



► What is informal employment?

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Informal employment refers to working arrangements that are in practice or by law not subject to national labour legislation, income taxation, or entitlement to social protection or other employment guarantees; for example, advance notice of dismissal, severance pay, or paid annual or sick leave.

Informality can exist even in the 'formal' sector. Casual, temporary, and seasonal workers who lack social protection coverage or other employment benefits, or who fall short of full legal status, have informal employment status even when they work in the 'formal' sector.

Workers in informal employment are a diverse group with different employment statuses (own-account workers, employers, contributing family workers, or waged workers) and different employment contexts (formal, informal, and household sectors), and the extent of informal employment is measured as the sum of all these workers, whether employed in the informal sector or under informal conditions outside the informal sector.



New forms of work are increasingly gaining importance in many countries, and do not fit neatly into the traditional distinctions between formal and informal employment relations. These are jobs in the so-called 'gig economy' and among digital platform workers. For example, many Foodpanda and Loca platform drivers have employment conditions that resemble those of employees, even though they are officially classified as self-employed. But these workers are not legally entitled to social security, making them especially vulnerable.



Social security obligations in cases where the employment relationship is unclear



The clarification of the employment relationship is particularly relevant in the digital economy, in which self-employment is becoming more prevalent.

▀▀ In Uruguay, the coverage of ride-hailing drivers using digital platforms (such as Uber) was facilitated through a phone application that allows for the direct deduction of social security contributions from the price of the ride through the monotax mechanism, thereby ensuring the drivers' social security coverage and creating a more level playing field between the traditional and digital economies.

Another example of ambiguous employment relations is often evident in the construction sector, where many workers are hired through subcontractors and labour brokers for a limited number of days or weeks. One of the approaches to ensure at least a minimum of social security coverage for construction workers has been to base contributions on the overall value of the construction project, rather than on the payroll, in order to ensure coverage for all workers involved in the project.

▀▀ For example, in India, under the Building and Other Construction Workers' Welfare Cess Act 1996, 1–2 per cent of the value of construction projects is channelled into worker welfare funds for construction workers, which covers contributing workers for employment injury, access to healthcare (through the Rashtriya Swasthya Bima Yojana scheme), and pensions.

This ILO Brief is part of a quantitative research of the labour force and enterprise landscape in Lao People's Democratic Republic to better understand the nature of informality and design tailored social security policies. The research received financial support from the ILO/Korea Partnership Programme and was conducted by Oxford Policy Management.

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