ISSN: 2582-5526 www.thevoiceofcreativeresearch.com

The Voice of Creative Research

Vol. 7 & Issue 4 (October 2025)

https://doi.org/10.53032/tvcr/2025.v7n4.41

Informal Sector and Poverty in Bihar

Dr. Manoj Kumar
Assistant Professor
Deptt. of Economics S.N.S. College,
Motihari, BRABU, Muzaffarpur.

Abstract

Bihar's development challenges are largely centered around poverty, closely linked to the informal sector's prevalence. The economy, primarily agrarian with low industrialization, relies heavily on an underemployed workforce engaged in unregistered activities, which though provide livelihoods, also perpetuate poverty through precarious conditions and low wages. Addressing this issue necessitates a focus on enhancing educational and skill development opportunities, promoting financial inclusion, and improving social protection in the informal sector. Government initiatives like MGNREGA and skill programs must overcome effectiveness challenges. A comprehensive strategy is essential to transform, rather than eliminate, the informal sector, enabling dignified work and sustainable growth that ultimately reduces poverty in Bihar.

Keywords: Informal Sector, Poverty, development, underemployment, Socio-economic, livelihood.

Introduction

Bihar faces significant developmental challenges, with poverty as a central issue, deeply intertwined with the informal sector. The state's economy is primarily agrarian, marked by low industrialization and a large, often underemployed workforce. The informal sector comprises various unregistered and unregulated activities, providing livelihoods for millions while simultaneously perpetuating poverty due to its vulnerabilities. This analysis explores the informal sector's size, composition, and its impact on poverty levels in Bihar. It highlights income generation opportunities but also emphasizes precarious working conditions, low wages, lack of social security, and limited access to capital, which trap individuals in poverty. Socio-economic and structural factors contribute to the informal sector's dominance, necessitating an examination of potential policy interventions to foster inclusive growth and

ISSN: 2582-5526 www.thevoiceofcreativeresearch.com
The Voice of Creative Research
Vol. 7 & Issue 4 (October 2025)

poverty reduction. Understanding the complex relationship between the informal sector and poverty is crucial for effective development strategies. The essay will further assess the ways the informal sector exacerbates and, in some cases, alleviates poverty through data and anecdotal evidence, aiming to provide a comprehensive overview of this socio-economic dynamic in Bihar. Without addressing the challenges of the informal sector, efforts to tackle poverty will remain incomplete, underscoring the need for targeted approaches that recognize and support this critical aspect of the economy.

The Pervasive Nature of Bihar's Informal Sector

Bihar's informal sector is a vast and diverse area, providing employment to a large portion of its workforce. This sector lacks legal protections, offering minimal bargaining power and no benefits like health insurance, paid leave, or retirement pensions. Informal work includes self-employment, casual labor, and micro and small enterprises that operate without formal registration. Although agriculture's contribution to the state's GDP is declining, it continues to be a critical employer, involving numerous small and marginal farmers, agricultural laborers, and those in related fields such as animal husbandry and fisheries. Apart from agriculture, several subsectors contribute to the informal economy. Construction is significantly influential, particularly for migrant laborers often facing exploitative conditions. Small-scale manufacturing, including food processing and handicrafts, is also notable. The fast-growing services sector encompasses various informal activities like street vending, rickshaw pulling, domestic work, small repair shops, and transportation services, representing a vital source of livelihoods in both urban and rural settings. Many of these operations rely on family labor and exhibit low capital intensity, emphasizing their role in maintaining subsistence-level incomes.

The prominence of the informal sector in Bihar results from multiple interconnected factors. Historically, the state has struggled with industrial development, failing to create enough formal jobs for its growing population. This has led to significant internal and external labor migration. Additionally, low educational and skill levels prevent the workforce from qualifying for formal employment. Although the regulatory framework aims to encourage formalization, bureaucratic hurdles and compliance costs often compel small businesses to remain informal, resulting in most economic activities operating beyond formal institutions. This creates a complex system where informal livelihoods are essential yet expose workers to vulnerabilities.

Bihar's informal sector reflects its agrarian foundation and gradual shift toward a more diverse economy, comprising unregistered activities that fall outside labor laws and social security provisions. Employment within agriculture, despite increasing mechanization, still employs many in informal roles, from landless laborers to subsistence farmers. The sector includes micro and small enterprises engaged in street vending, handicrafts, brick kilns, food processing, construction, and personal services. Labor-intensive characteristics mean it often absorbs those displaced from agriculture or unable to secure formal jobs, leading to significant underemployment. Skills in this sector are typically traditional and learned informally, and many enterprises are family-run, hindering growth due to limitations in capital, credit access, and technological adoption while shielding them from regulations at the cost of formal benefits.

Informal Sector as a Livelihood Strategy and a Poverty Trap

The informal sector in Bihar serves as both a crucial safety net and a poverty trap. It provides employment and income to millions lacking education, skills, or capital to join the formal workforce. Individuals can engage as street vendors, agricultural laborers, or construction workers, generating immediate income despite precarious conditions. This sector absorbs surplus labor and offers a baseline level of economic activity, acting as a buffer against absolute poverty.

However, the informal sector carries significant drawbacks. Wages are typically low and unstable, often failing to meet subsistence needs. Workers face a lack of bargaining power, limiting their ability to negotiate better pay or working conditions. The absence of social security nets means informal workers lack health insurance, provident funds, and paid leave. Sudden health crises or economic downturns can exacerbate their financial struggles, pushing families further into debt.

The precarious nature of informal work results in a lack of job security, with many workers employed on a daily or seasonal basis. This volatility restricts their ability to plan for the future. The cycle of intergenerational poverty is prevalent, as children often join the workforce early to support family income, sacrificing education and reinforcing low-wage employment.

Access to financial services is limited for informal workers, hindering their ability to secure credit and invest in businesses or skills. This lack of capital stifles growth and innovation, confining individuals to low-productivity activities and perpetuating their poverty.

Despite its challenges, the informal sector is vital to many households in Bihar, often representing their only source of income. Street vendors are a visible element of urban economies, while migrant laborers find work in informal sectors across states. Within Bihar, construction sites and small workshops are filled with informal workers earning daily wages.

The sector also fosters entrepreneurship at a small scale. Many individuals transition from wage labor to aspiring small business owners, such as roadside tea stalls or repair shops. These informal ventures represent aspirations for self-employment and economic autonomy. The inherent flexibility of informal work allows individuals to engage in multiple activities, buffering against income fluctuations by combining agricultural labor with casual work in construction or vending, showcasing the resilience of the informal workforce.

Structural Factors Perpetuating the Informal Sector

The informal sector in Bihar persists due to structural, economic, and social factors. A primary concern is the state’s low industrialization and economic diversification, leading to a severe lack of formal sector jobs, particularly in manufacturing and advanced services. As a result, many workers turn to agriculture or informal services, which often have lower productivity and wages. The agrarian structure, characterized by landlessness and smallholdings, creates a large underemployed agricultural labor force that often shifts to informal work in other sectors.

Weak human capital development exacerbates the situation. Centuries of inadequate investment in education and skill training have left a significant portion of the population with low literacy and vocational skills, making it difficult for them to compete for organized sector jobs that require specialized abilities. Consequently, workers are pushed into informal roles that demand less formal education. Additionally, rural-to-urban migration, driven by a lack of opportunities in villages, results in an influx of unskilled labor into urban areas, which further expands the informal sector, particularly in construction, street vending, and domestic work.

The institutional framework also impacts the informal sector's growth. Although there are efforts to enhance the business environment, the presence of complex regulations, corruption, and enforcement issues continue to discourage small businesses from formalizing. For many entrepreneurs, staying informal is a strategic move to avoid the burdens associated with formal registration and taxation. The limited reach of social protection mechanisms means that the informal sector often operates without adequate safety nets.

Poverty is intimately connected to the informal sector, creating a cycle of low productivity and low wages that stifles upward mobility. The lack of formal skills training and access to capital restrict earnings, keeping households in poverty. Informal workers frequently face exploitation due to the absence of formal contracts or legal protections. This vulnerability is exacerbated by the seasonal nature of informal jobs, leading to income volatility and financial insecurity.

Women, a significant segment of the informal workforce, face heightened challenges due to gender-based discrimination and unpaid care responsibilities. Furthermore, limited access to formal financial institutions forces informal workers into exploitative debt cycles, hindering investment in education, health, and business development. The informal sector, therefore, not only mirrors existing poverty but actively perpetuates it by providing limited avenues for genuine economic advancement and security.

Interventions and Strategies for Poverty Reduction

Addressing poverty in Bihar requires a comprehensive strategy focusing on the informal sector to enhance the lives and opportunities of those dependent on it. A main tactic involves promoting inclusive economic growth, which necessitates attracting investments in labor-intensive industries, diversifying manufacturing and services, and fostering micro, small, and medium enterprises (MSMEs). Supporting entrepreneurship via skill development, access to finance, and streamlined regulatory measures is vital for helping informal businesses formalize and expand, thus generating better-quality jobs.

Improving human capital through quality education and vocational training is essential. Providing relevant skills will allow the workforce to transition to more productive jobs in the formal sector. Customized skill development initiatives targeting emerging industries and the informal workforce can yield significant benefits. Reinforcing social protection systems is equally important; extending social security benefits to informal workers, such as health insurance and pensions, can mitigate their vulnerability to economic shocks and enhance well-being. Public works programs offering guaranteed employment and decent wages can also act as a safety net while contributing to infrastructure development.

Financial inclusion is another critical dimension. Ensuring access to affordable credit and financial services for informal sector workers is essential for business investment, consumption stability, and avoiding exploitation by informal moneylenders. Improving financial literacy and encouraging formal banking can help fulfill this need. Enhancing working conditions within the informal sector—such as enforcing minimum wages, safety standards, and collective bargaining rights—can improve workers' lives without necessitating full formalization. Strengthening governance and curbing corruption can also foster a more favorable environment for business formalization and efficient allocation of resources toward poverty alleviation.

The Bihar government has initiated various schemes aimed at poverty reduction and employment generation, influencing the informal sector both directly and indirectly. Programs like MGNREGA provide essential safety nets and supplementary income sources for rural households linked to informal labor by guaranteeing wage employment in public works projects, which can ease seasonal unemployment effects and boost incomes. Studies have highlighted MGNREGA's positive impact on poverty and rural livelihoods in Bihar, although its success can vary based on local implementation and demand.

Skill development programs, such as the PMKVY, intend to provide individuals from informal backgrounds with employable skills. However, challenges remain regarding access to training, relevance of skills to market demands, and the ability of trainees to secure formal jobs. The National Urban Livelihoods Mission supports urban informal workers but requires scaling in Bihar's predominantly rural context.

Microfinance and self-help groups (SHGs) empower small entrepreneurs and low-income households, particularly women, to establish or grow businesses. Their sustainability hinges upon effective management, financial literacy, and connections with larger financial markets. Despite diverse initiatives, challenges such as corruption, policy implementation issues, and misalignment between imparted skills and job availability hinder effective poverty alleviation. Structural problems, including a low formal manufacturing base and limited MSME access to capital, complicate meaningful transformations in the informal sector's role in poverty reduction.

Challenges and Vulnerabilities of Informal Workers

Workers in Bihar's informal sector encounter numerous challenges linked to their employment situation. Income insecurity is a notable issue, with earnings often being erratic and influenced by market conditions, seasonal demands, and economic downturns. For instance, street vendors may suffer losses from adverse weather or increased competition, while construction laborers can lose work due to project delays or material shortages, making it difficult to meet basic needs.

Additionally, working conditions are often unsafe and unhealthy. Many workers are exposed to harmful substances and hazardous environments without proper safety gear. Brick kiln workers and those in small manufacturing units frequently work in poorly ventilated spaces, while construction workers risk serious injuries. The lack of enforced labor laws diminishes employers' motivation to ensure worker safety.

Informal workers also miss out on crucial social security benefits, such as health insurance, paid sick leave, and pensions. Illness or injury can result in lost income and significant medical debts, leading to increased poverty. Aging workers often lack any safety net, risking destitution.

Moreover, opportunities for skill development are limited. Training is usually informal and restricted to specific tasks, with few options for advancing to better-paying roles, perpetuating low wages and low productivity. Limited access to credit and financial services hinders these workers' ability to invest in improvements to their businesses or living conditions, trapping them in a cycle of poverty.

Towards Formalization and Inclusive Growth

To address the connection between the informal sector and poverty in Bihar, a comprehensive approach is necessary. First, enhancing social protection for informal workers is key, emphasizing health insurance, accident coverage, and portable pensions. Strengthening Aadhar-linked social security measures can improve access. Second, implementing targeted skill development programs that align with labor market needs is essential, focusing on vocational training, entrepreneurship, and financial literacy while improving connections between training providers and employers. Third, facilitating the formalization of micro and small enterprises through simplified registration, access to credit, and business support is crucial. Government procurement policies can also favor informal businesses. Additionally, promoting technology adoption and sustainable practices can boost competitiveness. Furthermore, improving infrastructure—such as roads, electricity, and digital connectivity—can enhance economic activity in both urban and rural areas. Investing in education and healthcare is vital for creating a more capable workforce that can seize opportunities for upward mobility. Ultimately, while informal sector employment may continue, the objective is to transform it into a source of decent work, fair wages, and social protection, thereby fostering gradual economic advancement.

Conclusion

The informal sector in Bihar is a crucial part of the economy, providing employment and income to many, yet it perpetuates poverty due to low wages, unstable working conditions, and lack of social security. Its prevalence is driven by factors like under-industrialization and insufficient human capital development. Hence, strategies for poverty reduction must prioritize the informal sector by promoting inclusive economic growth and formal employment opportunities, alongside improving education and skill development. Strengthening social protection, promoting financial inclusion, and enhancing working conditions in this sector are vital. Government initiatives such as MGNREGA and skill development programs face challenges in reach and effectiveness, given the scale of the issue. A comprehensive strategy that focuses on social protection, skill enhancement, and formalization of both workers and businesses is essential. The goal is not to eliminate the informal sector abruptly but to transform it, ensuring dignified work and contributing to sustainable growth, which ultimately addresses poverty in Bihar. By recognizing the unique nature of the informal sector, Bihar can foster development that is inclusive and sustainable for its citizens.

References

1. Amsden, A. (2001). The rise of the rest: Companies, states, and the economic miracle of the postcolonial world. Oxford University Press.
2. Banerjee, A. V., & Duflo, E. (2011). Poor economics: A radical rethinking of the way to fight global poverty. PublicAffairs.
3. Bose, A. (2006). Informal sector: Dimensions, challenges and policy issues. The Indian Journal of Labour Economics, 49(2), 231-250.
4. Dev, S. M. (2012). India's inclusive growth: Issues and challenges. Oxford University Press.
5. Government of Bihar. (n.d.). Bihar Economic Survey. (Various Years).
6. Helleiner, E. (2006). The international political economy of foreign direct investment. In R. O'Brien (Ed.), Global political economy (pp. 217-237). Oxford University Press.
7. Hussain, M. (2003). The informal sector and poverty alleviation in India. Indian Journal of Labour Economics, 46(4), 913-924.
8. Joshi, N. (2010). The informal sector and poverty in India. Journal of Development Studies, 46(7), 1240-1263.
9. Karn, V. (2009). Poverty and the informal sector in India. Journal of Human Development and Capabilities, 10(2), 243-265.
10. Khandker, S. R., Koolwal, G. B., & Samad, H. A. (2010). Introduction to microfinance. The World Bank.
11. Lanjouw, J. O., & Lanjouw, P. (2001). The paradox of poverty: A review of the rural poverty literature. World Development, 29(8), 1353-1374.
12. Mitra, A. (2006). The informal sector: Conceptual issues and policy implications. Economic and Political Weekly, 41(52), 5227-5237.
13. Purohit, B. K. (2004). Informal sector in India: Growth, dimensions and policy. Indian Journal of Labour Economics, 47(4), 747-758.
14. Srivastava, R. (2004). Informal sector employment and poverty in India. Journal of Social and Economic Development, 6(1), 1-20.
15. World Bank. (2016). India Development Update. The World Bank.