



INDIAN JOURNAL OF  
LEGAL REVIEW

VOLUME 6 AND ISSUE 5 OF 2026

INSTITUTE OF LEGAL EDUCATION



## INDIAN JOURNAL OF LEGAL REVIEW

APIS – 3920 – 0001 | ISSN – 2583-2344

(Open Access Journal)

Journal's Home Page – <https://ijlr.iledu.in/>

Journal's Editorial Page – <https://ijlr.iledu.in/editorial-board/>

Volume 6 and Issue 5 of 2026 (Access Full Issue on – <https://ijlr.iledu.in/volume-6-and-issue-5-of-2026/>)

### Publisher

Prasanna S,

Chairman of Institute of Legal Education

No. 08, Arul Nagar, Seera Thoppu,

Maudhanda Kurichi, Srirangam,

Tiruchirappalli – 620102

Phone : +91 73059 14348 – [info@iledu.in](mailto:info@iledu.in) / [Chairman@iledu.in](mailto:Chairman@iledu.in)



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## LABOUR RIGHTS IN INFORMAL SECTOR

**AUTHOR** – SANTHOSH PANDIAN P, STUDENT AT SCHOOL OF EXCELLENCE IN LAW, THE TAMIL NADU DR AMBEDKAR LAW UNIVERSITY

**BEST CITATION** – SANTHOSH PANDIAN P, LABOUR RIGHTS IN INFORMAL SECTOR, *INDIAN JOURNAL OF LEGAL REVIEW (IJLR)*, 6 (5) OF 2026, PG. 841-848, APIS – 3920 – 0001 & ISSN – 2583-2344.

### Abstract

The informal sector in the modern global economy is no longer a transitory stage but structural permanence. This paper examines the dynamic terrain of labour rights in relation to informal workers, with special attention paid to the growing divide between them and the formal labour force in the form of a protection gap. By 2026, the demarcation of traditional employment due to technological changes and precarious gig employment arrangements has become more indistinct, and implementing basic labour standards has become more challenging. By making a comparative study of the emerging economies, this paper establishes that although there is an incremental awareness of rights among workers, institutional capability to apply these rights has not been realized. The study is concerned about the alarming relationship between high informality and intergenerational poverty cycles, especially in women and youth. The paper will conclude by a conclusion exploring the key elements that lead to success of grassroot movements and collective bargaining models in the informal economy and how the informal labour union can be empowered and social security delivery digitised to close the inequality gap and provide decent work to everyone.<sup>1060</sup>

**KEYWORD:** Informal sector, Labour rights, Formal labour force, Protection gap, Collective bargaining

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<sup>1060</sup> International Labour Organization, *Women and Men in the Informal Economy: A Statistical Picture* (3rd ed. 2018)

## Introduction

One of the most persistent and characteristic results of modern labour markets, especially in the developing and emerging economies is the informal sector. Against the views of the earlier economic theories, which assumed a slow extinction of informality with industrialization and economic growth, informality has proven to be extremely resilient.<sup>1061</sup> Actually, it has grown both in size and depth becoming firmly entrenched in the world system of production. In India, informal sector contributes a huge percentage of employment<sup>1062</sup>, which covers a wide variety of occupation, including street vending, domestic worker, construction labour, agricultural work, and currently, a digital labour as a gig worker. These employees exist beyond the institutionalized system of regulation, and have no access to the law, social safety nets, and the support system.

Informality does not just persist due to economic underdevelopment but is indicative of more structural inequalities in labour markets. These comprise gaps in access to education, capital and job opportunities, systemic failures to govern and enforce regulations. Precarious working conditions are common among informal workers, who are low-paid, have low job security, and occupational hazards.

The gig economy has also expanded to the limits of the formal and the informal work. Digital platforms have invited new types of work that are disruptive to the concept of employer-employee relationships. However, these platforms are flexible and provide income-generating opportunities, there are also important concerns related to labour rights, accountability, and social protection.

The paper aims to critically analyse the state of labour rights in the informal sector, especially

on the protection gap existing between informal and formal workers. It will examine the structural causes of informality, review the current legal and policy frameworks and recommend ways of ensuring inclusive and equitable labour governance.

## Research Objectives and Methodology

The main aim of this paper is to discuss the position of labour rights in the informal sector and to find ways of closing the protection gap. In particular, the research aims to:

1. Discuss the conceptual and legal aspects of informality;
2. Determine the level and type of labour rights abuses in the informal sector;
3. Examine the effects of technological changes and the dynamics of the gig economy;
4. Find out about gender and youth-related vulnerability;
5. Compare institutional, policy reactions in various jurisdictions;
6. Make practical reform suggestions.

The approach that is embraced in this study is mostly doctrinal and analytical. It entails an overall examination of legal frameworks, policy documents, scholarly literature and international organization reports. There has been comparative analysis to look at best practices of other emerging economies.

## Development and Idealization of the Informal Sector

The idea of informal sector has been initially coined in the early 1970s to refer to economic activities that do not fall within official regulatory systems. The informal sector was initially considered to be a transitory phenomenon related to underdevelopment and should die away as the economic systems are modernized. Nevertheless, later studies have proved that informality is not only here to stay but also a core of the operations of the contemporary economies.

The informal sector covers a very broad scope of activities, such as self-employment, casual

<sup>1061</sup> Keith Hart, *Informal Income Opportunities and Urban Employment in Ghana*, 11 J. Mod. Afr. Stud. 61 (1973)

<sup>1062</sup> National Sample Survey Office (NSSO), *Periodic Labour Force Survey (PLFS)* (2022–23), Government of India

labour and unregistered businesses. It is also marked by the non-existence of a formal contract, the absence of social security coverage, and little regulatory regulation. Small scale and low-productivity environments with little access to resources and markets are common among informal workers.

Theoretically, informality has been perceived in diverse ways. Structuralist theories also focus on how economic inequalities and segmentation of the labour market perpetuate informality. Legalist solutions are concerned with regulatory impediments that deter formalization. In the meantime, the institutional theories point out the failures in governance and poor enforcement systems.

The contemporary understanding of informality recognizes its heterogeneity and complexity. It has ceased to be viewed as a peripheral or periphery sector but a dynamic and interconnected area of the global economy.

#### **Nature and Dimensions of the Protection Gap**

Informal-formal protection disparity between informal and formal workers is one of the most pressing issues in labour governance. This disparity is reflected in various aspects, such as legal status, wage security, occupational safety, and access to social protection.

The informal workers are also not included in the laws of minimum wages as most of the time they are not in formal employment contracts. The enforcement is still weak even where there are legal provisions leading to the prevalence of wage violations.<sup>1063</sup> Financial insecurity is also aggravated by irregular and unpredictable income.

Informal work environments often do not pay much attention to occupational health and safety standards. Employees in these industries like construction, mining and waste management are subjected to hazardous working conditions without proper protection. Regulatory laxity and absence of accountability

mechanisms are also contributing to the high rate of accidents and injuries in the workplace.<sup>1064</sup>

One of the major gaps is access to social security. Benefits like health insurance, pension plans and unemployment benefits are not usually offered to informal workers.<sup>1065</sup> This exposes them to economic shocks and compromises their long-term well-being.

The lack of access to legal remedies is another factor contributing to the protection gap.<sup>1066</sup> The informal workers do not get the documentation and resources needed to seek legal action and this makes them unaccountable to the violation of labour rights.

#### **Gig Economy and Technological Changes**

The quick development of technology has essentially revolutionised labour markets, creating new types of jobs that undermine the traditional regulation systems. Short-term and task-based work, mediated by digital platforms, has become an important part of the informal economy, which is known as the gig economy.

Work based on platforms also has some benefits such as flexibility and accessibility. Nevertheless, it also brings about new modes of precarity. Employees are usually not considered to be employees but instead, they are treated as independent contractors, which means that they are not under labour protection.

Algorithms are used to manage different facets of gig work, such as task assignment, performance appraisal, and payment. These systems are very low in terms of transparency, and their operation has been questioned in terms of fairness and accountability. Workers lack control over their working conditions and are at the mercy of the will of the platform operators.

The gig economy also demonstrates the ineffectiveness of the current legal frameworks

<sup>1063</sup> Minimum Wages Act, 1948

<sup>1064</sup> Occupational Safety, Health and Working Conditions Code, 2020

<sup>1065</sup> Code on Social Security, 2020

<sup>1066</sup> People's Union for Democratic Rights v. Union of India, AIR 1982 SC 1473

to cope with the modern labour issues. Conventional definitions of employment do not represent the dynamics of platform-based work and a reconsideration of labour laws is necessary.

### Gender aspects of Informality

Gender is very significant in influencing the experiences of informal workers. Women are over-represented in poorly paid unstable types of work, including domestic work, home-based production and agricultural labour.

Women are limited to the labour market by structural inequalities such as lack of access to education and financial resources. They are also limited in their economic opportunities by social norms and cultural expectations.

The informal sector is usually characterized by various types of discrimination against women, such as wage differences, maternity benefits, sexual harassment and exploitation. Lack of legal safeguards adds to these predicaments.<sup>1067</sup>

Unpaid work on care is one of the major obstacles to the economic participation of women. Childcare, eldercare and housekeeping duties inhibit their participation in income-generating activities.

To resolve gender inequalities, specific interventions should be used that will encourage equality and empowerment. This involves access to education, development of skills and supportive policies like childcare services and maternity benefits.

### Children and Working Age

Many youths enter the labour market through the informal sector. Poor access to formal job opportunities compel the young people to take up low paying informal jobs.

The long-term consequences of this early exposure to informality are career development and economic mobility. Training and opportunities related to skill development are

usually not readily available to young workers, restricting their chances of progress.

Youth-informality intersectionality adds to the perpetuation of poverty and inequality. Young workers are left in the vulnerability traps without proper support mechanisms.

### Intergenerational Poverty and Informality

Informality and poverty have a direct and a cyclical relationship. Informal workers are unable to invest in education, healthcare, and other basic services due to low and unstable incomes.

Children of the informal workers feel forced to be employed at a tender age which contributes to the circle of informality.<sup>1068</sup> This restricts their educational levels and lowers their earning potential in future.

Lack of social protection mechanisms also contributes to intergenerational poverty. Lacking safety nets, families are susceptible to economic shocks.

### Institutional and Regulatory Problems

There are institutional constraints to the implementation of labour rights in the informal sector. These are poor administrative capacity and lack of coordination among agencies and lack of political will.

Labour laws are frequently structured to deal with formal employment relationship, and are therefore not well suited to the realities of informal work. Regulatory frameworks are too complex and too rigid to promote compliance and formalization.

The effectiveness of enforcement mechanisms is also compromised by corruption and inefficiencies due to bureaucracy. Informal workers tend to have less trust in institutions, diminishing the desire to interact with formal systems.

<sup>1067</sup> Vishaka v. State of Rajasthan, (1997) 6 SCC 241

<sup>1068</sup> Child and Adolescent Labour (Prohibition and Regulation) Act, 1986 (amended 2016)

### **Indian Legal Framework and Informal Workers**

There have been a lot of reforms in labour regulation in India that have been brought about by the four labour codes. Although these codes are meant to streamline and unify the existing laws, their effects on informal workers are a matter of controversy.

An example of this is the Code on Social Security which provides some benefits to gig and platform workers. Nevertheless, these provisions have challenges to do with identification, registration, and funding.

These reforms have been restricted in effectiveness because of the lack of clear definitions and enforcement mechanisms. The informal workers still have a challenge of achieving access to benefits and protections.

### **Comparative Analysis of Informal labour in the Emerging Economies**

Comparative analysis of the emerging economies shows that informality is a structural characteristic phenomenon but there is a difference in policy responses and institutional capacity of dealing with informality. Latin America, African and Asian nations have tried different approaches to reach informal workers with labour protection and provide a good lesson on possible directions of change.

Countries in Latin America like Brazil and Mexico have taken a rather progressive stance on social protection. Universal health coverage schemes and conditional cash transfer programs have contributed immensely towards making informal workers less vulnerable. The attempts of Brazil to formalize micro-enterprises with the help of simplified taxation regimes can be viewed as an example of how regulatory innovation can be used to encourage compliance without sacrificing economic inclusivity.

Conversely, most African economies are still grappling with high informality rates because of poor institutional structures and low fiscal ability. Agriculture, trade and small scale manufacturing are some of the sectors where

informal employment prevails. Although community-based insurance programs and cooperative models have become significant support systems, they are not widespread and are fragmented.

The picture of Asian economies is mixed. Countries such as Thailand and Indonesia have been strides ahead in extending social security to informal workers as part of voluntary schemes and special welfare programmes. Nevertheless, there are still some difficulties connected with awareness, access, and cost.

India has a special place in this relative environment. Although it has initiated a number of welfare programmes to cover informal workers, the magnitude and heterogeneity of its informal sector has posed a great challenge in its implementation. This has been a historical problem because a single and all-embracing database of the informal worker does not exist and this has hindered the efficient delivery of the policies; however, recent digitization projects seek to correct this situation.

The comparative analysis highlights the fact that not one of the models can be universally applied. Rather, socio-economic conditions, institutional capacity and labour market dynamics need to be considered in context-specific reform.

### **Informal Labour in India**

The informal sector in India is a significant part of the Indian labour force and as such a vital point of interest in the labour rights discourse. The informal workers in India occupy a broad spectrum of jobs, which include agriculture, construction, household services, street selling and nowadays, platform based jobs.

Heterogeneity is one of the features of the informal sector in India. Workers work in diverse conditions, including self-employment in small businesses to wage employment in unregulated working environments. Such variety makes it hard to develop and execute consistent policy interventions.

Government programs like introduction of labour codes and welfare programs have aimed at catering to the informal workers. Nonetheless, the implementation and awareness gaps still restrict their effectiveness. A number of workers do not know their rights or they have trouble accessing the benefits because of bureaucracy.

State governments have a special role to play especially in the Indian context with labour being a concurrent subject in the Constitution. Differences in policy application in different states also play a role in inequality in labour rights and protections.

In spite of these hurdles, novel ways of assisting informal workers have been realized in India. Community-based organizations and microfinance institutions, as well as self-help groups, have been instrumental in offering financial and social assistance.

#### **Role of Trade Unions in the Informal Sector**

Traditional model of trade unionism has had a historical emphasis on the formal sector workers, and informal workers have been left with little representation. Nevertheless, in the recent years the realization of the necessity to extend the collective representation to the informal sector has been on the rise.

The informal labour unions and worker associations have also become significant players in protecting rights and advocating. These groups tend to be at the grassroots level, organizing workers and bargaining with employers and the government.

Lack of legal status is one of the major challenges that informal unions face. These organizations do not have formality and as such their bargaining power is minimal and they find it difficult to indulge themselves into institutional mechanisms.

Notwithstanding these limitations, informal unions have been quite successful in some settings. Organization has resulted in better working conditions, wages and access to social services. These are just but a few illustrations of

how collective bargaining can be empowering.<sup>1069</sup>

#### **Collective Bargaining in the Non-formal Employment**

Collective bargaining in the informal industry needs the redefinition of the traditional models. Contrary to formal employment relations, informal work may have various stakeholders, such as contractors, intermediaries, and platform operators.

New forms of collective bargaining have been developed to deal with these complexities. An example of this is sectoral bargaining, where the workers in a specific industry can collectively bargain regardless of whether they are employed or not.

Another model that is potentially significant is worker cooperatives, where informal workers are able to combine their resources and negotiate as a collective. Such cooperatives offer a system of making decisions and participation in economy.

New ways of collective action have also been enabled through digital means. Online networks and social media have facilitated more organization and mobilization of workers on a broader scale, even beyond geographical barriers.

#### **Labour Rights and Digital Governance**

The adoption of digital technologies in governance systems has created fresh opportunities of extending labour protections to informal workers. Digital platforms will enable the process of workers registration to be simplified, benefits delivery to be simplified, and transparency to be improved.

The introduction of digital identification systems and central databases in India has opened up opportunities to enhance access to welfare schemes. These systems help in efficient targeting of beneficiaries and minimize the inefficiencies in administration.

<sup>1069</sup> Bangalore Water Supply v. A. Rajappa, AIR 1978 SC 548

Nevertheless, the introduction of digital governance also brings up some concerns. Data privacy, cybersecurity, and digital exclusion issues should be taken into consideration. With low digital literacy, informal workers might have difficulties accessing online services, which can contribute to the existing inequalities.

### **Social Security for Informal Workers**

Increasing the social security coverage to informal workers is an important aspect of labour rights reform. Contributory systems which are based on employer-employee relationships are usually not sufficient in meeting the needs of the informal workers.

Other models such as universal basic income, non-contributory pensions and hybrid scheme have been suggested to fill this gap. The underlying objectives of these models are to ensure a minimum level of income security and lessening susceptibility to economic shocks.

Such initiatives can only work well when there is good implementation and sustainable financing. Governments have to consider the fiscal limits and the necessity to deliver broad coverage.

### **Global Supply chain and Informal Economies**

Incorporation of the informal labour in the global supply chains is an opportunity and a challenge. On the one hand, involvement in the global markets may open up income generating opportunities to informal workers. Conversely, it makes them very vulnerable to exploitation and poor working conditions.

Subcontracting arrangements with informal labour are commonly used by multinational corporations and large enterprises. This brings about a spreading of responsibility and enforcing labour standards becomes hard.

The international labour standards and the corporate social responsibility actions have attempted to mitigate these problems. Their effectiveness is, however, in most cases limited by poor enforcement mechanisms.

### **Role of International Organizations**

The international organizations are very instrumental in developing the discourse of labour rights and enhancing optimal practices. Other organizations like the International Labour Organization have come up with frameworks and conventions which seek to enhance conditions of the informal worker.

The idea of decent work has become a leading guiding principle, and it has been crucial to focus on the issue of fair wages, safe working conditions, and social protection. These frameworks give a normative foundation to the national level policy development.

Nonetheless, international standards can only be applied depending on the goodwill of individual states. The differences in political will and institutional capacity tend to create imbalanced development.

### **Recommendations**

The informal sector labour rights should be addressed by ensuring inclusion of legal reforms that will expand the definition of worker to include gig and non-standard employment. Institutional capacity and enforcement mechanisms need to be strengthened to achieve good implementation of labour laws. The increase in the scope of universal social security, with the help of digitalized delivery systems, can increase the reach of informal workers. The workers will be represented better by way of recognition of informal unions and encouragement of collective bargaining. The priority should be given to gender-sensitive and youth-oriented policies in order to overcome the structural vulnerabilities. Also, there should be awareness campaigns and responsibility in the global supply chains to guarantee adherence and empower the workers in the ever challenging labour market.

### **Conclusion**

Informal sector has emerged as part and parcel of the contemporary economies, where inequality and lack of labour protection is the order of the day. The paper presents the

increasing disparity between formal and informal employees in terms of protection, which is only enhanced by changes in technology and gig jobs. In spite of major difficulties, there are prospects of reform in terms of inclusive policies, social protection mechanisms, and mobilization on a grassroots level. Equitable labour rights can only be achieved through the transition to a rights-based approach in which informality is seen as structural. To provide decent work to everyone, governments, institutions and the society must work together to ensure a more inclusive, safe and sustainable labour system.

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ISSN 2583-2344



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