

Child Labour and the Informal Economy of India: A Legal Study

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ABSTRACT

Background - This paper examines the role of informal economy in increasing the child labour cases. It seeks to determine the reasons behind the rise of informal economy. It sheds light on the fact that, in the world economy there are number of informal activities that contributes at a big scale. Approximately 60 per cent of the total employed population of the world is working in the informal economy. Studies have shown that close to 33 per cent of the total world economy is informal economy. It argues that current legal standards do not provide protection to a worker in the informal economy. On one hand the formal sector is completely regulated, however, on the other hand, informal sector is completely overlooked by the regulatory environment. The paper concludes by recommending that it is necessary to ensure that the informal economy gets formalized, so that it becomes easier to look after it by the regulating authorities, and workers get the much needed legal protection. That can be done by including the registration and taxation procedure.

Methods – Using a doctrinal research methodology, the paper analyses, statutory frameworks, and scholarly literature.

Results – The study shows that informal economy has played a big role in increasing the number of child labour cases in India. There are several reasons for that, weak regulation, and the widespread availability of undocumented and low-cost labour are some of the most important reasons. Further study reveals that gaps in the child protection laws in India and family enterprises also leads to the increase in the child labour instances in India. Although India has enacted comprehensive legislation, including the Child and Adolescent Labour (Prohibition and Regulation) Act, 1986 (as amended in 2016), the Right of Children to Free and Compulsory Education Act, 2009, the Juvenile Justice (Care and Protection of Children) Act, 2015, and the Bonded Labour System (Abolition) Act,

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1976, their effectiveness remains limited within the largely unregulated informal economy. The findings demonstrate that the absence of formalisation and effective monitoring continues to hinder the elimination of child labour and perpetuates adverse educational, social, and health outcomes for children.

Conclusions – It is necessary to formalize the informal sector of India by providing the necessary legal protection to the people through law. In that way the child labour instances in the informal sector will reduce.

Keywords – Child Labour, Informal Sector, Informal Economy, Family Enterprise

1. Introduction

There are number of economies that contribute in the world economy. As per the data of the International Labour Organisation (ILO) approximately 60 per cent of the total employed population of the world is working in the informal economy. Studies have shown that around 33 per cent of the total world economy is informal economy. One of the main reason this economy is considered as informal is that, the activities which leads to the rise of informal economy are not recorded. Studies also shows that this informal economy also avoid paying taxes. This does not mean that all the individuals who are financially weak are working in the informal economy. It has also been observed that some workers are working in the formal and informal economy simultaneously¹.

There are number of disadvantages of being a worker in the informal economy. That is because the security an individual gets in the formal economy, is not given in the informal economy. A worker in the informal economy is an unregistered and undeclared worker. On one hand the formal sector is completely regulated, however, informal sector is completely overlooked by this regulatory environment. These things clearly show that it is necessary to formalise the informal economy. It is important to shed light on the fact that informal economy

does not mean the criminal activities like theft, and other criminal activities. Informal economy consists the economic activities such as making garments, selling products, etc. are considered as informal economy².

Hans Singer in 1972 was one of the first individual to differentiate between the formal and informal economy. He mentioned that informal economy is like a giraffe, that is hard to define, however, very easy to recognise³. These informal economies are not only limited till small cities, but they have spread even in large cities. Due to this the question about regulating the informal economy has become even more serious, and it is necessary to find a solution⁴. The unfortunate side of this informal economy is that, it uses child labourers as a soft target, and due to that there are number of issues which children faces⁵.

2. Reasons Behind the Rise of Informal Economy

There are number of reasons behind the informal economy. In of the studies that were conducted in Nigeria, several factors behind the informal economy were noted. Some of them

¹ Deléchat, C., & Medina, L. (2021). What do we know about the informal economy?. *The Global Informal Workforce*, 1.

² Roberts, B. (1994). Informal economy and family strategies.

³ Dell'Anno, R. (2022). Theories and definitions of the informal economy: A survey. *Journal of Economic Surveys*, 36(5), 1610-1643.

⁴ Sassen, S. (1993). The informal economy: Between new developments and old regulations. *Yale LJ*, 103, 2289.

⁵ Aked, J. (2021). Supply chains, the informal economy, and the worst forms of child labour.

were corruption, unemployment, the greed of paying fewer taxes by the participants, and the need of survival. However, it was seen that the factor which plays the biggest role is actually the “Need to survive” factor. This is the main reason that leads an individual or a family in the informal economy⁶.

2.1 Cost Effective

There are number of reasons due to which informal economy is at rise, however, being cost effective is one of the main reasons. This is due to the fact, that the cost in the formal activities, also include the cost of regulation by the State. Commercial registration increases the total cost of production in the formal economy. This makes formal economy even more expensive. Registration process makes the formal economy burdensome. Due to this reason, families with very low budget take the direction of informal economy, instead of moving towards formal economy, that can lead to high charges of registration⁷.

2.2 Need to Survive

Need to survive is another reasons due to which a person has no other option than to become a part of the informal economy. It has been seen that as the rules and regulations have expanded, it has also encouraged the expansion of informal economy. This happens because the individuals with low budget try to give themselves an edge by becoming a part of informal economy⁸.

2.3 Supply of Cheap Labour

Unlike formal economy, it is very easy and convenient to find a cheap labour in abundance for the informal economy. This is a part of the survival strategy in the informal economy⁹. In the low productivity jobs, there is a higher number of children in the informal economy. Due to lack of regulation, it is easy to employ children in the informal economy, and that leads to higher number of child labour cases¹⁰.

2.4 Unemployment

Unemployment has been another factor due to which informal economy becomes an easy passage to run family, and survive in the society. However, even if an attempt is made for a rapid shift from informal to formal economy, then also studies have shown that it can lead to the unemployment. At the same time it can also lead to the downfall of the economy. Studies also proves that formal employment is also reduced due to the increased unemployment benefits in the informal sector¹¹.

2.5 Limited formal jobs

Most of the developing countries find it very difficult to provide sufficient amount of formal employment opportunities to the population. This pushes a large part of the population to the informal economy. That is the reason it becomes very important to provide enough amount of formal employment opportunities, so that the people will not opt for the option of informal economy¹².

⁶ Igudia, E., Ackrill, R., Coleman, S., & Dobson, C. (2016). Determinants of the informal economy of an emerging economy: a multiple indicator, multiple causes approach. *International Journal of Entrepreneurship and Small Business*, 28(2-3), 154-177.

⁷ Krakowski, M. (2005). *Determinants of the informal economy: The importance of regional factors* (No. 313). HWWA Discussion Paper.

⁸ Baldwin, R. E., & PORTES, R. D. (1994). *Towards an integrated Europe* (Vol. 25, No. 234). London: Centre for economic policy research.

⁹ Roberts, B. (1994). Informal economy and family strategies.

¹⁰ Trebilcock, A. (2004). International labour standards and the informal economy. *Les Normes Internationales du Travail: Un Patrimoine pour l'Avenir (Mélanges en l'honneur de Nicolas Valticos)*, 585-613.

¹¹ Liepmann, H., & Pignatti, C. (2024). Welfare effects of unemployment benefits when informality is high. *Journal of Public Economics*, 229, 105032.

¹² WIEGO. *Informal economy, poverty and growth linkages: Links with growth*. Women in Informal Employment: Globalizing and Organizing. <https://www.wiego.org/informal-economy-poverty-growth-linkages-links-growth/>

2.6 Higher Regulatory Cost of Formal Economy

Whether it is licensing, or taxation, formal economy is more expensive than the informal economy, in all the aspects. Due to this it becomes completely out of budget for a low income family to take a step towards the formal economy¹³.

2.7 Globalization

Globalization has several benefits however, it has also led to a rise in the informal sector of the economy. This is because of the fact that the global supply chain is dependent on the informal subcontractor. It is due to the fact that this is a much cheaper path, that reduces the manufacturing and service cost¹⁴.

3 Role of Informal Economy in Increasing the Child Labour Cases

Several reasons are there due to which the child labour cases are rising in the informal economy. It can also be said that informal economy plays a role in increasing the number of child labour cases.

3.1 Poverty

Studies shows that in the developing countries around 60% of the children are under the age of 15 and they are surviving in the informal household. These numbers go up to 80% in the countries like Africa. Children in these types of households, goes through the lower school attendance, and they don't even have very good educational resources. All these things together pushes them towards the child labour¹⁵.

¹³ VoxDev. (2025, April 24). *Determinants of informality*.

<https://voxdev.org/voxdevlit/informality-issue-2/determinants-informality/>

¹⁴ WIEGO. *Informal economy, poverty and growth linkages: Links with growth*.

<https://www.wiego.org/informal-economy-poverty-growth-linkages-links-growth/>

¹⁵ Arora, T. (2024, November). *Child labour in the informal economy in India* [Unpublished manuscript]. MIT World Peace University.

Retrieved from ResearchGate:
<https://www.researchgate.net/publication/38573726>

3.2 Undocumented, Hidden and Cheap Labour

In the leather industry of Bangladesh, those business owners, who are struggling financially, often depend on the child labour to meet their supply chain demand¹⁶. Another advantage which cheap labour provides is that it is not easy to monitor the informal economy. Due to this the child labour cases happening in this area of the economy, stays unreported because authorities find it hard to report such issues¹⁷.

3.3 Informal Enterprises of Families

Families with low income are at times indulged in the informal businesses, and even the children of those households are also involved in it. Making children work in these informal enterprises, or family businesses is considered as normal because it is considered as part of the skill learning, or family responsibilities especially in those areas, where education level is low among the individuals.¹⁸

3.4 Legal Gaps

It is easy to take the advantage of the loop holes which gets created due to the weak enforcement of the child labour law. Due to these gaps in the policies and monitoring mechanism, child labour still exist and the new cases are also coming.

4 Child labour in the informal economy in India

¹⁶ Maksud, A. K. M., Hossain, K. R., Sayed, S., & Aked, J. (2024, February 22). *Informal economy perspectives on the prevalence of worst forms of child labour in Bangladesh's leather industry* (CLARISSA Research and Evidence Paper 8). Institute of Development Studies.
<https://www.ids.ac.uk/publications/informal-economy-perspectives-on-the-prevalence-of-worst-forms-of-child-labour-in-bangladeshs-leather-industry/>

¹⁷ International Labour Organization. (2018). *Women and men in the informal economy: A statistical picture (3rd ed.)*.
https://www.ilo.org/global/publications/books/WCMS_626831/lang-en/index.htm

¹⁸ International Labour Organization. (2020). *Child labour: Global estimates 2020, trends and the road forward*.
https://www.ilo.org/global/publications/books/WCMS_797515/lang-en/index.htm

Employers takes further benefits this and make children work even in the hazardous conditions¹⁹.

4 Laws in India for the protection of Children from Informal Economy

There are number of laws in India to protect the children from child labour, or from working in the informal economy. Some of them are mentioned below:

4.1 The Child and Adolescent Labour (Prohibition and Regulation) Act, 1986 (Amended 2016)

This is the leading legal provision in protecting the children from the child labour instances. It protects the children from working if they are below the age of 14 years. On the other hand, it also protects adolescents who are between the age of 14-18 years, from working in the hazardous environment²⁰.

4.2 The Right of Children to Free and Compulsory Education Act, 2009 (RTE Act)

This legal provision is based on the Article 21a of the Constitution of India. The objective of this act is to provide free education to the children aged between 6 to 14 years. The purpose of this legal provision is to keep the children in school and away from work²¹.

4.3 The Juvenile Justice (Care and Protection of Children) Act, 2015

¹⁹ Bhorat, H., Kanbur, R., & Stanwix, B. (2015). Estimating the impact of minimum wages on employment, wages and non-wage benefits: The case of agriculture in South Africa. *World Development*, 72, 326–339.
<https://doi.org/10.1016/j.worlddev.2015.03.008>

²⁰ Ministry of Labour and Employment. (2016). *The Child and Adolescent Labour (Prohibition and Regulation) Amendment Act, 2016*. Government of India.
<https://labour.gov.in/sites/default/files/childlabouract2016.pdf>

²¹ Ministry of Law and Justice. (2009). *The Right of Children to Free and Compulsory Education Act, 2009*. Government of India.
<https://legislative.gov.in/sites/default/files/A2009-35.pdf>

The objective of this act is to provide care and rehabilitation to the children who are in need. For example – providing care and protection to those who are working in the informal sector. As per this act, exploitation of children is considered as criminalisation. That means children should be treated as the victims, instead of offenders²².

4.4 The Bonded Labour System (Abolition) Act, 1976

This act protects from the bonded labour that exists in all types of forms. Especially which effect the children. It covers the informal sector where the children are working the most. This law basically gives power to the authorities to take action for the protection of children, and rehabilitate them²³.

5 Effect of Child Labour on Childhood

There are number of issues that are faced by the children indulged in the child labour. As per the International Labour organisation, due to child labour children miss on school, they drop out early, and in many cases they never return to the school. This reduces their chances of employment in the future, and this traps them in the poverty cycle²⁴.

In several cases it has been seen that child labour also leads to different health risks. This happens due to the exposure to the heavy machineries, or any other types of substances, or even due to physical exertions. In many cases children have also suffered injuries due to working for long hours beyond their physical

²² Ministry of Law and Justice. (2015). *The Juvenile Justice (Care and Protection of Children) Act, 2015*. Government of India.
<https://legislative.gov.in/sites/default/files/A2016-02.pdf>

²³ Ministry of Labour and Employment. (1976). *The Bonded Labour System (Abolition) Act, 1976*. Government of India.

<https://labour.gov.in/sites/default/files/act1976.pdf>

²⁴ International Labour Organization. (2020). *Child labour: Global estimates 2020, trends and the road forward*.
https://www.ilo.org/global/publications/books/WCMS_797515/lang--en/index.htm

ability. In the end all of this together leads to health issues that can be chronic²⁵.

6 Conclusion

The study shows that there are number of factors in India that leads to child labour and one of the biggest factors among those is child labour. It is easier to make earning through the informal economy, and that is the reason it provides livelihood to millions. However, there is also a dark side of the informal economy, and that is weak legal mechanism, absence of the registration, undocumented labour, low or no compliance with the labour regulations, all these points together make informal sector vulnerable to the children.

There are number of labour laws that has been enacted by India, but effectiveness of those laws is still is question. Whether it is the Child and Adolescent Labour (Prohibition and Regulation) Act, 1986 (as amended in 2016), the Right of Children to Free and Compulsory Education Act, 2009, or any other act, all have been made in the interest of children, by the objective has yet not been achieved. Due to the allowance children to work in the family enterprise after the amendment in the year 2016 things have become more difficult. It is hard for the authorities identify what is genuine family assistance, and what is disguised labour in informal business.

Keeping the above-mentioned facts in sight. It is necessary to ensure that the informal economy gets formalized. That can be done by including the registration and taxation procedure. On the other hand, the workers working in the informal economy should get the legal protection and recognition as workers. Legal protection will help the workers with the minimum wage, any type of discrimination that is against article 15 and article 16 of the Constitution of India. Legal protection will also help the workers with the occupational health and safety measures.

²⁵ UNICEF. (2021). *Child labour rises to 160 million – first increase in two decades*. <https://www.unicef.org/press-releases/child-labour-rises-160-million-first-increase-two-decades>

²⁶Dixit, A., Parmar, T., Yadav, S.(2026). Evaluating The Implementation of Section 89 Cpc In Haryana's Civil Justice System. International Journal of Engineering Sciences & Research Technology, 15(2), 1-10, <https://doi.org/10.64149/ijesrt.15.2.1-10>

²⁷Chadha R. C., Singh A. K., Chadha M., (2026). Enhancing Employment Opportunities for Blue-Collar Workers Through Digital Innovation: Bridging the Skill and Technology Gap. International Journal of Artificial Intelligence, Machine Learning and Data Analytics, 1(1), 22-42. <https://www.ijaimda.org/index.php/ijaimda/article/view/7>