

Session 1.2.

THE DEFINITION OF THE INFORMAL ECONOMY



Learning objectives

- Grasp the difference between the informal economy and its components: the informal sector and informal employment
- Be able to classify a worker in the informal economy
 - Working in an informal unit or with an informal job
- Understand
 - The importance of definition criteria
 - The challenges of the international definitions
- Be aware of the impact of ...
 - The Resolution on work statistics adopted by 19th International Conference of Labour Statisticians (ICLS), 2013
 - The ILO Recommendation concerning the transition from the informal to the formal economy (2015)



The international standards that will be covered

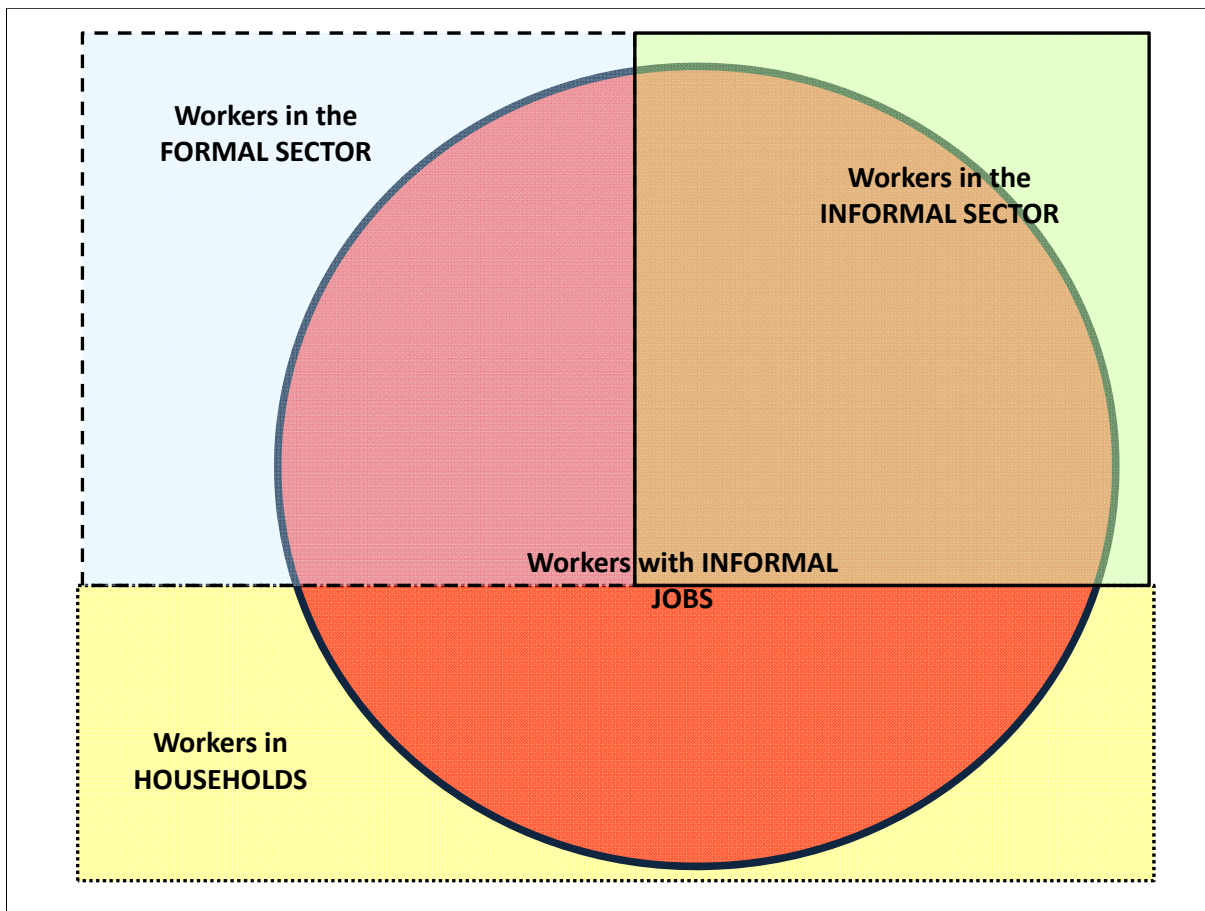
- Resolution concerning statistics of employment in the informal sector (15th ICLS, 1993)
- Guidelines on informal employment (17th ICLS, 2003)
- Resolution concerning statistics of work, employment and labour underutilization (19th ICLS, 2013)
- Recommendation concerning the transition from the informal to the formal economy (adopted by the International Labour Conference in June, 2015)



The informal economy

- Has never been defined for statistical purposes
- Has been defined for legal purposes
 - By the International Labour Conference in 2002, in a Resolution concerning decent work and the informal economy
 - By the International Labour Conference in 2015 in its Recommendation concerning the Transition from the informal to the formal economy
 - “For the purposes of this Recommendation, the term “informal economy” refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements”
 - Economic activities by workers – informal jobs
 - Economic activities by economic units – informal sector





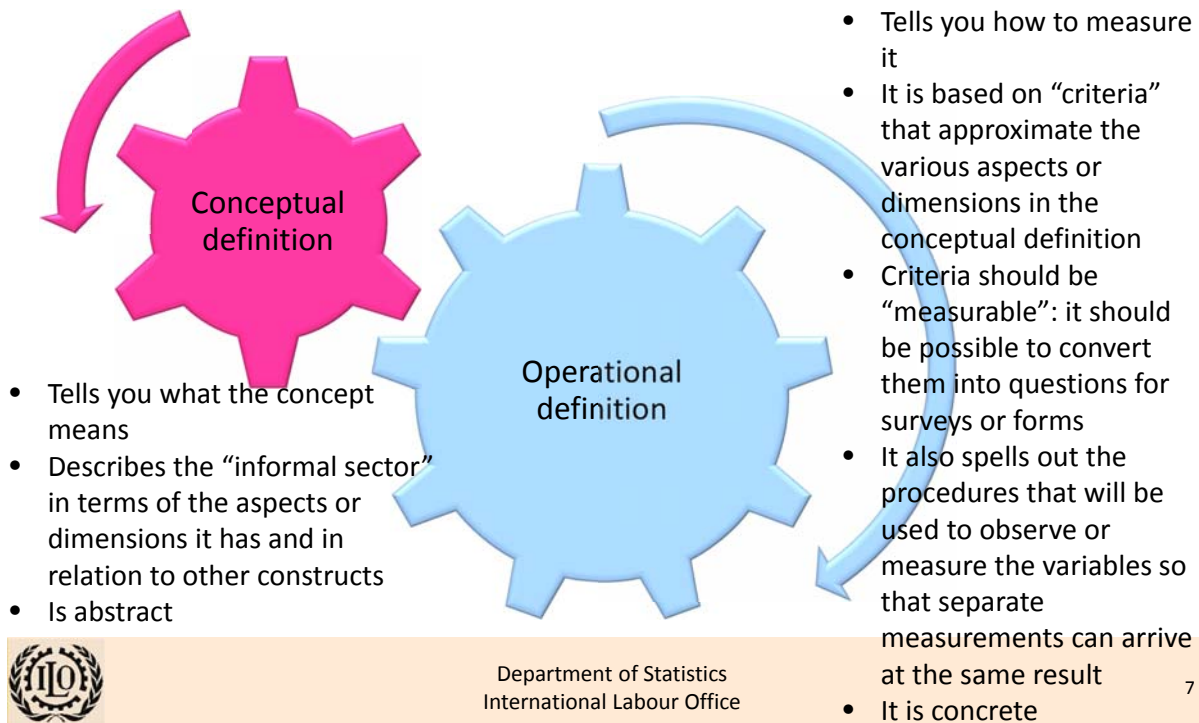
Workers in the informal economy Components



To measure the number of workers in the informal economy, we need to measure

- the number of workers in the informal sector and
- the number of workers with informal jobs outside the informal sector

International definition of the informal sector (15th ICLS, 1993)



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Conceptual definition of the informal sector (§5)

Informal sector units ...

- Produce goods or services with the primary objective of generating employment and incomes to the persons concerned
- Operate at a low level of organisation, with little or no division between labour and capital as factors of production and on a small scale
- Depend on casual and family workers, rather than on employees with written contracts and formal guarantees
- Are household enterprises
- Do not intend to evade the payment of taxes or social security contributions, or to infringe labour or other legislations or administrative provisions
 - Should be distinguished from the concept of activities of the hidden or underground economy



Principles

The informal sector ...

- Is a characteristic of economic units
- Is part of the SNA "household" sector
 - The informal sector is part of, and coherent with, the System of National Accounts (SNA)
- Only includes units that produce for sale



The informal sector is a characteristic of economic units

- We talk about informal sector units, or informal units
 - As opposed to enterprises, establishments, local units
 - Because many are household-based or mobile
 - Because it is difficult to identify with certitude establishments within enterprises in the informal economy
- Workers are classified in the informal sector
 - Based on the characteristics of the economic units where they work
 - This means that if an economic unit is informal, ALL its workers are in the informal sector
 - And persons who work in units outside of the informal sector are excluded from the informal sector, even if their job is precarious
 - Workers may work in an informal sector unit in one job and in a formal sector unit in another job



Classifying workers in the informal sector

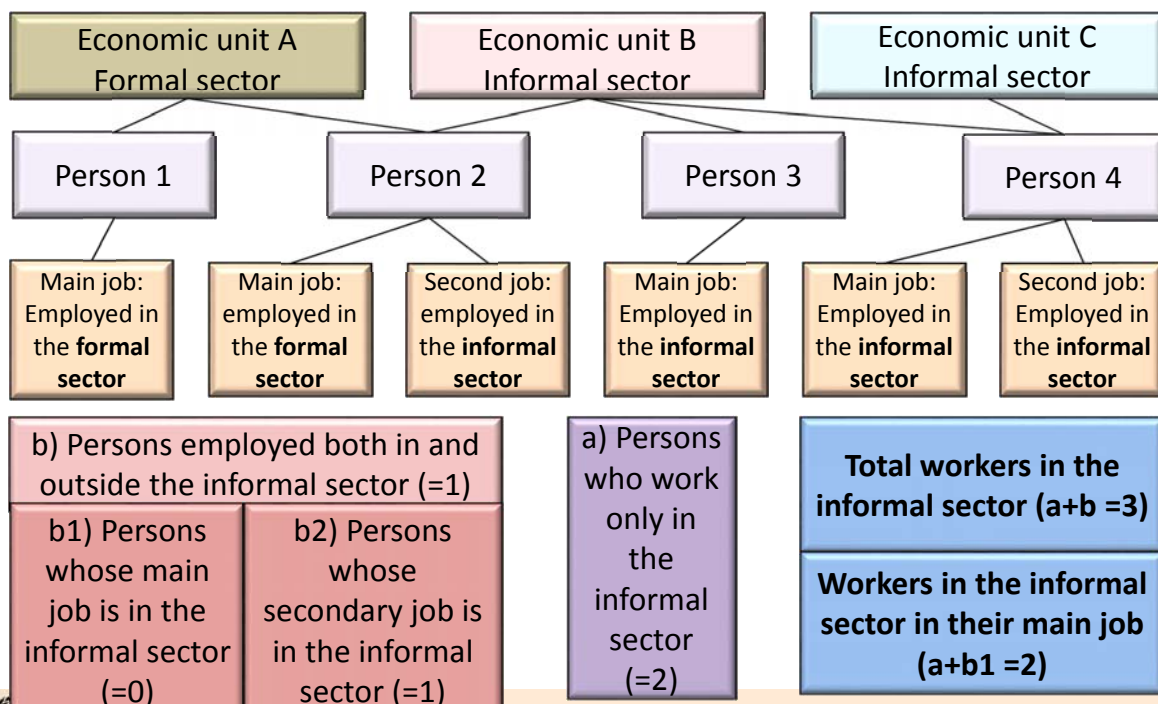
Two groups of workers can be distinguished:

- a) Persons who work only in the informal sector
- b) Persons who work both in and outside the informal sector
 1. Persons whose main job is in the informal sector and whose second job is in formal sector or households
 2. Persons whose secondary job is in the informal sector and whose main job is in the formal sector or household
 - This group will probably be important numerically

It is essential that information about the informal sector be collected for main AND secondary jobs



Example

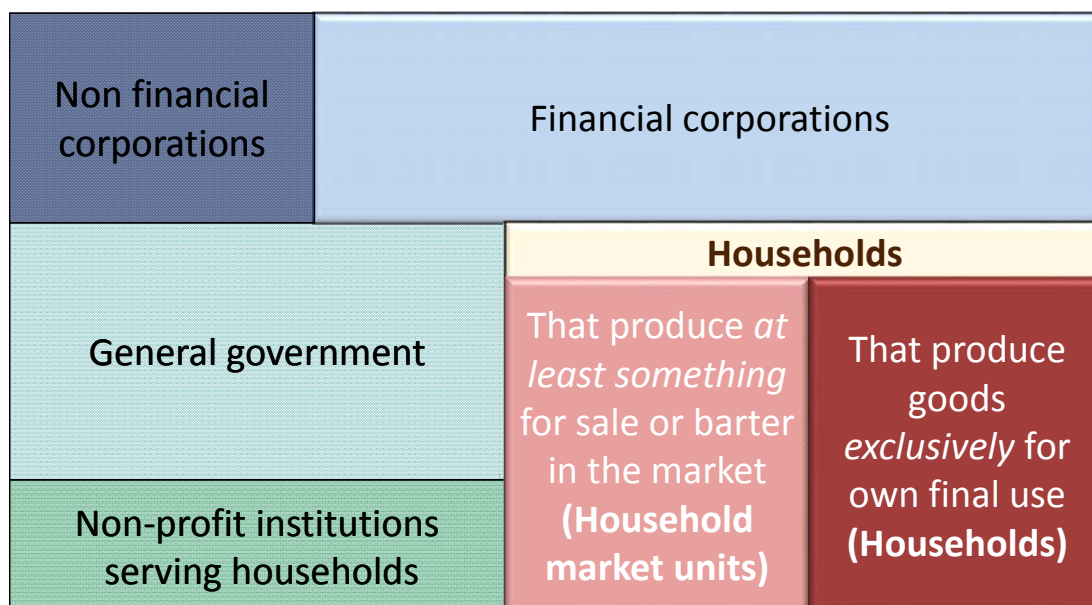


Informal sector units are part of the “household” sector

- The “household” sector is one of the institutional sectors used by the SNA to classify economic units:
 - Government, Corporations (financial and non-financial), Non-profit institutions serving households (NPISH) and Households
- Economic units in the “household” sector :
 - Are not constituted as separate legal entities (are owned by persons)
 - Do not have complete accounts (i.e., excludes quasi-corporations)
 - Can produce goods and services for sale or barter
 - Can produce goods and services exclusively for own final use
 - Including households that employ paid domestic employees



Informal sector units produce for sale or barter



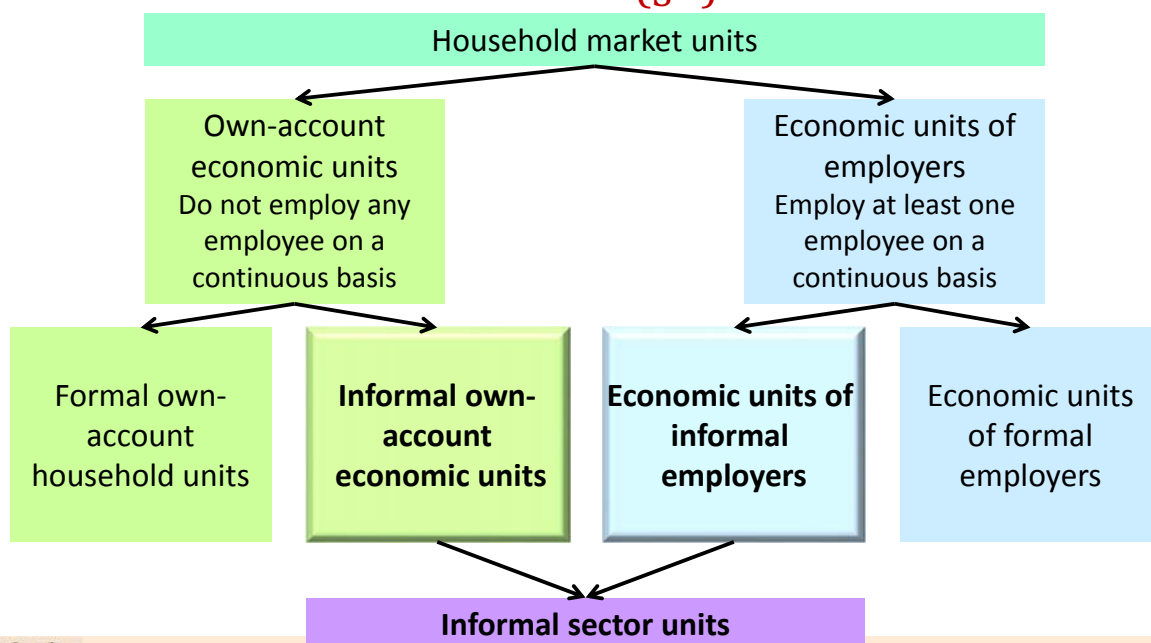
Operational definition of Household market units

3 criteria to identify them

- Their owners are persons, families
 - They are not constituted as a legal entities separate from their owner(s)/
 - They are neither the government, corporations, non-profit organizations
- They do not maintain a complete set of accounts
 - Including balance sheets of assets and liabilities
 - There is no clear distinction of the production activities of the economic units from the other activities of their owners
 - Not possible to identify flows of income and capital between the enterprises and the owners
- They produce at least something for the market



Operational definition of the informal sector (§6)



Informal own-account economic units

Depending on national circumstances:

- Either all own-account economic units (own account workers)
- Or only those which are not registered under specific forms of national legislation
 - Factories'/ commercial acts,
 - Tax/social security laws,
 - Professional groups' regulatory acts, etc.

As distinct from local regulations for issuing trade licenses or business permits

- Because they are governed by administrative regulations that may vary from region to region and in time
- Because they do not affect the way the units operate and behave



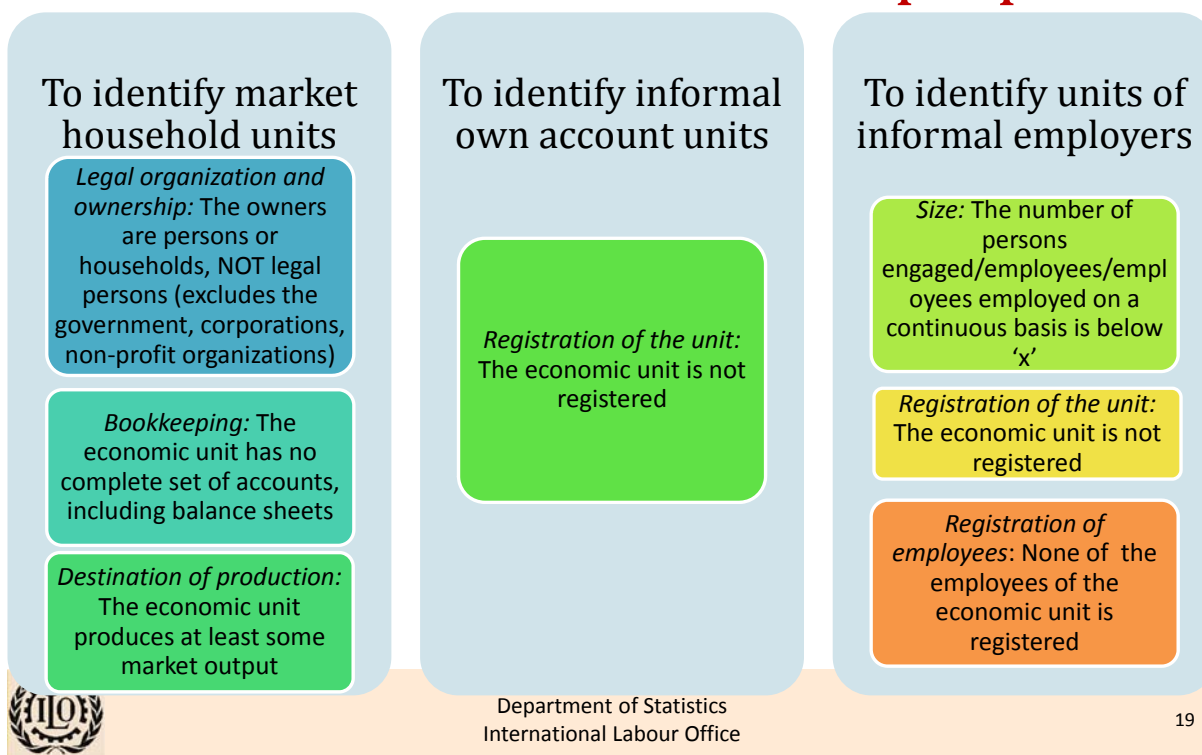
Economic units of informal employers

Defined in terms of one or more of the following 3 criteria :

- Small size of each establishment within the economic unit in terms of ...
 - The number of employees employed on a continuous basis
 - The total number of employees, including those employed on an occasional basis
 - The total number of persons engaged during the specific reference period, including the entrepreneur, the business partners, and the contributing family workers
 - Option 1 is the ideal measure but the information may not be easily reported
 - No size was specified but should take into account the size limits used in formal sector establishment surveys, some overlap may be advisable
- Non-registration of the economic unit
 - Defined in the same way as for informal own-account economic units
- Non-registration of its employees
 - A unit is informal if **none** of its employees is registered for tax or social security purposes



Definition criteria and their purpose



Why are definition criteria so important

- In order to produce statistics on the informal sector, we need to carry out a survey (of households or economic units)
- Surveys obtain their information from household members or from operators of economic units
 - By using a standard questionnaire – the same questions for each respondent in order to get harmonized responses
 - Each question obtains information about one operational criteria
 - Sometimes more than one question for one criterion
 - A question should not target more than one criterion at the same time
- The operational criteria should be “measurable”
 - It should be possible to transform them into questions that will obtain the information that is required

Arriving at a national definition of the informal sector

- Evaluate how relevant each of the definition criteria are in the national context
 - Product destination may not be necessary if subsistence work is not important in the country or if they are excluded from the scope in the country
 - Not keeping full accounts, lack of registration and small size may not imply that the unit is informal – review legislation in the country!!!
- If a criterion has important drawbacks, do not discard it!!
 - But complement it with other criteria
 - Place of work
 - Industry



Relevance of “registration” to define the informal sector

- Registration should identify economic units that do not conform with the legal and administrative framework in force in the country
 - Not the way informal units are organized and carry out their activities
- It is not useful when :
 - The administrative and legal framework in the country expects all units to be registered, but does not expect them to pay taxes or to provide full accounts
 - The registers kept by the relevant agencies are of bad quality
 - Respondents are not able or not willing to provide information about registration in a survey
 - There are changes in regulations or in their application that will affect the size of the informal sector

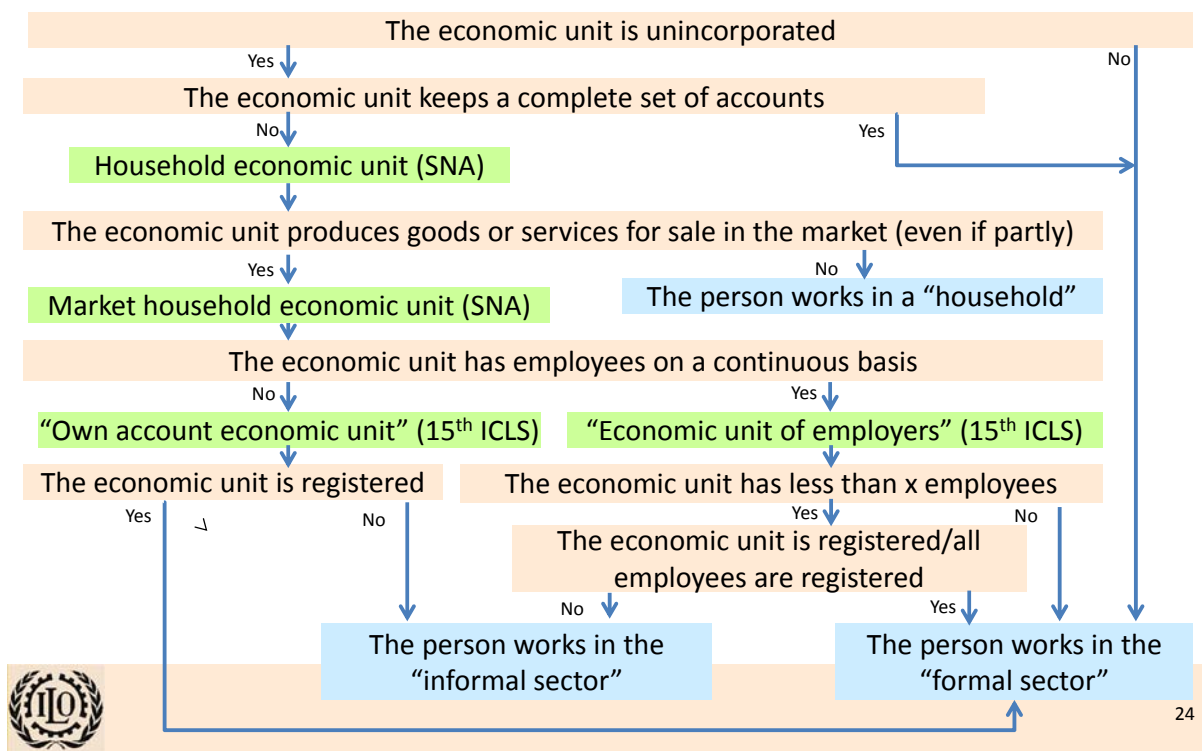


Relevance of “size” to define the informal sector

- Size should identify units that operate small scale and in a more traditional way
 - Governments and unions will tend to concentrate on larger units, so smaller units are often not in their radar
 - They tend to use more traditional production methods
- It may not be useful when:
 - It does not reflect the organization or objectives of the unit
 - There are many formal units which are small and many informal units which are large
 - But do not discard it!! Complement it with other criteria: registration, place of work



Example: from criteria to a definition of the informal sector



Units included/excluded from the informal sector

- Excluded are households that produce exclusively for own final use
 - Paid domestic employees are therefore excluded
 - BUT: self employed domestic workers may be included if they satisfy the definition criteria
 - Subsistence agriculture, construction of own dwellings, manufacture of wearing apparel, furniture, water and fuel collection, etc.
- Included are (if they satisfy the criteria for inclusion):
 - Agricultural and related units
 - Units that provide professional and technical services for sale
 - Own producers of goods when some of the production is sold or bartered
 - Units that carry out illegal and underground activities



Challenges with the definition of the informal sector

- Covering agriculture
- Distinguishing self employed outworkers from paid employees
- Achieving international comparability

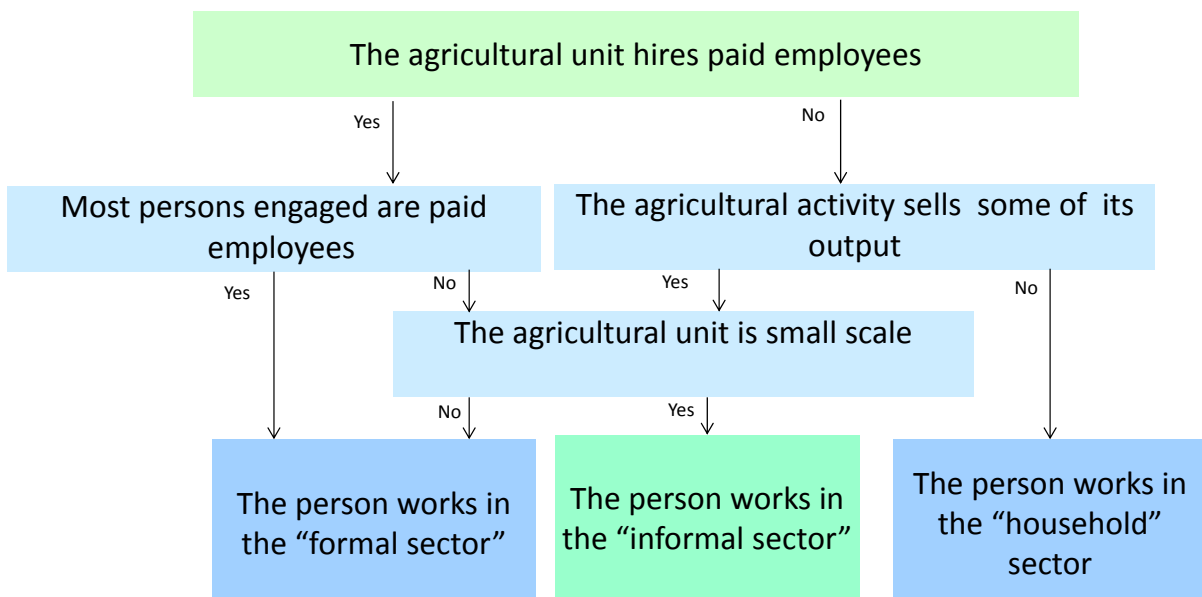


Challenge: covering agriculture

- Criteria that work well in urban context may not work in rural context:
 - Very formal farms may not have full accounts
 - All farms may be registered
- Perhaps different / less criteria should be used?
 - Use size:
 - Include agricultural activities of small informal farms
 - Use workers engaged
 - Include agricultural activities where most workers are contributing family workers
 - Use destination of products
 - Include agricultural activities of producers mainly for own final use (subsistence agriculture) if some of its production is marketed
 - Exclude agricultural activities typical of commercial crops, e.g., coffee, bananas, sugar, etc.



Possible inclusion of agricultural activities in the informal sector



Challenge: classifying outworkers

- Outworkers are persons who agree to work for a particular enterprise, or to supply a certain quantity of goods or services to a particular enterprise, by prior arrangement or contract with that enterprise, but whose place of work is not within any of the establishments which make up that enterprise (§18)
- They may be paid employees or self employed
 - If they are self employed (own account or employer), we should obtain information about their self employed unit - probably a household-based activity, informal
 - If they are employees, we should obtain information about the enterprise that gives them work - probably a large formal sector unit
- The issue is how to determine when they are employees or self employed:
 - Possible operational criteria
 - Lack supervision in daily activities
 - Incur in economic risk or have to meet certain costs (rent, electricity)
 - Payment is for work done as well as for profits
 - Have many “clients” as opposed to only one “client”



Challenge: international comparability

- Definition criteria allow different national definitions
 - Different industry coverage
 - Different set of criteria
 - Different cut-off points for size, when used
- Differences in national practices
 - Exclusion of secondary jobs
 - Inclusion of paid domestic employees
 - Exclusion of professionals and technicians



Recommendations of the Delhi Group to increase international comparability (1999)

- Minimum set of criteria in national definitions
 - Legal organization of the economic unit
 - Type of accounts
 - Destination of products
- Separate statistics for economic units with fewer than 5 employees
 - In the case of economic units with more than one establishment, the size limit applies to the largest unit
- If using size criterion
 - Disaggregate between registered and unregistered units
- If using the non-registration criterion
 - Disaggregate by size (less than 5, 5 or more employees)
- If including agriculture
 - Disaggregate by agriculture and non-agriculture units
- Include paid domestic services
 - Unless provided by employees
- Provide separate statistics for outworkers (home-based workers)
- If covering the rural areas
 - Disaggregate by urban and rural areas
- Cover all jobs of persons
 - In order to identify persons who work in the informal sector only in their secondary activities



QUIZZZZZZZZZZ!!!!!!

- The informal economy refers to the activities of informal sector units and of informal workers **YES !!**
- Workers in the informal economy are those who work in informal units plus those with informal jobs in other units **YES !!**
- To measure the informal economy I have to measure the informal sector and informal employment **YES!!**
- The statistical definition of the informal economy was adopted in 2015 **NO !!**



QUIZZZZZZZZZZ!!!!

- An informal sector economic unit is a production unit operated in the owner's home **NO !!**
- All small economic units are in the informal sector **NO !!**
- A person is in the informal sector if he/she has a precarious job **NO !!**
- All migrant workers are in the informal sector **NO !!**
- A person can work both in the formal sector and in the informal sector **YES !!**



QUIZZZZZZZZ!!!!

- Informal sector units must meet which of these criteria
 - Are household economic units (privately owned by one or more persons) **YES !!!**
 - At least some of the product is sold in the market **YES !!!**
 - Are producing non-agricultural products **NO !!!**
 - Should not keep full accounts **YES !!!**
 - Employ few employees **If relevant**
 - Are not registered **If relevant**
 - Some employees are not registered **No**



QUIZZZZZZZZ!!!!

- The informal sector includes
 - Units exclusively engaged in production for own final use **NO !!**
 - Agricultural activities **If they satisfy criteria**
 - Professionals and technicians **If they satisfy criteria**
 - Outworkers **if they satisfy criteria**
 - Paid domestic employees **NEVER !!**



International definition of informal employment

- No conceptual definition was adopted
- Only an operational definition
- Informal employment is a characteristic of the job
 - A person can have more than one informal and/or formal jobs
 - A person is in informal employment if at least one of the jobs held is an informal job
 - Whether the main or secondary job
 - An informal job can be carried out in any type of production unit:
 - Formal economic unit
 - Informal economic unit
 - Household (that produces exclusively for own final use)



Three definition criteria

- The status in employment
 - Employer, own account worker, MPC / contributing family workers / employees / other unpaid workers
- The type of production unit in which the job is carried out
 - Formal / informal / household
 - Only relevant for employers, own account workers and MPC
- The “informal” employment relationship
 - An employment relationship that is not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (advance notice of dismissal, severance pay, paid annual or sick leave, etc.)
 - In law or in practice
 - Only relevant for employees



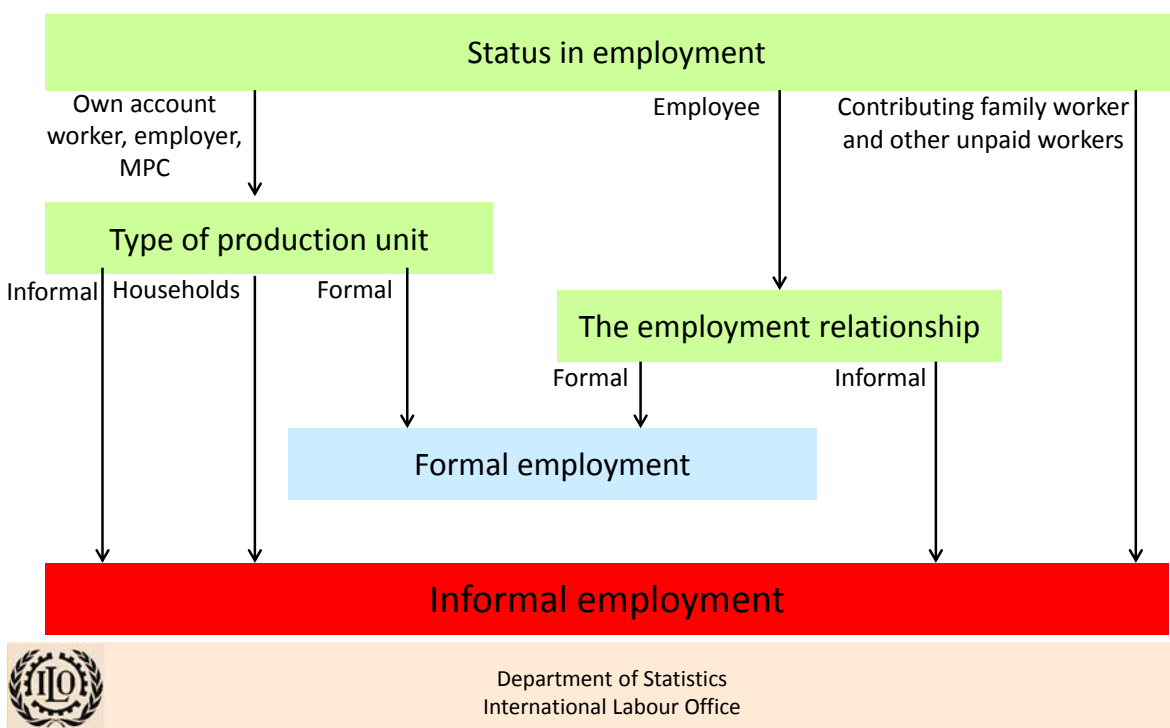
A combination of three criteria

Production units by type	Jobs by status in employment								
	Own account workers		Employers		Contributing family workers	Employees		Members of producers' cooperatives	
	Informal job	Formal job	Informal job	Formal job	Informal job	Informal job	Formal job	Informal job	Formal job
Formal units					1	2			
Informal units	3		4		5	6	7	8	
Households (producing exclusively for own final use)	9					10			

Note: Black cells refer to jobs that, by definition, do not exist (e.g. contributing family workers in household non-market production units); green cells refer to formal jobs (e.g. employees holding formal jobs in formal sector enterprises); light blue cells refer to Informal jobs



A combination of three criteria



For employees: how to determine when the employment relationship is informal

If the employee holding the job :

- Is not protected by national labour legislation
- Does not pay income tax
- Does not contribute to social security schemes related to the job
- Is not entitled/or does not benefit from
 - Paid annual or sick leave, maternity leave
 - Compensation in case of dismissal
- Can be dismissed without advance notice

Other criteria not mentioned that can be used as proxies:

- Written contract (if enforceable by legislation)
- Casual/temporary nature of job

Criteria to be determined by countries in accordance with national circumstances and data availability (during processing stage)

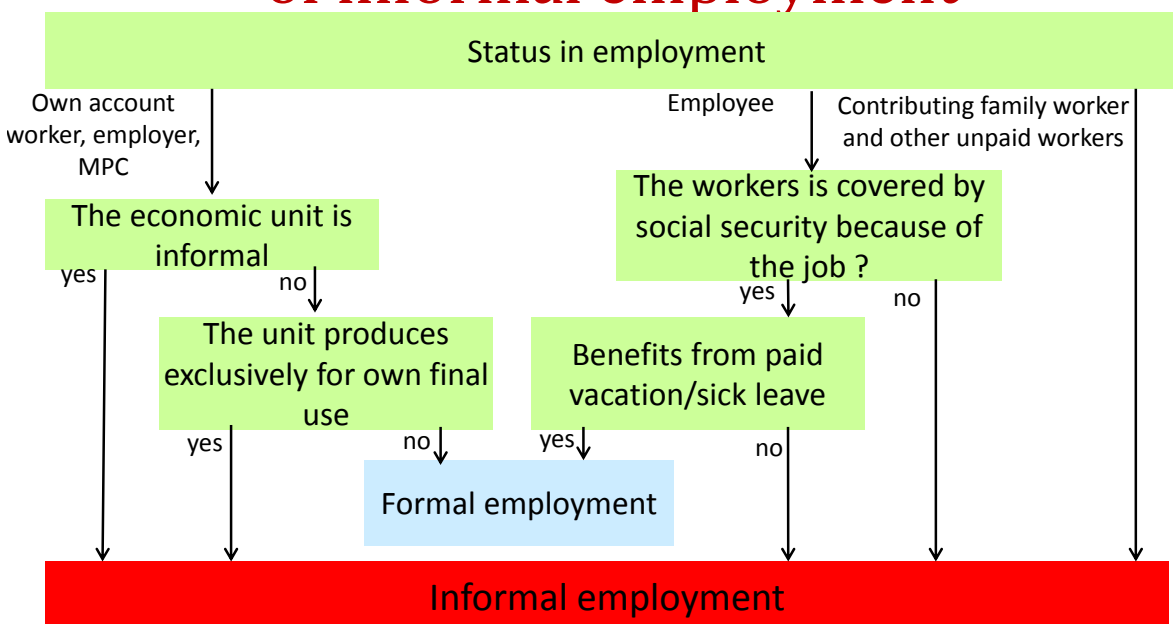


Arriving at a national definition of informal employment

- Evaluate how relevant each of the definition criteria are in the national context
 - Existence of a written contract may not reflect that labour legislation applies
 - Social security coverage may be too basic in the country
 - Even if employees are covered, they cannot benefit
 - There are no programs available for all types of employees
 - Social security coverage may not be dependent on employment
- If a criterion has important drawbacks, do not discard it!!
 - But complement it with other criteria



Example: from criteria to a definition of informal employment



Challenge with the definition of informal employment

- How do we classify outworkers
- What do we do with formal employees who work in the informal sector
- How do we classify entrepreneurs if the informal sector is not measured



Challenge: classifying outworkers

Outworkers are most probably all included in informal employment :

- If they are self employed, they are probably included in the informal sector
 - Because they are probably unregistered and small
 - Therefore, they will be in informal employment
- If they are employees they are probably in informal employment
 - They will probably work in large formal sector companies who belong to the formal sector
 - But they probably are not covered by social security schemes nor have labour rights (vacations, sick leave, etc.)



Challenge: formal employees in the informal sector

- There may be employees working in an informal sector unit who have formal employment
 - Because they have right to vacation
 - Because they are covered by social security schemes, etc.
- Should be few in number
- If they are not few then consider why:
 - Is the informal sector defined only in terms of size?
 - Is social security universal in the country?
 - Is informal employment defined in terms of having a written contract?
 - If it is not linked to enforcement of labour legislation, it should not be used!!



Challenge: when the informal sector is not measured

- Some countries do not measure the informal sector at all, or cover only non-agricultural activities
 - But they want to measure informal employment for the whole economy
- Employers, own account workers and members of producers' cooperatives are included in informal employment if their economic unit is informal
 - Special questions are needed to determine whether their units are informal

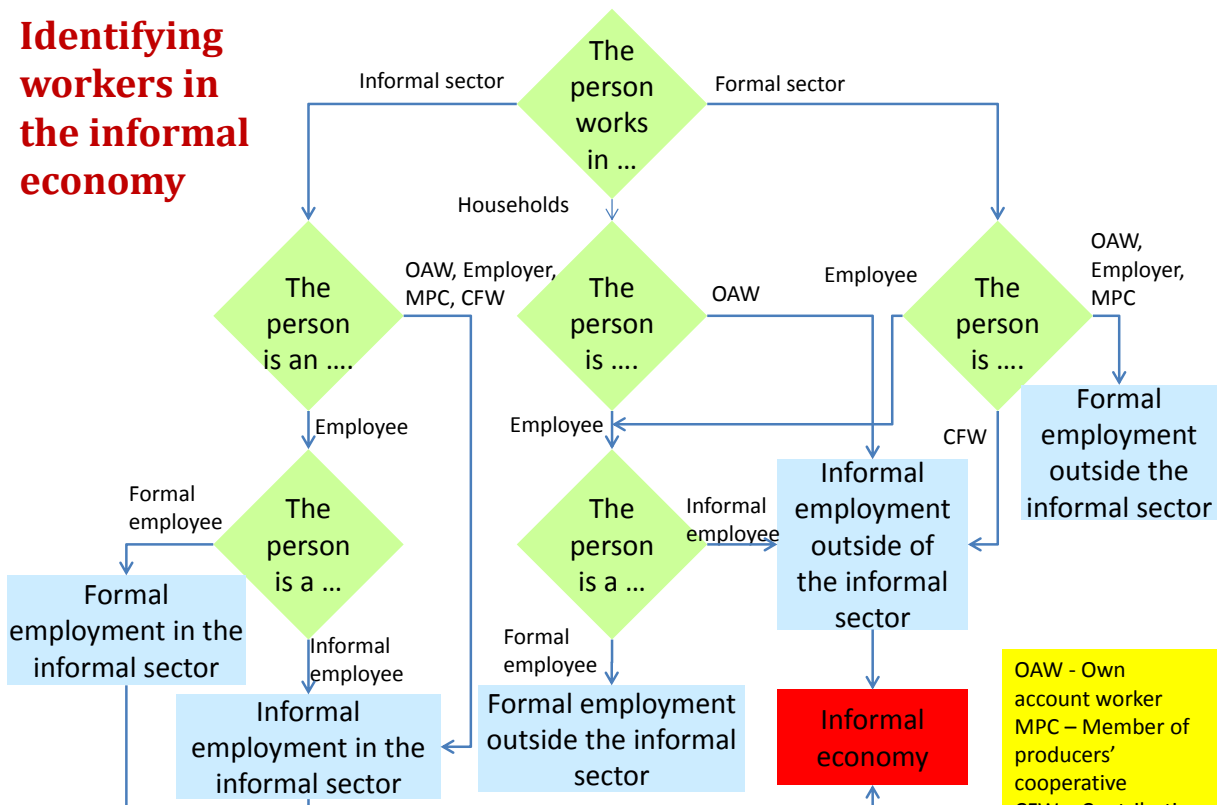


Identifying workers in the informal economy

Remember the equation:



Identifying workers in the informal economy



OAW - Own account worker
MPC - Member of producers' cooperative
CFW - Contributing family worker

Number of workers in the informal economy

- Workers in the informal sector
 - Informal entrepreneurs
 - Employees in informal units
 - With informal jobs
 - With formal jobs
 - Contributing family workers in informal units (all have informal jobs)
 - Other unpaid worker in informal units (all have informal jobs)
- Workers with informal jobs outside the informal sector
 - Employees with informal jobs
 - In the formal sector
 - In households – domestic employees
 - Contributing family workers in the formal sector (all have informal jobs)
 - Own account workers in households (all have informal jobs) – own use producers of goods
 - Other unpaid workers in the formal sector or in households (all have informal jobs)



QUIZZZZZZZZ!!!!

- Workers with an informal job can never work in formal sector economic units **NO!!**
- Workers with an informal job can only work in the formal sector **NO!!**
- Contributing family workers will have a formal job if they have right to vacations **NO!!**
- Contributing family workers in the formal sector have formal jobs **NO!!**
- Informal sector entrepreneurs always have informal jobs **YES!!**
- It is not possible to work in the informal sector and have a formal job **NO!!**



QUIZZZZZZZ!!!!

- Employees with an informal job can be defined on the basis of which of these criteria:
 - Are not covered by social security **YES!!**
 - Are not entitled to annual leave, sick leave, maternity leave **YES!!**
 - Are at risk of being dismissed without notice **YES!!**
 - Are harassed by the boss **NO!!**
 - Do not have a written contract **Only if it is a good proxy**
 - Have a casual job **Only if it is a good proxy**
 - Do not pay income taxes **YES, if relevant**



Impact of new definition of employment, 19th ICLS, 2013

- The new *Resolution concerning statistics of work, employment and labour underutilization* adopted definitions for
 - Work in general
 - Employment
 - Other forms of work
 - Own use production
 - Volunteer work
 - Unpaid trainee work
 - Unpaid compulsory work
- The new definition of employment is more restrictive than the previous definition of employment (13th ICLS)



Work and employment and other forms of work, 19th ICLS, 2013

Intended destination	For own final use		For use by others					
	Forms of work	Own-use production work		Employment (work for pay or profit)	Unpaid trainee work	Other work activities *	Volunteer activities	
of services		of goods	in market and non-market units (through organizations)				in households producing (direct volunteering)	
Relation to 2008 SNA			Activities within the SNA production boundary				Activities inside the SNA General production boundary	

*i.e., unpaid, compulsory work for others



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When informal sector and informal employment were adopted ...

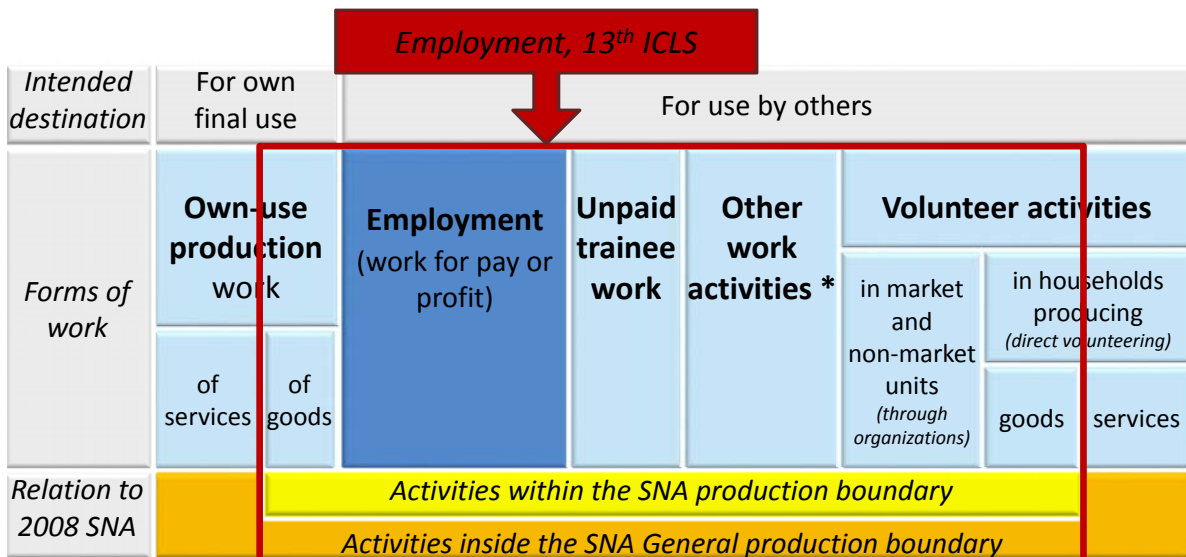
- The definition of employment (13th ICLS, 1983) included all persons who produced goods and services which were included within the SNA :
 - Persons who worked at least one hour for pay, profit or family gain (new employment)
 - Persons who produced goods exclusively for own consumption
 - Persons who worked for no pay as volunteers
 - Volunteers through organizations
 - Direct volunteers producing goods
 - Persons on apprenticeships, as trainees or interns, even if they were unpaid
 - Persons who worked compulsory and for no pay if they produced goods and services included in the SNA
- All these workers were covered by the informal sector and informal employment, if they satisfied the criteria for inclusion



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International Labour Office

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Work and employment and other forms of work, 19th ICLS, 2013



*i.e., unpaid, compulsory work for others



Impact of new definition of employment, 19th ICLS, 2013

- The new definition of “employment” (19th ICLS) only includes the first group
 - Now, only persons who work for pay or profit are included
 - Employment now excludes persons who are:
 - own use producers of goods
 - volunteer workers through organizations
 - direct volunteers producing goods for own final use
 - unpaid trainees
 - persons in “other forms of work”
- Should these workers be also excluded from the scope of the informal sector and informal employment?

Of course NOT !!!



New scope of the informal economy

- We have decided to **broaden** the scope of all international definitions to **ALL** forms of work:
 - Persons in (new, restricted) employment
 - Own use producers of goods
 - Own use providers of services
 - Unpaid trainees
 - Volunteer workers through organizations
 - Direct volunteer workers producing goods
 - Direct volunteer workers providing services
 - Persons in other forms of work
- With respect to the 13th ICLS definition of employment, the workers that will be added to the scope are:
 - Own use providers of services
 - Direct volunteers providing services to households

But countries should measure the informal economy **only** for those workers for which policies will be developed



How does this affect the number of workers in the informal economy

- The number of workers in the informal sector will remain the same as before, because all
 - Own use providers of services
 - Direct volunteers providing services to householdsWork in economic units that produce exclusively for own final use (they are not market economic units but households) – so they can never work in the informal sector
- The number of workers in informal employment will increase because all
 - Own use providers of services
 - Direct volunteers providing services to householdsAre like own account workers who work in “households”



What next ...

An immediate consequence is that we will start talking about

- INFORMAL WORK and
- WORK in the informal sector

Depending on the scope of work that is measured, statistics should be reported separately by forms of work

- Employment in the informal economy
- Own use production of goods in the informal economy
- Volunteer work in the informal economy
- Etc.



The Recommendation concerning the transition from the informal to the formal economy

- Objective: to provide guidelines to countries in order to
 - Facilitate the transition of workers and economic units from the informal to the formal economy, while respecting workers' fundamental rights and ensuring opportunities for income security, livelihoods and entrepreneurship
 - promote the creation, preservation and sustainability of decent jobs in the formal economy and the coherence of macroeconomic, employment, social protection and other social policies
 - prevent the informalization of formal economy jobs
- Was adopted by the International Labour Conference in June 2015
- Provides a conceptual definition of the informal economy for legal purposes
 - Based on the statistical definition of informal employment



Legal concept of the informal economy

- Definition:
 - The term “informal economy” refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements
 - Does not cover illicit activities
- This recommendation requires that statistics be collected
 - In consultation with workers’ and employers’ organizations
 - On a regular basis
 - On the number of workers in the informal economy
 - By sex, age, place of work, and other socio-economic characteristics



Differences and similarities between the statistical concept and the legal concept

Legal concept	Statistical concept
Excludes illegal activities	Includes illegal activities
Refers to economic activities and workers	Refers to economic activities and workers
Refers to lack of coverage of formal arrangements	Refers to organizational issues as well as to non-compliance to labour legislation
Refers to lack of coverage in law or in practice	Refers to non-compliance in law or in practice



QUIZZZZZZZ!!!!

- The new definition of employment (19th ICLS) covers less workers than before (13th ICLS) **YES!!**
- It is better to measure the informal economy to all workers, not only those employed **YES!!**
- It is better to measure the informal economy only for those workers for whom policies and programmes will be developed **YES!!**
- When presenting statistics on the informal economy it should always be clear what the worker coverage is **YES!!**
- The Recommendation concerning the transition from the informal to the formal economy defines the informal economy **YES!!**
- This Recommendation stipulates the statistics that countries should produce about the informal economy **YES!!**

