



Session 2.2

The informal economy



What we will cover

- The informal economy
 - The definition
 - Its components
- The ILO recommendation concerning the transition from the informal to the formal economy
 - Its objectives
 - Why it is important for statistics
- The new definition of work and employment
 - How it affects the measurement of the informal economy



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



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
- Features:
 - It is about economic activities by workers and economic units
 - That are not covered by formal arrangements (or insufficiently covered)
 - In law or in practice

Activities by **economic units** which are not covered by formal arrangements: **workers in informal economic units** (informal sector)

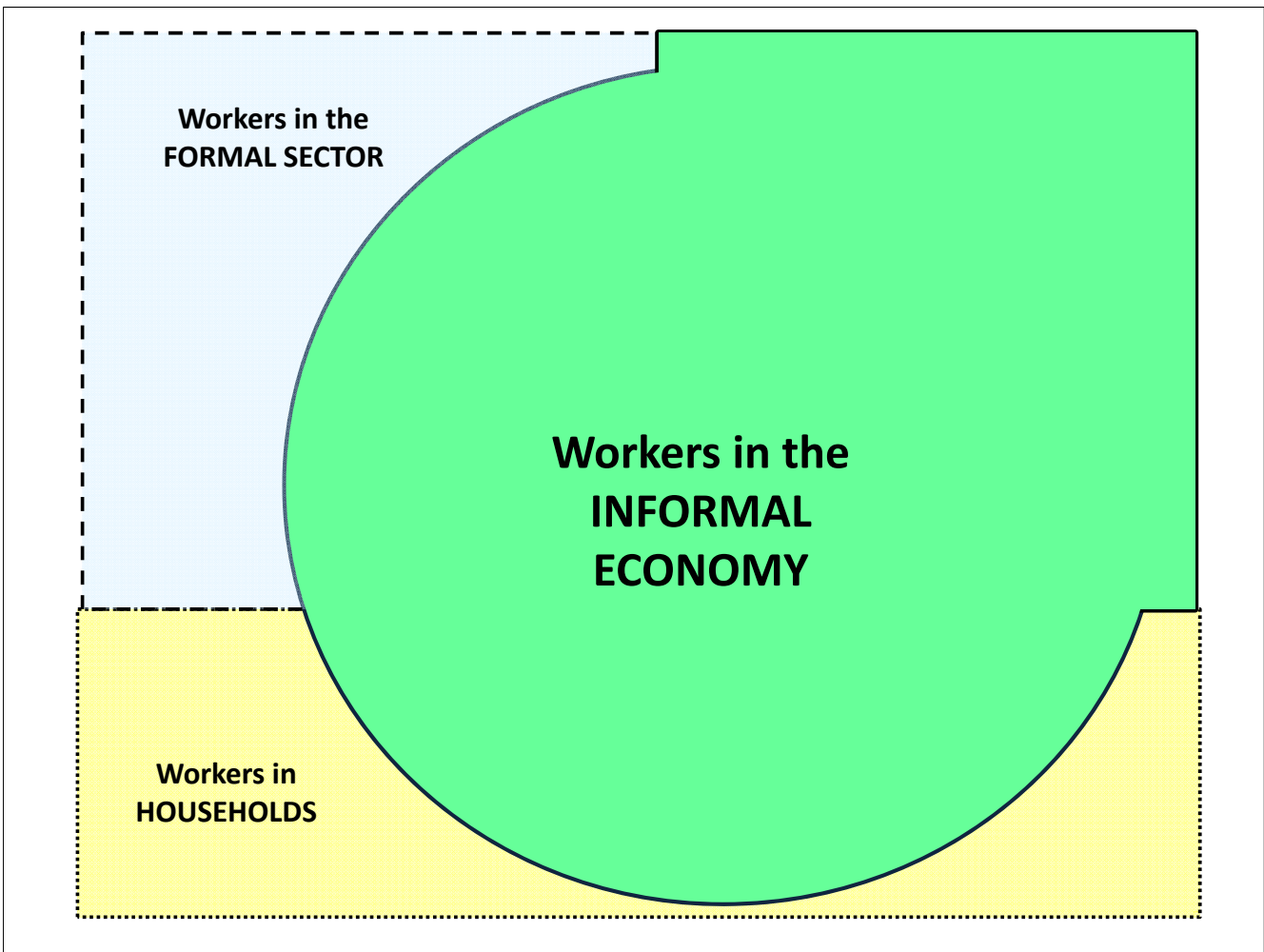
Activities by **workers** not covered by formal arrangements: **workers with informal jobs** (informal employment)



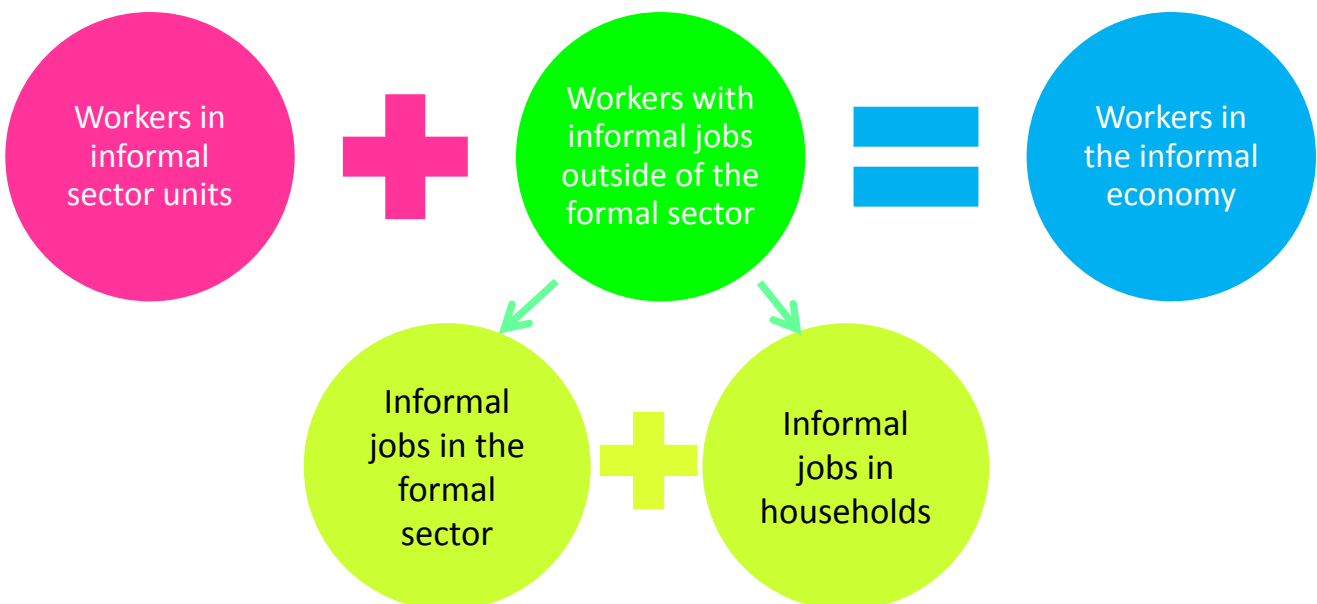
Statistical expectations

- This recommendation requires that statistics be collected
 - In consultation with workers’ and employers’ organizations
 - On a regular basis
 - On the number of economic units in the informal economy
 - On the number of workers in the informal economy
 - By sex, age, place of work, and other socio-economic characteristics





Workers in the informal economy Components



Differences and similarities between the statistical concept and the legal concept

Legal concept	Statistical concept (informal sector and informal employment)
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



The informal economy is part of the non-observed economy

- Activities that are
 - Underground
 - Illegal
 - Informal
 - Household production for own final use
 - Not captured because of deficiencies in the data collection system (statistical underground)
 - Undercoverage of economic units and workers
 - Non-response
 - Underreporting

**These groups are not the same nor are they mutually exclusive!!
Rather they OVERLAP**



Links with the non-observed economy

Legality of the activity	Concealment of the activity	
	Underground	Not underground
Legal activities	Activities that are legal when performed but concealed deliberately from public authorities to avoid paying income, value added or other taxes, paying social security contributions, and provided labour benefits to employees (e.g., undeclared sale of services) - \$6.40 of SNA, 2009	Activities that are legal and not deliberately concealed from public authorities <ul style="list-style-type: none"> Some may not comply with authorities because of lack of organization of the authorities or because they are exempted by authorities
Illegal activities	a) Activities that produce goods or services whose sale, distribution or possession is forbidden by law (e.g., drug trafficking, prostitution) b) Activities that produce other goods or services not forbidden by law but carried out by unauthorised producers (e.g., abortions) - \$6.43 of SNA, 2009	



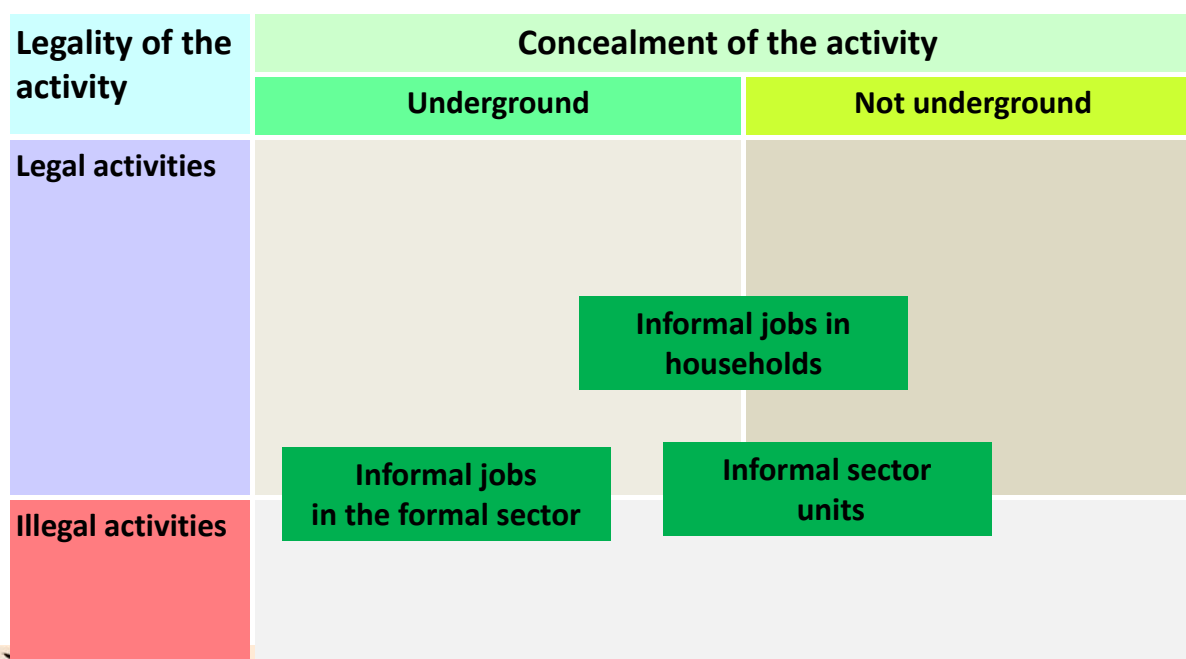
Links with the non-observed economy

- Informal sector activities
 - Are generally legal but some can be illegal
 - Are not necessarily underground, because concealment is not deliberate, not possible, not required
 - They may comply with some legal requirements (paying some taxes, being registered)
- Workers with informal jobs in the formal sector
 - Will probably be underground
- Workers with informal jobs in households
 - May not be underground although many may not comply with legislation
 - Because it is not possible, not required



Links with the non-observed economy

Classification of productive activities



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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)



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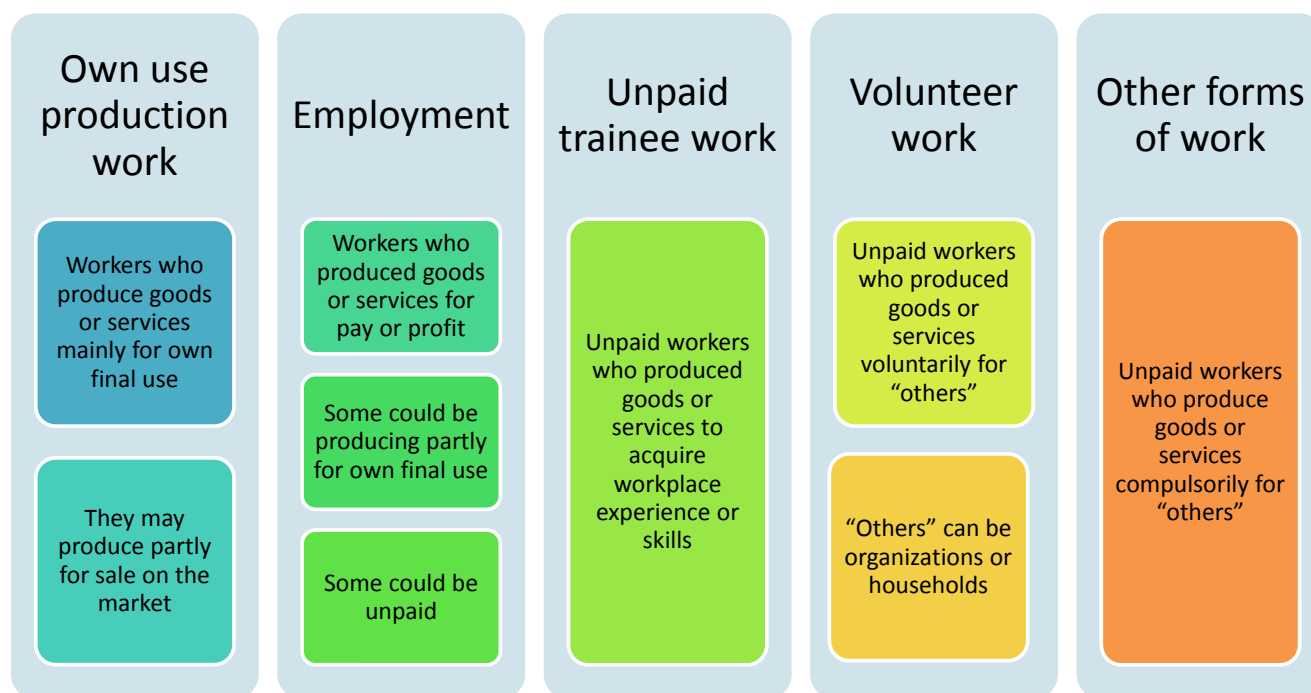
Work and employment and other forms of work, 19th ICLS, 2013

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



Basic definitions

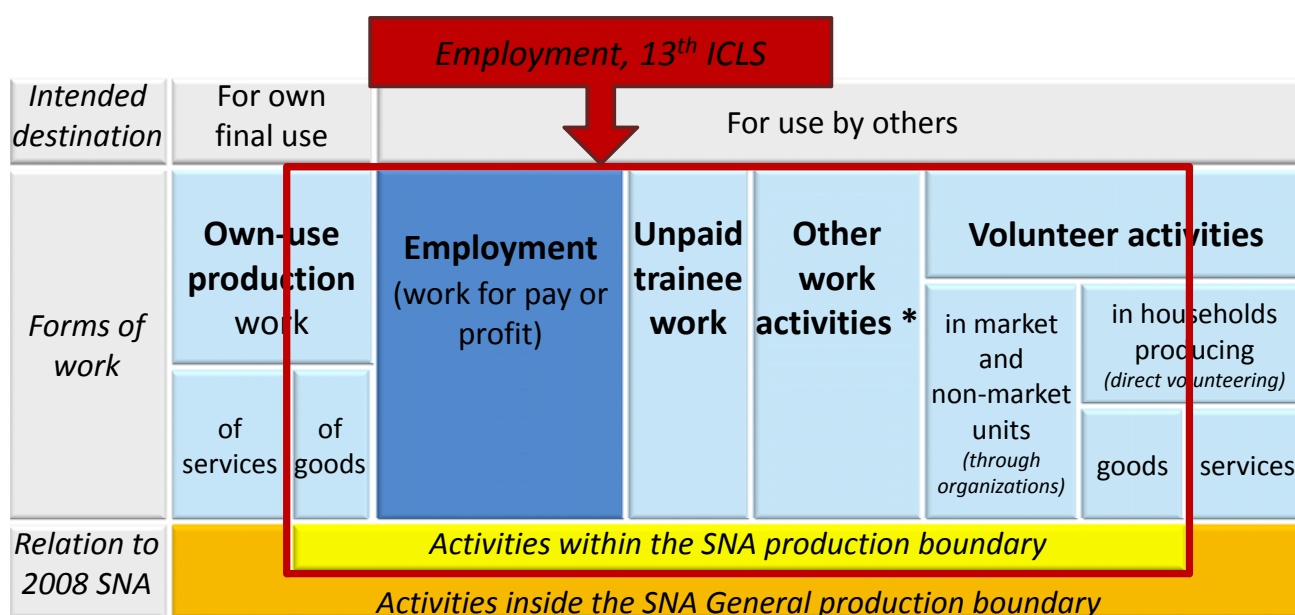


When the definitions of informal sector and informal employment were adopted

- The relevant concept 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 mainly for own final use
 - 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



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 persons who work for pay or profit, except if they produce goods mainly for own final use
- Employment now excludes persons who are:
 - own use producers of goods, even if they work partly for profit
 - volunteer workers through organizations, even if they receive some income
 - 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.



QUIZZZZZZZZ!!!!

- The Recommendation concerning the transition from the informal to the formal economy defines the informal economy
- This Recommendation stipulates the statistics that countries should produce about the informal economy
- The informal economy covers all illegal activities
- The informal economy is always underground



QUIZZZZZZZZZZZZZZ!!!!!!

- The informal economy refers to the activities of informal sector units and of informal workers
- Workers in the informal economy are those who work in informal units plus those with informal jobs in other units
- To measure the informal economy I have to measure the informal sector and informal employment
- The statistical definition of the informal economy was adopted in 2015



QUIZZZZZZZZ!!!!

- The new definition of employment (19th ICLS) covers less workers than before (13th ICLS)
- It is better to measure the informal economy to more workers than only those employed
- It is better to measure the informal economy only for those workers for whom policies and programmes will be developed
- When presenting statistics on the informal economy it should always be clear what the worker coverage is

