pervasive informality is not merely a social issue but a critical threat to national macroeconomic stability and societal resilience, justifying the need for

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² <https://labour.gov.in/> last visited 04/10/25

³ <https://iisppr.org.in/> last visited 04/10/25

⁴ Covid 19 and the informal economy, Oxford University press ISBN 9780198887041

social protection mechanisms that function as automatic stabilizers, rather than relying on discretionary government relief.⁵

B. The Regulatory Imperative and the Failure of 'Formalization First'

Historically, Indian labor policy has pursued a strategy centered on 'formalizing' enterprises, treating informality as a failure of compliance rather than a fundamental structural feature of the economy. This compliance-driven approach, however, has consistently failed to bring the vast unorganized workforce under the legal umbrella. In response to the need for modernization, the government introduced the four Labor Codes (2019–2020), intending to rationalize and simplify fragmented regulations. However, critical analysis suggests these codes primarily benefited large enterprises by prioritizing rationalization and ease of business.

Despite these regulatory efforts and the subsequent administrative achievements, comprehensive social protection remains elusive for the majority. Although India has achieved an impressive administrative milestone, doubling its social protection coverage from 24.4% to 48.8% according to the ILO World Social Protection Report 2024-26, more than half of the workforce remains unprotected.⁶ This quantitative increase in coverage must be assessed against the quality and depth of the protection offered. If this progress is primarily driven by administrative measures like the e-Shram registrations⁷ which often grant limited, basic benefits such as the low-cost insurance cover under Pradhan Mantri Suraksha Bima Yojana (PMSBY) the necessary comprehensive protection, including health care, pensions, and unemployment benefits, is still lacking. The immediate policy challenge is, therefore, to transition from mere administrative registration to establishing robust, guaranteed entitlements.

II. Mapping the Informal Economy: Definitions, Demographics, and Structural Exclusion

Effective policy intervention requires a clear understanding of the definition and mobility patterns of the informal workforce, as these elements dictate structural exclusion.

A. Conceptual Frameworks and Definitional Bias

The definitional framework employed in India often dictates who is included or excluded from policy protection. The National Sample Survey Organisation (NSSO) primarily defines the 'informal sector' in an enterprise-centric manner,

⁵ ibid

⁶ <https://www.pib.gov.in/> last visited 04/10/25

⁷ <https://www.niti.gov.in/> last visited 04/10/25

encompassing all unincorporated proprietary and partnership enterprises.⁸ This enterprise-based definition presents the first structural flaw in policy, as it immediately creates a legal gap. Policies focused on regulating formal or semi-formal enterprises frequently fail to capture individual, scattered workers such as waste pickers, street vendors, and domestic helpers who operate outside of easily identifiable enterprises or who are too transient. These workers are thus relegated to complex, often inaccessible, specialized schemes, if they are covered at all.

B. Changing Demographics and Sectoral Shifts

The complexity of the informal workforce is severely compounded by demographic shifts, most notably mass internal migration. The 2011 Census enumerated 450 million internal migrants, a figure estimated to have increased to 600 million by 2021⁹. This large-scale mobility is often not a choice but a necessity, driven by factors such as rural poverty, low agricultural productivity due to reliance on rainwater, and seasonal unemployment in their areas of origin.⁸

Furthermore, the sectoral composition of the labor market is evolving. Although agriculture remains a significant component, its share of total employment decreased from 48% in 2011-12 to 42% in 2017-18. This reduction is matched by an increase in non-agricultural informal employment, rising from 52% to 58%.¹⁰ This structural shift means a growing proportion of the workforce is concentrated in urban-based, contact-intensive, and volatile sectors (like construction and services), which increases their exposure to urban economic shocks and livelihood precarity.¹¹ The sheer scale of internal migration (450M-600M) ensures that any welfare system designed around static, location-based entitlements, such as state-specific welfare boards or localized documentation, is inherently destined to fail. Since mobility is a necessary response to poverty, the inability to access entitlements across state borders effectively penalizes the pursuit of economic survival, necessitating a policy focus on national portability.

The government, through the Code on Social Security (CSS) 2020, has attempted to address emerging forms of employment by defining new categories like 'gig' and 'platform' workers.¹² While this acknowledgment is crucial for the future of work, policymakers must ensure that this focus on the digital economy does not

⁸<https://www.mospi.gov.in/> last visited 04/10/25

⁹<https://comparativemigrationstudies.springeropen.com/> last visited on 04/10/25

¹⁰ Supra

¹¹<https://www.undp.org/> last visited on 04/10/25

¹²<https://www.lawcurb.in/> last visited on 04/10/25

overshadow the immediate crisis facing the traditional unorganized sector, which still constitutes the vast majority of the 90% informal workforce.

III. Legislative Critique: The Four Labor Codes and the Formal Sector Bias

The rationalization of decades of labor legislation into four consolidated codes was presented as a critical modernization effort. However, the resulting framework is fundamentally biased toward the formal sector, failing to construct a robust safety net for the unorganized worker.¹³

A. The Prioritization of 'Ease of Doing Business'

The stated primary objective of the codes was the consolidation of pre-existing, fragmented laws to simplify compliance and regulatory understanding. However, the practical application and legal provisions of these codes reveal a clear shift in regulatory power. Trade unions have vocally opposed the reforms, arguing that they critically undermine existing worker protections and disproportionately favor employers and capital.¹⁴

B. The Erosion of Worker Leverage

The primary concerns raised by labor groups center on provisions that facilitate easier implementation of layoffs by companies and impose stricter limits on the right to strike.¹⁰ Although traditional informal workers seldom rely on formal industrial mechanisms like strikes, the overall weakening of collective bargaining power and the legal standing of trade unions indirectly degrades the policy environment for all workers. When the state enacts reforms that signal a preference for employer flexibility over worker security in the formal economy, it establishes a negative precedent that reinforces the exclusion of the unorganized sector. Furthermore, the legislative process was criticized for being non-inclusive, as the reforms were reportedly pushed through without adequate consultation with key labor groups.¹⁵

C. Assessing the Social Security Code, 2020

The Code on Social Security (CSS), 2020, represents the primary effort to legislatively include the unorganized workforce. It successfully consolidated various laws and achieved key definitional progress, notably defining gig and platform workers. The Code also formalized certain basic benefits, such as the

¹³<https://normlex.ilo.org/> last visited on 04/10/25

¹⁴Labourpolicy book by Bhartiya Mazdoor Sangh

¹⁵Labour Law Reforms by Jeet singhmann ISBN: 978-93-84272-30-2

provision for six weeks of maternity benefit immediately following the day of a miscarriage.¹⁶

Despite these inclusions, the CSS suffers from significant limitations. It largely retains a framework dependent on specific registration, identification, or a contributory structure. This structure inherently excludes the poorest, most transient, and least documented traditional informal workers such as agricultural laborers or small vendors who lack the stable income streams or identifiable employers required for contributory systems. Moreover, the decision to define and legislate for specific new categories, such as gig workers, risks segmenting the social security debate. Instead of creating a single, universal social protection floor that covers *all* non-formal employment types (traditional and digital), creating disparate schemes may divert resources and political focus away from establishing the necessary comprehensive architecture for the 90% traditional informal workforce. The consolidation of pre-existing laws, therefore, simplifies the regulatory landscape but does not automatically equate to the universal extension of rights, as the underlying eligibility criteria and the enforcement capacity remain inadequate.

IV. Institutional Failure: Barriers to Registration, Portability, and Welfare Access

The true measure of a labor regime lies not in its legislative text but in its institutional capacity for delivery. India's delivery systems are plagued by operational friction, preventing benefits from reaching the most vulnerable, especially due to issues of documentation and mobility.¹⁷

A. Analysis of Registration Mechanisms (e-Shram)

In response to a Supreme Court directive, the e-Shram Portal was launched in 2021 to establish a national, unified database of unorganized workers, leveraging digitalization for policy implementation, social security access, and financial inclusion via Direct Benefit Transfers (DBT). This effort has successfully registered over 300 million workers, providing them with a Universal Account Number (UAN) and access to insurance cover under the Pradhan Mantri Suraksha Bima Yojana.¹⁸

However, the COVID-19 crisis revealed that the institutional architecture surrounding e-Shram remains weak. The portal, while successfully solving the *identification* problem (creating the database), fails the critical *delivery* problem.

¹⁶<https://labour.gov.in/> last visited on 04/10/25

¹⁷ Supra

¹⁸<https://www.pib.gov.in/> last visited on 04/10/25

Workers face difficulties in enrollment and targeting, and many vulnerable workers remain either unaware of, or ineligible for, existing welfare measures. The single most challenging operational friction point is the requirement for documentation. The lack of identity proof and necessary documents severely restricts access to benefits for highly vulnerable groups, such as migrant Dalit women¹⁹. Even for those successfully enrolled, entitlements are often inadequate and marred by payment delays, undermining the reliability of these programs as safety nets. The institutional architecture, including banking system interoperability and local administration capacity, has not yet seamlessly integrated the digital registration into guaranteed, tangible, and portable benefits.

B. The Portability Crisis and Migrant Exclusion

A key systemic failure is the inability to deliver entitlements to India's vast mobile workforce. Relief measures struggle to reach informal workers because their nature of work makes them "hard to track if they are mobile across regions". Since existing delivery channels are often tied to fixed locations, migrant populations are left without access to social safety nets. The pandemic experience demonstrated that discretionary, ad-hoc relief interventions are too slow and ineffective to protect the vulnerable. The required structural change involves establishing a social protection architecture with components that function as automatic stabilizers, requiring no new legislative action during a crisis.²⁰

The inability to access social protection across state borders is not merely an administrative oversight; it carries significant political and economic costs. When migrant workers lose entitlements during an economic shock, it precipitates distress migration, undermines faith in the Union's capacity to protect citizens universally, and destabilizes regional labor markets. Therefore, ensuring the portability of benefits is paramount for national unity and economic resilience. The table below illustrates the specific institutional gaps related to the e-Shram portal.²¹

Table 1: E-Shram Portal: Achievements, Gaps, and Policy Imperatives

Metric/Component	Reported Achievement/Scope	Structural Gap/Challenge	Policy Requirement
Target Population Identification	Over 300 million workers registered (UAN provided);	Difficulties in enrollment, especially for	Robust outreach and documentation

¹⁹<https://api.sci.gov.in/> last visited on 04/10/25

²⁰<https://vvgnli.gov.in/> last visited on 04/10/25

²¹<https://eshram.gov.in/> last visited on 04/10/25

	centralized database established	mobile workers and those lacking primary ID/Bank accounts	support (PPP/NGO required for on-ground verification
Benefit Delivery	Access to social security schemes (e.g., PMSBY insurance); DBT promotion	Inadequate entitlements, delays in payments, dependency on discretionary intervention	Transition from discretionary relief to automated stabilizers and legislated minimum entitlements
Portability/Tracking	Family details for Migrant Workers; Data	Failure to track highly mobile	Unified national portability

V. The Deterrent Effect: Compliance Burden on Micro, Small, and Medium Enterprises (MSMEs)

The regulatory environment actively discourages small and micro enterprises (MSMEs) from formalizing, thereby trapping millions of workers in unprotected employment. For MSMEs, which serve as the backbone of the Indian economy, the existing compliance framework, particularly concerning labor laws, is complex, outdated, and growing in burden.²²

A. The Compliance Trap and the Informal Tax

Smaller firms often find the systems related to employee management and statutory obligations too intricate to manage without expensive external assistance. The difficulty in obtaining MSME registration, managing various state-specific requirements, and keeping abreast of frequent regulatory changes poses a significant administrative overhead. This high cost of compliance acts as an implicit tax on formal operations, creating a financial disincentive for MSMEs relative to informal

²²<https://www.competitiveness.in/> last visited on 04/10/25

competitors. This difference reinforces the legal vacuum for workers and sustains informality.

These hurdles actively deter unregistered businesses from seeking formal certification, causing them to forfeit access to critical benefits such as subsidies, credit access, and market opportunities. Current labor inspection models often rely on coercive measures (threats of fines and closures), which only encourage MSMEs to operate outside the regulatory perimeter rather than engaging in good faith compliance.²³

B. Policy Recommendations for Regulatory Relief

The analysis suggests that the policy paradigm must shift from coercion to incentivization. Labor reforms must introduce simplified frameworks specifically tailored for MSMEs, moving away from a one-size-fits-all approach designed for large-scale enterprises. Recommended steps include reducing paperwork, implementing a unified compliance dashboard, and improving access to real-time legal guidance. To encourage genuine formalization, the government must guarantee access to credit, streamlined tax refunds, and preferential market access (such as government contracts) conditional upon adherence to simplified core labor standards. This reframing of compliance makes formal registration economically advantageous, shifting the cost-benefit analysis in favor of legality and worker protection.²⁴

VI. Intersectionality of Vulnerability: A Deep Dive into Marginalized Groups

Informality is experienced unequally. The highest degree of vulnerability occurs at the intersection of precarious employment, migration, gender, and caste, resulting in multi-layered exclusion and deprivation.

A. The Compounded Crisis of Dalit Migrant Women

Migrant Dalit women are identified as facing compounded risks, enduring systemic caste- and gender-based discrimination, inadequate legal protection, and a severe lack of governmental assistance. Caste-based exploitation—including physical, sexual, and emotional abuse—persists and is often a major factor driving their initial migration from rural areas, yet they continue to face stigma and receive lower wages in urban areas²⁵.

For those engaged as domestic helpers, specific labor-related challenges are immense: they operate without formal contracts, possess poor bargaining power,

²³<https://certpro.com/> last visited on 04/10/25

²⁴ *ibid*

²⁵<https://journals.sagepub.com/> last visited on 04/10/25

and lack essential benefits such as weekly holidays, maternity leave, or health care. Furthermore, they face acute health precarity, suffering from high rates of body aches, injuries, respiratory problems, and pregnancy-related issues, often exacerbated by unhygienic living conditions. Critically, the need to cover huge medical expenses frequently leads to "financial toxicity," causing further mental, physical, and emotional distress. This demonstrates that the lack of guaranteed, accessible health coverage is the most critical driver of poverty and financial instability for this cohort.²⁶

B. Policy Gaps and Accessibility Barriers

Beyond financial constraints, vulnerability is sustained by social exclusion. The majority of these hyper-vulnerable workers are unaware of, or functionally ineligible for, existing welfare measures.⁸ The lack of documentation or identity proof presents a critical barrier to accessing benefits.⁸ Therefore, economic policy alone is insufficient; social protection reforms must be explicitly gender-responsive and anti-discriminatory. Policy frameworks must be designed specifically to protect the rights of migrant workers, women workers in the informal economy, and those in vulnerable situations. This requires coupling economic support with on-the-ground legal assistance to address persistent caste-based exploitation.²⁷

VII. Paradigm Shift: Constructing a Universal Social Protection Floor

Lasting structural change necessitates a fundamental shift in India's policy philosophy: de-linking social security rights from employment status or formal contracts. The priority must move from requiring formalization as a compliance goal to guaranteeing universal coverage as a human right and an economic necessity.²⁸

A. Conceptualizing Universal Social Protection (USP)

The right to social security is strongly anchored in international human rights law. Evidence suggests that there is a positive relationship between robust social welfare systems and sustained economic progress, countering the perception that social security inhibits economic dynamism.²⁹ The COVID-19 crisis starkly revealed that workers in the informal economy were devastatingly hard hit because they were systematically excluded from formal work-related protections and were often ineligible for the social assistance schemes typically targeting the very poor or those outside the labor force.

²⁶ <https://pmc.ncbi.nlm.nih.gov/> Last visited on 19/01/26

²⁷ <https://www.iom.int/> last visited on 19/01/26

²⁸ https://www.ey.com/en_in last visited on 19/01/26

²⁹ <https://www.ohchr.org/> last visited 19/01/26

A rights-based national social protection system must legally define a Social Protection Floor (SPF) that guarantees minimum entitlements transparently and accountably, ensuring that the absence of a formal contract does not negate the right to essential welfare. Implementing such an SPF, financed through general taxation, creates a stable consumer base and a resilient workforce, which is essential for managing national transitions related to climate change adaptation and digital transformation.³⁰

B. The Hybrid Financing Model: Combining Contributory and Non-Contributory Elements

Achieving universal coverage requires a hybrid financing model that combines tax-funded, non-contributory elements with social insurance schemes. The legally defined SPF should guarantee universal access to basic services (health care, maternity benefits, and pensions) for all citizens, irrespective of their work status. This tax-financed SPF acts as the fundamental rights-based foundation.

This floor should then be complemented by supplementary contributory social insurance schemes, allowing workers with more stable, albeit still informal, incomes (such as certain gig workers or MSME employees) to purchase higher-level benefits.³¹ This structure allows states to mobilize the maximum available resources to build comprehensive, adequate, and universal systems. Furthermore, by financing the SPF through tax revenue, the deployment of benefits becomes automatic during economic downturns (e.g., rapid relief payments based on registered ID/UAN), effectively shock-proofing the economy and preventing systemic collapse or mass distress migration. The maternity benefit is a prime example of this needed shift: to achieve genuine gender equity, this benefit should be recognized as a basic health and demographic right, financed by the state for all women workers, irrespective of their employment type, rather than being linked to a specific employer or contribution record.³²

VIII. Strategic Policy Roadmap: Institutional and Legal Reforms

Moving toward a rights-based framework requires coordinated, targeted institutional and legal reforms focusing on overcoming mobility barriers, strengthening local capacity, and embedding equity.³³

A. Enabling Portability and Addressing Mobility

³⁰ <https://www.imf.org/> last visited on 19/01/26

³¹ <https://www.labour.gov.in/> last visited on 19/01/26

³² <https://ijcrt.org/> last visited on 19/01/26

³³ <https://ijirl.com/> last visited on 19/01/26

The single most critical reform for delivery is ensuring the interstate portability of benefits. This demands the complete national interoperability of welfare schemes. This involves seamlessly linking the existing national database (e-Shram UAN) with state-level welfare delivery systems in a manner that validates identity and guarantees service access across all state boundaries.³⁴ Furthermore, to overcome the persistent documentation gap targeted Public-Private Partnership (PPP) or Non-Governmental Organization (NGO) initiatives are necessary to facilitate the provision of identity proof and necessary documents for migrant and vulnerable communities, allowing them to access the UAN system and the wider welfare network.

B. Strengthening Local Governance and Decentralized Delivery

Centralized databases solve the information problem, but only decentralized, localized governance structures can solve the *access* problem. Informal workers are often invisible to central administrators, particularly those working in hard-to-reach workplaces like streets, landfills, or private homes. Therefore, institutional mechanisms and services must be developed at the ground level to reduce discrimination and inequalities. Local institutions, such as Panchayats and Urban Local Bodies (ULBs), must be empowered with the authority and resources to identify, enroll, and verify workers and coordinate service delivery. Lessons learned from institutional arrangements set up during the COVID-19 relief efforts must be transitioned into the "normal times" safety net transformation to ensure effective delivery capacity.³⁵

C. Integrating Gender and Equity Reforms

Policy design must move beyond universalism to integrate specificity for vulnerable groups. While the goal is universal social protection, reforms must be explicitly inclusive and gender-responsive to protect the rights of women workers, migrant workers, and those in vulnerable situations by 2027. This commitment requires specialized assistance such as localized creche facilities, subsidized health checkups, and legal aid tailored to the specific challenges faced by workers in the domestic and construction sectors. Furthermore, health schemes must specifically address the chronic health issues faced by Dalit women (e.g., poor nutrition and menstrual hygiene). Universalism sets the floor, while specificity ensures the floor is relevant and accessible to the most vulnerable.³⁶

³⁴ [Home | e-Shram](#) last visited on 19/01/26

³⁵ <https://cag.gov.in/> last visited on 19/01/26

³⁶ <https://www.mohfw.gov.in/> last visited on 19/01/26

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The entire reform effort requires significant political commitment for resource mobilization and a sustained focus on the informal sector, shifting definitively away from short-term, crisis-driven relief to a permanent, adequately financed social protection architecture. The table below summarizes the necessary policy shift.

Policy Shift Matrix: From Compliance-Based to Universal Rights-Based Systems

Current Model (Formalization/Compliance Focus)	New Paradigm (Universal Rights Focus)	Implementation Mechanism
Benefits linked rigidly to enterprise registration and formal employment status	Benefits de-linked from employment type; Universal Social Protection Floor (SPF) guaranteed for all citizens	Hybrid system combining tax-financed SPF and supplementary contributory social insurance
Coercive compliance measures and complex statutory obligations for MSMEs	Incentivization of fair labor practices; simplified, tiered, and streamlined compliance relief	Unified, digital compliance dashboard tailored for MSMEs; specialized labor codes for micro-enterprises
Administrative complexity; benefits restricted by State/location of registration	Institutional strengthening at the local level (ULBs/Panchayats); mandated portability of benefits	Enhanced capacity building for local institutions; interoperable national ID/UAN system for seamless inter-state transfer
Exclusion of vulnerable groups due to lack of documentation/awareness/caste	Active inclusion through gender-responsive and anti-	Legislated support for documentation (NGO/PPP model)

Current Model (Formalization/Compliance Focus)	New Paradigm (Universal Rights Focus)	Implementation Mechanism
stigma	discrimination policy	; guaranteed access to health and maternity benefits regardless of work type

IX. Conclusion: The Path to an Inclusive Labor Regime

India's ongoing challenge to include its vast informal workforce is not a failure of economic growth, but fundamentally a failure of institutional design rooted in a policy philosophy that prioritizes ease of business for the formal sector over universal labor rights. The introduction of the four Labor Codes, while simplifying regulations, has perpetuated this formal sector bias, leaving critical gaps in enforcement, registration mechanisms, and benefit portability.³⁷

The analysis concludes that relying on 'formalization as a compliance goal' is an ineffective strategy that actively discourages MSMEs from legal operation. A transformative shift is required: social security rights must be guaranteed universally, independent of employment type or location. This necessitates establishing a robust, tax-financed Social Protection Floor that functions as an automatic economic stabilizer during shocks. Key to delivery is ensuring national portability of all entitlements, addressing the critical vulnerability of migrant workers, and empowering decentralized, localized governance structures to overcome documentation barriers and track workers in hard-to-reach environments.³⁸ Lasting change hinges not just on legal consolidation, but on profound political commitment to resource this universal architecture and integrate genuine anti-discriminatory, gender-responsive measures that recognize healthcare provision as the most critical defense against catastrophic financial shocks for the most marginalized groups.

³⁷ <https://www.labour.gov.in/> last visited on 19/01/26

³⁸ <https://cprindia.org/> last visited on 19/01/26